

THE
CONSERVATION FUND

\$150,000,000

THE CONSERVATION FUND

Taxable Green Bonds (Working Forest Conservation Program), Series 2019

3.474% Bonds, due December 15, 2029

Issue Price: 100%

CUSIP No. 20848FAA8**

Interest payable: June 15 and December 15

Dated: Date of Delivery

The Conservation Fund Taxable Green Bonds (Working Forest Conservation Program), Series 2019 (the “Bonds”) will be issued pursuant to the terms of an Indenture of Trust (the “Indenture”) to be entered into by and among The Conservation Fund, a nonprofit corporation, as issuer (“TCF”), Sustainable Conservation, Inc., as co-issuer (“SCI” and, jointly and severally with TCF, the “Fund”), and The Bank of New York Mellon Trust Company, N.A., as trustee (the “Trustee”). The proceeds from the sale of the Bonds will be used by the Fund (1) to finance and/or refinance, in whole or in part, new and/or existing Eligible Green Projects (as defined in this Offering Memorandum), (2) to repay approximately \$25 million of secured indebtedness of Clarion Junction, LLC, a wholly owned subsidiary of TCF, and (3) to pay costs of issuance of the Bonds.

The Bonds will be issued in fully-registered form in denominations of \$1,000 and any integral multiple thereof and, when issued, will be registered under a global book-entry system in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York (“DTC”). DTC will act as securities depository for the Bonds. Individual purchases will be made in book-entry form only, in principal amounts of \$1,000 and any integral multiple thereof. Purchasers of the Bonds will not receive physical certificates (except under certain circumstances described in the Indenture) representing their ownership interests in the Bonds purchased.

Interest on the Bonds will be payable on June 15 and December 15 of each year, commencing on December 15, 2019. So long as the Bonds are held by DTC, the principal, Redemption Price or Make-Whole Redemption Price (each as defined herein) of and interest on the Bonds will be payable by wire transfer to DTC, which in turn is required to remit such principal, Redemption Price or Make-Whole Redemption Price and interest to the Direct Participants (as defined herein) for subsequent disbursement to the Beneficial Owners of the Bonds, as more fully described in “BOOK-ENTRY ONLY SYSTEM AND GLOBAL CLEARANCE PROCEDURES” herein.

The Bonds are subject to redemption prior to their stated maturity as described herein. See “THE BONDS – Redemption” herein.

Interest on and profit, if any, on the sale of the Bonds are not excludable from gross income for federal, state or local income tax purposes. See “CERTAIN UNITED STATES FEDERAL TAX CONSIDERATIONS” herein.

The Bonds constitute unsecured general obligations of the Fund. The Fund has other secured and unsecured general obligations outstanding. See APPENDIX B-1 – “AUDITED COMBINED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018” and APPENDIX B-2 – “AUDITED COMBINED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2017” attached hereto. Moreover, the Fund is not restricted by the Indenture or otherwise from incurring additional indebtedness. Such additional indebtedness, if issued, may be either secured or unsecured and may be entitled to payment prior to payment on the Bonds. See “SECURITY FOR THE BONDS” herein.

This cover page contains certain information for quick reference only. It is not intended to be a summary of this issue. Investors must read the entire Offering Memorandum to obtain information essential to the making of an informed investment decision.

The Bonds are offered by the Underwriter, when, as and if issued by the Fund and accepted by the Underwriter, subject to the approval of legality by Paul, Weiss, Rifkind, Wharton & Garrison LLP, New York, New York, counsel to the Fund, and Miles & Stockbridge P.C., Baltimore, Maryland, counsel to the Fund, and certain tax matters being passed upon by Reed Smith LLP, Pittsburgh, Pennsylvania, tax counsel to the Fund. In addition, certain other legal matters will be passed upon for the Underwriter by its counsel, Ropes & Gray LLP, Boston, Massachusetts. It is expected that the Bonds will be available for delivery to DTC in New York, New York on or about September 26, 2019.

Goldman Sachs & Co. LLC

September 19, 2019

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Pleasant River Headwaters, Maine
Photograph by EcoPhotography



Crabb Ranch, Montana
Photograph by Sprout Films

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GENERAL INFORMATION

This Offering Memorandum does not constitute an offer to sell the Bonds in any jurisdiction in which or to any person to whom it is unlawful to make such an offer. No dealer, salesperson or other person has been authorized by Goldman Sachs & Co. LLC (the “Underwriter”) or the Fund to give any information or to make any representations, other than those contained herein, in connection with the offering of the Bonds and, if given or made, such information or representations must not be relied upon.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of the Bonds, or determined that this Offering Memorandum is accurate or complete. Any representation to the contrary is a criminal offense. The Bonds have not been and will not be registered under the Securities Act of 1933, as amended (the “Securities Act”), and are being issued in reliance on an exemption or on exemptions contained therein. The Bonds are not exempt in every jurisdiction in the United States; some jurisdictions’ securities laws (the “blue sky laws”) may require a filing and a fee to secure the Bonds’ exemption from registration.

The distribution of this Offering Memorandum and the offer or sale of Bonds may be restricted by law in certain jurisdictions. Neither the Fund nor the Underwriter represents that this Offering Memorandum may be lawfully distributed, or that any Bonds may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assume any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Fund or the Underwriter which would permit a public offering of any of the Bonds or distribution of this Offering Memorandum in any jurisdiction where action for that purpose is required. Action may be required to secure exemptions from the blue sky registration requirements either for the primary distribution or any secondary sales that may occur. Accordingly, none of the Bonds may be offered or sold, directly or indirectly, and neither this Offering Memorandum nor any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations.

All information set forth herein has been obtained from the Fund and other sources. Estimates and opinions are included and should not be interpreted as statements of fact. Summaries of documents do not purport to be complete statements of their provisions. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Offering Memorandum nor any sale made hereunder will, under any circumstances, create any implication that there has been no change in the affairs of the Fund since the date hereof.

Certain statements included or incorporated by reference in this Offering Memorandum constitute “forward-looking statements” within the meaning of the United States Private Securities Litigation Reform Act of 1995, Section 21E of the United States Securities Exchange Act of 1934, as amended, and Section 27A of the Securities Act. Such statements are generally identifiable by the terminology used such as “plan,” “expect,” “estimate,” “budget,” “intend,” “projection” or other similar words. Such forward-looking statements include, but are not limited to, certain statements contained in the information in APPENDIX A – “CERTAIN INFORMATION CONCERNING THE FUND,” APPENDIX B-1 – “AUDITED COMBINED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018,” and APPENDIX B-2 – “AUDITED COMBINED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2017.” A number of important factors, including factors affecting the Fund’s financial condition and factors which are otherwise unrelated thereto, could cause actual results to differ materially from those stated in such forward-looking statements. **THE FUND DOES NOT PLAN TO ISSUE ANY UPDATES OR REVISIONS TO THOSE FORWARD-LOOKING STATEMENTS IF OR WHEN ITS EXPECTATIONS, OR EVENTS, CONDITIONS OR CIRCUMSTANCES ON WHICH SUCH STATEMENTS ARE BASED OCCUR.**

The Underwriter has provided the following sentence for inclusion in this Offering Memorandum. The Underwriter has reviewed the information in this Offering Memorandum in accordance with, and as part of, its responsibility to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITER MAY OVERALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICE OF THE BONDS AT LEVELS ABOVE THOSE THAT MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

**INFORMATION CONCERNING OFFERING RESTRICTIONS
IN CERTAIN JURISDICTIONS OUTSIDE THE UNITED STATES**

REFERENCES HEREIN TO THE “ISSUER” MEAN THE FUND AND REFERENCES TO “BONDS” OR “SECURITIES” MEAN THE BONDS OFFERED HEREBY.

MINIMUM UNIT SALES

THE BONDS WILL TRADE AND SETTLE ON A UNIT BASIS (ONE UNIT EQUALING ONE BOND OF \$1,000 PRINCIPAL AMOUNT). FOR ANY SALES MADE OUTSIDE THE UNITED STATES, THE MINIMUM PURCHASE AND TRADING AMOUNT IS 150 UNITS (BEING 150 BONDS IN AN AGGREGATE PRINCIPAL AMOUNT OF \$150,000).

NOTICE TO INVESTORS IN THE EUROPEAN ECONOMIC AREA

THIS OFFERING MEMORANDUM HAS BEEN PREPARED ON THE BASIS THAT ALL OFFERS AND SALES OF THE BONDS WILL BE MADE ONLY IN CIRCUMSTANCES WHERE THERE IS AN EXEMPTION FROM THE OBLIGATION UNDER THE PROSPECTUS DIRECTIVE TO PRODUCE AND/OR PUBLISH A PROSPECTUS. AS A RESULT, ANY OFFER OF BONDS IN ANY MEMBER STATE OF THE EUROPEAN ECONOMIC AREA (“EEA”) (EACH, A “RELEVANT MEMBER STATE”) MUST BE MADE PURSUANT TO AN EXEMPTION UNDER THE PROSPECTUS DIRECTIVE FROM THE REQUIREMENT TO PUBLISH A PROSPECTUS FOR OFFERS OF BONDS. ACCORDINGLY, ANY PERSON MAKING OR INTENDING TO MAKE ANY OFFER OF BONDS IN THAT RELEVANT MEMBER STATE MAY ONLY DO SO IN CIRCUMSTANCES IN WHICH NO OBLIGATION ARISES FOR THE FUND OR THE UNDERWRITER TO PRODUCE AND/OR PUBLISH A PROSPECTUS PURSUANT TO THE PROSPECTUS DIRECTIVE, INCLUDING ARTICLE 3 THEREOF, AS SO IMPLEMENTED, OR SUPPLEMENT A PROSPECTUS PURSUANT TO ARTICLE 16 OF THE PROSPECTUS DIRECTIVE, IN EACH CASE, IN RELATION TO SUCH OFFER. THE FUND AND THE UNDERWRITER HAVE NOT AUTHORIZED, NOR DO THEY AUTHORIZE, THE MAKING OF ANY OFFER OF THE BONDS IN CIRCUMSTANCES IN WHICH AN OBLIGATION ARISES FOR THE FUND OR THE UNDERWRITER TO PRODUCE AND/OR PUBLISH OR SUPPLEMENT A PROSPECTUS FOR SUCH OFFER.

FOR THE PURPOSES OF THE ABOVE, THE EXPRESSION “PROSPECTUS DIRECTIVE” MEANS DIRECTIVE 2003/71/EC (AS AMENDED, INCLUDING BY DIRECTIVE 2010/73/EU), AND INCLUDES ANY RELEVANT IMPLEMENTING MEASURE IN EACH RELEVANT MEMBER STATE.

THE BONDS ARE NOT INTENDED TO BE OFFERED, SOLD OR OTHERWISE MADE AVAILABLE TO AND WILL NOT BE OFFERED, SOLD OR OTHERWISE MADE AVAILABLE TO ANY RETAIL INVESTOR IN THE EEA. FOR THE PURPOSES OF THIS PROVISION:

A. THE EXPRESSION “RETAIL INVESTOR” MEANS A PERSON WHO IS ONE (OR MORE) OF THE FOLLOWING:

- I. A RETAIL CLIENT AS DEFINED IN POINT (11) OF ARTICLE 4(1) OF DIRECTIVE 2014/65/EU (AS AMENDED, “MIFID II”); OR
- II. A CUSTOMER WITHIN THE MEANING OF DIRECTIVE 2002/92/EC (AS AMENDED, THE “INSURANCE MEDIATION DIRECTIVE”), WHERE THE CUSTOMER WOULD NOT QUALIFY AS A PROFESSIONAL CLIENT AS DEFINED IN POINT (10) OF ARTICLE 4(1) OF MIFID II; OR
- III. NOT A QUALIFIED INVESTOR AS DEFINED IN DIRECTIVE 2003/71/EC (AS AMENDED, THE “PROSPECTUS DIRECTIVE”); AND

B. THE EXPRESSION “OFFER” INCLUDES THE COMMUNICATION IN ANY FORM AND BY ANY MEANS OF SUFFICIENT INFORMATION ON THE TERMS OF THE OFFER AND THE BONDS TO BE OFFERED SO AS TO ENABLE AN INVESTOR TO DECIDE TO PURCHASE OR SUBSCRIBE THE BONDS.

CONSEQUENTLY, NO KEY INFORMATION DOCUMENT REQUIRED BY REGULATION (EU) NO 1286/2014 (AS AMENDED, THE “PRIIPS REGULATION”) FOR OFFERING OR SELLING THE BONDS OR OTHERWISE MAKING THEM AVAILABLE TO RETAIL INVESTORS IN THE EEA HAS BEEN PREPARED, AND, THEREFORE, OFFERING OR SELLING THE BONDS OR OTHERWISE MAKING THEM AVAILABLE TO ANY RETAIL INVESTORS IN THE EEA MAY BE UNLAWFUL UNDER THE PRIIPS REGULATION.

NOTICE TO PROSPECTIVE INVESTORS IN THE UNITED KINGDOM

THIS OFFERING MEMORANDUM HAS NOT BEEN APPROVED BY AN AUTHORIZED PERSON IN THE UNITED KINGDOM AND IS FOR DISTRIBUTION ONLY TO PERSONS WHO ARE (I) OUTSIDE THE UNITED KINGDOM, OR (II) HAVE PROFESSIONAL EXPERIENCE IN MATTERS RELATING TO INVESTMENTS FALLING WITHIN ARTICLE 19(5) OF THE FINANCIAL SERVICES AND MARKETS ACT 2000 (FINANCIAL PROMOTION) ORDER 2005, AS AMENDED (THE “FINANCIAL PROMOTION ORDER”), AND/OR (III) ARE PERSONS FALLING WITHIN ANNEX II OF DIRECTIVE 2014/65/EU (AS AMENDED, “MIFID II”); (ALL SUCH PERSONS TOGETHER BEING REFERRED TO AS “RELEVANT PERSONS”). THIS OFFERING MEMORANDUM IS DIRECTED ONLY AT RELEVANT PERSONS AND MUST NOT BE ACTED ON OR RELIED ON BY PERSONS WHO ARE NOT RELEVANT PERSONS. ANY INVESTMENT OR INVESTMENT ACTIVITY TO WHICH THIS OFFERING MEMORANDUM RELATES IS AVAILABLE ONLY TO RELEVANT PERSONS AND WILL BE ENGAGED IN ONLY WITH RELEVANT PERSONS.

NO PERSON MAY COMMUNICATE OR CAUSE TO BE COMMUNICATED ANY INVITATION OR INDUCEMENT TO ENGAGE IN INVESTMENT ACTIVITY (WITHIN THE MEANING OF SECTION 21 OF THE FSMA) RECEIVED BY IT IN CONNECTION WITH THE ISSUE OR SALE OF THE BONDS OTHER THAN IN CIRCUMSTANCES IN WHICH SECTION 21(1) OF THE FSMA DOES NOT APPLY TO THE FUND.

NOTICE TO PROSPECTIVE INVESTORS IN HONG KONG

THE CONTENTS OF THIS DOCUMENT HAVE NOT BEEN REVIEWED BY ANY REGULATORY AUTHORITY IN HONG KONG. THE BONDS HAVE NOT BEEN OFFERED OR SOLD AND WILL NOT BE OFFERED OR SOLD IN HONG KONG, BY MEANS OF ANY DOCUMENT, OTHER THAN (A) TO “PROFESSIONAL INVESTORS” AS DEFINED IN THE SECURITIES AND FUTURES ORDINANCE (CAP. 571) OF HONG KONG AND ANY RULES MADE UNDER THAT ORDINANCE; OR (B) IN OTHER CIRCUMSTANCES WHICH DO NOT RESULT IN THE DOCUMENT BEING A “PROSPECTUS” AS DEFINED IN THE COMPANIES (WINDING UP AND MISCELLANEOUS PROVISIONS) ORDINANCE (CAP. 32) OF HONG KONG OR WHICH DO NOT CONSTITUTE AN OFFER TO THE PUBLIC WITHIN THE MEANING OF THAT ORDINANCE. NO ADVERTISEMENT, INVITATION OR DOCUMENT RELATING TO THE BONDS HAS BEEN OR MAY BE ISSUED OR HAS BEEN OR MAY BE IN THE POSSESSION OF ANY PERSON FOR THE PURPOSES OF ISSUE, OR WILL BE ISSUED OR WILL BE IN THE POSSESSION OF ANY PERSON FOR THE PURPOSES OF ISSUE, WHETHER IN HONG KONG OR ELSEWHERE, WHICH IS DIRECTED AT, OR THE CONTENTS OF WHICH ARE LIKELY TO BE ACCESSED OR READ BY, THE PUBLIC OF HONG KONG (EXCEPT IF PERMITTED TO DO SO UNDER THE SECURITIES LAWS OF HONG KONG) OTHER THAN WITH RESPECT TO THE BONDS WHICH ARE OR ARE INTENDED TO BE DISPOSED OF ONLY TO PERSONS OUTSIDE HONG KONG OR ONLY TO “PROFESSIONAL INVESTORS” AS DEFINED IN THE SECURITIES AND FUTURES ORDINANCE AND ANY RULES MADE UNDER THAT ORDINANCE.

NOTICE TO INVESTORS IN CANADA

THE BONDS MAY BE SOLD ONLY TO PURCHASERS IN THE PROVINCES OF CANADA PURCHASING, OR DEEMED TO BE PURCHASING, AS PRINCIPAL THAT ARE ACCREDITED INVESTORS, AS DEFINED IN NATIONAL INSTRUMENT 45-106 *PROSPECTUS EXEMPTIONS* OR SUBSECTION 73.3(1) OF THE *SECURITIES ACT* (ONTARIO), AND ARE PERMITTED CLIENTS, AS DEFINED IN NATIONAL INSTRUMENT 31-103 *REGISTRATION REQUIREMENTS, EXEMPTIONS AND ONGOING REGISTRANT OBLIGATIONS*. ANY RESALE OF THE BONDS MUST BE MADE IN ACCORDANCE WITH AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE PROSPECTUS REQUIREMENTS OF APPLICABLE SECURITIES LAWS.

SECURITIES LEGISLATION IN CERTAIN PROVINCES OR TERRITORIES OF CANADA MAY PROVIDE A PURCHASER WITH REMEDIES FOR RESCISSION OR DAMAGES IF THIS OFFERING MEMORANDUM (INCLUDING ANY AMENDMENT THERETO) CONTAINS A MISREPRESENTATION, PROVIDED THAT THE REMEDIES FOR RESCISSION OR DAMAGES ARE EXERCISED BY THE PURCHASER WITHIN THE TIME LIMIT PRESCRIBED BY THE SECURITIES LEGISLATION OF THE PURCHASER'S PROVINCE OR TERRITORY. THE PURCHASER SHOULD REFER TO ANY APPLICABLE PROVISIONS OF THE SECURITIES LEGISLATION OF THE PURCHASER'S PROVINCE OR TERRITORY FOR PARTICULARS OF THESE RIGHTS OR CONSULT WITH A LEGAL ADVISOR.

PURSUANT TO SECTION 3A.3 OF NATIONAL INSTRUMENT 33-105 *UNDERWRITING CONFLICTS* ("NI 33-105"), THE UNDERWRITER IS NOT REQUIRED TO COMPLY WITH THE DISCLOSURE REQUIREMENTS OF NI 33-105 REGARDING UNDERWRITER CONFLICTS OF INTEREST IN CONNECTION WITH THIS OFFERING.

NOTICE TO INVESTORS IN KOREA

THE BONDS HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE FINANCIAL INVESTMENT SERVICES AND CAPITAL MARKETS ACT OF KOREA AND THE DECREES AND REGULATIONS THEREUNDER (THE “FSCMA”), AND THE BONDS HAVE BEEN AND WILL BE OFFERED IN KOREA AS A PRIVATE PLACEMENT UNDER THE FSCMA. NONE OF THE BONDS MAY BE OFFERED, SOLD OR DELIVERED DIRECTLY OR INDIRECTLY, OR OFFERED OR SOLD TO ANY PERSON FOR RE-OFFERING OR RESALE, DIRECTLY OR INDIRECTLY, IN KOREA OR TO ANY RESIDENT OF KOREA EXCEPT PURSUANT TO THE APPLICABLE LAWS AND REGULATIONS OF KOREA, INCLUDING THE FSCMA AND THE FOREIGN EXCHANGE TRANSACTION LAW OF KOREA AND THE DECREES AND REGULATIONS THEREUNDER (THE “FETL”). FURTHERMORE, THE PURCHASERS OF THE BONDS SHALL COMPLY WITH ALL APPLICABLE REGULATORY REQUIREMENTS (INCLUDING BUT NOT LIMITED TO REQUIREMENTS UNDER THE FETL) IN CONNECTION WITH THE PURCHASE OF THE BONDS.

NOTICE TO INVESTORS IN JAPAN

THE BONDS HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE FINANCIAL INSTRUMENTS AND EXCHANGE LAW OF JAPAN (LAW NO. 25 OF 1948, AS AMENDED), AND HAVE NOT BEEN OFFERED OR SOLD, DIRECTLY OR INDIRECTLY, IN JAPAN OR FOR THE ACCOUNT OF ANY RESIDENT THEREOF EXCEPT PURSUANT TO ANY EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES AND EXCHANGE LAW OF JAPAN AND OTHERWISE IN COMPLIANCE WITH APPLICABLE PROVISIONS OF JAPANESE LAW.

SUMMARY OF THE OFFERING

The summary below describes the principal terms of the Bonds. Certain of the terms and conditions described below are subject to important limitations and exceptions. A more detailed description of the terms and conditions of the Bonds is contained under the heading “THE BONDS” in this Offering Memorandum.

Issuers	The Conservation Fund, a nonprofit corporation (“TCF”), a nonprofit organization incorporated as a nonstock corporation in the state of Maryland, and its wholly owned subsidiary, Sustainable Conservation, Inc. (“SCI” and, jointly and severally with TCF, the “Fund”)
Securities Offered	\$150,000,000 3.474% Taxable Green Bonds (Working Forest Conservation Program), Series 2019 due December 15, 2029
Interest Accrual Dates	Interest will accrue from the Date of Issuance
Interest Payment Dates	June 15 and December 15 of each year, commencing December 15, 2019
Redemption	The Bonds are subject to optional redemption (i) prior to the Par Call Date, at the Make-Whole Redemption Price, and (ii) on or after the Par Call Date, at the Redemption Price, all as discussed more fully herein. See “THE BONDS – Redemption” herein.
Date of Issuance	September 26, 2019
Authorized Denominations	\$1,000 and any integral multiple thereof
Form and Depository	The Bonds will be delivered solely in registered form under a global book-entry system through the facilities of DTC.
Use of Proceeds	The Fund will use the proceeds from the sale of the Bonds (1) to finance and/or refinance, in whole or in part, new and/or existing Eligible Green Projects (as defined below under “USE OF PROCEEDS”), (2) to repay approximately \$25 million of secured indebtedness of Clarion Junction, LLC, a wholly owned subsidiary of TCF, and (3) to pay costs of issuance of the Bonds. See “PLAN OF FINANCE” herein.
Exemption from Registration	The Bonds are exempt from registration under the Securities Act of 1933, as amended, pursuant to Section 3(a)(4) thereof
Rating	Moody’s: A3 (stable outlook)

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OFFERING MEMORANDUM

Relating to

\$150,000,000

THE CONSERVATION FUND TAXABLE GREEN BONDS (WORKING FOREST CONSERVATION PROGRAM), SERIES 2019

INTRODUCTION

The purpose of this Offering Memorandum, which includes the cover page, the table of contents and appendices, is to provide certain information concerning the sale and delivery by The Conservation Fund, a nonprofit corporation (“TCF”) and Sustainable Conservation, Inc. (“SCI” and, jointly and severally with TCF, the “Fund”) of their \$150,000,000 aggregate principal amount of The Conservation Fund Taxable Green Bonds (Working Forest Conservation Program), Series 2019 (the “Bonds”). This Introduction contains only a brief summary of certain of the terms of the Bonds being offered and a brief description of the Offering Memorandum. All statements contained in this Introduction are qualified in their entirety by reference to the entire Offering Memorandum.

Purpose of the Bonds and the Plan of Finance

The proceeds from the sale of the Bonds will be used by the Fund (1) to finance and/or refinance, in whole or in part, new and/or existing Eligible Green Projects, (2) to repay approximately \$25 million of secured indebtedness of Clarion Junction, LLC, a wholly owned subsidiary of TCF, and (3) to pay costs of issuance of the Bonds. See “PLAN OF FINANCE” and “USE OF PROCEEDS” herein.

The Fund

TCF is a nonstock corporation incorporated in Maryland that has been recognized as tax exempt under Section 501(c)(3) of the Internal Revenue Code (the “Code”). TCF is the sole stockholder of SCI, a stock corporation incorporated in Maryland that has been recognized as tax exempt under Section 501(c)(3) of the Code. SCI is a supporting organization to TCF under the Code. Important information on the financial condition of the Fund is set forth in APPENDIX A – “CERTAIN INFORMATION CONCERNING THE FUND,” APPENDIX B-1 – “AUDITED COMBINED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018,” and APPENDIX B-2 – “AUDITED COMBINED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2017” attached hereto, each of which should be read in their entirety.

The Bonds

The Bonds are being issued pursuant to an Indenture of Trust, to be dated as of the date of issuance of the Bonds (the “Indenture”), by and among TCF, SCI, and The Bank of New York

Mellon Trust Company, N.A., as trustee (the “Trustee”). Pursuant to the Indenture, on each Payment Date, until the principal of and interest on the Bonds shall have been paid or provision for such payment shall have been made as provided in the Indenture, the Fund will pay the Trustee a sum equal to the amount payable on such Payment Date as principal of or interest on the Bonds. See “THE BONDS” herein.

Security for the Bonds

The Bonds constitute unsecured general obligations of the Fund. The Fund has other secured and unsecured general obligations outstanding. See “—Outstanding Indebtedness” below. Moreover, the Fund is not restricted by the Indenture or otherwise from incurring additional indebtedness. Such additional indebtedness, if issued, may be either secured or unsecured and may be entitled to payment prior to payment on the Bonds. See “SECURITY FOR THE BONDS” herein.

Additional Bonds

The Fund may, from time to time, without the consent of the holders of the Bonds, issue additional bonds under the Indenture in addition to the Bonds (the “Additional Bonds”).

Outstanding Indebtedness

The Fund has secured and other unsecured general obligations outstanding. As of December 31, 2018, the Fund had \$135.5 million principal amount of indebtedness outstanding, including (i) loans for program-related investments from private foundations of \$83.9 million, of which \$7.2 million was secured and (ii) other real estate acquisition debt of \$51.6 million, of which \$36.4 million was secured. Subsequent to December 31, 2018, the Fund paid down \$2.2 million principal amount of long-term debt, and incurred \$23.0 million principal amount of new project-related debt, such that \$156.3 million principal amount was outstanding as of July 31, 2019, of which \$43.6 million was secured. Upon delivery of the Bonds and the use of a portion of the proceeds to repay outstanding indebtedness, the total outstanding principal amount of indebtedness is expected to be approximately \$281.3 million, of which \$18.6 million will be secured.

For additional information regarding the outstanding indebtedness of the Fund, see APPENDIX B-1 – “AUDITED COMBINED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018” and APPENDIX B-2 – “AUDITED COMBINED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2017” attached hereto.

Redemption

The Bonds are subject to optional redemption by the Fund prior to maturity at the Redemption Price or Make-Whole Redemption Price (as applicable), all as described herein. See “THE BONDS – Redemption” herein.

Book-Entry Only System and Global Clearance Procedures

When delivered, the Bonds will be registered in the name of Cede & Co., the nominee of The Depository Trust Company (“DTC”). DTC will act as the securities depository for the Bonds. Purchases of the Bonds may be made in book-entry form only, through brokers and dealers who are,

or who act through, Direct Participants (as defined herein). Beneficial Owners of the Bonds will not receive physical delivery of certificated securities (except under certain circumstances described in the Indenture). Payment of the principal, Redemption Price or Make-Whole Redemption Price of and interest on the Bonds are payable by the Trustee to DTC, which will in turn remit such payments to the Direct Participants, which will in turn remit such payments to the Beneficial Owners of the Bonds. In addition, so long as Cede & Co. is the registered owner of the Bonds, the right of any Beneficial Owner to receive payment for any Bond will be based only upon and subject to the procedures and limitations of the DTC book-entry system. Beneficial interests in the Bonds may be held through DTC, Clearstream Banking, S.A. (“Clearstream Banking”) or Euroclear Bank S.A./N.V. as operator of the Euroclear System (“Euroclear”), directly as a participant or indirectly through organizations that are participants in such system. See “BOOK-ENTRY ONLY SYSTEM AND GLOBAL CLEARANCE PROCEDURES” herein.

Certain Information Related to this Offering Memorandum

The descriptions herein of the Indenture and other documents relating to the Bonds do not purport to be complete and are qualified in their entirety by reference to such documents, and the description herein of the Bonds is qualified in its entirety by the form thereof and the information with respect thereto included in such documents. See APPENDIX C – “SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE” attached hereto for a brief summary of the Indenture, including descriptions of certain duties of the Trustee, rights and remedies of the Trustee and the Bondholders upon an Event of Default, and provisions relating to amendments of the Indenture and procedures for defeasance of the Bonds.

All capitalized terms used in this Offering Memorandum and not otherwise defined herein have the same meanings as in the Indenture. See APPENDIX C – “SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE” attached hereto for definitions of certain words and terms used but not otherwise defined herein.

The information and expressions of opinion herein speak only as of their date and are subject to change without notice. Neither delivery of this Offering Memorandum nor any sale made hereunder nor any future use of this Offering Memorandum will, under any circumstances, create any implication that there has been no change in the affairs of the Fund.

PLAN OF FINANCE

The proceeds from the sale of the Bonds will be used by the Fund (1) to finance and/or refinance, in whole or in part, new and/or existing Eligible Green Projects (as defined below), (2) to repay approximately \$25 million of secured indebtedness of Clarion Junction, LLC, a wholly owned subsidiary of TCF, and (3) to pay costs of issuance of the Bonds.

USE OF PROCEEDS

Proceeds of the Bonds will finance and/or refinance, in whole or in part, new and/or existing “Eligible Green Projects.” Eligible Green Bond Projects are direct investments by the Fund or conservation loans granted to third parties, in either case including any such projects funded in the two years prior to the issue date of the Bonds or at any time during the term of the Bonds.

Eligible Green Projects are projects that meet one or more of the following Eligibility Criteria:

- **Land Conservation:** Acquiring conservation properties on an interim basis in order to efficiently safeguard these properties for wildlife, recreation or historic significance through the conveyance of such properties to government agencies or conservation partners.
- **Working Forest Protection:** Conserving large tracts of privately owned timberland, known as working forests, in the United States by acquiring and managing such properties until permanent protections are put in place that are designed to preserve the productive value of the properties as working forests. This may include the implementation of sustainable forest management, obtaining third-party forest certifications (such as the Sustainable Forestry Initiative and Forest Stewardship Council) and securing permanent conservation outcome via deed restrictions and/or easements.

The Fund has an established process for project evaluation and selection of Eligible Green Bond Projects, which includes internal review by the Conservation Acquisition Committee and approval by TCF's Board of Directors. See APPENDIX A – "CERTAIN INFORMATION CONCERNING THE FUND – Pre-Acquisition Approval Process and Environmental Reviews."

While the Bonds are outstanding, the net proceeds from this offering will be separately managed and tracked by the Fund's finance team before allocation to Eligible Green Projects. Pending allocation, the net proceeds from the offering will be invested in accordance with the Fund's cash management policies. Payment of principal and interest on the Bonds will be made from the Fund's general funds and will not be directly linked to the performance of any Eligible Green Projects.

Throughout the life of the Bonds, the Fund will keep records in connection with the allocation of the net proceeds and will make publicly available on its website (see <https://www.conservationfund.org>) information on the allocation of the net proceeds, to be renewed annually until full allocation of the net proceeds, and as necessary thereafter in the event of new developments. This information will include, subject to confidentiality considerations in relation to the projects to which the Fund is subject, additional descriptions of select projects funded with the net proceeds and, to the extent possible, in addition to the Fund's allocation reporting, information on the expected conservation outcomes of the projects. The contents of the Fund's website are not incorporated into this Offering Memorandum.

The Fund anticipates that its green bond program will be in alignment with the Green Bond Principles 2018 (a set of guidelines developed by the International Capital Market Association in June 2018), and the Fund expects to reflect the relevant requirements in the management of its green bond program as appropriate. The Fund worked with an outside consultant with recognized expertise in environmental, social and governance research and analysis to (i) assess the Fund's Eligibility Criteria and processes for alignment with the Green Bond Principles 2018, and (ii) obtain and make publicly available a second party opinion from such consultant in respect of compliance with such criteria.

The Underwriter makes no assurances as to (i) whether the Bonds will meet investor criteria and expectations with regard to environmental impact and sustainability performance for any investors, (ii) whether the use of the net proceeds will be used for Eligible Green Projects or (iii) the characteristics of the Eligible Green Projects, including their environmental and sustainability criteria.

THE BONDS

Description of the Bonds

The Bonds will be dated as of the date of their original issuance and will bear interest and mature (subject to prior redemption) as shown on the front cover page hereof. The Bonds will be delivered in the form of fully-registered Bonds in denominations of \$1,000 and any integral multiple thereof. The Bonds will be registered initially in the name of “Cede & Co.,” as nominee of DTC and will be evidenced by one Bond in the total aggregate principal amount of the Bonds. Registered ownership of the Bonds, or any portions thereof, may not thereafter be transferred except as set forth in the Indenture. See APPENDIX C – “SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE.”

Interest on the Bonds will be payable on June 15 and December 15 of each year (each, an “Interest Payment Date”), commencing on December 15, 2019, and will be calculated on the basis of a three hundred sixty (360) day year consisting of twelve (12) thirty (30) day months.

The principal and Redemption Price or Make-Whole Redemption Price (as applicable) of the Bonds will be payable by check or by wire transfer of immediately available funds in lawful money of the United States of America at the Designated Office of the Trustee.

Interest on the Bonds will be payable from the later of (i) the date of issuance and (ii) the most recent Interest Payment Date to which interest has been paid or duly provided for. Payment of the interest on each Interest Payment Date will be made to the Person whose name appears on the bond registration books of the Trustee as the Holder thereof as of the close of business on the Record Date for each Interest Payment Date, such interest to be paid by check mailed by first class mail to such Holder at its address as it appears on such registration books, or, upon the written request of any Holder of at least \$1,000,000 in aggregate principal amount of Bonds, submitted to the Trustee at least one (1) Business Day prior to the Record Date, by wire transfer in immediately available funds to an account within the United States designated by such Holder. Notwithstanding the foregoing, as long as Cede & Co. is the Holder of all or part of the Bonds in Book-Entry Form, said principal, Redemption Price, Make-Whole Redemption Price and interest payments will be made to Cede & Co. by wire transfer in immediately available funds.

Redemption

Optional Redemption at Par

The Bonds will be subject to optional redemption prior to maturity on or after the Par Call Date, at the direction of TCF, in whole or in part (and, if in part, in Authorized Denominations and on a pro rata basis, subject to the provisions described below under “—Selection of Bonds for Redemption”), on any Business Day, in such order of maturity as directed by TCF, at the Redemption Price. “Redemption Price” means 100% of the principal amount of a Bond to be

redeemed plus accrued and unpaid interest on such Bond to the redemption date. “Par Call Date” means September 15, 2029 (three months prior to the maturity date of such Bonds).

Optional Redemption at Make-Whole Redemption Price

Prior to the Par Call Date, the Bonds will be subject to optional redemption prior to maturity, at the direction of TCF, in whole or in part (and, if in part, in Authorized Denominations and on a pro rata basis, subject to the provisions described below under “—Selection of Bonds for Redemption”), on any Business Day, in such order of maturity as directed by TCF, at the Make-Whole Redemption Price. The Fund shall retain an independent accounting firm or an independent financial advisor to determine the Make-Whole Redemption Price and perform all actions and make all calculations required to determine the Make-Whole Redemption Price. The Trustee and the Fund may conclusively rely on such accounting firm’s or financial advisor’s calculations in connection with, and its determination of, the Make-Whole Redemption Price, and neither the Trustee nor the Fund will have any liability for their reliance. The determination of the Make-Whole Redemption Price by such accounting firm or financial advisor shall be conclusive and binding on the Trustee, the Fund and the Holders of the Bonds.

“Make-Whole Redemption Price” means the greater of (i) 100% of the principal amount of a Bond to be redeemed or (ii) the sum of the present value of the remaining scheduled payments of principal and interest to the maturity date of such Bond, not including any portion of those payments of interest accrued and unpaid as of the date on which such Bond is to be redeemed, discounted to the date on which such Bond is to be redeemed on a semi-annual basis assuming a 360-day year consisting of twelve 30-day months at the adjusted Treasury Rate plus 30 basis points, plus, in each case, accrued and unpaid interest on such Bond to the redemption date.

“Treasury Rate” means, with respect to any redemption date, the rate per annum equal to the semiannual equivalent yield to maturity or interpolated (on a day count basis) of the Comparable Treasury Issue, assuming a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for such redemption date.

“Comparable Treasury Issue” means the United States Treasury security or securities selected by a Designated Investment Banker as having an actual or interpolated maturity comparable to the remaining term of the Bonds to be redeemed that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of a comparable maturity to the remaining term of such Bonds.

“Comparable Treasury Price” means, with respect to any redemption date, the average of the Primary Treasury Dealer Quotations for such redemption date or, if the Designated Investment Banker obtains only one Primary Treasury Dealer Quotation, such Primary Treasury Dealer Quotation.

“Designated Investment Banker” means a Primary Treasury Dealer appointed by TCF.

“Primary Treasury Dealer” means one or more entities appointed by TCF, which, in each case, is a primary U.S. Government securities dealer in The City of New York, New York, and its successors.

“Primary Treasury Dealer Quotations” means, with respect to each Primary Treasury Dealer and any redemption date, the average, as determined by the Designated Investment Banker, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the Designated Investment Banker by such Primary Treasury Dealer at 3:30 p.m. New York time on the third Business Day preceding such redemption date.

“Business Day” means any day other than (A) a Saturday or Sunday or legal holiday or a day on which banking institutions in the city or cities in which the Designated Office of the Trustee is located are authorized by law or executive order to close or (B) a day on which the New York Stock Exchange is closed.

Partial Redemption of Bonds

Upon surrender of any Bond redeemed in part only, the Fund will execute (but need not prepare) and the Trustee will prepare or cause to be prepared, authenticate and deliver to the Holder thereof, at the expense of the Fund, a new Bond or Bonds of Authorized Denominations, equal in aggregate principal amount to the unredeemed portion of the Bond surrendered.

Notice of Redemption

Notice of redemption will be mailed by the Trustee by first class mail, or sent by electronic means, not less than twenty (20) days, nor more than sixty (60) days prior to the redemption date, to the respective Holders of any Bonds designated for redemption at their addresses appearing on the bond registration books of the Trustee. If the Bonds are no longer held by DTC or its successor or substitute, the Trustee shall also give notice of redemption by electronic means to such securities depositories and/or securities information services as shall be designated in a certificate of TCF. Each notice of redemption shall state the date of such notice, the date of issue of the Bonds, the redemption date, the Redemption Price or method of determining the Make-Whole Redemption Price (as applicable), the place or places of redemption (including the name and appropriate address or addresses of the Trustee), the maturity (including CUSIP number, if any), and, in the case of Bonds to be redeemed in part only, the portion of the principal amount thereof to be redeemed. Each such notice will also state that on said date there will become due and payable on each of said Bonds the Redemption Price or Make-Whole Redemption Price (as applicable) thereof or of said specified portion of the principal amount thereof in the case of a Bond to be redeemed in part only, and that from and after such redemption date interest thereon shall cease to accrue, and shall require that such Bonds be then surrendered.

Failure by the Trustee to give notice as described above to any one or more of the securities information services or depositories designated by TCF, or the insufficiency of any such notice will not affect the sufficiency of the proceedings for redemption. Failure by the Trustee to mail notice of redemption to any one or more of the respective Holders of any Bonds designated for redemption will not affect the sufficiency of the proceedings for redemption with respect to the Holders to whom such notice was mailed.

TCF may instruct the Trustee to provide conditional notice of redemption, which may be conditioned upon the receipt of moneys or any other event. Additionally, any such notice may be rescinded by written notice given to the Trustee by TCF no later than five (5) Business Days prior

to the date specified for redemption. The Trustee will give notice of such rescission, as soon thereafter as practicable, in the same manner, to the same Persons, as notice of such redemption was given.

The Trustee will not be required to transfer or exchange (i) any Bond during the fifteen (15) days next preceding the selection of Bonds for redemption or (ii) any Bond called for redemption.

Effect of Redemption

Notice of redemption having been duly given as provided in the Indenture and as described above, and moneys for payment of the Redemption Price or Make-Whole Redemption Price (as applicable) of the Bonds (or portion thereof) so called for redemption being held by the Trustee, on the date fixed for redemption designated in such notice, the Bonds (or portion thereof) so called for redemption shall become due and payable at the Redemption Price or Make-Whole Redemption Price (as applicable) specified in such notice, interest on the Bonds so called for redemption shall cease to accrue, said Bonds (or portion thereof) will cease to be entitled to any benefit or security under the Indenture, and the Holders of said Bonds will have no rights in respect thereof except to receive payment of said Redemption Price or Make-Whole Redemption Price from funds held by the Trustee for such payment.

Selection of Bonds for Redemption

If the Bonds are registered in book-entry only form and so long as DTC or a successor securities depository is the sole registered owner of the Bonds, if less than all of the Bonds of a maturity are called for prior redemption, the particular Bonds or portions thereof to be redeemed shall be selected on a pro rata pass-through distribution of principal basis in accordance with DTC procedures, provided that, so long as the Bonds are held in book-entry form, the selection for redemption of such Bonds shall be made in accordance with the operational arrangements of DTC then in effect.

It is the Fund's intent that redemption allocations made by DTC be made on a pro rata pass-through distribution of principal basis as described above. However, neither the Fund nor the Underwriter can provide any assurance that DTC, DTC's Direct and Indirect Participants (as defined herein) or any other intermediary will allocate the redemption of Bonds on such basis. If the DTC operational arrangements do not allow for the redemption of the Bonds on a pro rata pass-through distribution of principal basis as discussed above, then the Bonds, will be selected for redemption, in accordance with DTC procedures.

SECURITY FOR THE BONDS

General

The Indenture provides that, on or before each Payment Date, the Fund will pay the Trustee a sum equal to the amount payable on such Payment Date as principal of and interest on the Bonds. In addition, the Indenture provides that each such payment made will at all times be sufficient to pay the total amount of principal (whether at maturity or upon acceleration) and interest becoming due and payable on the Bonds on such Payment Date. If on any Payment Date, the amounts held by the Trustee in the accounts within the Bond Fund (as described below) are insufficient to make any required payments of principal of (whether at maturity or upon acceleration) and interest on the

Bonds as such payments become due, the Fund is required to pay such deficiency to the Trustee. Upon the receipt thereof, the Trustee will deposit all payments received from the Fund into certain funds and accounts established pursuant to the Indenture. See “—Certain Funds and Accounts Established by the Indenture” below.

The Bonds constitute unsecured general obligations of the Fund. The Bonds are not secured by a reserve fund, mortgage lien or security interest on or in any funds or other assets of the Fund, except for funds held from time to time by the Trustee for the benefit of the Holders of the Bonds under the Indenture. As described above, the Fund is not required to deposit with the Trustee amounts necessary to pay the principal of and interest on the Bonds until the Payment Date on which such amounts become due and payable; therefore, the funds held from time to time by the Trustee for the benefit of the Holders of the Bonds under the Indenture are expected to be minimal.

The Fund has other secured and unsecured general obligations outstanding. See APPENDIX B-1 – “AUDITED COMBINED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018” and APPENDIX B-2 – “AUDITED COMBINED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2017” attached hereto. Moreover, the Fund is not restricted by the Indenture or otherwise from incurring additional indebtedness. Such additional indebtedness, if issued, may be either secured or unsecured and may be entitled to payment prior to payment on the Bonds. The Indenture also does not contain any financial covenants limiting the ability of the Fund to encumber or dispose of its property or merge with any other entity, or any covenants. Further, the Fund is not required by the Indenture to produce revenues at any specified level or to obtain any insurance with respect to its property or operations.

Joint and Several Obligation

Pursuant to the Indenture, each of TCF and SCI has agreed that it will be jointly and severally obligated, and has agreed, to pay all amounts becoming due and payable on all Bonds issued under the Indenture according to the terms thereof. If for any reason any payment required pursuant to the terms of any Bond issued hereunder has not been timely paid, each of TCF and SCI shall be obligated to make such payment.

Certain Funds and Accounts Established by the Indenture

Under the Indenture, the Trustee has established for the sole benefit of the Bondholders, a master fund referred to as the “Indenture Fund,” containing the Series 2019 Bond Fund and the Series 2019 Redemption Fund and each of the funds and accounts contained therein. The Fund has pledged, assigned and transferred the Indenture Fund and all amounts held therein to the Trustee for the benefit of the Bondholders to secure the full payment of the principal, Redemption Price or Make-Whole Redemption Price of and interest on the Bonds in accordance with their terms and the provisions of the Indenture. The Indenture Fund and all amounts on deposit therein constitute collateral security to secure the full payment of the principal, Redemption Price or Make-Whole Redemption Price of and interest on the Bonds in accordance with their terms and provisions of the Indenture. Due to the timing of payments by the Fund to the Trustee, in general there is not expected to be any money in the Indenture Fund except for a brief period of time on the Interest Payment Dates.

For information on other funds and accounts established by the Indenture, see APPENDIX C – “SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE” attached hereto.

RISK FACTORS

Investors should carefully consider the risk factors set forth below, as well as the other information contained in this Offering Memorandum, before purchasing any Bonds. The order in which such risks are presented does not necessarily reflect the relative importance of such risks or the likelihood that any of the events or circumstances described below will occur or exist. Any of the following risks could materially and adversely affect the Fund’s prospects, operations, financial condition and/or cash flows. In addition, the risks described below and elsewhere in this Offering Memorandum are not the only risks that the Fund faces. Additional risks and uncertainties not currently known to the Fund or those that the Funds currently views to be immaterial could also materially and adversely affect the Fund’s prospects, operations, financial condition and/or cash flows. In any such case, Bondholders may lose all or a part of its investment in the Bonds.

Risks Relating to the Fund

The Fund’s future revenues and operating surplus are subject to a variety of economic and non-economic circumstances, many of which are outside of its control.

The Fund’s future revenues and operating surplus are subject to a variety of economic and non-economic circumstances, many of which are outside of its control, including:

- the liquidity and level of income generated from its conservation land sales;
- the value of conservation real estate held for resale;
- the continued availability of government funding for conservation purposes;
- the selection and prioritization of its projects for funding by government agencies; and
- the success of its fundraising activities.

The Fund depends on contributions, conservation land sales, fundraising and government and private grants and contracts. If revenues from these sources decrease as a result of either a decline in the popularity of the Fund’s services and activities or because of adverse economic conditions, its operations and ability to make debt service payments on the Bonds will be adversely affected.

A significant portion of the Fund’s revenue is derived from contributions and grants. These sources of income are neither guaranteed nor necessarily renewable. Large grants are often associated with lengthy and stringent application processes, which can make them difficult to obtain. In addition, periods of economic hardship can cause a decrease in revenue from both grants and donations as contributors adopt more conservative financial practices. Because of the uncertain nature of these revenue sources, there is a risk that a sudden reduction in grants and/or donations could occur, which could potentially impair the Fund’s ability to meet its obligations to Holders.

The illiquidity of the Fund’s assets may adversely affect its ability to generate revenues and pay debt service on the Bonds.

83% of the Fund’s assets are real property or restricted cash balances (such as funds received from mitigation contracts or grant funding). The Fund’s ability to pay debt service on the Bonds is primarily related to income generated on its existing portfolio of real estate as well as income generated by new projects acquired with the proceeds of the Bonds (see APPENDIX A – “CERTAIN INFORMATION CONCERNING THE FUND”). A substantial portion of the Fund’s real estate portfolio is restricted as to use and subject to donor stipulations and/or is being held for a partner organization, making it difficult for the Fund to sell such assets promptly if the need or desire arises. In addition, if the Fund is required to liquidate all or a portion of its real estate portfolio quickly, it may realize significantly less than the value at which it previously recorded its assets. Assets that are illiquid are more difficult to finance, and to the extent that the Fund uses leverage to finance assets that become illiquid it may lose that leverage or have it reduced. Assets tend to become less liquid during times of financial stress, which is often the time that liquidity is most needed. As a result, the Fund’s ability to sell assets or vary its real estate portfolio in response to changes in economic and other conditions may be limited by liquidity constraints, which could adversely affect the Fund’s results of operations and financial condition, as well as the Fund’s ability to pay debt service on the Bonds.

The Fund may be subject to environmental contamination clean-up costs with respect to its property.

The acquisition of land, even during limited time periods, subjects the owner of such land to potential liability for environmental contamination clean-up costs. These risks are inherent in the Fund’s activities. In addition, a substantial portion of the Fund’s acquisitions (measured by acreage) involve large tracts of land and dense forests that are impracticable to inspect in detail for environmental contamination. In response to these risks, the Fund has developed written procedures and guidelines pursuant to which it inspects and evaluates properties that it purchases. Notwithstanding these procedures, it is possible that the Fund could acquire a property with environmental contamination. If any of the Fund’s property were contaminated, federal, state, or local governments could require a clean-up of the site, and the Fund could be required to pay all or a part of such clean-up costs, which could be substantial and, in some cases, could exceed the value of a property. In addition, the presence of environmental contamination may adversely affect the Fund’s ability to sell the property. While the Fund attempts to adhere to its procedures and guidelines, the Fund cannot guarantee that all of its current or future property is or will be free of liability for environmental contamination. The Fund does not maintain environmental liability insurance on its properties. See APPENDIX A – “CERTAIN INFORMATION CONCERNING THE FUND – CONSERVATION ACQUISITION – Business Model – Pre-Acquisition Approval Process.”

The Fund must conduct its operations in accordance with certain Internal Revenue Service (“IRS”) guidelines to maintain its status as tax-exempt charitable organization.

Each of TCF and SCI has received a determination letter from the IRS confirming its status as a tax-exempt organization described in Section 501(c)(3) of the Code. To maintain its status as a tax-exempt organization, each of TCF and SCI must conduct its respective operations in a manner

consistent with representations previously made by it to the IRS, the Code and with current and future IRS regulations and rulings governing tax-exempt charitable organizations.

TCF's and SCI's ability to maintain their federal tax-exempt status will be contingent on their continued compliance with the rules and regulations under the Code applicable to the operation of tax-exempt entities, including their continued operation for charitable purposes and their avoidance of transactions that may cause the Fund's earnings or assets to inure to the benefit of private individuals. As these general tax-exempt principles were developed primarily for public charities that do not conduct large-scale land ownership operations such as the Fund undertakes, these principles often do not adequately address the myriad of operations and transactions entered into by nonprofit organizations such as TCF and SCI, which may result in uncertainty concerning the application of the Code to the Fund's operations. One of the tools available to the IRS to discipline a tax-exempt entity for activities deemed not to be charitable or for private inurement or impermissible private benefit is to revoke such entity's tax-exempt status. Although the IRS has not commonly revoked the tax-exempt status of charitable organizations in the past, TCF and SCI cannot guarantee that the IRS may not use this tool in future periods.

The IRS and members of Congress have in the past considered implementing more restrictive rules governing the tax-exempt status of 501(c)(3) organizations. Future regulations and rulings of the IRS could adversely affect TCF's and SCI's ability to charge and collect revenues, finance and refinance certain of its indebtedness on a tax-exempt basis, or otherwise generate revenues necessary to provide for the payment of principal and interest on the Bonds. Failure to maintain tax-exempt status would have a material adverse effect on the Fund's ability to repay the Bonds.

The Fund has risks associated with competition for contributions.

The Fund competes for the contributions of donors against other conservation and environmental organizations and other nonprofit entities dedicated to a variety of charitable, social, educational, or religious purposes. Competitors range in size from global environmental organizations to small community-based projects. Although the Fund believes it has a number of competitive advantages (as described in APPENDIX A – "CERTAIN INFORMATION CONCERNING THE FUND"), other organizations may be more effective in soliciting donations. The Fund's ability to repay the Bonds could be adversely affected if it is unable to successfully compete for charitable contributions and other sources of revenue.

The Fund depends on its executive leadership team and the loss of one or more key personnel may impair its ability to grow the organization.

The Fund's success depends in part upon the continued services of its key executive leadership team, as well as other key personnel. The Fund does not have employment agreements with its executive officers or other key personnel that require them to continue to work for the Fund for any specified period and, therefore, they may terminate employment with the Fund at any time with little advance notice. The replacement of the Fund's executive leadership team or other key personnel likely would involve significant time and costs, and the loss of these employees may significantly delay or prevent the achievement of the Fund's objectives.

As an owner of timberland, the Fund may be exposed to losses resulting from physical risks due to nature.

Physical risks associated with timberland investments often vary by region but generally include events such as fire, tornado, hurricane, disease, and insects and other forest pests. Damage to the Fund's standing timber from fire or insect infestation, disease, prolonged drought, flooding, severe weather and other natural disasters may adversely affect the Fund's timber harvests and/or the value of its timber properties, and changes in global climate conditions could intensify one or more of these factors. The Fund does not maintain insurance coverage for fire or other damage to its timberlands. The Fund attempts to mitigate these risks through active forest management and geographic diversity of its forestry portfolio, including avoidance of some geographic areas. Notwithstanding such efforts, these risks cannot be eliminated and the Fund's ability to repay the Bonds could be adversely affected by timberland losses due to these or other physical risks.

Risks Related to the Bonds

The Bonds are unsecured and may become subordinated in right of payment to any existing and future secured indebtedness that the Fund may incur.

The Bonds are unsecured and may become subordinated in right of payment to any existing and future secured indebtedness that the Fund may incur. In the event of any dissolution, winding up, liquidation, reorganization or other bankruptcy proceeding relating to the Fund, the proceeds from any sale of its assets will first be applied to repay any secured creditors that have a lien on such assets before any such proceeds are available to its unsecured creditors, including the holders of the Bonds.

In addition, the terms of the Indenture do not restrict the Fund's ability to incur secured or unsecured debt. As of December 31, 2018, the Fund had \$135.5 million of outstanding indebtedness, \$43.6 million of which was secured.

The Indenture and the joint and several obligation of each of TCF and SCI to make payments on the Bonds, may be unenforceable in certain circumstances.

Under Maryland law, a corporation, including a nonstock corporation, may guarantee the debt of another corporation if such guaranty is in accordance with the organizational documents, *i.e.*, articles of incorporation and by-laws of such guarantor corporation. In addition, it is possible that the joint and several obligation of each Issuer to make payments due under Bonds issued for the benefit of the other Issuer, may be declared void in an action brought by third-party creditors pursuant to the Maryland fraudulent conveyance statutes or may be avoided by such Issuer or a trustee in bankruptcy in the event of the bankruptcy of the Issuer from which payment is requested. An obligation may be voided under the federal Bankruptcy Code or under the Maryland fraudulent conveyance statute, if (a) the obligation was incurred without receipt by the obligor of "fair consideration" or "reasonably equivalent value," and (b) the obligation renders the obligor "insolvent," or becomes so as a result of the obligations incurred, as such terms are defined under the applicable statute. Interpretation by the courts of the tests of "insolvency," "reasonably equivalent value" and "fair consideration" has resulted in a conflicting body of case law. For example, an Issuer's joint and several obligation under the Indenture to make all payments thereunder, including payments in respect of funds used for the benefit of the other Issuer, may be

held to be a “transfer” or “conveyance” which makes such Issuer “insolvent” if the total amount due under the Indenture is considered to cause its liabilities to exceed its assets. Also, one of the Issuers may be deemed to have received less than “reasonably equivalent value” for such obligation because none or only a portion of the proceeds of the indebtedness are to be used to finance projects occupied or used by such Issuer. While an Issuer may benefit generally from the projects financed from the indebtedness for the other Issuer, the actual cash value of this benefit may be less than the joint and several obligation. The rights under the Maryland fraudulent conveyance statutes may be asserted for a period of up to three years from the incurring of the obligations or granting of security under the Indenture.

In addition, there may exist common law authority and authority under certain state statutes for the ability of state courts to terminate the existence of a nonprofit corporation, restrain responsible parties from misapplying, diverting, or wasting charitable assets held by a nonprofit corporation in the state, transfer the charitable assets of a nonprofit corporation to another charitable organization consistent with the charitable purpose of the charitable assets held by the nonprofit corporation, or undertake supervision of its affairs on various grounds, including a finding that such corporation has insufficient assets to carry out its stated charitable purposes or has taken some action which renders it unable to carry out such purposes. Such court action may arise on the court’s own motion or pursuant to a petition of the state attorney general, the secretary of state or such other persons who have interests different from those of the general public, pursuant to the common law and statutory power to enforce charitable trusts and to see to the application of their funds to their intended charitable uses. The enforceability of similar agreements has been challenged in jurisdictions outside of Maryland. In the absence of clear legal precedent in the area, the extent to which the assets of any Issuer can be used to pay obligations issued by others cannot be determined at this time.

The price at which Holders will be able to sell their Bonds prior to maturity will depend on a number of factors and may be substantially less than the amount originally invested.

The value of the Bonds in any secondary market will be affected by the supply and demand of the Bonds, the credit rating of the Bonds, prevailing interest rates and a number of other factors. Some of these factors are interrelated in complex ways, and any one factor may be offset or magnified by the effect of another factor. There can be no assurance concerning the value of the Bonds in the secondary market.

Bondholders may not be able to sell their Bonds if an active trading market for the Bonds does not develop.

The Bonds constitute a new issue of securities, for which there is no existing trading market. In addition, the Fund does not intend to apply to list the Bonds on any securities exchange or for quotation on any automated quotation system. The Fund cannot guarantee whether trading markets for the Bonds will develop, that Holders will be able to sell their Bonds, or the prices at which Holders may be able to sell their Bonds. Market-making activity, if any, with respect to the Bonds may be discontinued at any time without notice. If no active trading markets develop, Bondholders may be unable to resell the Bonds at their fair market value or at all.

The Fund's credit rating may not reflect all risks of an investment in the Bonds.

The credit rating assigned to the Bonds may not reflect the potential impact of all risks related to trading markets, if any, for, or trading value of, the Bonds. In addition, real or anticipated changes in the Fund's credit rating will generally affect any trading market, if any, for, or trading value of, the Bonds. Accordingly, investors should consult their own financial and legal advisors as to the risks of an investment in the Bonds and the suitability of investing in the Bonds in light of their particular circumstances.

There are limited covenants in the Indenture for the Bonds.

The Fund is not restricted from incurring additional debt or other liabilities, including additional senior debt, under the Indenture for the Bonds. If the Fund incurs additional debt or liabilities, its ability to pay its obligations on the Bonds could be adversely affected. The Fund expects that it will from time to time incur additional debt and other liabilities. In addition, the Fund is not restricted under the Indenture from granting security interests over its assets, or from making investments or issuing or repurchasing its securities.

In addition, there are no financial covenants in the Indenture. Bondholders will not be protected under the Indenture in the event of a reorganization, restructuring, merger or similar transaction that may adversely affect them.

Redemption may adversely affect a Holder's return on the Bonds.

The Fund will have the right to redeem some or all of the Bonds prior to maturity, as described under "THE BONDS" in this Offering Memorandum. The Fund may redeem the Bonds at times when prevailing interest rates may be relatively low. Accordingly, a Holder may not be able to reinvest the redemption proceeds in a comparable security at an effective interest rate as high as that of the Bonds.

Rights of Holders may be adversely affected by bankruptcy proceedings in the United States.

Under applicable federal bankruptcy laws, upon the commencement of a bankruptcy case by or involuntarily against the Fund, an automatic stay goes into effect which, among other things, generally stays:

- the commencement or continuation of any action or proceeding against the debtor that was or could have been commenced before the commencement of the bankruptcy case to recover a claim against the debtor that arose before the commencement of the bankruptcy case;
- any act to obtain possession of, or control over, property of the bankruptcy estate or the debtor;
- any act to create, perfect or enforce any lien against property of the bankruptcy estate; and
- any act to collect or recover a claim against the debtor that arose before the commencement of the bankruptcy case.

In light of the broad discretionary powers of a bankruptcy court, it is impossible to predict how long payments under the Bonds offered hereby could be delayed following commencement of a bankruptcy case by or involuntarily against the Fund. A creditor may seek relief from the stay from the bankruptcy court to take any of the acts described above that would otherwise be prohibited by the automatic stay. The U.S. bankruptcy court has broad discretionary powers to determine whether to grant a creditor relief from the stay. U.S. federal bankruptcy laws do not permit the payment or accrual of interest and, in some cases, may not permit the payment of costs and attorneys' fees for the "undersecured claims" during the debtor's bankruptcy case.

The enforceability of rights under the Indenture for the Bonds is subject to a number of limitations.

The realization of rights under the Indenture for the Bonds upon a default by the Fund depends upon the exercise of various remedies specified in the Indenture. These remedies may require judicial action which is often subject to discretion and delay. Under existing law, certain of the remedies specified in the Indenture may not be readily available or may be limited. For example, a court may decide not to order the specific performance of any covenants contained in the Indenture. Accordingly, the ability of the Trustee to exercise remedies under the Indenture upon an event of default could be impaired by the need for judicial or regulatory approval. Courts may restrict the ability of the Trustee to compel the liquidation of the Fund's property to pay a judgment against it for payment of the Bonds because it is a not-for-profit corporation carrying out charitable purposes.

Certain funds will not be available to pay principal or interest on the Bonds.

The Fund holds significant investments and cash balances that have been received under mitigation contracts whereby it has agreed to spend those funds on qualified projects, sometimes over a period of many years. The cash balances from mitigation contracts are held on behalf of government agencies or other mitigation partners and therefore are not available to pay principal or interest on the Bonds. In addition, certain funds may be unavailable to pay principal or interest on the Bonds due to restrictions on the use of such funds imposed by grantors or donors.

BOOK-ENTRY ONLY SYSTEM AND GLOBAL CLEARANCE PROCEDURES

The information set out below is subject to any change in or reinterpretation of the rules, regulations and procedures of DTC, Euroclear or Clearstream Banking (DTC, Euroclear and Clearstream Banking together, the "Clearing Systems") currently in effect. The information in this section concerning the Clearing Systems has been obtained from sources that the Fund believes to be reliable, but none of the Fund, the Trustee or the Underwriter take any responsibility for the accuracy, completeness or adequacy of the information in this section. Investors wishing to use the facilities of any of the Clearing Systems are advised to confirm the continued applicability of the rules, regulations and procedures of the relevant Clearing System. The Fund will not have any responsibility or liability for any aspect of the records relating to, or payments made on account of, beneficial ownership interests in the Bonds held through the facilities of any Clearing System or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

NEITHER THE FUND NOR THE TRUSTEE WILL HAVE ANY RESPONSIBILITY OR OBLIGATIONS TO DIRECT PARTICIPANTS OR THE PERSONS FOR WHOM THEY ACT

AS NOMINEES WITH RESPECT TO THE PAYMENTS TO OR THE PROVIDING OF NOTICE FOR DIRECT PARTICIPANTS, INDIRECT PARTICIPANTS OR BENEFICIAL OWNERS.

SO LONG AS CEDE & CO. IS THE REGISTERED OWNER OF THE BONDS, AS NOMINEE OF DTC, REFERENCES HEREIN TO THE BONDHOLDERS OR REGISTERED OWNERS OF THE BONDS SHALL MEAN CEDE & CO. AND SHALL NOT MEAN THE BENEFICIAL OWNERS OF THE BONDS.

Clearing Systems

DTC will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond certificate will be issued for the Bonds in their aggregate principal amount and will be deposited with DTC.

DTC is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants," and together with Direct Participants, "Participants"). The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of the Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive

certificates representing their ownership interests in the Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of the Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to DTC. Subject to the provisions described above in "THE BONDS—Selection of Bonds for Redemption," if less than all of the Bonds are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such Bonds to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Fund as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payments of principal, Redemption Price and Make-Whole Redemption Price and interest payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Fund or the Trustee, on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Underwriter, the Trustee or the Fund, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, Redemption Price, Make-Whole Redemption Price and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Fund or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Bonds at any time by giving reasonable notice to the Fund or the Trustee. Under such circumstances, in the event that a successor securities depository is not obtained, such Bond certificates are required to be printed and delivered. The Fund may decide to discontinue use of the system of book-entry

transfers through DTC (or a successor securities depository). In that event, the Bond certificates will be printed and delivered to DTC. See “—Certificated Bonds” below.

The information herein concerning DTC and DTC’s book-entry system has been obtained from sources that the Fund and the Underwriter believe to be reliable, but the Fund and the Underwriter take no responsibility for the accuracy thereof.

Each person for whom a Participant acquires an interest in the Bonds, as nominee, may desire to make arrangements with such Participant to receive a credit balance in the records of such Participant, and may desire to make arrangements with such Participant to have all notices of redemption or other communications to DTC, which may affect such persons, to be forwarded in writing by such Participant and to have notification made of all interest payments. **NONE OF THE FUND, THE UNDERWRITER OR THE TRUSTEE WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO SUCH PARTICIPANTS OR THE PERSONS FOR WHOM THEY ACT AS NOMINEES WITH RESPECT TO THE BONDS.**

So long as Cede & Co. is the registered owner of the Bonds, as nominee for DTC, references herein to Bondholders or registered owners of the Bonds shall mean Cede & Co., as aforesaid, and shall not mean the Beneficial Owners of the Bonds.

When reference is made to any action which is required or permitted to be taken by the Beneficial Owners, such reference shall only relate to those permitted to act (by statute, regulation or otherwise) on behalf of such Beneficial Owners for such purposes. When notices are given, they shall be sent by the Trustee to DTC only.

For every transfer and exchange of Bonds, the Beneficial Owner may be charged a sum sufficient to cover any tax, fee or other governmental charge that may be imposed in relation thereto.

The Fund, in its sole discretion and without the consent of any other person, may terminate the services of DTC with respect to the Bonds if the Fund determines that (i) DTC is unable to discharge its responsibilities with respect to the Bonds, or (ii) a continuation of the requirement that all of the Outstanding Bonds be registered in the registration books kept by the Trustee in the name of Cede & Co., as nominee of DTC, is not in the best interests of the Beneficial Owners. In the event that no substitute securities depository is found by the Fund or restricted registration is no longer in effect, Bond certificates will be delivered.

NONE OF THE FUND, THE UNDERWRITER OR THE TRUSTEE WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO DIRECT PARTICIPANTS, TO INDIRECT PARTICIPANTS, OR TO ANY BENEFICIAL OWNER WITH RESPECT TO: (I) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC, ANY DIRECT PARTICIPANT, OR ANY INDIRECT PARTICIPANT; (II) ANY NOTICE THAT IS PERMITTED OR REQUIRED TO BE GIVEN TO THE OWNERS OF THE BONDS UNDER THE INDENTURE; (III) THE SELECTION BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT OF ANY PERSON TO RECEIVE PAYMENT IN THE EVENT OF A PARTIAL REDEMPTION OF THE BONDS; (IV) THE PAYMENT BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT OF ANY AMOUNT WITH RESPECT TO THE PRINCIPAL OR REDEMPTION PREMIUM, IF ANY, OR INTEREST DUE WITH RESPECT TO THE BONDS; (V) ANY

CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS THE OWNER OF THE BONDS;
OR (VI) ANY OTHER MATTER.

Euroclear and Clearstream Banking

Euroclear and Clearstream Banking each hold securities for their customers and facilitate the clearance and settlement of securities transactions by electronic book-entry transfer between their respective account holders. Euroclear and Clearstream Banking provide various services including safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Euroclear and Clearstream Banking also deal with domestic securities markets in several countries through established depository and custodial relationships. Euroclear and Clearstream Banking have established an electronic bridge between their two systems across which their respective participants may settle trades with each other.

Euroclear and Clearstream Banking customers are worldwide financial institutions, including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations. Indirect access to Euroclear and Clearstream Banking is available to other institutions that clear through or maintain a custodial relationship with an account holder of either system, either directly or indirectly.

Clearing and Settlement Procedures

The Bonds sold in offshore transactions will be initially issued to investors through the book-entry facilities of DTC, or Clearstream Banking and Euroclear in Europe if the investors are participants in those systems, or indirectly through organizations that are participants in the systems. For any of such Bonds, the record holder will be DTC's nominee. Clearstream Banking and Euroclear will hold omnibus positions on behalf of their participants through customers' securities accounts in Clearstream Banking's and Euroclear's names on the books of their respective depositories.

The depositories, in turn, will hold positions in customers' securities accounts in the depositories' names on the books of DTC. Because of time zone differences, the securities account of a Clearstream Banking or Euroclear participant as a result of a transaction with a participant, other than a depository holding on behalf of Clearstream Banking or Euroclear, will be credited during the securities settlement processing day, which must be a business day for Clearstream Banking or Euroclear, as the case may be, immediately following the DTC settlement date. These credits or any transactions in the securities settled during the processing will be reported to the relevant Euroclear participant or Clearstream Banking participant on that business day. Cash received in Clearstream Banking or Euroclear as a result of sales of securities by or through a Clearstream Banking participant or Euroclear participant to a Direct Participant, other than the depository for Clearstream Banking or Euroclear, will be received with value on the DTC settlement date but will be available in the relevant Clearstream Banking or Euroclear cash account only as of the business day following settlement in DTC.

Transfers between participants will occur in accordance with DTC rules. Transfers between Clearstream Banking participants or Euroclear participants will occur in accordance with their respective rules and operating procedures. Cross-market transfers between persons holding directly or indirectly through DTC, on the one hand, and directly or indirectly through Clearstream Banking

participants or Euroclear participants, on the other, will be effected in DTC in accordance with DTC rules on behalf of the relevant European international clearing system by the relevant depositories; however, cross-market transactions will require delivery of instructions to the relevant European international clearing system by the counterparty in the system in accordance with its rules and procedures and within its established deadlines in European time. The relevant European international clearing system will, if the transaction meets its settlement requirements, deliver instructions to its depository to take action to effect final settlement on its behalf by delivering or receiving securities in DTC, and making or receiving payment in accordance with normal procedures for same day funds settlement applicable to DTC. Clearstream Banking participants or Euroclear participants may not deliver instructions directly to the depositories.

The Fund will not impose any fees in respect of holding the Bonds; however, holders of book-entry interests in the Bonds may incur fees normally payable in respect of the maintenance and operation of accounts in the Clearing Systems.

Initial Settlement

Interests in the Bonds will be in uncertified book-entry form. Purchasers electing to hold book-entry interests in the Bonds through Euroclear and Clearstream Banking accounts will follow the settlement procedures applicable to conventional Eurobonds. Book-entry interests in the Bonds will be credited to Euroclear and Clearstream Banking participants' securities clearance accounts on the business day following the date of delivery of the Bonds against payment (value as on the date of delivery of the Bonds). Direct Participants acting on behalf of purchasers electing to hold book-entry interests in the Bonds through DTC will follow the delivery practices applicable to securities eligible for DTC's Same Day Funds Settlement system. Direct Participants' securities accounts will be credited with book-entry interests in the Bonds following confirmation of receipt of payment to the Fund on the date of delivery of the Bonds.

Secondary Market Trading

Secondary market trades in the Bonds will be settled by transfer of title to book-entry interests in the Clearing Systems. Title to such book-entry interests will pass by registration of the transfer within the records of Euroclear, Clearstream Banking or DTC, as the case may be, in accordance with their respective procedures. Book-entry interests in the Bonds may be transferred within Euroclear and within Clearstream Banking and between Euroclear and Clearstream Banking in accordance with procedures established for these purposes by Euroclear and Clearstream Banking. Book-entry interests in the Bonds may be transferred within DTC in accordance with procedures established for this purpose by DTC. Transfer of book-entry interests in the Bonds between Euroclear or Clearstream Banking and DTC may be effected in accordance with procedures established for this purpose by Euroclear, Clearstream Banking and DTC.

General

None of Euroclear, Clearstream Banking or DTC is under any obligation to perform or continue to perform the procedures referred to above, and such procedures may be discontinued at any time.

Neither the Fund nor any of their agents will have any responsibility for the performance by Euroclear, Clearstream Banking or DTC or their respective direct or indirect participants or account

holders of their respective obligations under the rules and procedures governing their operations or the arrangements referred to above.

The information herein concerning Euroclear, Clearstream Banking and DTC has been obtained from sources that the Fund and the Underwriter believe to be reliable, but the Fund and the Underwriter take no responsibility for the accuracy thereof.

Certificated Bonds

DTC may discontinue providing its services as securities depository with respect to the Bonds at any time by giving reasonable notice to the Fund or the Trustee. In addition, the Fund may determine that continuation of the system of book-entry transfers through DTC (or a successor securities depository) is not in the best interests of the Beneficial Owners. If for either reason the book-entry-only system is discontinued, Bond certificates will be delivered as described in the Indenture, and the Beneficial Owner, upon registration of certificates held in the Beneficial Owner's name, will become the Bondowner. Thereafter, the Bonds may be exchanged for an equal aggregate principal amount of the Bonds in other authorized denominations and of the same maturity, upon surrender thereof at the principal corporate trust office of the Trustee. The transfer of any Bond may be registered on the books maintained by the Trustee for such purpose only upon assignment in form satisfactory to the Trustee. For every exchange or registration of transfer of the Bonds, the Trustee may make a charge sufficient to reimburse them for any tax or other governmental charge required to be paid with respect to such exchange or registration of transfer, and the Trustee may also require the Bondowners requesting such exchange to pay a reasonable sum to cover any expenses incurred by the Fund in connection with such exchange. The Trustee will not be required to exchange (i) any Bond during the fifteen (15) days next preceding the selection of Bonds for redemption or (ii) any Bond called for redemption.

CERTAIN UNITED STATES FEDERAL TAX CONSIDERATIONS

The following discussion summarizes certain U.S. federal tax considerations generally applicable to holders of the Bonds. The discussion below is based upon current provisions of the Code, current final, temporary and proposed Treasury regulations, judicial authority and current administrative rulings and pronouncements of the IRS. There can be no assurance that the IRS will not take a contrary view, and no ruling from the IRS has been, or is expected to be, sought on the issues discussed herein. Legislative, judicial, or administrative changes or interpretations may occur that could alter or modify the statements and conclusions set forth herein. Any such changes or interpretations may or may not be retroactive and could adversely affect the tax consequences discussed below.

The summary is not a complete analysis or description of all potential U.S. federal tax considerations that may be relevant to, or of the actual tax effect that any of the matters described herein will have on, particular holders of Bonds and does not address U.S. federal gift or (for U.S. Holders, as defined below) estate tax consequences or alternative minimum, foreign, state, local or other tax consequences. This summary does not purport to address special classes of taxpayers (such as S corporations, mutual funds, insurance companies, financial institutions, small business investment companies, regulated investment companies, real estate investment trusts, grantor trusts, former citizens of the United States, broker-dealers, traders in securities and tax-exempt organizations) that are subject to special treatment under the federal income tax laws, or persons

that hold Bonds that are a hedge against, or that are hedged against, currency risk or that are part of a hedge, straddle, conversion or other integrated transaction, or U.S. Holders whose functional currency is not the U.S. dollar. This summary also does not address the tax consequences to an owner of Bonds held through a partnership or other pass-through entity treated as a partnership for U.S. federal income tax purposes or the tax consequences applicable to such partnership or other pass-through entity. In addition, this discussion is limited to persons purchasing the Bonds for cash in this offering at their “issue price” within the meaning of Section 1273 of the Code (i.e., the first price at which a substantial amount of Bonds are sold to the public for cash), and it does not address the tax consequences to holders that purchase the Bonds after their original issuance. This discussion assumes that the Bonds will be held as capital assets within the meaning of section 1221 of the Code.

As used herein, the term “U.S. Holder” means a beneficial owner of Bonds that is (i) an individual citizen or resident of the United States for U.S. federal income tax purposes, (ii) a corporation (or other entity classified as a corporation for U.S. federal tax purposes) created or organized in or under the laws of the United States or any state thereof or the District of Columbia, (iii) an estate, the income of which is includible in gross income for U.S. federal income tax purposes regardless of its source, or (iv) a trust if (a) a U.S. court can exercise primary supervision over the administration of such trust and one or more United States persons (within the meaning of the Code) have the authority to control all of the substantial decisions of such trust or (b) the trust has made a valid election under applicable Treasury regulations to be treated as a United States person (within the meaning of the Code). As used herein, the term “Non-U.S. Holder” means a beneficial owner of Bonds that is not a U.S. Holder.

If the liability of the Fund in respect of a Bond ceases as a result of an election by the Fund to pay and discharge the indebtedness on such Bond by depositing with the Trustee sufficient cash and/or obligations to pay or redeem and discharge the indebtedness on such Bond (a “legal defeasance”), under current tax law a Holder will be deemed to have sold or exchanged such Bond. In the event of such a legal defeasance, a Holder generally will recognize gain or loss on the deemed exchange of the Bond. Ownership of the Bond after a deemed sale or exchange as a result of a legal defeasance may have tax consequences different from those described in this “CERTAIN UNITED STATES FEDERAL INCOME TAX CONSIDERATIONS” section and each Holder should consult its own tax advisor regarding the consequences to such Holder of a legal defeasance of a Bond.

BECAUSE INDIVIDUAL CIRCUMSTANCES MAY DIFFER, PROSPECTIVE HOLDERS OF THE BONDS ARE STRONGLY URGED TO CONSULT THEIR OWN TAX ADVISORS WITH RESPECT TO THEIR PARTICULAR TAX SITUATIONS AND AS TO ANY FEDERAL, FOREIGN, STATE, LOCAL OR OTHER TAX CONSIDERATIONS (INCLUDING ANY POSSIBLE CHANGES IN TAX LAW) AFFECTING THE PURCHASE, HOLDING AND DISPOSITION OF THE BONDS.

Certain U.S. Federal Income Tax Consequences to U.S. Holders

This section describes certain U.S. federal income tax consequences to U.S. Holders. Non-U.S. Holders should see the discussion under the heading “—Certain Federal Income Tax Consequences to Non-U.S. Holders” for a discussion of certain tax consequences applicable to them.

Interest. Interest on the Bonds will generally be taxable to a U.S. Holder as ordinary interest income at the time such amounts are accrued or received, in accordance with the U.S. Holder’s method of accounting for U.S. federal income tax purposes.

Disposition of the Bonds. Unless a nonrecognition provision of the Code applies, the sale, exchange, redemption (including pursuant to an offer by the Fund) or other taxable disposition of a Bond, will be a taxable event for U.S. federal income tax purposes. In such event, in general, a U.S. Holder of Bonds will recognize gain or loss equal to the difference between (i) the amount of cash plus the fair market value of property received (except to the extent attributable to accrued but unpaid interest on the Bonds which will be taxed in the manner described above under “Interest”) and (ii) the U.S. Holder’s adjusted tax basis in the Bonds (generally, the purchase price paid by the U.S. Holder for the Bonds). Any such gain or loss generally will be long-term capital gain or loss, provided the Bonds have been held for more than one year at the time of the disposition. The deductibility of capital losses is subject to limitations.

Tax on Net Investment Income. Certain non-corporate U.S. Holders of Bonds will be subject to a 3.8% tax on the lesser of (1) the U.S. Holder’s “net investment income” (in the case of individuals) or “undistributed net investment income” (in the case of estates and certain trusts) for the relevant taxable year and (2) the excess of the U.S. Holder’s “modified adjusted gross income” (in the case of individuals) or “adjusted gross income” (in the case of estates and certain trusts) for the taxable year over a certain threshold. A U.S. Holder’s calculation of net investment income generally will include its interest income on the Bonds and its net gains from the disposition of the Bonds, unless such interest income or net gains are derived in the ordinary course of the conduct of a trade or business (other than a trade or business that consists of certain passive or trading activities). U.S. Holders that are individuals, estates or trusts are urged to consult their own tax advisors regarding the applicability of this tax to income and gains in respect of their investment in the Bonds.

Information Reporting and Backup Withholding. The Fund or its paying agent, if any (the “payor”) must report annually to the IRS and to each U.S. Holder any interest that is payable to the U.S. Holder, subject to certain exceptions. Under section 3406 of the Code and applicable Treasury Regulations, a non-corporate U.S. Holder of the Bonds may be subject to backup withholding with respect to “reportable payments,” which include interest paid on the Bonds and the gross proceeds of a sale, exchange, redemption or retirement of the Bonds. The payor will be required to deduct and withhold the prescribed amounts if (i) the payee fails to furnish a taxpayer identification number (“TIN”) to the payor in the manner required, (ii) the IRS notifies the payor that the TIN furnished by the payee is incorrect, (iii) there has been a “notified payee underreporting” described in section 3406(c) of the Code or (iv) there has been a failure of the payee to certify under penalty of perjury that the payee is not subject to withholding under section 3406(a)(1)(C) of the Code. Amounts withheld under the backup withholding rules do not constitute an additional tax and will be credited against the U.S. Holder’s federal income tax liabilities (and possibly result in a refund), so long as the required information is provided to the IRS in a timely manner.

Certain U.S. Federal Income and Estate Tax Consequences to Non-U.S. Holders

This section describes certain U.S. federal income and estate tax consequences to Non-U.S. Holders.

Interest. If, under the Code, interest on the Bonds is “effectively connected with the conduct of a trade or business within the United States” by a Non-U.S. Holder, such interest will be subject to U.S. federal income tax in a similar manner as if the Bonds were held by a U.S. Holder, as described above, and in the case of Non-U.S. Holders that are corporations may be subject to U.S. branch profits tax at a rate of up to 30%, unless an applicable tax treaty provides otherwise. Such Non-U.S. Holder will not be subject to withholding taxes, however, if it provides a properly executed IRS Form W-8ECI to the payor.

Subject to the discussion below regarding applicable income tax treaties, interest on the Bonds held by other Non-U.S. Holders may be subject to withholding taxes of up to 30% of each payment made to the Non-U.S. Holders unless the “portfolio interest” exemption applies. In general, interest paid on the Bonds to a Non-U.S. Holder may qualify for the portfolio interest exemption, and thus will not be subject to U.S. federal withholding tax, if (1) such Non-U.S. Holder is not a “controlled foreign corporation” (within the meaning of section 957 of the Code) related, directly or indirectly, to the Fund; (2) the Non-U.S. Holder is not actually or constructively a “10-percent shareholder” under Section 871(h) of the Code; (3) the Non-U.S. Holder is not a bank receiving interest described in Section 881(c)(3)(A) of the Code; (4) the interest is not effectively connected with the conduct by the Non-U.S. Holder of a trade or business in the United States under Section 871(b) or Section 882 of the Code; and (5) either (A) the payor receives from the Non-U.S. Holder who is the beneficial owner of the obligation a statement signed by such person under penalties of perjury, on IRS Form W-8BEN or on IRS Form W-8BEN-E (or successor form), certifying that such owner is not a U.S. Holder and providing such owner’s name and address or (B) a securities clearing organization, bank or other financial institution that holds the Bonds on behalf of such Non-U.S. Holder in the ordinary course of its trade or business certifies to the payor, under penalties of perjury, that such an IRS Form W-8BEN or IRS Form W-8BEN-E (or a successor form) has been received from the beneficial owner by it and furnishes the payor with a copy thereof. Alternative methods may be applicable for satisfying the certification requirement described above. Foreign trusts and their beneficiaries are subject to special rules, and such persons should consult their own tax advisors regarding the certification requirements.

If a Non-U.S. Holder does not claim, or does not qualify for, the benefit of the portfolio interest exemption, the Non-U.S. Holder may be subject to a 30% withholding tax on interest payments on the Bonds. However, the Non-U.S. Holder may be able to claim the benefit of a reduced withholding tax rate under an applicable income tax treaty between the Non-U.S. Holder’s country of residence and the U.S. Non-U.S. Holders are urged to consult their own tax advisors regarding their eligibility for treaty benefits. The required information for claiming treaty benefits is generally submitted on IRS Form W-8BEN or on IRS Form W-8BEN-E. In addition, a Non-U.S. Holder may under certain circumstances be required to obtain a U.S. taxpayer identification number.

Disposition of the Bonds. A Non-U.S. Holder will generally not be subject to U.S. federal income tax or withholding tax on gain recognized on a sale, exchange, redemption or other disposition of a Bond. (Such gain does not include proceeds attributable to accrued but unpaid interest on the Bonds, which will be treated as interest.) A Non-U.S. Holder may, however, be

subject to U.S. federal income tax on such gain if: (1) the Non-U.S. Holder is a nonresident alien individual who was present in the United States for 183 days or more in the taxable year of the disposition and certain other conditions are met; or (2) the gain is effectively connected with the conduct of a U.S. trade or business, as provided by applicable U.S. tax rules (in which case the U.S. branch profits tax may also apply), unless an applicable tax treaty provides otherwise.

Information Reporting and Backup Withholding. The payor must report annually to the IRS and to each Non-U.S. Holder any interest that is subject to U.S. withholding taxes or that is exempt from U.S. withholding taxes pursuant to an income tax treaty or certain provisions of the Code. Copies of these information returns may also be made available under the provisions of a specific income tax treaty or agreement with the tax authorities of the country in which the Non-U.S. Holder resides.

A Non-U.S. Holder generally will not be subject to backup withholding with respect to payments of interest on the Bonds as long as the Non-U.S. Holder (i) has furnished to the payor a valid IRS Form W-8BEN or IRS Form W-8BEN-E certifying, under penalties of perjury, its status as a non-U.S. person, (ii) has furnished to the payor other documentation upon which it may rely to treat the payments as made to a non-U.S. person in accordance with Treasury regulations, or (iii) otherwise establishes an exemption. A Non-U.S. Holder may be subject to information reporting and/or backup withholding on a sale of the Bonds through the United States office of a broker and may be subject to information reporting (but generally not backup withholding) on a sale of the Bonds through a foreign office of a broker that has certain connections to the United States, unless the Non-U.S. Holder provides the certification described above or otherwise establishes an exemption. Non-U.S. Holders should consult their own tax advisors regarding their qualification for exemption from backup withholding and the procedure for obtaining such an exemption.

Amounts withheld under the backup withholding rules may be refunded or credited against the Non-U.S. Holder's U.S. federal income tax liability, if any, provided that the required information is timely furnished to the IRS.

U.S. Federal Estate Tax. A Bond held or beneficially owned by an individual who, for estate tax purposes, is not a citizen or resident of the United States at the time of death will not be includable in the decedent's gross estate for U.S. estate tax purposes, provided that, at the time of death, payments with respect to such Bond would not have been effectively connected with the conduct by such individual of a trade or business in the United States. In addition, the U.S. estate tax may not apply with respect to such Bond under the terms of an applicable estate tax treaty.

Foreign Account Tax Compliance Act

Certain withholding rules imposed under Section 1471 through 1474 of the Code (otherwise known as the "Foreign Account Tax Compliance Act") generally would impose a 30% U.S. withholding tax on (i) payments of interest made and gross proceeds from the sale, exchange or retirement of debt obligations paid after December 31, 2019 and (ii) certain "pass-thru" payments received no earlier than January 1, 2019. "Foreign financial institution" is defined very broadly for this purpose, and includes any foreign entity that accepts deposits in the ordinary course of a banking or similar business; as a substantial portion of its business, holds financial assets for the account of others; or is engaged, or holds itself out as being engaged, primarily in the business of investing, reinvesting or trading in (or in interests in) securities, partnership interests or commodities.

Investors are encouraged to consult with their own tax advisors regarding the implications of this legislation and the applicable regulations on their investment in a Bond.

THE FOREGOING SUMMARY IS INCLUDED HEREIN FOR GENERAL INFORMATION ONLY AND DOES NOT DISCUSS ALL ASPECTS OF U.S. FEDERAL INCOME TAXATION THAT MAY BE RELEVANT TO A PARTICULAR HOLDER OF BONDS IN LIGHT OF THE HOLDER'S PARTICULAR CIRCUMSTANCES AND INCOME TAX SITUATION. PROSPECTIVE INVESTORS ARE URGED TO CONSULT THEIR OWN TAX ADVISORS AS TO ANY TAX CONSEQUENCES TO THEM FROM THE PURCHASE, OWNERSHIP AND DISPOSITION OF BONDS, INCLUDING THE APPLICATION AND EFFECT OF STATE, LOCAL, FOREIGN AND OTHER TAX LAWS.

ERISA AND BENEFIT PLAN CONSIDERATIONS

In considering the purchase of a Bond, fiduciaries and managers of employee benefit plans subject to the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), including U.S. private pension plans, certain insurance company accounts, and entities that are deemed to hold "plan assets" with respect to such plans (collectively, "ERISA Plans") should have in mind certain considerations under ERISA, including those described below. The Code also has certain provisions that apply to such plans as well as to IRAs and certain other plans not subject to ERISA (such plans, together with the ERISA Plans, "Plans"). Certain other plans, such as governmental plans, church plans, and plans maintained outside of the United States may be subject to other similar state and other local statutory rules and restrictions; fiduciaries of these plans should be familiar with and take into consideration the rules governing those plans.

Fiduciary Duties

Section 404(a)(1) of ERISA sets forth a general standard of behavior and restrictions for fiduciaries of ERISA Plans. It requires that a fiduciary discharge its duties with respect to an ERISA Plan (i) solely in the interest of the participants and beneficiaries, (ii) for the exclusive purpose of providing benefits to participants and their beneficiaries and defraying reasonable expenses of administering the plan, (iii) in accordance with a prudent-man rule (that is "with the care, skill, prudence and diligence under the circumstances then prevailing that a prudent man acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims"), (iv) by diversifying the investments of the plan so as to minimize the risk of large losses, unless under the circumstances it is clearly prudent not to do so, and (v) in accordance with the documents governing the plan insofar as they are consistent with ERISA.

In determining whether a particular investment is appropriate for a plan subject to ERISA, ERISA Plan fiduciaries are required to give appropriate consideration to, among other things, the role that the investment plays in the plan's portfolio, taking into consideration whether the investment is designed reasonably to further the plan's purposes, an examination of the risk and return factors, the portfolio's composition with regard to diversification, the liquidity and current return of the total portfolio relative to the anticipated cash flow needs of the plan, and the other risks and considerations set forth in this Offering Memorandum.

Before investing the assets of a plan, IRA, or similar benefit arrangement in a Bond (whether or not such plan, IRA or arrangement is subject to ERISA), a fiduciary should determine whether such an investment is consistent with its fiduciary responsibilities, including the foregoing rules to

the extent applicable, taking into account among other things the limitations and risks pertinent to an investment in a Bond as set forth in this Offering Memorandum.

Prohibited Transactions

Under ERISA, transactions between ERISA Plans and certain “parties in interest” with respect to such plans, including without limitation the purchase or sale between and ERISA Plan and a party in interest, the lending of money or other extension of credit between a plan and a party in interest, and the transfer to or use by or for the benefit of a party in interest of any assets of an ERISA Plan, are prohibited absent a statutory exemption or exemption permitted by the Department of Labor. Similar rules apply to Plans under the Code. For example, if the Fund or an Underwriter were deemed to be a party in interest with respect to an ERISA Plan that is a purchaser or holder of a Bond, a prohibited transaction could occur in the absence of an exemption. Potential exemptive relief in the context of acquiring and holding instruments such as the Bonds, but always subject to their terms and conditions, may be found in ERISA section 408(b)(17), and Prohibited Transaction Class Exemptions 75-1, 84-14, 96-23, 75-1, 86-128, and possibly other administrative exemptions. Fiduciaries of ERISA Plans and other plans subject to the prohibited transaction rules must determine whether any of the foregoing or other exemptions are necessary and applicable.

By acquiring the Bonds, each Holder will be deemed to represent that either (i) it is not acquiring Bonds with assets of an ERISA Plan or other plan subject to the prohibited transaction restrictions of ERISA, the Code, or similar law, or (ii) the acquisition and holding of the Bonds will not give rise to a nonexempt prohibited transaction.

Trustees, investment managers and other fiduciaries of all plan investors (whether or not subject to ERISA) are advised to consult their counsel with respect to questions arising under ERISA and the related provisions of the Code or other similar applicable laws.

UNDERWRITING

The Fund has entered into a purchase contract with the Underwriter, and the Underwriter has agreed to purchase the Bonds from the Fund at a purchase price of \$149,461,503.13. The Underwriter will receive an underwriting fee in the amount of \$538,496.87, which includes expenses for such underwriting (other than the fee of Underwriter’s counsel).

The purchase contract pursuant to which the Bonds are being sold provides that the Underwriter will purchase not less than all of the Bonds. The Underwriter’s obligation to make such purchase is subject to certain terms and conditions set forth in the purchase contract, the approval of certain legal matters by counsel and certain other conditions. The Underwriter may offer and sell the Bonds to certain dealers and others at a price lower than the initial offering price. The offering price of Bonds may be changed from time to time by the Underwriter.

The Underwriter has provided the following information to the Fund for inclusion in this Offering Memorandum. The Underwriter and its affiliates are full service financial institutions engaged in various activities, which may include sales and trading, commercial and investment banking, advisory, investment management, investment research, principal investment, hedging, market making, brokerage and other financial and non-financial activities and services. The Underwriter and its affiliates have provided, and may in the future provide, a variety of these

services to the Fund and to persons and entities with relationships with the Fund, for which they received or will receive customary fees and expenses.

In the ordinary course of its various business activities, the Underwriter and its affiliates, officers, directors and employees may purchase, sell or hold a broad array of investments and actively trade securities, derivatives, loans, commodities, currencies, credit default swaps and other financial instruments for their own account and for the accounts of their customers, and such investment and trading activities may involve or relate to assets, securities and/or instruments of the Fund (directly, as collateral securing other obligations or otherwise) and/or persons and entities with relationships with the Fund. The Underwriter and its affiliates may also communicate independent investment recommendations, market color or trading ideas and/or publish or express independent research views in respect of such assets, securities or instruments and may at any time hold, or recommend to clients that they should acquire, long and/or short positions in such assets, securities and instruments.

CONTINUING DISCLOSURE

The offering of the Bonds is not subject to the continuing disclosure requirements of Rule 15c2-12 of the Securities and Exchange Act of 1934, as amended, and accordingly, the Fund has not entered into an agreement to provide continuing disclosure for the benefit of the Holders of the Bonds. The Fund covenants in the Indenture to post on the Fund's website (or other generally available electronic media) within 180 days after the end of each fiscal year, a copy of the Fund's audited financial statements and certain operational data. Except for providing such annual audited financial statements and operational data, the Fund has not undertaken either to supplement or update the information included in this Offering Memorandum.

APPROVAL OF LEGALITY

Legal matters incident to validity of the Bonds and certain other matters are subject to the approving opinion of Paul, Weiss, Rifkind, Wharton & Garrison LLP, counsel to the Fund, and Miles & Stockbridge P.C., Maryland counsel to the Fund. Certain tax matters will be passed upon by Reed Smith LLP, tax counsel to the Fund. In addition, certain other legal matters will be passed upon for the Underwriter by its counsel, Ropes & Gray LLP.

FINANCIAL STATEMENTS

The financial statements of the Fund presented in Appendix B-1 and Appendix B-2 hereto present the statement of financial position, statement of activities and changes in net assets and statements of cash flows for the years ended December 31, 2018 and 2017. These financial statements should be read in their entirety.

RATING

Moody's assigned a rating of "A3" on the Bonds. Any explanation of the significance of such rating may only be obtained from Moody's. Generally, rating agencies base their ratings on information and materials furnished and on investigation, studies, and assumptions by the rating agencies. There is no assurance that the rating mentioned above will remain in effect for any given period of time or that a rating might not be lowered or withdrawn entirely, if in the judgment of the rating agency originally establishing the rating, circumstances so warrant. Any such downward change in or withdrawal of a rating might have an adverse effect on the market price or marketability of the Bonds.

MISCELLANEOUS

All quotations from and summaries and explanations of the Indenture and of other statutes and documents contained herein do not purport to be complete, and reference is made to said documents and statutes for full and complete statements of their provisions. The agreements with the Bondholders are fully set forth in the Indenture, and neither any advertisement of the Bonds nor this Offering Memorandum is to be construed as constituting an agreement with the Bondholders. So far as any statements are made in this Offering Memorandum involving matters of opinion, whether or not expressly so stated, they are intended merely as such and not as representations of fact. Copies of the documents mentioned in this paragraph are on file with the Trustee.

Information relating to DTC and the book-entry system described herein under the heading "BOOK-ENTRY-ONLY SYSTEM AND GLOBAL CLEARANCE PROCEDURES" has been furnished by DTC and is believed to be reliable, but neither the Fund nor the Underwriter make representations or warranties whatsoever with respect to such information.

Appendix A attached hereto contains certain information related to the Fund which has been prepared by the Fund. While such information is believed to be reliable and has been relied on by the Underwriter, the Underwriter does not make any representations or warranties whatsoever with respect to the information contained therein.

Attached hereto as Appendices B-1 and B-2 are the audited combined financial statements of the Fund for the fiscal years ended December 31, 2018 and 2017, respectively. The financial statements included in Appendices B-1 and B-2 were respectively audited by RSM US LLP and Cherry Bekaert LLP, the Fund's independent auditors, as stated in their reports appearing therein.

Appendix C – "Summary of Certain Provisions of the Indenture" has been prepared by Paul, Weiss, Rifkind, Wharton & Garrison LLP, counsel to the Fund.

The Appendices are incorporated herein as an integral part of this Offering Memorandum.

The Fund has reviewed this Offering Memorandum and has furnished Appendix A and Appendices B-1 and B-2 to this Offering Memorandum, and has approved all such information for use with this Offering Memorandum. At the closing, the Fund will certify that this Offering Memorandum, except for the sections entitled "UNDERWRITING" and "BOOK-ENTRY ONLY SYSTEM AND GLOBAL CLEARANCE PROCEDURES" and any projections and opinions contained in this Offering Memorandum except for such portions, do not contain an untrue statement of a material fact or omit to state a material fact necessary in order to make the statements made therein, in the light of the circumstances under which they are made, not misleading.

Except as otherwise stated herein, the Underwriter does not make any representations or warranties with respect to the information contained herein.

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The execution and delivery of this Offering Memorandum has been duly authorized by the Fund.

THE CONSERVATION FUND, A NONPROFIT CORPORATION

By: /s/ Lawrence A. Selzer
President and Chief Executive Officer

By: /s/ John S. Gilbert
Executive Vice President and Chief Financial Officer

SUSTAINABLE CONSERVATION, INC.

By: /s/ John S. Gilbert
Vice President and Treasurer

APPENDIX A

CERTAIN INFORMATION CONCERNING THE FUND

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APPENDIX A

THE CONSERVATION FUND

The following information is submitted with respect to The Conservation Fund Taxable Green Bonds (Working Forest Conservation Program), Series 2019 (the “Bonds”). Except as otherwise specified herein, all references to years are to the fiscal year ended December 31; and the source of all data is records of The Conservation Fund, a nonprofit corporation (“TCF”) and Sustainable Conservation, Inc. (“SCI” and, collectively with TCF, the “Fund”); and all financial and statistical data of the Fund includes the combined results of operation of TCF and SCI.

Introduction

TCF is a Maryland nonstock corporation that has been recognized as tax exempt under section 501(c)(3) of the Internal Revenue Code of 1986 (the “Code”). TCF was established in 1985 and is dedicated to protecting land throughout the United States not just for the sake of its environmental value, but also for its value to the economy and the community. TCF is the sole stockholder of SCI, a Maryland stock corporation that has been recognized as tax exempt under section 501(c)(3) of the Code. SCI is a supporting organization to TCF under the Code. The Fund works directly with governmental, nonprofit, and other entities (collectively referred to as “partners”) to find innovative conservation solutions that make economic sense and integrate economic development and environmental protection.

TCF’s mission statement is as follows:

The Conservation Fund, working with public, private and nonprofit partners, protects America’s legacy of land and water resources through land acquisition, sustainable community and economic development, and leadership training, emphasizing the integration of economic and environmental goals.

Since TCF’s founding in 1985, the Fund has:

- conserved more than eight million acres across all 50 states with a total appraised value of more than \$6.7 billion at the time of acquisition, in over 3,200 separate transactions;
- provided over \$200 million in bridge financing to partners in order to protect land appraised at the time of acquisition at over \$400 million;
- delivered green infrastructure plans in 40 states and completed state-wide green infrastructure maps in 16 of those states to assist state and federal agencies in determining the optimal properties for conservation; and
- protected approximately 643,000 acres of critical forests in the U.S., that the Fund believes also generated \$788 million in annual economic impact and secured 151 million metric tons of carbon dioxide equivalent (MtCO₂e) based on internal estimates derived, in part, from data made publicly available by the U.S. Department of Agriculture, Forest Service.

As described further below, the Fund conducts its activities and programs through five business units in two focus areas:

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Capital for Conservation Transactions (87.4% of total revenue in 2018)

- Conservation Acquisition
 - Interim ownership of conservation properties
- Working Forest Fund® (“Working Forest Fund”)
 - Interim ownership and operation of key forests
- Conservation Loans
 - Bridge loans for land trusts
- Mitigation Solutions
 - Completing land-related projects to mitigate for impacts on natural resources

Technical Assistance, Community Support and Economic Development (3.4% of total revenue in 2018)

- Conservation Services
 - Green infrastructure planning
 - Community-based conservation programs
 - Conservation leadership training
 - Network building

Revenue by Business Units (\$ in thousands)

	<i>Year Ended</i>	
	<i>December 31, 2018</i>	<i>% of total</i>
Conservation Acquisition.....	\$ 118,567	56.2%
Working Forest Fund.....	43,341	20.5
Conservation Loans.....	1,386	0.7
Mitigation Solutions.....	20,986	10.0
Conservation Services.....	7,118	3.4
Development & Other.....	19,517	9.2
Total.....	<u>\$ 210,915</u>	<u>100.0%</u>

The Fund seeks to manage its portfolio of activities in such a way that all major business units and program areas within the business units fund their own direct costs and a portion of general overhead. In addition, certain business units such as Conservation Acquisition, Working Forest Fund and Mitigation Solutions endeavor to manage their operations to achieve a surplus to provide additional mission capacity and financial strength.

The Fund does not have a membership program and generally does not advocate on political issues other than supporting public funding for conservation purposes. The Fund seeks to be independent, nonpartisan, and an effective partner to accelerate and facilitate lasting conservation outcomes.

Plan of Finance

The Fund expects to be able to service the interest cost on the Bonds primarily from income generated on its existing portfolio of real estate (which includes timber harvest revenue, leasing income and carbon credit sales) as well as income generated by new projects acquired with the proceeds of the Bonds. At or near maturity, the Fund intends to either refinance the Bonds or repay the Bonds with accumulated proceeds of real estate held for resale. This may include real estate projects acquired with the proceeds of the Bonds or with other real estate assets. For further information concerning the Fund’s sources of income, see “RISK FACTORS – Risks Relating to the Fund” in the forepart of this Offering Memorandum.

Governance and Administration

TCF Board of Directors

TCF has a 21-voting member Board of Directors (the “TCF Board”) that is responsible for the oversight of all the property and business of the Fund. The TCF Board is self-perpetuating (there are no corporate designated members), and TCF’s President and Chief Executive Officer is a non-voting member of the TCF Board. TCF Board members serve for terms of four years, with term limits of 12 years (although a TCF Board member may be invited to serve one additional term after leaving the TCF Board for one year). There is currently one vacancy on the TCF Board.

<u>Name</u>	<u>Title</u>	<u>Affiliation</u>	<u>Max Term</u>
Jay Winthrop	Chair	Managing Partner, Douglass Winthrop Advisors LLC	2010-2022
Jay F. Wagley	Vice Chair	Vice Chairman and Co-Managing Director, CBRE, Dallas Debt & Structured Finance Group	2012-2024
Julie G. Barker	Director	Independent consultant; Former Senior Director, The Boston Consulting Group, Inc.	2016-2028
Gregory A. Beard	Director	Global Head of Natural Resources, Senior Partner, Apollo Global Management	2017-2029
Robert Bonnie	Director	Former Under Secretary for Natural Resources and Environment, U.S. Department of Agriculture	2017-2029
Ingrid C. Burke	Director	Carl W. Knobloch, Jr. Dean, Professor of Ecosystem Ecology, School of Forestry & Environmental Studies, Yale University	2019-2031
Todd J. Carter	Director	Co-President and CEO, GCA	2015-2027

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<u>Name</u>	<u>Title</u>	<u>Affiliation</u>	<u>Max Term</u>
J. Storey Charbonnet	Director	Partner, Johnson Rice & Company, L.L.C.	2017-2029
Charles R. Cherington	Director	Managing Partner, Ara Partners, and Managing Partner, Intervale Capital	2014-2026
Kimberlee R. Cornett	Director	Managing Director, Social Investment Practice, The Kresge Foundation	2018-2030
Luis de la Garza	Director	Retired, Former President and Chief Executive Officer, Texen Power Company, LLC	2013-2025
Stephen A. Elbert	Director	Retired, Former Vice Chairman, BP America, Inc.	2008-2020
Paul E. Hagen	Director	Principal, Beveridge & Diamond, P.C.	2011-2023
G. Wilson Hughes	Director	Chief Executive Officer, Alaska Wireless Network	2012-2024
Jill L. Long Thompson	Director	Visiting Associate Clinical Professor, Kelley School of Business; School of Public and Environmental Affairs, Indiana University Bloomington	2017-2029
Thruston Morton	Director	Founding Partner, Global Endowment Management, LP	2014-2026
Kevyn D. Orr	Director	Partner-in-Charge, Washington DC Office, Jones Day	2019-2031
C. Porter Schutt III	Director	Managing Partner, Brown Advisory	2012-2024
Lawrence A. Selzer	Director (Non-Voting)	President and Chief Executive Officer, The Conservation Fund	2001-Indefinite
Daniel R. Tishman	Director	Chairman & CEO, Tishman Realty & Construction Co., Inc.	2018-2030
James M. Whitehurst	Director	President and Chief Executive Officer, Red Hat, Inc.	2007-2019

SCI Board of Directors

SCI has a three-voting member Board of Directors (the “SCI Board”) that is responsible for the oversight of all the property and business of SCI. The SCI Board members are current or former TCF officers and/or directors. TCF, as sole stockholder of SCI, appoints each of SCI’s directors. SCI was formed in 1994 for the purpose of completing a specific real estate transaction that required a stock corporation to complete the purchase. Since that time, SCI has been the acquirer of real properties on a limited basis, and only when there is a legal need to do so. SCI does not have separate employees. SCI’s financial results and assets/liabilities are combined into the Fund’s audited combined financial statements.

<u>Name</u>	<u>Title</u>	<u>Affiliation</u>
Richard L. Erdmann	Chair	President, SCI; Senior Counselor, TCF; Former Executive Vice President and General Counsel, TCF
Lawrence A. Selzer	Director	President and Chief Executive Officer, TCF
R. Michael Leonard	Director	Partner, Womble Bond Dickinson (US) LLP; Former Chair, TCF Board

Executive Leadership

The TCF executive leadership team is identified below. Although SCI maintains a separate board of directors and has its own officers, all SCI officers are current or former TCF officers and manage SCI to support TCF’s mission. The responsibilities of the TCF officers listed below extend to SCI to the extent SCI has assets or operations within such officers’ respective business units.

Lawrence Selzer, 59, President and Chief Executive Officer, leads the Fund’s executive team and directs the organization’s strategy. Mr. Selzer joined the Fund in 1990 and served in several positions before being named TCF’s President and Chief Executive Officer in 2001. He began his professional career at the Manomet Center for Conservation Science, conducting research on marine mammal and seabird populations. He serves on the boards of Weyerhaeuser Company and Manomet, Inc. and is Chair of the Board of the American Bird Conservancy. He served as Chair of the Outdoor Foundation, and twice served as Chair of the Sustainable Forest Initiative, Inc. Mr. Selzer holds an M.B.A. degree from the Darden School of Business at the University of Virginia and Bachelor of Science in environmental studies from The Wesleyan University.

Will Allen, 48, Vice President, Conservation Services, serves on the TCF Executive Committee and oversees the Fund’s four programs that are part its Conservation Services business unit: the Freshwater Institute, Resourceful Communities, Strategic Conservation Planning, and the Conservation Leadership Network. With the Fund for 25 years, Mr. Allen also coordinates organization-wide integrated services from Chapel Hill, North Carolina. He is a member of the American Planning Association, co-founder of the Society for Conservation GIS, and holds a B.A. in Urban Studies from Stanford University and a Masters in Regional Planning from the University of North Carolina-Chapel Hill.

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Holly Cannon, 62, Executive Vice President and General Counsel, is the chief legal officer of the Fund and directs the Fund's legal affairs, manages legal compliance and transactional matters, and seeks to limit the Fund's risk exposure. She also supervises and provides legal advice to the Fund's Mitigation Solutions business unit and supervises the Human Resources and Administration team. Ms. Cannon serves as a Vice President of SCI. She joined the Fund in 2014, following more than 30 years with Beveridge & Diamond, P.C., where she was Managing Principal from 1996 to 2001. She has served on the Board of Directors of the International Women's Forum Leadership Foundation since 2006. Ms. Cannon has a B.S. from the University of Alabama and a J.D. from Georgetown University.

Brian Dangler, 52, Vice President and Director, Working Forest Fund, directs the Fund's sustainably managed forest operations and leads the strategy, financing and design of the Fund's portfolio of conservation-based timberland transactions across the United States. Mr. Dangler joined the Fund in 2008 and brings 30 years of experience in forest management and real estate transactions. He is a Certified Forester and holds a B.S. and M.F. in Forestry from SUNY ESF, Syracuse, and an M.B.A. from Thomas College.

Mark W. Elsbree, 54, Senior Vice President and Western Regional Director, Conservation Acquisition, manages and implements the Fund's conservation programs throughout the Western United States. He also serves on the TCF Executive, Real Estate and Mitigation Committees. Mr. Elsbree has led a number of large, landscape conservation efforts and completed a number of projects protecting significant historic sites and maintaining access to recreational areas throughout the west. Prior to his appointment to his current position in 2012, Mr. Elsbree established the Fund's Northwest Regional Office in Sun Valley, Idaho, in 1998, where he served as TCF's Vice President and Northwest Director beginning in December 2001. Prior to his tenure with the Fund, Mr. Elsbree worked for The Nature Conservancy in Idaho for 10 years, serving in various capacities including Acting and Assistant State Director. Mr. Elsbree has a B.A. in Government from Dartmouth College. He was appointed to the North American Wetlands Conservation Council in 2005, and he also serves as a member of the international Neotropical Migratory Bird Conservation Bird Advisory Group.

John Gilbert, 56, Executive Vice President and Chief Financial Officer, is responsible for the Fund's financial management and strategy while helping to support the Fund's dual mission of environmental protection and economic growth. He serves as a Vice President and as Treasurer of SCI. In 1985, he joined JPMorgan's investment banking division, and most recently was a Managing Director and Senior Country Officer in London until 2014. Mr. Gilbert was previously Vice President for Business Strategy at the Partnership for Public Service, a nonpartisan organization dedicated to improving the effectiveness of government and the strength of its human capital until joining the Fund in November 2017. He graduated from Duke University with a degree in Public Policy Studies.

Eric Kostegan, 40, Executive Vice President for Investment and Growth, joined the Fund on August 1, 2019, to lead the Fund's development, marketing and communications activities. In this new role, Mr. Kostegan will help launch and execute the Fund's plans to grow its strategic relationships with philanthropy, especially in the context of its Working Forest Fund. Mr. Kostegan previously served as Deputy Chief, Development and Entrepreneurial Relations, at

Mount Sinai Health Systems in New York and as Senior Director, Development and Global Initiatives, at Massachusetts General Hospital in Boston. He has a B.S. from Babson College.

Robin Murphy, 66, Senior Vice President for Marketing and Communications, leads all aspects of branding, marketing and communications to enhance and expand the Fund's national conservation objectives. He joined the Fund in January 2014. Mr. Murphy has more than 40 years of professional experience in communications, marketing, grant-making and institutional strategy, both domestically and internationally, in the private, public and nonprofit sectors. He has advised dozens of major corporations, trade associations, foundations and nonprofits. Before joining the Fund, Mr. Murphy was Vice President of External Relations at the World Resources Institute for seven years. Mr. Murphy was also Vice President of Communications, Marketing and Education for Conservation International for five years. For over a decade as a Senior Vice President with Porter Novelli, he led its international and non-profit portfolios. Early in his career, he served on the staff of the Federal Council on the Arts and the Humanities at the White House. Mr. Murphy is a member of Board of Directors of The Mountain Institute. He has a B.A. in English from Kenyon College.

Blaine Phillips, 55, Senior Vice President and Mid-Atlantic Regional Director, Conservation Acquisition, leads the Fund's Conservation Acquisition activities in the Mid-Atlantic Region and serves on the TCF Executive Committee. Mr. Phillips joined the Fund in 2003, and previously was a Senior Attorney at the Southern Environmental Law Center and served as a Legislative Assistant to Senator William V. Roth Jr. He is a Member of the Board of Trustees of Longwood Gardens and the President of Fair Play Foundation. Mr. Phillips is a longstanding member of Ducks Unlimited and Trout Unlimited and was the 1996 recipient of the Chairman's Environmental Award from Trout Unlimited. Mr. Phillips earned his J.D. from Widener University School of Law and a B.A. from the University of Virginia.

Kelly Reed, 42, Senior Vice President, Government Relations, oversees all facets of the Fund's work on federal policy and funding, and represents the Fund with the executive branch of the U.S. government, U.S. Congress, and various non-governmental organizations. Ms. Reed is the Fund's lead liaison with federal department and agency leadership and congressional committees, as well as the lead realty liaison with the U.S. Fish and Wildlife Service and U.S. Forest Service. Ms. Reed joined the Fund in 2011 and brings over 20 years of environmental policy experience. She has worked at American Rivers, the Association of Fish and Wildlife Agencies, and as the environment and energy policy advisor for Senator Russ Feingold (WI). She holds a Masters in Natural Resources Policy from Virginia Tech and dual degrees in biology and economics from St. Mary's College of Maryland.

Matthew Sexton, 49, Senior Vice President and Southeast Regional Director, Conservation Acquisition, chairs the Fund's Conservation Acquisition Committee, serves on the Executive Committee and oversees the Fund's Conservation Acquisition work in the Southeast. Mr. Sexton joined the Fund as an intern in 1993 and has grown with the organization, playing many roles over the years. He is the President of the Red Bay Stronghold Foundation, which preserves the ceremonial grounds of the Independent Traditional Seminole Nation. Mr. Sexton has contributed to conservation in Costa Rica and has been a contributing author to books on land use and rural economic development. Mr. Sexton has a bachelor's degree in Economics and Political

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Science from Miami University and a Master of Public Administration/Public Policy Analysis from the University of North Carolina in Chapel Hill.

Evan Smith, 46, Senior Vice President, Conservation Ventures, oversees programs that invest in green business and working forests to generate both economic and environmental return. Since joining the Fund in 1995, Mr. Smith has worked to demonstrate that nonprofits can successfully acquire and sustainably manage large tracts of forestland, most recently through launch of the Working Forest Fund. He serves on the boards of directors for Center for Diversity & the Environment, the Natural Capital Investment Fund, and Starker Forests Inc., as well as the Advisory Councils for the Conservation Finance Network and the College of Forestry at Oregon State University. He holds a bachelor's degree in Geology and a Master of Forestry from Yale University.

Description of the Fund's Five Business Units

The Fund's five business units are described below. References to full-time equivalent employees ("FTEs") of a business unit exclude FTEs providing general support services such as finance, development, marketing/communications and legal.

Conservation Acquisition

Overview. Conservation Acquisition is the Fund's primary business unit for implementing the Fund's strategy of buying land and interests in land for conservation. This business unit acquires land and interests in land on behalf of government agencies at the federal, state and local levels. It also provides financial and technical assistance to government agencies and to other conservation organizations to acquire conservation properties on their own behalf.

The Fund does not generally serve as the permanent conservation steward of the properties that the Fund acquires. Instead, the Fund, acting through its Conservation Acquisition business unit, acquires properties deemed priorities by the Fund's partners, holds those properties for interim periods to allow the partners time to secure permanent funding for the acquisitions, and then sells the properties (in whole or in part) to the partners seeking assistance.

The Fund uses its own capital for real property acquisitions as well as philanthropic donations, program-related investments, and government grants. The Fund's capital used for acquisitions largely consists of funds from its "Revolving Fund," which is made up of charitable gifts, gifts of surplus corporate real estate that the Fund has sold for cash, and accumulated gain on and capital returned from past real estate transactions. Sources of funding for dispositions to partners include federal, state and local government funding programs and philanthropic funds from foundations and private individuals. Once a property has been transferred to the long-term holder and if the Fund is able to recoup its investment, capital is returned to the Revolving Fund for use in other real estate transactions, thus "revolving" these funds.

Conservation Acquisition generated 56.2% of the Fund's total revenue in 2018. As of July 31, 2019, Conservation Acquisition was staffed by 51 of the Fund's FTEs. For a five-year summary of the Fund's real estate transactions, please see "—Conservation Acquisition – Five-Year Project History" below.

Business Model. Conservation transactions are completed through a variety of structures. The most common and traditional approach, which the Fund refers to as a cooperative or “co-op” transaction, involves the Fund’s acquisition of a property at the request of and on behalf of a government agency or other conservation partner. In many cases, the Fund uses its own capital for the acquisition and related costs and holds title to the property for an interim period while the partner secures permanent funding for the project. When possible, the Fund conveys the property directly to the partner immediately after acquisition, although in the majority of cases, an interim holding period is necessary. In an effort to preserve liquidity and reduce liabilities associated with land ownership, the Fund seeks to limit the duration of this interim holding period to two to three years for co-op transactions. Once the Fund’s partner secures permanent funding, the Fund transfers title to the partner. Although the Fund seeks to have the disposition partner commit to the purchase of the property prior to the Fund’s acquisition of such property, government agencies generally are not allowed to do so.

The Fund usually sells to partners for a price based on the Fund’s cost of acquiring the property plus an incremental amount of funds to cover the use of the Fund’s capital and overhead. This pricing model is of particular value to government agency partners, who in many cases – if acquiring the property directly – must offer fair market value to property sellers. In contrast, the Fund often is able to negotiate bargain sales, and in such instances provides savings to the agency partner and a tax deduction to the seller. Unlike the agencies, the Fund is able to acquire land before public funding is available, which may expedite the process and benefit both the seller and the agency.

A second approach the Fund uses is the provision of critical assistance to a partner by contributing grant funds and/or staff assistance to enable the partner to complete a conservation transaction, which the Fund refers to as a “project assist.” In contrast to co-op transactions, the Fund does not take title to the property interest in project assists. However, the Fund may secure a contract of sale or option, complete due diligence activities and then assign the purchase rights to the partner or instruct the seller to convey the property interest directly to the partner at closing.

Although funding for many acquisitions is from the Fund’s own capital, the Fund regularly receives donations from foundations, corporations and individuals with the restriction that the proceeds be used to acquire specific properties for donation or for transfer to government agencies or other conservation organizations at substantially reduced prices. Similarly, funding for project assists in the majority of cases is provided by third parties for specific projects or through government agency grant programs.

From time to time, the Fund receives donations of properties with valuable natural resources for the purpose of preserving the land. The Fund does not typically retain these properties, and instead transfers them to other conservation organizations or government agencies for long-term stewardship, or sells them to private buyers subject to conservation restrictions. The Fund may from time to time receive conservation lands as gifts and hold those lands for considerably longer periods than typical co-op projects. The Fund also receives donations of properties without conservation value (referred to as gift lands) for re-sale, and the Fund applies the proceeds from the sale of such properties to the Fund’s projects or working capital.

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Occasionally, the Fund will acquire, through purchase or donation, a conservation easement over a property. Conservation easements are interests in land created by a legally binding restriction on the future use and development of the land, usually in perpetuity. Conservation easement transactions in which the Fund serves as the long-term holder of the easement historically have not been a major component of the Fund's land conservation work. Although the Fund does not generally assume the long-term role of grantee of a conservation easement, the Fund frequently participates in the acquisition of conservation easements that are completed as assists or as simultaneous or short-hold dispositions under the co-op model.

Other transaction structures that the Fund uses include collaborative efforts with business entities and government agencies to mitigate the impact to natural resources from infrastructure development (see “—Other Business Units – Mitigation Solutions”) and, in very limited circumstances, co-ventures where the Fund acquires a percentage ownership interest in an entity involved in the purchase and/or restoration of property for conservation purposes.

Although project structures differ, a Conservation Acquisition transaction will generally follow a three step process, consisting of transaction origination, approval of the acquisition or assist, and disposition (if a property interest is acquired).

Transaction Origination

The Fund's Conservation Acquisition projects usually are initiated at the request of the Fund's partner, but sometimes are developed through contacts with colleague organizations or from individual landowners. When a partner requests the Fund's assistance in a transaction, the project manager is expected to evaluate the proposed project in accordance with the Fund's standard practices and procedures, including project selection criteria, in collaboration with other staff members with relevant expertise. Project selection criteria include:

- Consistency with the Fund's mission;
- The level of priority given the project by the Fund's partners;
- Public benefits provided, including but not limited to:
 - Outdoor recreation or educational use by the general public,
 - Protection of relatively natural habitat for fish, wildlife, plants or similar ecosystems,
 - Historically important land or certified historic structure,
 - Open space preserved for scenic enjoyment, and
 - Open space protected pursuant to a clearly delineated government policy;
- Financial viability;
- The Fund's organizational and financial capacity to perform any stewardship responsibilities;

- The Fund’s ability to complete the project in accordance with the directives of any donor contributing land or funding to the project; and
- Compliance with federal tax laws, including tax laws addressing donated conservation easements (if applicable) and laws defining public benefit.

If it appears that the project selection criteria are met, the project manager seeks to document the partner’s commitment to the project in writing, through a non-binding or conditional letter of intent or other similar document.

Pre-Acquisition Approval Process and Environmental Reviews

Although no two transactions follow exactly the same steps and procedures, the Fund has developed written procedures and guidelines to promote the systematic evaluation and approval of projects.

All land conservation transactions are evaluated by the Fund’s internal Conservation Acquisition Committee and must be approved by such committee before commitments are made. The Conservation Acquisition Committee is appointed by the Fund’s Executive Committee and is comprised of officers and staff members from headquarters and field offices with expertise in real estate transactions and related fields (such as finance and legal).

This preliminary approval authorizes the project manager and other staff members to complete negotiations with the landowner, secure a contract of sale or option on the property and conduct due diligence inspections. The project manager and a member of the Fund’s Legal Department work together to negotiate and prepare the contract with the landowner. A written contract is required for all land acquisitions, including donations.

Once a property is under contract, during the inspection period, the project manager and member(s) of the Legal Department conduct due diligence investigations of the value and the legal and physical status of the property. In the majority of cases, a diligence investigation will include reviews of a title report, an appraisal and a Phase I environmental site assessment (“Phase I ESA”). Other reports may be obtained as needed based on partner needs or property conditions, such as a boundary survey, a Phase II environmental report and/or a mineral remoteness report. During the inspection period, the project manager also obtains transaction approvals and confirms funding resources from government agencies and other partners, and finalizes the business details of the transaction.

Due to the potential exposure of an acquiring landowner to pre-existing environmental liabilities, the Fund obtains a Phase I ESA during the inspection period for all transactions in which the Fund will be in the chain of title for a property. The Phase I ESA is performed by a licensed independent environmental engineering or consulting firm and consistent with industry standards promulgated by ASTM International and the “all appropriate inquiries” rule under the federal Comprehensive Environmental Response, Compensation, and Liability Act.

The primary goal of a Phase I ESA is to identify potential sources of environmental contamination, known as “recognized environmental conditions” (“RECs”). If RECs or other environmental concerns are identified in the Phase I ESA report, the Fund’s policies require that

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they be fully evaluated before the Fund will pursue a proposed acquisition. In many cases, a Phase II environmental investigation (involving sampling of the soil, groundwater or other environmental media) will be necessary in order to fully evaluate the REC. Data gaps (if any) identified in the Phase I ESA are resolved to the extent practicable. In some cases, the Fund expands the consultant's scope of work beyond the standard Phase I ESA requirements. For instance, if there are buildings on a property, it may be necessary to obtain asbestos, radon, mold and/or lead paint reviews. If wetlands and/or cultural and historic resources are present, investigations of these matters may be needed. If there are any ongoing onsite operations, an assessment of environmental, health and/or safety compliance matters may be required.

If RECs or other environmental issues are identified, in the majority of cases, the Fund will take title to the property only if the seller retains responsibility for the issue or the Fund determines that it is otherwise reasonably protected against the potential liability.

The project manager is required to conduct a site inspection of each property prior to the expiration of the inspection period in an effort to identify and document the important conservation values associated with the project consistent with the Fund's mission, goals and capabilities, actual or potential threats to those values, and unusual conditions or circumstances that might create liability for the Fund. The project manager also must prepare a land management plan or summary for all properties where the Fund will hold title for an interim period.

During the inspection period the project manager seeks to have a disposition partner commit to the purchase of the property and seeks funding commitments; however, government agency restrictions and other factors often impair the Fund's ability to secure an enforceable disposition contract or committed funding for the disposition prior to closing on a property. The Fund generally does not, however, acquire property without identifying a potential disposition partner and having, at a minimum, an informal agreement from such partner to acquire the property.

Prior to closing, all land transactions are reviewed and approved by the TCF Board or by an authorized party to whom the TCF Board has delegated project approval authority. The TCF Board has delegated project approval authority to the Fund's Chief Executive Officer for land conservation transactions to the extent the expenditure of funds for the project will not exceed \$3 million, so long as the aggregate amount of expenditures approved under such authority between any two TCF Board meetings does not exceed 25% of the capital allocated to the Revolving Fund. The Chief Executive Officer has further delegated this project approval authority to the Senior Vice President who chairs the Conservation Acquisition Committee, the Chief Financial Officer, and the General Counsel. The TCF Board also has authorized its Audit and Finance Committee to approve projects where the expenditure of funds does not exceed \$10 million. If a project has been approved under delegated authority, the project must nevertheless be presented to the full TCF Board for ratification following closing on the acquisition of the project. Land transactions undertaken by SCI are approved by TCF as described above and also are reviewed and approved by the SCI Board.

Disposition Process and Exit Strategy

In addition to managing a property during the interim hold period, the Fund actively works with its disposition partner to minimize the holding time and transfer the property as soon as possible after the Fund's acquisition. For projects involving federal funds, the project manager and the Fund's Government Relations Department work closely with the partner to secure funding for dispositions and to monitor and advance the status of funding designated for the Fund's projects. For project dispositions using state funding sources, the project manager works with Fund development and field staff members with expertise in state funding opportunities and state partners to track and secure state funding (see "—Conservation Acquisition – Partners and Funding Sources").

During its hold period and/or upon transfer to the partner, the Fund expects to receive funds sufficient to cover at least the Fund's acquisition and other out-of-pocket costs, as well as compensation for the use of the Fund's working capital and for the staff time and overhead attributed to the project. This amount varies depending upon the size and complexity of the project, the partner and the sources of funding.

The Fund often receives funds from a variety of sources and at different points in time. Funding received at conveyance from the buyer is classified as "proceeds from real estate sold," but the Fund also may receive contributions from private or public partners before or after conveyance that are intended to offset its costs and help the Fund achieve its mission.

Partners and Funding Sources. The primary partners for Conservation Acquisition are federal, state and local land management agencies. Federal agencies with which the Fund has partnered on a regular basis for its land transactions include the agencies of the U.S. Department of the Interior (National Park Service, Fish and Wildlife Service, and Bureau of Land Management) and the U.S. Forest Service. The Fund has completed land transactions in every state, and state agencies as well as municipalities are key partners.

Disposition funding sources include federal, state and local government funding programs, foundations, private individuals, and corporations. The amount of federal, state and local funding available for dispositions varies from year to year. Over the past five years, the Fund has completed an average of 41 land transactions with funding from federal sources per year, which utilized an average of over \$50 million per year in federal funding. The largest source of federal funding has been the Land and Water Conservation Fund, which provides federal appropriations for eight land acquisition programs. Federal funding sources are both annually appropriated and non-appropriated dollars, and come through various federal departments and agencies, including the Department of the Interior (Bureau of Land Management, National Park Service and U.S. Fish and Wildlife Service), Department of Agriculture (National Resources Conservation Service and U.S. Forest Service), Department of Defense, Department of Transportation, and National Oceanic and Atmospheric Administration.

The Fund's Government Relations Department actively supports Conservation Acquisition field staff in seeking funding under 55 federal programs by developing and maintaining knowledge of the programs and relaying information to field staff and maintaining key relationships with

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federal agency partners. In addition to the Land and Water Conservation Fund, significant sources of federal funding for Conservation Acquisition projects are:

- Department of Agriculture – Natural Resources Conservation Service – Agricultural Conservation Easement Program and Regional Conservation Partnership Program;
- Department of Defense – Readiness and Environmental Protection Integration Program;
- North American Wetlands Conservation Act;
- Migratory Bird Conservation Fund;
- Great Lakes Restoration Initiative; and
- Department of Transportation – Transportation Alternatives Program.

State funding resources for dispositions are also varied. In particular, some states have dedicated funding sources for conservation, including percentages of sales and use taxes on outdoor sporting goods, percentages of real estate transfer taxes or sales taxes, real estate documentary stamps, and lottery proceeds. Additionally, funding for certain dispositions is provided by foundations, individuals and corporations. See “—Management’s Discussion and Analysis of Recent Financial Performance – 2018 Real Estate Activity by Partner” for additional information about funding by revenue source and partner category.

Five-Year Project History.

The following tables show the five-year project history for acquisition projects, subsequent dispositions and “assist” projects, respectively, for the Conservation Acquisition business unit, including real estate transactions utilizing mitigation funding.

Acquisitions

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Number of Projects	53	82	71	55	77
Total Acres	32,990	32,679	58,723	51,780	75,364

Dispositions (Full and Partial)

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Number of Projects	67	82	78	72	90
Total Acres	34,023	63,870	38,068	97,571	92,441

Assists

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Number of Projects	39	45	47	57	30
Total Acres	52,796	32,520	69,623	49,932	24,148

Accreditation. The Fund was accredited by the Land Trust Accreditation Commission in 2014, and has applied to renew its accreditation for an additional five-year term through 2024. This voluntary, national program evaluates an applicant's compliance with applicable Land Trust Standards and Practices developed by the Land Trust Alliance, which are ethical and technical guidelines for the responsible operation of non-profit organizations working to conserve and protect land. Accordingly, the Fund seeks to ensure that its land conservation transactions comply with the applicable Land Trust Standards and Practices.

Working Forest Fund

Overview. The Working Forest Fund business unit is committed to conserving the last of the large intact forests in the U.S. so they remain sustainably managed forests, providing good local jobs, as well as clean water, clean air, habitat for wildlife and outdoor recreation, and critical carbon sequestration capacity to help address climate change. Like the Fund's other real estate activities, the Working Forest Fund seeks to be an interim owner of these forest assets to facilitate permanent protection through the implementation and sale of conservation easements and direct sales of the properties to public agencies. The Working Forest Fund's focus is on large, natural forests with the highest conservation value and often the highest risk of fragmentation when sold on the open market.

In 2016, the Chief of the U.S. Forest Service estimated that by 2060 the U.S. could lose up to 37 million acres of privately-held forests to fragmentation or conversion to non-forest uses. To meet profit maximization mandates within 10 to 15 year fund lifecycles, the investor owners of timber properties frequently over-harvest, break up large forest parcels, and convert forests to development. The Working Forest Fund seeks to disrupt this pathway of forest loss while preserving the productive value of these working assets and securing the multiple societal benefits working forests generate. The Fund believes the loss of working forests is the single greatest land conservation challenge in the U.S. today and a critical aspect of the country's ability to mitigate climate change and support at-risk rural economies.

Management believes that the Working Forest Fund has developed a successful model to acquire, sustainably manage, and permanently protect high conservation value timberland. As of July 31, 2019, \$514.4 million in capital has been deployed in 34 projects to protect approximately 643,000 acres of U.S. timberland. The Working Forest Fund has fully exited 12 projects, achieving permanent protection of the properties and generating a positive return on the Fund's investment. The remaining projects are being sustainably managed by the Fund or its partners and are awaiting permanent protection through conservation easements or transfers to public agencies or other conservation partners.

The Working Forest Fund includes 16 FTEs as of July 31, 2019, and is the Fund's fastest growing business unit by asset value. Given the urgency of the mission opportunity to prevent the fragmentation and loss of these forests, the Fund intends to continue to actively grow the Working Forest Fund program.

Business Model. The Working Forest Fund is a specialized team and business unit within the Fund that evaluates, acquires, manages and resells large, intact working forests with high conservation value. Once acquired, the Working Forest Fund implements a sustainable forest

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management plan to optimize long term biological growth in its forests (and their disposition value) along with habitat protection, public access, and maintaining the local forest product economy. Unlike the majority of the Fund's traditional, non-forest real estate activity, these projects may have a variety of revenue sources during the Working Forest Fund's holding period. Depending on the forest, these may include:

- Timber production (logs, chips, biomass);
- Recreational-related leases (hunting, fishing, hiking, camping);
- Ecosystems services (water, air, open space, mitigation banking credits and carbon emissions offset credits); and
- Utility-related royalties (wind power, geothermal energy, solar energy, energy transport, telecom, minerals).

The Fund seeks to optimize these revenue sources without jeopardizing the conservation outcome.

Once a forest is acquired, the Working Forest Fund sustainably manages the forest for biological growth. Although timber is harvested in a manner consistent with a sustainable management plan, the harvest level and approach are designed not to maximize revenue but to enhance habitat and asset value while generating revenue to offset holding costs. If the Working Forest Fund holds a property for more than one year (which it does in the majority of cases), the Fund has committed to certifying it to the Sustainable Forestry Initiative Forest Management standard, and in some cases the Fund chooses to dual certify alongside the Forest Stewardship Council standard.

During the holding period, the Working Forest Fund team works to achieve a permanent conservation outcome through the sale of a conservation easement or fee interest to a government agency or in some cases a local land trust or other conservation organization. Although the fair market value of a conservation easement will differ based on the specific property, in general the Working Forest Fund expects to recover between 25% and 50% of the purchase price of a forest property upon the sale of the conservation easement, with the balance recovered from the sale of the residual fee interest and sustainable timber harvest rights.

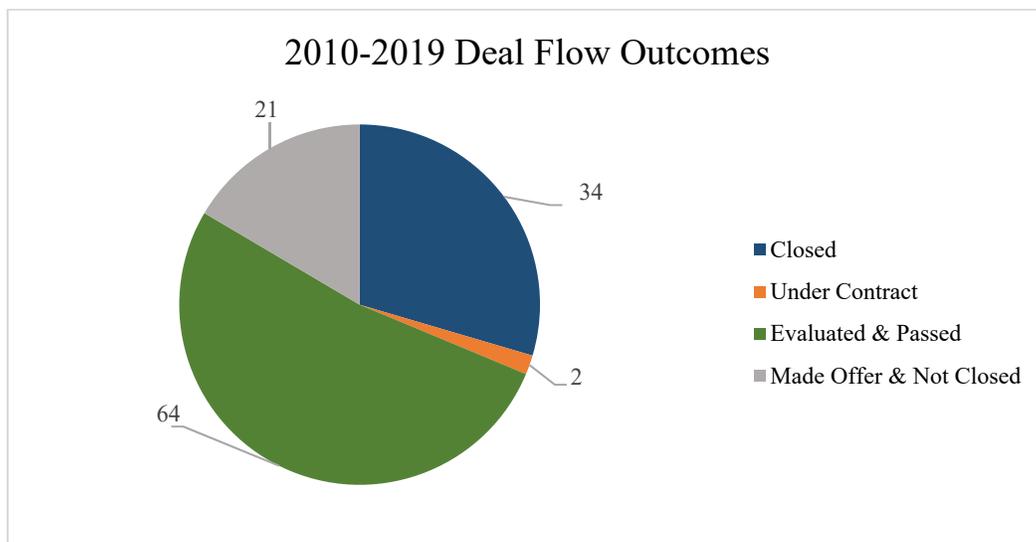
The easements themselves are legally enforceable permanent restrictions that generally require any future owner of the forest property to (1) keep the whole property intact, (2) limit economic activity to forestry, and only under sustainable practices, (3) maintain public access and (4) limit or prohibit development or change in land use. Therefore, once an easement is sold and in place, the underlying encumbered fee interest and/or timber deed can be sold by the Working Forest Fund to a private timberland investor without jeopardizing the forest conservation. These interests are sold to various buyers based on the project's appraised or market value after taking into consideration the easement limitations. Such values are typically based on a discounted cash flow value of the allowable timber harvest under the easement restrictions.

At times, the Working Forest Fund will sell the fee interest in a working forest without an easement in place to a government agency or conservation organization to achieve the permanent conservation outcome. If this model is used, the Working Forest Fund expects to recover at least the initial investment in the property and all direct and indirect costs incurred.

Ordinarily the conservation easement or fee interest sold to a government agency or other conservation partner will encompass the entire forest property held by the Fund. However, at times the Fund will acquire properties that include parcels with little or no conservation value. In these cases, the Fund may sell the non-conservation parcels to a private timberland investor or other third party without a conservation easement or other restriction on use.

Strategy and Procedures. New projects are sourced from the contacts in the private conservation and forest investment sectors maintained by the Working Forest Fund’s program team, as well as through the Fund’s team of experienced Conservation Acquisition field staff across the U.S. Another key source of projects is the private landowner community, with assistance from local, state and federal governmental agencies who are traditional Conservation Acquisition partners.

Between 2010 and July 2019, the Working Forest Fund screened approximately 121 potential acquisitions. The chart below summarizes the outcomes of this activity in four categories, as of July 31, 2019: (1) Closed: where an offer was accepted and acquisition completed, (2) Under Contract: where an offer has been accepted but the transaction had not closed, (3) Evaluated & Passed: where no offer was made, and (4) Made Offer & Not Closed: where an agreement was not reached on offer terms or closing conditions were not met.



A Working Forest Fund acquisition is subject to the same acquisition procedures and guidelines as are applicable to transactions undertaken by the Conservation Acquisition business unit (see “—Conservation Acquisition – Business Model”). However, there are special project criteria for Working Forest Fund projects, and the operation/disposition strategy often differs due to the modified business model.

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Projects must pass a screening to meet the Working Forest Fund's eligibility criteria that includes:

- High conservation value property;
- Property is an acquisition and/or conservation easement target for an identified government agency or other partner;
- Offer price is equal to or less than appraised value from independent and qualified appraiser; and
- Operating cash flow is sufficient to cover holding costs during the Fund's ownership period.

Furthermore, the Working Forest Fund generally does not pursue forest acquisitions in areas prone to frequent forest fire risk. As a result, the Fund does not own assets in the Intermountain West region at this time. The Fund does not maintain commercial insurance coverage for fire or other damage to its timberlands.

Capital sources for Working Forest Fund acquisitions have included the Fund's internal working capital, senior debt undertaken by the Fund, philanthropic and corporate grants, and program-related investments and other low-cost debt from foundations, state agencies and individuals. In the majority of cases, the Fund will provide a portion of the purchase price from its own capital and look to augment those funds with philanthropic or other low-cost funds based on the particular project. Funds for dispositions have come from federal, state and local government funding programs, philanthropic funds from foundations and private individuals, and private timber investors and other buyers of the protected fee interests and timber deeds.

Working Forest Fund Loan Transactions. Although the Working Forest Fund's preference is to directly own forest projects, the Fund has made five loans to partners in an effort to achieve similar outcomes. In these circumstances, the Working Forest Fund provided secured financing to the acquirer and as part of the consideration for the loan, was granted the right to place a conservation easement onto the forest property. The Working Forest Fund is entitled to interest on the loan and success fees when the easements are granted, the loans are typically repaid with the proceeds, and the Working Forest Fund has been able to match fund these loans with Program Related Investments ("PRIs"), described below under the heading "Indebtedness," that generate the incremental net income for the Fund.

While the Working Forest Fund may consider loans as a way to leverage its capital in the future, it is not expected to be a significant area for growth. To date, the Fund has extended five loans totaling \$44.0 million. These five loans have resulted or are expected to result in the permanent protection of up to 192,963 acres of critical working forest. Two of the loans remain outstanding for a total principal value of \$17.0 million as of July 31, 2019. In addition, the project tied to one of the loans that has been paid in full remains active because the Fund continues to hold an option to place conservation easements over a portion of the property.

Other Transaction Structures. From time to time, the Fund has opportunities to enter into Working Forest Fund transactions through joint ventures or co-venture arrangements with third parties, where the Fund may not be a majority owner and/or may not operate the forests. The structures of such transactions vary but may involve, for example, new forest acquisitions and divestitures of existing assets. In any such transaction, the Fund’s primary goal is to achieve permanent working forest protection for high conservation value properties.

Partner Relationships. The Working Forest Fund staff works with a variety of partners to acquire and resell forest properties, including governmental agencies, real estate investment trusts, private timber investors, insurance companies, public and private endowments, forest products companies, and timber investment management organizations, which may look to sell or buy assets that meet the criteria of the Working Forest Fund.

The governmental agencies who are potential buyers of conservation easements and fee interests in working forests include the U.S. Forest Service and the resource agencies of states with significant forestry assets, such as Georgia, Minnesota, New York, Pennsylvania, Tennessee and West Virginia.

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Working Forest Fund Portfolio Summary.

Set forth below is a summary of the Working Forest Fund's activities through July 31, 2019.

Working Forest Fund Acquisitions Summary by Year (\$ in thousands)

<u>Year</u>	<u># Acquisition Projects</u>	<u>Acres Acquired</u>	<u>Acres held as of 7/31/19</u>	<u>Purchase Price</u>	<u>Book Value as of 7/31/19⁽¹⁾</u>
2009.....	1	2,400	2,041	\$ -	\$ 3,582
2010.....	-	-	-	-	-
2011.....	4	36,090	18,329	57,485	12,448
2012.....	1	8,910	8,910	5,792	2,810
2013.....	5	33,746	19,553	38,150	22,560
2014.....	4	74,800	35,822	94,538	22,488
2015.....	6	82,288	60,384	57,019	37,962
2016.....	1	14,225	14,225	26,743	22,977
2017.....	2	37,823	34,542	40,441	37,570
2018.....	3	81,695	56,721	95,001	80,436
2019.....	2	78,047	57,613	55,248	44,507
Total	29	450,024	308,140	\$ 470,417	\$ 287,340

⁽¹⁾ May reflect decrease in value due to sale of easements on certain properties over which the Fund continues to hold title.

Working Forest Fund Loans to Timber Investment Management Organizations (\$ in thousands)

<u>Year</u>	<u># Loan Projects</u>	<u>Original Lending Acres</u>	<u>7/31/19 Lending Acres</u>	<u>Original Loan Amount</u>	<u>Loan Principal Outstanding 7/31/19</u>
2009.....	-	-	-	\$ -	\$ -
2010.....	-	-	-	-	-
2011.....	1	72,478	-	16,000	-
2012.....	-	-	-	-	-
2013.....	1	46,700	46,700	7,000	-
2014.....	-	-	-	-	-
2015.....	-	-	-	-	-
2016.....	1	10,507	-	3,000	-
2017.....	2	63,278	63,278	18,000	17,000
2018.....	-	-	-	-	-
2019.....	-	-	-	-	-
Total	5	192,963	109,978	\$ 44,000	\$ 17,000

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Working Forest Fund Activity Metrics Since Inception in 2009 through July 31, 2019 (\$ in thousands)

	<u>Projects</u>	<u>Acres</u>	<u>Capital Deployed</u>
Acquisition of Properties	29	450,024	\$ 470,417
Loans to TIMOs	5	192,693	44,000
Total.....	<u>34</u>	<u>642,717</u>	<u>\$ 514,417</u>

Current Acquisition Portfolio (\$ in thousands)

<u>Working Forest Fund Transactions</u>	<u>Region</u>	<u>Year Acquired</u>	<u>Purchase Price</u>	<u>Original Acres¹³</u>	<u>Acres held as of 7/31/19</u>	<u>Book Value as of 7/31/19</u>
Project 1.....	Appalachia	2009	\$ -	2,400	2,041	\$ 3,582
Project 2.....	Northeast	2011	12,000	12,010	4,416	4,688
Project 3.....	Pacific Northwest	2011	30,000	13,913	13,913	7,760
Project 4.....	Northeast	2012	5,792	8,910	8,910	2,810
Project 5.....	Pacific Northwest	2013	24,500	19,650	19,553	22,560
Project 6.....	Northeast	2014	20,265	30,234	21,770	14,579
Project 7.....	Lake States	2014	11,897	14,052	14,052	7,909
Project 8.....	Northeast	2015	14,350	32,431	32,431	14,350
Project 9.....	Southeast	2015	8,260	3,670	3,670	5,121
Project 10.....	Northeast	2015	8,438	8,162	8,162	8,438
Project 11.....	Appalachia	2015	20,237	32,454	16,121	10,053
Project 12.....	Southeast	2016	26,743	14,225	14,225	22,977
Project 13.....	Appalachia	2017	14,991	14,770	11,722	12,120
Project 14.....	Northeast	2017	25,450	23,053	22,820	25,450
Project 15.....	Northeast	2018	7,000	17,880	15,869	6,758
Project 16.....	Appalachia	2018	18,501	31,217	8,254	4,897
Project 17.....	Appalachia	2018	69,500	32,598	32,598	68,781
Project 18.....	Northeast	2019	18,454	26,740	26,674	18,272
Project 19.....	Northeast	2019	36,794	51,307	30,939	26,235
Total			<u>\$ 373,172</u>	<u>389,676</u>	<u>308,140</u>	<u>\$ 287,340</u>

Current Loans Portfolio (\$ in thousands)

<u>Working Forest Fund Transactions</u>	<u>State</u>	<u>Year Acquired</u>	<u>Original Loan Amount</u>	<u>Loan Principal Outstanding as of 7/31/19</u>	<u>Acres</u>
Project 1	Appalachia	2017	\$ 10,000	10,000	18,554
Project 2	Appalachia, Northeast	2017	8,000	7,000	44,724
Total			<u>\$ 18,000</u>	<u>\$ 17,000</u>	<u>63,278</u>

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Recent Transactions. In January 2019, the Fund acquired 26,740 acres in Maine at the headwaters of the Pleasant River. The purchase price was \$18.5 million and was funded by the Working Forest Fund and the Appalachian Mountain Club (“AMC”). The Working Forest Fund expects to sell the entire project to AMC as part of AMC’s conservation project at the trailhead of the Appalachian Trail. If that sale does not occur, the Fund will seek to transfer a permanent conservation easement over the property to a partner agency or non-profit conservation organization and then to sell the underlying fee interest to a private buyer, consistent with its Working Forest Fund model.

Additionally, in May 2019, the Fund acquired one of the last large, intact working forests in the Adirondack region of New York. The “Three Rivers” forest project covers an aggregate of approximately 51,300 total acres. The Fund acquired approximately 33,000 acres for \$26.2 million and assigned the purchase rights to approximately 18,000 acres to a partner, who completed its purchase for \$10.6 million. The Fund retained ten-year options to purchase working forest conservation easements on the acreage acquired by its partner. The Fund intends to negotiate and sell working forest conservation easements across the entire project to the State of New York and eventually sell the fee interest in the Fund-acquired property to a third party once permanent conservation easements have been placed on the property. In purchasing this property, the Fund’s goal is to protect these critical watersheds along with the local forest-product-related jobs and traditional recreational uses of the forest.

In August 2019, the Fund acquired approximately 7,900 acres of forestland in Virginia for \$18.3 million. The “Roanoke River” property is a high priority for conservation by the Commonwealth of Virginia and over half of the acres are expected to be transferred to the Virginia Department of Forestry within one year after the closing to create a new state forest. The Fund plans to protect the remainder of the property with conservation easements and then sell the fee interest to one or more private owners. The Fund has received a zero-interest loan of \$8 million, which qualifies as a program-related investment, from a foundation to assist with the acquisition costs.

On September 12, 2019, the Fund acquired approximately 10,366 acres of forestland in Alabama and Georgia for \$22.1 million. The “Stateline Forest” is an important area for the protection of many rare plants, bats and aquatic species. It contains nearly 45 miles of streams, and by protecting it from further fragmentation and employing proper land management over the long term, the Fund aims to help protect the water quality and quantity. The property is expected to be transferred to the states of Alabama and Georgia in approximately five years.

Other Business Units

Mitigation Solutions. In partnership with developers and regulatory agencies, the Fund completes conservation acquisitions and other projects to offset the impacts on natural resources from construction and operation of energy and infrastructure projects, and provides advice on mitigation strategies before and during infrastructure project development. The Mitigation Solutions business unit helps developers meet regulations and offset construction or operational impacts to sensitive resources. The Fund does not advocate on behalf of infrastructure projects, but serves as a bridge between project developers and regulatory agencies to help develop and then

implement mitigation plans. To cover core operating expenses, the Fund receives an administrative fee for the Fund's mitigation services.

The Fund provides mitigation solutions for the often-unavoidable impacts of infrastructure projects on the following resources:

- Endangered species;
- Migratory birds;
- Bald and golden eagles;
- Aquatic resources;
- Visual and cultural resources; and
- State and federal lands.

Mitigation services have been provided for all seven sectors of major energy and infrastructure development: oil and gas (upstream and downstream), electric transmission, wind, solar, hydropower, and transportation.

The Fund's mitigation activities provide private capital to enable its conservation partners to achieve their priorities. Since the Fund began providing mitigation services in 1998, more than \$237 million has been transferred to the Fund to use over varying time periods to acquire land and interests in land, to complete restoration and/or to take other actions to mitigate for impacts to resources; over half of this amount has been spent to date on over 150 mitigation projects. Additionally, more than 280,000 acres have been protected in 29 states using mitigation funding.

Mitigation Solutions is staffed by 2.5 FTEs as of July 31, 2019. Land acquisition projects using mitigation funding are implemented by field staff from both the Conservation Acquisition business unit and the Working Forest Fund, and grant programs using mitigation funding are implemented by staff from Conservation Services (see “—Conservation Services”).

Conservation Loans. The Conservation Loans business unit provides bridge financing and technical assistance to land trusts and other organizations aiming to protect critical natural resources in their communities. Working closely with Conservation Acquisition field staff, this business unit addresses an unmet need for bridge financing and provides the Fund with an alternative mechanism for the Fund to achieve conservation outcomes through assistance to other organizations in lieu of implementing land transactions directly.

Loans are originated by Conservation Loans staff with the advice and support of relevant regional Conservation Acquisition staff. All loans are vetted for both mission alignment by a committee of senior staff members as well as an internal credit and underwriting committee to insure proper credit review and underwriting.

As of December 31, 2018, Conservation Loans has assisted with the conservation of 154,000 acres through 367 loans in 39 states since 1993. The average outstanding principal

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balance of the loans in the Fund’s portfolio as of December 31, 2018 was \$752,000, with an average interest rate of 3.7%. The Fund’s loans are generally secured by a first lien on the borrower’s acquired property with a term of one to three years. Sources of loan repayment include philanthropic donations to the borrower or proceeds from state or federal grant funding. The Fund seeks to maintain at least a 5% loan loss reserve. For the year ended December 31, 2018, the business unit had no realized losses.

The Fund’s portfolio of loans made by the Conservation Loans business unit had a principal value of \$32.3 million as of December 31, 2018.

Conservation Loans is staffed by two FTEs as of July 31, 2019.

Conservation Loans Five-Year Project History.

The following table shows the five-year project history for the Conservation Loans business unit.

Conservation Loans (\$ in thousands)

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Number of Loans.....	26	30	35	35	39
Total Acres	11,699	4,086	19,351	9,980	6,511
Loan Amount.....	\$ 20,055	\$ 19,343	\$ 24,320	\$ 25,732	\$ 15,267
Fair Market Value					
Acres Conserved	\$ 33,306	\$ 24,925	\$ 49,098	\$ 37,684	\$ 26,181
Avg. Interest Rate at					
Issuance.....	3.93%	3.06%	2.80%	2.85%	2.93%
No. of Loans Repaid.....	30	32	9	23	20
Principal Value of					
Loans Repaid.....	\$ 31,579	\$ 21,885	\$ 9,417	\$ 14,025	\$ 8,724

Conservation Services. Conservation Services comprises a group of programs dedicated to advancing the dual mission of the Fund by building networks of support for conservation. These grant-funded and fee-for-service programs focus on impact areas such as sustainable food system implementation, access to land for disadvantaged populations, urban conservation, rural economic development, water quality/supply protection and enhancement, aquaculture, and climate change adaptation. As of July 31, 2019, Conservation Services is staffed by 47 FTEs.

This business unit includes four primary programs:

Conservation Leadership Network

The Conservation Leadership Network (“CLN”) is a team of experts that brings diverse constituencies together to achieve common ground to facilitate results such as revitalized downtowns, comprehensive transportation solutions, small business development, resolution of infrastructure challenges, more livable communities, and support for innovative markets for ensuring water quality. CLN delivers these results through multi-disciplinary course offerings, innovative demonstration projects, regional programs, and sustainability consulting that supports on-the-ground solutions.

Freshwater Institute

The Freshwater Institute is a research and development facility dedicated to sustainable water use and reuse. This program combines applied research, engineering and economic development skills to show how freshwater resources achieve economic and environmental goals. It works with government, industry, nonprofits and individuals to shape sustainable, environmentally responsible solutions to water resource management, creating innovative solutions to sustainably produce salmon and other cold water species. The Fund is a defendant in litigation relating to services provided by the Freshwater Institute in connection with the design and construction of a salt water fish farm in Florida. See “Litigation.”

Resourceful Communities

Resourceful Communities works with grassroots organizations to create opportunities to preserve rural landscapes and strengthen local economies, primarily in North Carolina. Examples include network building and managing grant programs that support eco-tourism, youth conservation programs, farmers markets and cultural heritage preservation. Resourceful Communities also provides a range of training and technical assistance to achieve community goals.

Strategic Conservation Planning

Strategic Conservation Planning brings strategic conservation expertise to communities, government leaders, and industry across the country to achieve the multiple benefits from investing in clean air, clean water, habitat, climate resilience and adaptation, and community livability. Areas on which advice is provided include urban sustainability, food and farmland security, climate resiliency, water resources and strategic mitigation.

The Fund’s Affiliates

SCI and Subsidiaries. TCF owns 100% of the outstanding stock of SCI, a supporting organization to the Fund under the Code. The Fund or SCI also own 100% of the membership interests in several Delaware limited liability companies (collectively, the “LLCs”) formed to hold the assets of specific acquisitions. The LLCs are pass through entities for federal tax purposes. Like SCI, the operations of the LLCs are combined with the Fund’s operations for financial statement purposes and the LLCs are operated by staff members of the Fund and have no separate employees. Revenues and assets of the LLCs comprised less than 2% and 18% of the Fund’s combined revenues and assets, respectively, in 2018.

Natural Capital Investment Fund. NCIFund was developed in 1999 to complement the Fund’s community and economic development charter. NCIFund provides a blend of technical assistance and financing to small, natural resource-based businesses in economically distressed and underserved communities in nine states. NCIFund uses rural economic development as an “on-ramp” to land and water conservation by supporting entrepreneurs with business models that incorporate sustainable use of the environment and building community economies that embrace conservation.

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NCIFund is a separate Maryland nonstock corporation that is a 501(c)(3) organization and a certified Community Development Financial Institution. It has been recognized under the Code as a supporting organization to the Fund. The Fund's employees provide management and operational services to NCIFund in return for a service fee pursuant to a Management Services Agreement. Fund staff members devoted to NCIFund as of July 31, 2019 include 16 FTEs.

NCIFund is not managed as a business unit of the Fund. However, the two organizations coordinate their activities where mission and programmatic interests align. As of July 31, 2019, NCIFund has made 426 investments in 327 companies.

NCIFund is not a subsidiary of the Fund and is not obligated with respect to the Bonds, and none of its assets or revenues are pledged to secure the bonds. The Fund does not guarantee or support any third party indebtedness of NCIFund, although outstanding loans and commitments made by the Fund to NCIFund totaled \$7.0 million as of December 31, 2018.

Financial Information

Financial Statements

The Fund's audited combined financial statements (parent only) for the fiscal year ended December 31, 2018 (see Appendix B-1) and the Fund's audited combined financial statements for the fiscal year ended December 31, 2017 (see Appendix B-2) were each prepared in accordance with generally accepted accounting principles ("GAAP") and were respectively audited by RSM US LLP and Cherry Bekaert LLP, the Fund's independent auditors. The audited combined financial statements included in Appendices B-1 and B-2 include the results of operation of SCI and those of the LLCs as combined entities. For the years ended December 31, 2018 and December 31, 2017, the LLCs represented 2% and 4.5% of total revenues and 18% and 11% of total assets, respectively, of TCF and SCI on a combined basis. References in this section include the results of operation of the LLCs.

Overview: Over 80% of the Fund's annual total revenues are typically generated by its real estate program activities. The Fund's basic business model differs from that of many traditional charities for a number of reasons, but two factors need to be considered when reviewing the financial results and understanding the rationale for recent accounting changes.

First, while the Fund acquires and disposes of real estate interests on a regular basis, its principal purpose in making such acquisitions and dispositions is to ensure that the properties are owned by a conservation partner that will permanently conserve them, or that they remain subject to use restrictions (*i.e.*, conservation easements enforced by conservation partners) that fulfill the Fund's charitable conservation purposes. The Fund may use its own funds to acquire a property, it may use money contributed by third parties who want to support a particular project, or it may use a combination of both internal and external funding. Depending on the funding mix and the specifics of the project, the Fund will typically expect to have all of its capital and expenses repaid upon disposition, but it may sell at a discount to its purchase price or transfer for no consideration (in each case to the conservation partner) if the acquisition has been funded by external contributions and such a discount or donated disposition is the wish of the donor.

Second, the acquisition and disposition of a particular property often occur in different fiscal years, and frequently may cross multiple fiscal years while partnerships, approvals and other arrangements are being negotiated. Therefore, the Fund often is in a situation where it receives contributions for property acquisitions, gifts of land or easements in one period and sells or donates the property or interest in a later period, thereby creating the potential for the accounting recognition of revenues and expenses to fall in different years. Given the low margin nature of the Fund's business model, this timing difference has been the cause of accounting volatility in the Fund's net financial results in certain years. For example, when the Fund donated property (at the donor's direction), it would typically generate an accounting loss for the project when donated if the contribution revenue was booked in an earlier year. Separately, by valuing land and easements at their appraised value, the Fund would generate income at the time of acquisition if the purchase price paid (or donation received) was lower than appraised value, and often would not generate the matching expense until the property was sold or donated in a later period. This was particularly acute when the Fund received conservation easements by donation given easements have an intrinsic value at inception (generally equal to the value of the commercial development potential being extinguished), but typically have no financial value to the conservation partner that will permanently enforce the easement terms.

The Fund believes its recent accounting changes described in more detail below will provide a more accurate presentation of its results. **AS DESCRIBED FURTHER BELOW, THE PRESENTATION OF FINANCIAL RESULTS FOR THE FISCAL YEARS ENDED 2017 AND 2018 ARE NOT COMPARABLE.** Reference is made to Note 15 in both Appendices B-1 and B-2 for a further discussion of the nature of the changes in financial statement presentation, and the following discussion is qualified in its entirety with respect to those notes.

Accounting and Financial Statement Presentation Changes

As described below, in 2017, the Fund changed its accounting policy regarding valuation of conservation easements to record conservation easements on its balance sheet at nominal value (instead of appraised value), and to not report in its statement of activities revenue from easements received. In 2018, the Fund changed the book valuation methodology for real estate to value its real estate holdings at their respective purchase prices instead of appraised value in most instances. Further, the Fund began recording charges against contribution revenue when there was a clear obligation for the Fund to donate the associated project or funds in a subsequent accounting period. The goal of these changes is to enable the Fund to match revenue and expenses in the same accounting period as much as possible. However, the Fund likely will continue to engage in transactions where the Fund is required by GAAP to recognize revenue upon receipt of a contribution but cannot record expenses related to the transaction because their extent is not fully known or the Fund is unable to demonstrate when the related expenses will occur.

As a consequence of this approach, in 2017, the Fund recorded a significant charge for the anticipated future donation of several real estate projects for which the Fund had received significant contributions in 2017 or prior years. The charges incurred in 2017 do not necessarily represent the full extent of assets that the Fund may donate or sell at a discount to conservation partners in the future. As a result, some volatility between accounting periods will remain, although management believes this volatility will be moderated by the effect of the accounting policy changes made in 2017 and 2018.

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Further, the Fund changed the presentation basis of its audited combined financial statements for the year ended December 31, 2018 with the goal of providing greater transparency and consistency for real estate-related revenue and expenses. Beginning with the 2018 audited combined financial statements, revenue and expenses that relate to real estate programs will be presented separately from other revenue and expenses. As described above, the Fund often receives multiple sources of funding to recover its acquisition costs and related expenses in addition to the direct proceeds from the sale of property. See “Description of the Fund’s Five Business Units – *Conservation Acquisition*.” By separately classifying revenue and expense items that are tied to real estate transactions, the Fund hopes to improve the usefulness of the statements.

As a result of these changes, the financial results for 2018 should not be considered comparable to those for prior years.

Summary Financial Information

Set forth below are certain financial data with respect to the Fund’s financial position and operations derived from its audited combined financial statements as of and for the year ended December 31, 2018 and its audited combined financial statements as of and for the year ended December 31, 2017. The summary statement of financial position and the summary statement of activities and changes in net assets presented in this Appendix A were derived from and should be read in conjunction with the audited combined financial statements and the notes thereto set forth in Appendix B-1 and Appendix B-2 to this Offering Memorandum. The audited combined financial statements for the year ended December 31, 2018 included in Appendix B-1 exclude NCIFund, which is not obligated with respect to the Bonds. The audited combined financial statements for the year ended December 31, 2017 included in Appendix B-2 include NCIFund, but the NCIFund results are disclosed separately in the Supplementary Schedules to such financial statements (see “Combining Schedule of Financial Position and Combining Schedule of Activities and Changes in Net Assets” therein).

As described below, the Fund adopted certain accounting changes in 2017 and 2018 that affect the comparability of 2018 and 2017 results, as well as the comparability of such periods to financial results from prior periods.

In 2017, the Fund changed its accounting treatment for conservation easements (see Note 15 to the Fund’s audited combined financial statements in Appendix B-2). In prior years, the Fund capitalized the value of easements, whether purchased or received via donation, at the appraised value of the easement. Donated easements were recognized as revenue at appraised value on the combined statement of activities. In 2017 and following years, although the Fund continues to believe that conservation easements play an important role in enabling it to achieve its charitable purpose, the Fund does not ascribe value to conservation easements on its balance sheet and does not report revenue from easements received in its statement of activities. This accounting change is referred to herein as the “2017 Accounting Change.”

As a result of the 2017 Accounting Change, the Fund reduced its 2017 beginning net asset balance in the amount of \$39.1 million. The Fund believes that the revised presentation is a more accurate representation of its total assets and the consideration the Fund would receive upon the

transfer of its conservation easements to third parties. The Fund also believes that this treatment is more conservative and consistent with the treatment used by many other land trust organizations.

In 2018, the Fund changed the basis used to report the value of its real estate acquisitions from the appraised value to the purchase price and also revalued its beginning balance of 2018 real estate held for resale down to its original purchase price basis (the “2018 Accounting Change”). The 2018 Accounting Change resulted in a reduction in net assets of \$18.7 million. See Note 15 to the Fund’s audited combined financial statements for the fiscal year ended December 31, 2018, included in Appendix B-1. In cases where the Fund has received or will receive property at a bargain sale price or via donation, the Fund will continue to value such property and recognize revenue according to appraised value. The Fund believes that this change reflects a more conservative approach and will provide greater transparency to users of its financial statements.

Further, the Fund has restated its 2017 financial results as of July 15, 2019, resulting in a charge to net assets of \$16.5 million in 2017 to adjust certain project account balances as determined by management’s internal review. Over 76% of the \$16.5 million was related to deferred revenue accounting for mitigation funds and 21% was tied to real estate transactions primarily to create consistency across similar projects over time. None of the project adjustments were material individually, and additional staff, policies and procedures have been implemented to manage the Fund’s internal reporting going forward. As a result of this restatement, net assets as of December 31, 2016 were reduced by 2.8%. As part of these adjustments, the Fund also determined that temporarily restricted asset balances were understated when the 2017 Accounting Change was implemented and identified other errors related to the classification or release of donor restrictions. As a result, the Fund transferred \$30.5 million of temporarily restricted assets and reduced unrestricted assets by \$47 million. For further discussion, see Note 16 to the Fund’s audited combined financial statements for the fiscal year ended December 31, 2017, included in Appendix B-2.

Financial information included herein for the fiscal years ended December 31, 2014, 2015 and 2016 has been derived from the Fund’s audited combined financial statements for such periods and has not been adjusted for the 2017 Accounting Change or the 2018 Accounting Change. Accordingly, the results for the fiscal years ended December 31, 2014, 2015 and 2016 should not be considered as comparable to the results for the fiscal years ended December 31, 2017 or 2018.

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Statement of Financial Position (\$ in thousands) as of December 31, 2018

Assets	
Cash and cash equivalents.....	\$ 3,613
Restricted cash and cash equivalents	128,616
Investments	71,536
Receivables	7,560
Notes receivable, net.....	56,477
Promises to give.....	103
Other assets	194
Property and equipment, net	2,502
Conservation land	551,886
Total assets	\$ 822,487
Liabilities and Net Assets	
Liabilities:	
Accounts payable and accrued expenses.....	\$ 9,370
Deferred revenue and refundable advances.....	159,506
Amounts due to other nonprofit organizations and government agencies	52,260
Notes payable, net	124,399
Total liabilities	345,535
Net assets:	
Without donor restrictions.....	231,396
With donor restrictions	245,556
Total net assets	476,952
Total liabilities and net assets	\$ 822,487

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Statement of Financial Position (\$ in thousands) as of December 31, 2014, 2015, 2016 and 2017

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
ASSETS				
Current Assets:				
Cash and cash equivalents	\$109,580	\$144,341	\$163,580	\$158,989
Short-term investments.....	61,771	19,197	18,742	18,673
Receivables.....	4,588	3,370	2,249	1,951
Notes receivable, net of allowance for doubtful accounts.....	22,922	1,198	6,652	8,381
Promises to give	361	927	352	842
Due from an affiliate	-	-	-	-
Other	166	126	605	216
Total Current Assets	<u>199,388</u>	<u>169,159</u>	<u>192,180</u>	<u>189,052</u>
Property and Equipment:				
Buildings, furniture, and equipment.....	4,095	2,789	2,789	2,717
Accumulated depreciation	(2,110)	(1,942)	(1,774)	(1,631)
Net Property and Equipment	<u>1,985</u>	<u>847</u>	<u>1,015</u>	<u>1,086</u>
Other Assets:				
Cash-restricted.....	-	-	-	-
Notes receivable, net of allowance for doubtful accounts.....	54,746	59,543	50,202	39,373
Promises to give	608	602	12	102
Long-term investments.....	289	208	186	190
Demonstration projects:				
Land held for general purposes ⁽¹⁾	505,722	516,804	523,504	515,651
Other receivables.....	8,239	-	-	-
Total Other Assets	<u>569,604</u>	<u>577,157</u>	<u>573,904</u>	<u>555,316</u>
Total Assets	<u>\$770,977</u>	<u>\$747,163</u>	<u>\$767,099</u>	<u>\$745,454</u>

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LIABILITIES AND NET ASSETS

Current Liabilities:

Line of credit	\$	\$ -	\$ -	\$ -
Accounts payable.....	541	2,628	2,791	2,237
Accrued expenses	6,536	6,370	11,820	3,879
Deferred revenue	9,229	14,869	16,628	18,836
Amounts held for others	-	-	-	-
Notes payable, net of discount.....	7,453	8,907	2,980	12,025
Due to an affiliate	-	-	-	-
Total Current Liabilities	23,759	32,744	34,219	36,977

Other Liabilities:

Line of credit, related party	-	-	-	-
Amounts due other nonprofit organizations and government agencies.....	50,863	86	86	19,209
Deferred revenue	122,836	61,648	66,596	75,389
Deferred rent.....	508	507	491	107
Amounts held for others	676	167	116	357
Notes payable:				
Demonstration projects.....	93,268	74,485	83,100	66,996
Total Other Liabilities	268,151	136,893	150,389	162,058
Total Liabilities	291,910	169,667	184,608	199,035

Net Assets:

Unrestricted	230,788	296,757	317,679	323,758
Temporarily restricted	144,312	181,140	169,611	133,040
Permanently restricted.....	103,967	99,599	95,201	89,621
Total Net Assets	479,067	577,496	582,491	546,419
Total Liabilities and Net Assets.....	\$770,977	\$747,163	\$767,099	\$745,454

(1) Includes easements held for general purposes as of December 31, 2014, 2015, and 2016, but not as of December 31, 2017 following the 2017 Accounting Change. The value of such easements was \$52.0 million, \$35.6 million and \$39.1 million, as of December 31, 2014, 2015 and 2016, respectively.

Statement of Activities (\$ in thousands) for the fiscal year ended December 31, 2018

	Without Donor Restrictions	With Donor Restrictions	Total
Real estate activities:			
Support and revenue			
Contributions and grants.....	\$ 15,248	\$ 36,880	\$ 52,128
Land contributed for conservation.....	13,713	-	13,713
Contract income.....	6,875	-	6,875
Investment and other program income	34,355	-	34,355
Sales of conservation land to others	67,908	-	67,908
Net assets released from restrictions	42,839	(42,839)	-
	<u>180,938</u>	<u>(5,959)</u>	<u>174,979</u>
Non-real estate activities:			
Support and revenue			
Contributions and grants.....	7,970	9,646	17,616
Contract income.....	8,709	-	8,709
Investment and other program income	9,611	-	9,611
Net assets released from restrictions	6,410	(6,410)	-
	<u>32,700</u>	<u>3,236</u>	<u>35,936</u>
Total support and revenue.....	<u>213,638</u>	<u>(2,723)</u>	<u>210,915</u>
Expenses:			
Program services:			
Real estate programs.....	170,086	-	170,086
Non-real estate programs.....	17,393	-	17,393
Total program services	<u>187,479</u>	<u>-</u>	<u>187,479</u>
Supporting services:			
Management and general.....	4,113	-	4,113
Fundraising	2,739	-	2,739
Total supporting services.....	<u>6,852</u>	<u>-</u>	<u>6,852</u>
Total expenses	<u>194,331</u>	<u>-</u>	<u>194,331</u>
Change in net assets	<u>19,307</u>	<u>(2,723)</u>	<u>16,584</u>
Net assets, beginning of year	212,089	248,279	460,368
Net assets, end of year	<u>\$ 231,396</u>	<u>\$ 245,556</u>	<u>\$ 476,952</u>

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Statement of Activities (\$ in thousands) for the fiscal years ended December 31, 2014, 2015, 2016 and 2017*

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Support and Revenue Before Sales of Demonstration Projects to Others:				
Contributions and grants.....	\$124,679	\$ 96,575	\$124,077	\$139,073
Contract income.....	13,017	18,130	18,712	9,325
Investment and other program income	<u>6,322</u>	<u>7,701</u>	<u>4,184</u>	<u>15,808</u>
Total Support Revenue Before Sales of Demonstration Projects to Others.....	144,018	122,406	146,973	164,206
Sales of demonstration projects to others	90,453	98,849	71,993	89,603
Total Support and Revenue	<u>234,471</u>	<u>221,255</u>	<u>218,966</u>	<u>253,809</u>
Expenses:				
Program:				
Book value of demonstration projects transferred to others.....	158,165	157,682	98,986	157,435
Other program expenses	<u>115,422</u>	<u>64,291</u>	<u>78,954</u>	<u>47,157</u>
Total Program	273,587	221,973	177,940	204,592
Management and general.....	2,008	2,554	2,811	2,409
Fundraising	<u>1,765</u>	<u>1,722</u>	<u>2,144</u>	<u>1,604</u>
Total Expenses	<u>277,360</u>	<u>226,249</u>	<u>182,895</u>	<u>208,605</u>
Change in net assets	<u>(42,889)</u>	<u>(4,994)</u>	<u>36,071</u>	<u>45,204</u>
Net assets, beginning of year, as previously reported.....	577,496	582,490	546,419	501,215
Cumulative effect of change in accounting principle.....	(39,076)	-	-	-
Correction of error	<u>(16,464)</u>	-	-	-
Net assets, beginning of year, as restated.....	<u>521,956</u>	-	-	-
Net assets, end of year	<u>\$479,067</u>	<u>\$577,496</u>	<u>\$582,490</u>	<u>\$546,419</u>

* As noted above, results for 2014 through 2016 are not comparable to 2017.

Management's Discussion and Analysis of Recent Financial Performance

Year Ended December 31, 2018 Compared to Year Ended December 31, 2017

From 2017 to 2018, the Fund's total revenue decreased from \$234.5 million to \$210.9 million. Management attributes this decline to a reduction in real estate transaction revenue, driven by (i) a lower value of sales from the Working Forest Fund business unit and (ii) the implementation of the 2018 Accounting Change.

Total expenses for 2018 declined by \$83.0 million compared to 2017 for two principal reasons. First, the Fund recorded a charge of \$50.9 million in 2017 for projects that the Fund intended to convey by means of donation or bargain sale to third parties, and the Fund did not have a similar volume of such projects in 2018. As discussed in "Financial Information – Accounting and Financial Statement Presentation Changes" above, all the projects subject to this provision were fully funded by third party contributions in 2017 or prior periods. Second, the change to use of purchase price rather than appraised value for properties following implementation of the 2018 Accounting Change had the effect of lowering the cost of real estate sold compared to prior periods.

The excess of revenue over expenses was \$16.6 million in 2018 as compared to \$(42.9) million in 2017, reflecting an improvement of \$17.6 million relating to Working Forest Fund operating surplus compared to the prior year and an increase in operating surplus of \$43.9 million from Conservation Acquisition projects in general. The following factors contributed to the underlying improvement: (i) an increase in higher margin program activity in 2018 relative to 2017, (ii) the 2018 Accounting Change, and (iii) program expenses recognized in 2017 that related to revenue recognized in earlier years.

Year Ended December 31, 2017 Compared to Year Ended December 31, 2016

Total revenue for 2017 increased by \$13.2 million compared to 2016 to \$234.5 million, due largely to an increase in the volume of real estate projects for which the Fund received donations of property or cash for the purpose of acquiring property to be donated to third parties. Given the expectation that such real estate would be conveyed eventually for no consideration, the Fund took provisions for such eventual donation. The increased volume of such projects also contributed to an increase in the Fund's expenses from \$226.2 million in 2016 to \$277.4 million in 2017. The total excess of revenues over expenses declined from \$(5.0) million in 2016 to \$(42.9) million in 2017, due primarily to timing differences in the recognition of real estate revenue and expenses.

Real Estate Activity (\$ in thousands)

The following table shows the total volume of revenue associated with the Fund's real estate transactions and the direct expenses of those transactions, such as cost of land, appraisals and other due diligence expenses, and closing fees and expenses. It does not include staff salaries or allocation of indirect expenses. Activity is segregated by Working Forest Fund transactions and Conservation Acquisition transactions (which includes Conservation Loans and funding from Mitigation Solutions).

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	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
WFF Total Revenue	\$ 42,758	\$ 63,351	\$ 48,030	\$ 35,765	\$ 71,388
WFF Total Expense	30,583	68,810	47,836	20,084	40,539
WFF Operating Surplus/Deficit.....	<u>\$ 12,175</u>	<u>\$ (5,459)</u>	<u>\$ 194</u>	<u>\$ 15,681</u>	<u>\$ 30,849</u>
CA Total Revenue	\$ 132,218	\$ 136,150	\$ 125,912	\$ 117,237	\$ 150,018
CA Total Expense	122,822	170,629	138,899	123,247	142,216
CA Operating Surplus/Deficit.....	<u>\$ 9,396</u>	<u>\$ (34,479)</u>	<u>\$ (12,987)</u>	<u>\$ (6,010)</u>	<u>\$ 7,802</u>
Total Revenue	\$ 174,976	\$ 199,501	\$ 173,942	\$ 153,002	\$ 221,406
Total Expense	153,405	239,439	186,735	143,331	182,755
Real Estate Operating Surplus/Deficit	<u>\$ 21,571</u>	<u>\$ (39,938)</u>	<u>\$ (12,793)</u>	<u>\$ 9,671</u>	<u>\$ 38,651</u>

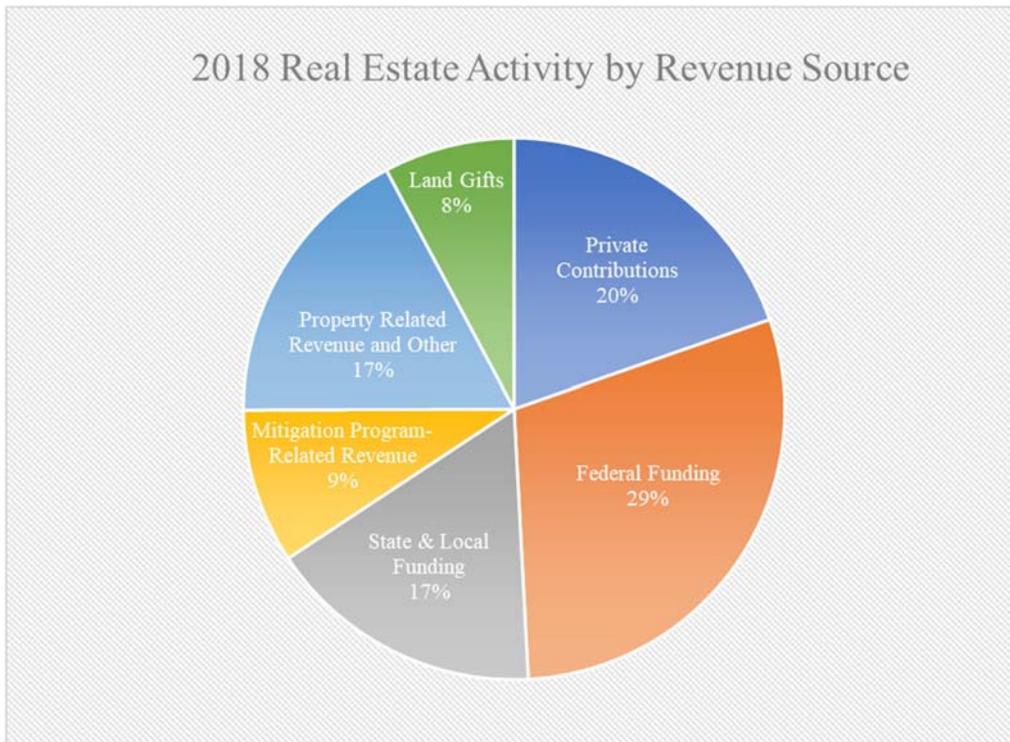
Total real estate revenue, which takes into account relevant project activity in the Working Forest Fund, Conservation Acquisition, Mitigation Solutions and Conservation Loans business units, declined \$24.5 million from \$199.5 million in 2017 to \$175.0 million in 2018, after increasing \$25.6 million from \$173.9 million in 2016 to \$199.5 million in 2017. Total real estate expense also declined in 2018 when compared to 2017, from \$239.4 million to \$153.4 million. Factors contributing to the declines in total real estate revenue and expense in 2018 included (i) the receipt of a smaller volume of properties or contributions for the purpose of eventual donation, (ii) the change in real estate valuation from appraised value to purchase price following the 2018 Accounting Change, and (iii) non-recurring, real estate related expenses in 2017.

Total real estate revenue in 2016 improved from 2015 by \$20.9 million. Expenses increased \$43.4 million from \$143.3 million in 2015 to \$186.7 million in 2016, due in part to a donation by the Fund in 2016 of a significant collection of properties to a conservation partner, which under the Fund's accounting policies then in place resulted in an expense of \$15.2 million.

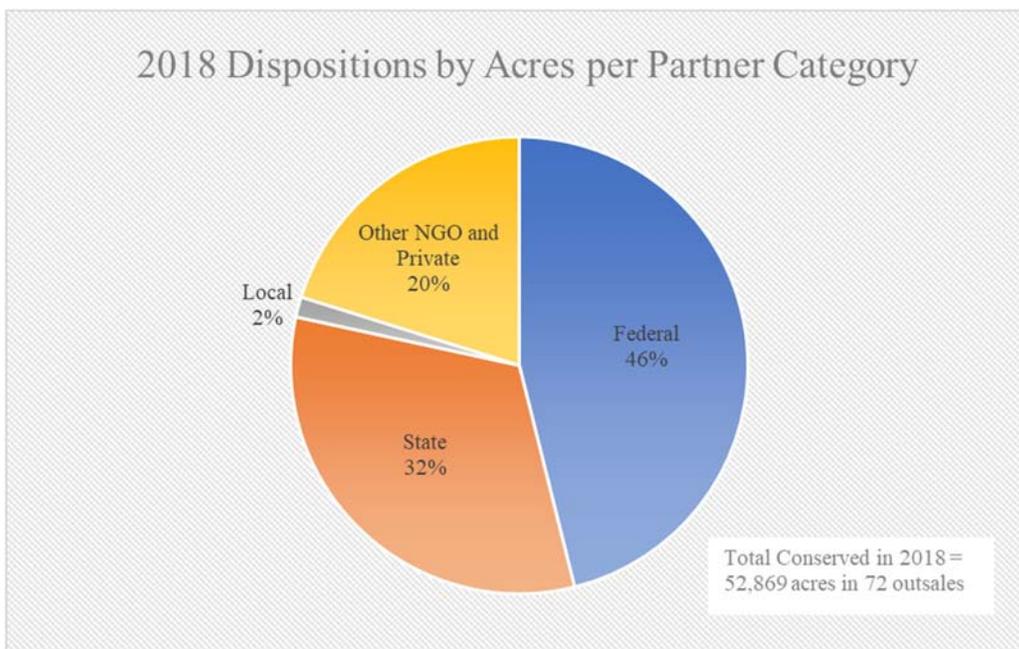
The amount of Working Forest Fund revenue and operating surplus in any given year is driven by (i) the volume of project disposals and (ii) contributions received to acquire new forest conservation projects. Both of these amounts vary significantly from year to year. In 2014 and 2015, the Fund received significant contributions of cash and land that increased the operating surplus. In 2017 and 2018, results were affected by timing differences when the Fund recognized the full expense of one large project disposition in 2017 but did not receive or recognize all the project revenue until 2018.

2018 Real Estate Activity by Partner

Set forth below is a chart showing the percentage of funding by sector for the Fund's total real estate activity in 2018 (includes Conservation Acquisition, Working Forest Fund and Mitigation Solutions transactions):



Set forth below is a chart showing the Fund's disposition activity in 2018 by partner category for all real estate transaction (includes Conservation Acquisition, Working Forest Fund and Mitigation Solutions) based on acres:



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Fundraising

The Fund solicits support from a variety of partners and funding sources in an effort to achieve its non-profit mission of land conservation and economic development. While some contributions are unrestricted and can be used for any purpose at the discretion of the Fund, the majority of the Fund's contributions are linked to specific real estate projects or specific program activity at the direction of the funder. Examples of such restricted giving range from gifts that allow the Fund to purchase specific real estate or other funds that become part of a pool of funding to acquire land. For example, it is not unusual for the Fund to sell land to a public agency below the purchase price paid by the Fund and have the difference funded by other public and private partners that have an interest in the project but who are not taking title to the property. In addition, the Fund receives restricted grant funding from both public and private sources to support its non-real estate program activities, the majority of which are in the Conservation Services business unit.

In 2018, the Fund received donations totaling \$48.0 million, and total donations (unrestricted and restricted) from individuals increased from \$9.8 million and \$6.7 million in 2016 and 2017, respectively, to \$12.9 million in 2018. Total giving decreased by \$4.6 million from 2017 to 2018. Management believes that the total giving in 2017 was higher than 2018 due to two principal reasons: (i) in 2017, the Fund received a series of large, restricted foundation grants for the purpose of acquiring real estate that will be donated to public agency partners, and (ii) in 2017, the Fund recorded a multi-year unrestricted foundation grant.

Set forth below is a summary of fundraising activity for the years ended December 31, 2016, 2017 and 2018, excluding gifts of land and interests in land (*\$ in thousands*).

	<u>2018 Total Giving</u>	<u>2017 Total Giving</u>	<u>2016 Total Giving</u>
Unrestricted			
Corporate Giving	\$ 19	\$ 691	\$ 134
Foundation Giving	1,004	1,500	385
Individual Giving	<u>5,517</u>	<u>2,907</u>	<u>3,101</u>
Total Unrestricted Giving	\$ 6,540	\$ 5,098	\$ 3,620
Restricted			
Corporate Giving	1,981	3,090	2,034
Foundation Giving	32,114	40,653	22,432
Individual Giving	<u>7,381</u>	<u>3,757</u>	<u>6,655</u>
Total Restricted Giving	\$ 41,476	\$ 47,500	\$ 31,121
Corporate Giving	2,000	3,781	2,168
Foundation Giving	33,118	42,153	22,817
Individual Giving	<u>12,898</u>	<u>6,664</u>	<u>9,756</u>
Total Giving	\$ 48,016	\$ 52,598	\$ 34,741

Liquidity and Investment Policy

The Fund maintains cash balances in order to acquire real estate and for working capital purposes. In addition, the Fund maintains a reserve account, which was valued at \$18.6 million as of December 31, 2018, for the purpose of special investments or unforeseen requirements. The reserve account is invested in short-to-medium duration fixed income assets with daily liquidity and is not restricted by the TCF Board.

As of December 31, 2018, the Fund also holds funds totaling \$127.7 million that have been contributed pursuant to mitigation contracts and that are restricted for use on qualified projects, sometimes over a period of many years. Some of these mitigation contracts require the Fund to segregate money in separate accounts. The Fund tracks and treats all mitigation contract funding and allocates interest earned on those funds into the capital balance of each project as the Fund is not entitled to interest earned while holding these funds. The Fund holds the cash balances from mitigation contracts on behalf of government agencies or other mitigation partners and therefore these funds are not available to pay principal or interest on the Bonds.

The Fund's investment policy is to use the Fund's assets in the programmatic priorities of the Fund, namely capital for property acquisitions, rather than to accumulate an endowment. To the extent the Fund has surplus funds, deposits and reserves that are not invested in the Fund's real estate portfolio, the Fund's first objective is to preserve capital and liquidity consistent with the purpose of those funds.

Liquidity Balances (*\$ in thousands*)

	<u>2018</u>	<u>2017</u>
Cash and Cash Equivalents	\$ 3,613	\$ 14,599
Investment Accounts	71,536	64,009
Restricted Cash.....	128,616	92,743
Total Cash and Investments Balance.....	203,765	171,351

Cash and Investment balances increased from \$171.4 million in 2017 to \$203.8 million in 2018, as a result of increases in deferred revenue. The Fund's liquidity for operations and purchase of real estate increased in 2018 from \$69.4 million in 2017 to \$75.6 million.

Indebtedness

As of December 31, 2018, the Fund had \$135.5 million of outstanding indebtedness. The majority of the Fund's debt is in the form of low or no cost loans from foundations in the form of PRIs that have been used to finance Working Forest Fund projects. These PRIs are an alternative to grants for these organizations and contain no material financial covenants.

The Fund has repaid every PRI loan granted on time or prior to maturity, and in the majority of cases has been invited to submit new proposals so the proceeds can be re-borrowed. Based on past experience and the Fund's relationship with these PRI lenders, the Fund believes that it will

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be able to continue to re-borrow the majority of the Fund's current PRI debt upon maturity, but has not received any commitments to that effect.

The Fund has also received funding from state agencies at low cost as part of certain Working Forest Fund acquisitions. In these cases, the state agencies have determined that the watershed protections associated with the conservation of these forests is consistent with their mandate to allocate funding under various clean water program initiatives. The Fund's access to additional funding from these sources will depend on a variety of factors, many outside of the Fund's control.

The Fund intends to use proceeds from the sale of the Bonds to repay a \$25.0 million secured loan from a third-party lender to Clarion Junction, LLC, a wholly owned subsidiary of TCF, that was used to acquire a Working Forest Fund property in Pennsylvania. This loan was incurred in 2018 as part of the acquisition and is non-recourse to the Fund, but is secured by a lien on the property. The loan also contains various operating and financial covenants and is structured as an eight-year floating rate loan. There is no prepayment penalty, and the Fund's objective is to use longer dated, unsecured fixed rate debt whenever possible.

Subsequent to December 31, 2018, the Fund paid down \$2.2 million principal amount of long-term debt, and incurred \$23.0 million principal amount of new project-related debt, such that \$156.3 million principal amount was outstanding as of July 31, 2019, of which \$43.6 million was secured. As noted in the immediately preceding paragraph, the Fund intends to use a portion of the proceeds of the Bonds to repay outstanding secured indebtedness totaling \$25.0 million in principal amount.

Employees

As of July 31, 2019, the Fund has 182 FTEs (164 full-time and 25 part-time or temporary employees). The Fund considers its relations with its employees to be good. The Fund has no collective bargaining agreements.

Employee Benefits

The Fund has a tax-deferred 403(b) pension plan covering substantially all of the Fund's employees. Employer contributions are discretionary and based upon the eligible employees' annual compensation. Employer contributions to the Fund's pension plan for the year ended December 31, 2018, totaled \$1.5 million.

Insurance

The Fund carries insurance policies including real and personal property, director and officer liability, general comprehensive liability, workers' compensation, employers' liability, automobile liability, and a variety of other special policies to insure other risks relating to the Fund's work. See "RISK FACTORS – Risks Relating to the Fund" in the forepart of this Offering Memorandum.

Litigation

Lawsuits and claims are filed from time to time against the Fund, and one lawsuit was pending against the Fund as of December 31, 2018 and continues to be active. The Fund is a defendant in litigation pending in state court in Florida relating to services provided by the Freshwater Institute in connection with the design and construction of a salt water fish farm in Florida. The Fund reported the claim to its insurance carriers and the carriers are providing a defense in the litigation, and the Fund is vigorously defending the allegations made against it. After reviewing developments to date with legal counsel, the Fund's management is of the opinion that the outcome of such matter will not have a material adverse effect on the Fund's financial position or results of operations.

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APPENDIX B-1

**AUDITED COMBINED FINANCIAL STATEMENTS FOR THE YEAR ENDED
DECEMBER 31, 2018**

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**The Conservation Fund,
a Nonprofit Corporation
(Parent Only)**

Combined Financial Report
December 31, 2018

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RSM US LLP

Independent Auditor's Report

To Board of Directors
The Conservation Fund, a Nonprofit Corporation

Report on the Financial Statements

We have audited the accompanying combined financial statements of The Conservation Fund, a Nonprofit Corporation and Affiliate (the Organization), which comprise the combined statement of financial position as of December 31, 2018, the related combined statement of activities, functional expenses and cash flows for the year then ended, and the related notes to the combined financial statements (collectively, 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Conservation Fund, a Nonprofit Corporation and Affiliate as of December 31, 2018, and the results of their operations and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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Emphasis of Matter

As discussed in Note 1 to the financial statements, the accompanying financial statements are those of The Conservation Fund, a Nonprofit Corporation (parent company) and a certain affiliate, Sustainable Conservation, Inc., and are not those of the primary reporting entity, which include another affiliate, Natural Capital Investment Fund, Inc. The combined financial statements of The Conservation Fund, a Nonprofit Corporation (parent company) and all its affiliates have been issued as the general purpose financial statements of the primary reporting entity and should be read in conjunction with these financial statements. Our opinion is not modified with respect to this matter.

As discussed in Note 1 to the financial statements, in 2018 the Organization adopted the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958) Presentation of Financial Statements of Not-for-Profit Entities*. The adoption of this standard resulted in additional footnote disclosures and changes to the classification of net assets. Our opinion is not modified with respect to this matter.

As discussed in Note 1 to the financial statements, the Organization adopted FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash (a consensus of the FASB Emerging Issues Task Force)*. Our opinion is not modified with respect to this matter.

As discussed in Note 15 to the financial statements, in 2018, the Organization changed its method of valuing conservation land acquired at acquisition cost. Our opinion is not modified with respect to this matter.

RSM US LLP

McLean, Virginia
July 23, 2019

The Conservation Fund, a Nonprofit Corporation (Parent Only)

Combined Statement of Financial Position
(In Thousands)
December 31, 2018

Assets	
Cash and cash equivalents	\$ 3,613
Restricted cash and cash equivalents	128,616
Investments	71,536
Receivables	7,560
Notes receivable, net	56,477
Promises to give	103
Other assets	194
Property and equipment, net	2,502
Conservation land	<u>551,886</u>
Total assets	<u>\$ 822,487</u>
Liabilities and Net Assets	
Liabilities:	
Accounts payable and accrued expenses	\$ 9,370
Deferred revenue and refundable advances	159,506
Amounts due to other nonprofit organizations and government agencies	52,260
Notes payable, net	<u>124,399</u>
Total liabilities	<u>345,535</u>
Commitments and contingencies (Note 9)	
Net assets:	
Without donor restrictions	231,396
With donor restrictions	<u>245,556</u>
Total net assets	<u>476,952</u>
Total liabilities and net assets	<u>\$ 822,487</u>

See notes to combined financial statements.

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The Conservation Fund, a Nonprofit Corporation (Parent Only)

Combined Statement of Activities (In Thousands) Year Ended December 31, 2018

	Without Donor Restrictions	With Donor Restrictions	Total
Real estate activities:			
Support and revenue			
Contributions and grants	\$ 15,248	\$ 36,880	\$ 52,128
Land contributed for conservation	13,713	-	13,713
Contract income	6,875	-	6,875
Investment and other program income	34,355	-	34,355
Sales of conservation land to others	67,908	-	67,908
Net assets released from restrictions	42,839	(42,839)	-
	<u>180,938</u>	<u>(5,959)</u>	<u>174,979</u>
Non-real estate activities:			
Support and revenue			
Contributions and grants	7,970	9,646	17,616
Contract income	8,709	-	8,709
Investment and other program income	9,611	-	9,611
Net assets released from restrictions	6,410	(6,410)	-
	<u>32,700</u>	<u>3,236</u>	<u>35,936</u>
Total support and revenue	<u>213,638</u>	<u>(2,723)</u>	<u>210,915</u>
Expenses:			
Program services:			
Real estate programs	170,086	-	170,086
Non-real estate programs	17,393	-	17,393
Total program services	<u>187,479</u>	<u>-</u>	<u>187,479</u>
Supporting services:			
Management and general	4,113	-	4,113
Fundraising	2,739	-	2,739
Total supporting services	<u>6,852</u>	<u>-</u>	<u>6,852</u>
Total expenses	<u>194,331</u>	<u>-</u>	<u>194,331</u>
Change in net assets	19,307	(2,723)	16,584
Net assets, beginning of year (Note 15)	<u>212,089</u>	<u>248,279</u>	<u>460,368</u>
Net assets, end of year	<u>\$ 231,396</u>	<u>\$ 245,556</u>	<u>\$ 476,952</u>

See notes to combined financial statements.

The Conservation Fund, a Nonprofit Corporation (Parent Only)

Combined Statement of Functional Expenses

(In Thousands)

Year Ended December 31, 2018

	Program Services			Supporting Services		
	Real Estate Programs	Non-Real Estate Programs	Total Program Services	Management and General	Fundraising	Total
Personnel and fringe benefits	\$ 12,543	\$ 7,210	\$ 19,753	\$ 2,640	\$ 1,791	\$ 24,184
Contractual services	9,853	1,672	11,525	782	416	12,723
Grants	18,720	6,681	25,401	-	-	25,401
Postage, printing and photo	253	121	374	46	78	498
Equipment, supplies and depreciation	571	319	890	134	99	1,123
Occupancy	1,165	574	1,739	192	135	2,066
Insurance	407	200	607	65	45	717
Taxes	1,862	1	1,863	5	-	1,868
Travel	893	387	1,280	146	121	1,547
Interest	6,786	-	6,786	-	-	6,786
Accelerated notes payable discount	7,156	-	7,156	-	-	7,156
Conservation land carrying costs	2,511	55	2,566	18	12	2,596
Other	2,326	173	2,499	85	42	2,626
Book value of conservation land donated	8,406	-	8,406	-	-	8,406
Book value of conservation land sold	96,634	-	96,634	-	-	96,634
Total expenses	\$ 170,086	\$ 17,393	\$ 187,479	\$ 4,113	\$ 2,739	\$ 194,331

See notes to combined financial statements.

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The Conservation Fund, a Nonprofit Corporation (Parent Only)

Combined Statement of Cash Flows (In Thousands) Year Ended December 31, 2018

Cash flows from operating activities:	
Change in net assets	\$ 16,584
Adjustments to reconcile change in net assets to net cash used in operating activities:	
Depreciation	241
Provision for losses on notes receivable and bad debt write-offs	(1,111)
Contributions from implied interest discount, net	571
Contributed stock	(1,487)
Donated conservation land to Organization	(13,713)
Donated conservation land from Organization	6,597
Accelerated notes payable discount	7,156
Deferred rent	(658)
Gain on forgiveness of debt	(3,420)
Net realized and unrealized gains on investments	(244)
Decrease (increase) in operating activities:	
Receivables	5,267
Promises to give	866
Other assets	(29)
Increase (decrease) in operating liabilities:	
Accounts payable and accrued expenses	1,719
Deferred revenue and refundable advances	27,441
Amounts due to other nonprofit organizations and government agencies	722
Additional cash provided by (used in) conservation land projects:	
Proceeds from disposition of conservation land held	68,057
Acquisition of conservation land projects	(126,879)
Net cash used in operating activities	(12,320)
Cash flows from investing activities:	
Purchases of property and equipment	(34)
Purchases of investments	(7,001)
Proceeds from sale of investments	331
Issuance of notes receivable	(18,905)
Repayments of principal on notes receivable	31,633
Net cash provided by investing activities	6,024
Cash flows from financing activities:	
Proceeds from long-term debt	68,591
Repayment of long-term debt	(39,646)
Net cash provided by financing activities	28,945
Net increase in cash and cash equivalents	22,649
Cash and cash equivalents, and restricted cash:	
Beginning of year	109,580
End of year	\$ 132,229
Supplemental disclosure of cash flow information:	
Cash paid for interest	\$ 1,382

See notes to combined financial statements.

The Conservation Fund, a Nonprofit Corporation (Parent Only)

Notes to Combined Financial Statements (In Thousands)

Note 1. Nature of Activities and Significant Accounting Policies

Organization: The Conservation Fund, a Nonprofit Corporation (TCF) and Sustainable Conservation Inc. (SCI) (hereafter collectively referred to the Organization) are dedicated to protecting land throughout the United States not just for the sake of its environmental value, but also for its value to the economy and the community.

The Organization's mission statement is as follows: The Organization, working with public, private and nonprofit partners, protects America's legacy of land and water resources through land acquisition, sustainable community and economic development and leadership training, emphasizing the integration of economic and environmental goals.

The Organization's activities include the following two program areas:

Real estate activities: One of two focus areas for the organization, this program area raises and deploys capital for conservation transactions, ensuring the permanent conservation of land across the U.S. It encompasses all real estate activity in four business areas:

- Conservation Acquisitions – interim ownership of conservation properties
- Working Forest Fund – interim ownership and operation of key forests
- Conservation Loans – bridge loans for land trusts and others to acquire conservation land and complete other projects
- Mitigation Solutions – land-related projects to mitigate for impacts on natural resources

The activities of SCI also fall entirely within this programmatic category.

Non-real estate activities: This program area focuses on technical assistance, community support and economic development. It supports green infrastructure planning, community-based conservation programs, conservation leadership training and network building.

A summary of the Organization's significant accounting policies follows:

Principles of combination: The accompanying combined financial statements include all of the accounts of TCF and SCI. All intercompany accounts and transactions have been eliminated in the combined financial statements.

Basis of accounting: The accompanying combined financial statements of the Organization have been prepared on the accrual basis of accounting, whereby unconditional support is recognized when received, revenue is recognized when earned and expenses are recognized when incurred.

Basis of presentation: These combined financial statements are not intended to be the general purpose financial statements of TCF and have been prepared in conformity with accounting principles that would otherwise be considered a departure from accounting principles generally accepted in the United States of America (U.S. GAAP) because certain affiliated organizations are not combined. An affiliate of TCF whose financial activities are not included in these combined financial statements of TCF is Natural Capital Investment Fund, Inc. (NCIFund).

APPENDIX B-1

The Conservation Fund, a Nonprofit Corporation (Parent Only)

Notes to Combined Financial Statements (In Thousands)

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

The accompanying combined financial statements presentation follows the recommendations under the Not-for-Profit Entities Topic of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC). Under this topic, the Organization is required to report information regarding its financial position and activities under two classes of net assets:

Net assets without donor restrictions: Net assets without donor restrictions include those net assets whose use is not restricted by donors, even though their use may be limited in other respects, such as by Board designation. The governing board of the Organization may elect to designate such resources for specific purposes. This designation may be removed at the Board's discretion.

Net assets with donor restrictions: Net assets with donor restrictions are subject to donor-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. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the restriction was restricted has been fulfilled or both. Net assets with donor restrictions also include contributions to its revolving funds with donor-imposed stipulations. These net assets are used to finance conservation projects.

Cash and cash equivalents: The Organization classifies cash and all short-term, highly liquid debt instruments to be cash equivalents, including money market funds with original maturities of ninety days or less.

Cash and cash equivalents – restricted: Restricted cash and cash equivalents consist of funds held for mitigation projects, which the Organization is contractually obligated to deploy into approved projects, which offset impacts to natural resources caused by the construction and operation of energy and infrastructure projects. Additionally, in order to secure its obligations in an existing loan agreement, TCF is required to maintain a bank account and balance, wherein partial proceeds of the loan shall be held as an interest reserve in a separate custodial account established at a mutually acceptable financial institution.

Financial risk: Financial instruments that potentially subject the Organization to concentrations of credit risk consist of cash, cash equivalents and short-term investments. All cash, cash equivalents and short-term investments are held with high credit quality financial institutions. The Organization has not experienced any losses in such accounts. Management believes there is no significant concentration of credit risk.

Cash and cash equivalents consist of amounts in institutional money market funds and total \$71,226 at December 31, 2018.

The Organization maintains its cash in various operating bank deposit accounts, which, at times, may exceed federally insured limits. The interest-bearing accounts are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250. The Organization has not experienced any losses in such accounts. The Organization believes it is not exposed to any significant financial risk on cash.

The Conservation Fund, a Nonprofit Corporation (Parent Only)**Notes to Combined Financial Statements
(In Thousands)**

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

The Organization invests in a professionally managed portfolio that primarily contains various fixed income securities, including U.S. Treasury notes, government agency debt instruments, a collective investment trust fund, municipal bonds, corporate bonds and a small allocation to equity mutual funds. Such investments are exposed to various risks, such as market and credit. Due to the level of risk associated with such investments and the level of uncertainty related to changes in the value of such investments, it is at least reasonably possible that changes in risks in the near term could materially affect investment balances and the amounts reported in the financial statements.

Investments: The Organization's investments with readily determinable fair values are reflected at their fair values in the statement of financial position. Interest, dividends, and net gains or losses on investments are reported in the statement of activities as increases or decreases in net assets without donor restrictions. Interest on funds held for mitigation contracts is deferred until recognized under terms of the contract.

TCF holds less than a 6% interest as a limited partner in a real estate partnership. In accordance with the FASB ASC for nonmarketable securities, TCF accounts for the investment at cost less any impairment as TCF neither controls nor can exercise significant influence over the investee's operating and financial policies. The initial investment was \$1,000 and decreased by distributions of \$355 received in prior years, for a net cost basis of \$645 at December 31, 2018.

Receivables and promises to give: Unconditional promises to give are recognized as support in the period received. Conditional promises to give are recognized when the conditions on which they depend are substantially met. Receivables also include allowable costs in excess of amounts collected on federal and state grants. Such recoverable costs are billable when expenditures are incurred. Receivables and promises to give due in less than one year are reported at their outstanding balance. Receivables and promises to give due beyond one year are carried at present value less an estimate made for doubtful promises based on a review of all outstanding promises on a monthly basis. Management determines the allowance for doubtful promises by regularly evaluating individual promises to give and considering the prior history of the donor and proven collectability of past donations. Promises to give are written off when deemed uncollectible. Recoveries of promises to give previously written off are recorded when received. There was no allowance for doubtful promises at December 31, 2018.

Notes receivable and allowance for possible losses: The Organization provides loans to various land trusts and other entities for the acquisition of conservation lands and easements and completion of other projects. Notes receivable are carried at unpaid principal balances less an allowance for loan losses. Management provides for estimates of possible losses through a provision for bad debt expense and an adjustment to a valuation allowance based on its assessment of the current status of individual loans, the borrower's ability to repay and current economic conditions. The evaluation of the allowance is inherently subjective, and it is reasonably possible that a change in the estimate would occur in the near term, as additional information becomes available. The Organization has recorded an allowance of \$2,972 or 5% as of December 31, 2018, for conservation loans.

Property and equipment: Property and equipment are stated at cost or, if donated, at the estimated fair market value at the date of the donation, less accumulated depreciation. The Organization capitalizes all property and equipment purchased with a cost of \$25 or more. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. Property and equipment consist primarily of a research laboratory facility placed in service in 1999, which is being depreciated over 30 years.

APPENDIX B-1

The Conservation Fund, a Nonprofit Corporation (Parent Only)

Notes to Combined Financial Statements (In Thousands)

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

Conservation land: Conservation land consists principally of real estate and conservation easements. Conservation land is real estate with ecological, historical, or cultural values, which the Organization is working with partners to conserve. Conservation land includes purchased and donated properties and conservation easements, which are held for eventual resale or donation to government agencies or other organizations or individuals who will become permanent conservation owners.

Purchased conservation land is recorded at acquisition cost. Conservation land received by donation is recorded at its estimated fair value at the date of the donation. Such donations are reported as net assets without donor restrictions, unless the donor has restricted the donated conservation land to a specific purpose. Conservation land donated with explicit restrictions regarding its use is reported as net assets with restrictions. Costs incurred in carrying parcels of real estate, such as taxes and maintenance, are expensed as incurred. Conservation land parcels determined to have no ecological value may be sold to support land conservation efforts. To ensure the Organization's commitment to conservation, real estate with ecological value is held or transferred, including by sale, to appropriate conservation partners. When conservation land is transferred, the proceeds are included as part of total support and revenue and are shown as sales of conservation lands to others on the combined statement of activities; the carrying value of the land and transaction costs incurred with the transfer are shown as program service expenses.

Conservation easements represent restrictions on the use, subdivision and/or development of certain parcels. Gifts of conservation easements are recognized as revenue and program expenses in equal amounts upon acquisition based on the estimated fair value of the easement at the date of the donation of the easement. Purchased easements are recognized as a program expense upon acquisition based on the acquisition cost of the easement. The estimated value of easements is not reported on the combined statement of financial position. The Organization believes that conservation easements play an important role in enabling the Organization to achieve its charitable purpose of land and water conservation through the preservation of the natural values of land.

Valuation of long-lived assets: The Organization reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of the long-lived asset is measured by a comparison of the carrying amount of the asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the estimated fair value of the assets. Assets to be disposed of are reportable at the lower of the carrying amount or fair value, less cost to sell. The Organization had no impairments of long-lived assets during the year ended December 31, 2018.

Amounts due to other nonprofit organizations and government agencies: Amounts due to other nonprofit organizations and government agencies are a result of agreements or commitments the Organization has with respect to certain real estate parcels it holds. These principally reflect cases where the Organization has entered into cooperative agreements to carry out conservation land projects with other organizations, which will result in the eventual transfer of the land parcels. These arrangements and commitments totaled \$52,260 at December 31, 2018.

Notes payable: Under certain circumstances, the Organization uses debt to supplement the cost of the acquisition of conservation lands and easements. Most debt is in the form of notes payable from foundations. The Organization records a discount and contribution revenue when note interest rates are considered below-market and amortizes the discount to interest expense over the term of the related notes.

The Conservation Fund, a Nonprofit Corporation (Parent Only)

Notes to Combined Financial Statements (In Thousands)

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

Revenue recognition: The Organization receives funding for its programs and acquisition of conservation land from federal and state grants and from corporations and foundations in the form of land acquisition or operating grants. Revenue from federal and state awards is recognized at the time expenses allowable under the award are incurred.

Unconditional contributions received are recorded as net assets with donor restrictions or net assets without donor restrictions, depending on the existence and/or nature of any donor restrictions.

Donated securities and conservation land and easements are recorded as support at their estimated fair values at the date of the donation. Such donations are reported as net assets without donor restrictions, unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use are reported as net assets with restrictions.

Contributions and grant support are recognized when the conditions of the contribution or grant are substantially met. Any grant funds received in advance are recorded as refundable advances. Revenue from contracts is recognized as the service is completed. Mitigation capital funds and grant funds of \$159,506 received but not yet earned are recorded as deferred revenue and refundable advances in the combined statement of financial position as of December 31, 2018.

Functional expense: The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Management and general expenses, such as occupancy costs, travel, insurance and other office expenses that support programs are allocated to the programs based on full-time employee salaries and a percentage of time worked on program-specific duties.

Income taxes: TCF is a nonprofit corporation generally exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code (IRC) and is a publicly supported organization under Section 509(a)(1). SCI is a nonprofit corporation exempt from income taxes under Section 501(c)(3) and is a wholly owned subsidiary and a supporting organization to TCF under Section 509(a)(3) of the IRC. In addition, TCF and SCI qualify for charitable contribution deductions and have been classified as organizations that are not considered private foundations. Income which is not related to exempt purposes, less applicable donations, is subject to federal and state income taxes. TCF and SCI had net unrelated business income resulting from taxable employee fringe benefits of approximately \$68 for the year ended December 31, 2018.

Management evaluated the Organization's tax positions and concluded that the Organization had taken no uncertain tax positions that require adjustment to the financial statements to comply with the provisions of this guidance. The Organization files income tax returns in the U.S. federal jurisdiction. Generally, the Organization is no longer subject to income tax examinations for the U.S. federal, state or local tax authorities for the years before 2015.

Use of estimates: The preparation of financial statements in conformity with U.S. GAAP requires management to make a number of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates made by management include the allowance for loan losses. Actual results could materially differ from those estimates.

APPENDIX B-1

The Conservation Fund, a Nonprofit Corporation (Parent Only)

Notes to Combined Financial Statements (In Thousands)

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

Adopted accounting pronouncements: In August 2016, the FASB issued Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The amendments in this ASU make improvements to the information provided in financial statements and accompanying notes of not-for-profit entities. The amendments set forth the FASB's improvements to net asset classification requirements and the information presented about a not-for-profit entity's liquidity, financial performance and cash flows. The Organization adopted the ASU for the year ended December 31, 2018.

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash (a consensus of the FASB Emerging Issues Task Force)*, which provides guidance on the presentation of restricted cash or restricted cash equivalents in the statement of cash flows. The Organization adopted the ASU for the year ended December 31, 2018.

Recent accounting pronouncements: In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement*, which modifies the disclosure requirements for fair value measurements by removing, modifying, or adding certain disclosures. ASU 2018-13 is effective for all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. An entity is permitted to early adopt any removed or modified disclosures and delay adoption of the additional disclosures until their effective date. The adoption of ASU 2018-13 is not expected to have a material impact on the Organization's financial statements.

In June 2018, the FASB issued ASU 2018-08, *Nonprofit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This ASU clarifies the guidance for evaluating whether a transaction is reciprocal (i.e., an exchange transaction) or nonreciprocal (i.e., a contribution) and for distinguishing between conditional and unconditional contributions. The ASU also clarifies the guidance used by entities other than nonprofits to identify and account for contributions made. The ASU has different effective dates for resource recipients and resource providers. Where the Organization is a resource recipient, the ASU is applicable to contributions received for annual periods beginning after December 15, 2018, and interim periods within annual periods beginning after December 15, 2019. Where the Organization is a resource provider, the ASU is effective for annual periods beginning after December 15, 2019, and interim periods within annual periods beginning after December 15, 2020. Early adoption is permitted. The Organization is currently evaluating the impact of the adoption of this guidance on its financial statements.

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*. ASU 2016-15 provides guidance on how certain cash receipts and cash payments should be presented and classified in the statement of cash flows with the objective of reducing existing diversity in practice with respect to these items. ASU 2016-15 is effective for annual periods, and interim periods within those years, beginning after December 15, 2018. The Organization is currently evaluating the impact the adoption of this guidance will have on its statements of cash flows.

In January 2016, FASB issued ASU 2016-01, *Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*. ASU 2016-01 includes a number of amendments that address certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. The amendments in this ASU are effective for annual reporting periods beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. The Organization has not yet determined the effect on the financial statements of adopting the amendments included in ASU 2016-01.

The Conservation Fund, a Nonprofit Corporation (Parent Only)

**Notes to Combined Financial Statements
(In Thousands)**

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. The guidance in this ASU supersedes the leasing guidance in Topic 840, *Leases*. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the statement of financial position for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the statement of activities. The new standard is effective for annual reporting periods beginning after December 15, 2019. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. The Organization is currently evaluating the impact of the pending adoption of the new standard on the financial statements.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which establishes a comprehensive revenue recognition standard for virtually all industries in U.S. GAAP, including those that previously followed industry-specific guidance. In August 2015, the FASB issued ASU 2015-14, which defers the effective date of ASU 2014-09 for all entities by one year. The new standard is effective for annual reporting periods beginning after December 15, 2018. TCF is currently evaluating the impact of the pending adoption of the new standard on the financial statements.

Note 2. Cash and Cash Equivalents

Cash and cash equivalents held by the Organization at December 31, 2018, consist of the following:

Cash	\$ 61,003
Money market funds	71,226
	<u>\$ 132,229</u>
Unrestricted cash and cash equivalents	\$ 3,613
Restricted cash and cash equivalents	128,616
	<u>\$ 132,229</u>

Restricted cash balances at December 31, 2018, are held for the following purposes:

Cash held for mitigation projects	\$ 127,703
Cash required to be segregated by lender	913
	<u>\$ 128,616</u>

APPENDIX B-1

The Conservation Fund, a Nonprofit Corporation (Parent Only)

Notes to Combined Financial Statements (In Thousands)

Note 3. Investments

Investments consisted of the following at December 31, 2018:

U.S. Treasury bills and notes	\$	49,258
Collective investment trust funds		12,121
Corporate bonds		3,038
Municipal bonds		2,533
Equity mutual funds		1,537
Common stock		1,487
Investment in partnership		645
Money market funds		352
Asset-backed securities		215
U.S. Government agency notes		200
International fixed income notes		150
	\$	<u>71,536</u>

For the year ended December 31, 2018, investment income from cash, cash equivalents and investments totaled approximately \$1,485 and consisted primarily of interest and dividend income.

Note 4. Fair Value Measurements

The Organization follows the Fair Value Measurement Topic of the FASB ASC, which establishes a single authoritative definition of fair value, sets out a framework for measuring fair value, and requires additional disclosures about fair value measurements.

The topic requires that assets and liabilities carried at fair value will be classified and disclosed in one of the three following categories.

Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Organization has the ability to access.

Level 2: Inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in inactive markets; inputs other than quoted market prices that are observable for the asset or liability; and inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has a specified term, the Level 2 input must be observable for substantially the full term of the financial instrument.

Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement. The inputs into the determination of fair value require significant management judgment or estimation.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The Conservation Fund, a Nonprofit Corporation (Parent Only)

Notes to Combined Financial Statements (In Thousands)

Note 4. Fair Value Measurements (Continued)

Money market funds and mutual funds are classified as Level 1 instruments as there are quoted market prices in active markets for identical assets.

U.S. Treasury notes, government agency bonds, a collective investment trust fund, municipal bonds, and corporate bonds receive interest income based on their stated interest rates and are classified as Level 2 instruments, as there are no quoted markets prices in active markets for identical assets. The value is determined using models and other valuation methodologies, which are corroborated by market data.

Investments in collective investment trust funds consist primarily of fixed income funds. The investment objective of the funds is to invest primarily in investment grade credit securities and mortgage-backed securities. The funds may invest in government securities to protect principal in adverse credit environments. The funds' securities are selected through an active investment and risk management approach. The fair values of these investments have been estimated using the net asset value per share of the investments. Redemption for this fund is available on a monthly basis with 72-hour required notice. The funds do not have unfunded commitments.

During 2018, the Organization received a gift of closely-held stock in a U.S. corporation worth \$1,487 at the time of the gift. This valuation of this stock is adjusted annually by the company. The closely-held stock in a U.S. corporation is classified as Level 3 as the inputs are unobservable and are not corroborated by market data.

The following table sets forth by level, within the fair value hierarchy, the Organization's investments at fair value as of December 31, 2018:

	Level 1	Level 2	Level 3	Total
Investments:				
Money market funds	\$ 71,578	\$ -	\$ -	\$ 71,578
U.S. Treasury bills and notes	-	49,258	-	49,258
Collective investment trust funds	-	12,121	-	12,121
Corporate bonds	-	3,038	-	3,038
Municipal bonds	-	2,533	-	2,533
Equity mutual funds	1,537	-	-	1,537
Common stock	-	-	1,487	1,487
Asset-backed securities	-	215	-	215
U.S. Government agency notes	-	200	-	200
International fixed income notes	-	150	-	150
	<u>\$ 73,115</u>	<u>\$ 67,515</u>	<u>\$ 1,487</u>	<u>\$ 142,117</u>

APPENDIX B-1

The Conservation Fund, a Nonprofit Corporation (Parent Only)

Notes to Combined Financial Statements (In Thousands)

Note 4. Fair Value Measurements (Continued)

The table below reconciles fair value assets to the statement of financial position at December 31, 2018:

Cash and cash equivalents held at fair value	\$ 71,226
Investments held at fair value	70,891
	<u>\$ 142,117</u>
Investments held at fair value	\$ 70,891
Investments held at cost	645
	<u>\$ 71,536</u>

The following table presents a reconciliation of all Level 3 assets measured at fair value as of December 31, 2018:

Balance at December 31, 2017	\$ -
Additions	1,487
Balance at December 31, 2018	<u>\$ 1,487</u>

Note 5. Promises to Give

Unconditional promises to give at December 31, 2018, were \$103 and all are due within one year.

In addition to the unconditional promises to give, the Organization has a conditional promise to give totaling \$1,167 at December 31, 2018, which is conditioned on the Organization purchasing a certain parcel of land and has not been recorded in the combined financial statement.

Note 6. Property and Equipment

Property and equipment and accumulated depreciation at December 31, 2018, are as follows:

Buildings and leasehold improvements	\$ 3,787
Furniture and equipment	1,017
Vehicles	190
	<u>4,994</u>
Less accumulated depreciation	(2,492)
	<u>\$ 2,502</u>

Depreciation expense for the year ended December 31, 2018, was \$241.

The Conservation Fund, a Nonprofit Corporation (Parent Only)**Notes to Combined Financial Statements
(In Thousands)****Note 7. Notes Receivable**

Notes receivable consists primarily of loans made to various organizations carrying out projects and land acquisition transactions at December 31, 2018, as follows:

Notes receivable	\$ 59,449
Allowance for possible losses	(2,972)
Notes receivable, net	<u>\$ 56,477</u>

At December 31, 2018, the Organization had 48 notes receivable outstanding totaling \$59,449. The notes carry remaining terms of less than one year to six years and carry interest rates of 0% to 5.0%.

Accrued interest receivable amounted to \$895 at December 31, 2018, and is included in receivables on the statement of financial position.

For the year ended December 31, 2018, interest income from these notes was \$2,454.

Note 8. Notes Payable

Notes payable consist of the following at December 31, 2018:

	Original Amount Borrowed	Balance Remaining
Loans	\$ 165,904	\$ 135,482
Amounts representing implied interest		(11,083)
Total		<u>\$ 124,399</u>

U.S. GAAP requires interest expense and contribution revenue to be reported in connection with loans of cash to not-for-profit organizations that are interest free or that have below-market interest rates. The contribution is recognized at the time the loan is made and amortized using the effective interest method. The accretion increases interest expense and notes payable. Implied interest discount was \$11,083 at December 31, 2018.

The Organization has fourteen notes payable to foundations totaling \$83,904 and three other notes payable to other lenders totaling \$51,578. The notes are unsecured, except three that are secured by deeds of trust, with stated interest rates between 0% and 3.25%. Maturity dates range from 2019 to 2029. All of the Organization's notes payable were incurred to fund specific land acquisitions or loans to conservation partners, and the intended maturities generally align with management's expectation of when the Organization expects to be repaid on those transactions.

Interest expense for the year ended December 31, 2018, was \$6,786, of which \$5,497 is attributable to the amortization of note payable discount.

APPENDIX B-1

The Conservation Fund, a Nonprofit Corporation (Parent Only)

Notes to Combined Financial Statements (In Thousands)

Note 8. Note Payable (Continued)

Aggregate annual principal payments applicable to notes payable in future fiscal years is as follows:

Years ending December 31:		
2019	\$	16,465
2020		13,655
2021		14,364
2022		11,597
2023		18,648
Thereafter		60,753
		<u>135,482</u>
Less amounts representing implied interest		(11,083)
	\$	<u><u>124,399</u></u>

Note 9. Commitments and Contingencies

Operating leases: The Organization leases offices under various operating leases. Under terms of the respective lease agreements, The Organization has received rent abatements. The rent abatements received and escalating annual rent increases, in addition to landlord improvement allowances, are being recognized on a straight-line basis over the life of the lease agreements and reflected in the accompanying statement of financial position with accrued expenses.

The following schedule summarizes the future minimum lease commitments:

Years ending December 31:		
2019	\$	991
2020		999
2021		971
2022		973
2023		981
Thereafter		1,464
	\$	<u><u>6,379</u></u>

Total rent expense for the year ended December 31, 2018, was \$1,415.

Federal awards and contract programs: TCF participates in a number of federal grant and contract programs which are subject to financial and compliance audits. Accordingly, TCF's compliance with applicable grant or contract requirements may be determined at some future date. The amount, if any, of expenditures which may be disallowed by the granting or contracting agencies cannot be determined at this time, although management expects such amounts, if any, to be immaterial.

Note 10. Retirement Plan

TCF has a tax-deferred 403(b) retirement plan covering substantially all of its employees. Employer contributions are discretionary and based upon the eligible employees' annual salary. The contributions to the TCF's retirement plan for the year ended December 31, 2018, totaled \$1,500.

The Conservation Fund, a Nonprofit Corporation (Parent Only)**Notes to Combined Financial Statements
(In Thousands)****Note 11. Net Assets with Donor Restrictions**

Net assets with donor restrictions are those net assets whose use by the Organization is limited by the donors for a special purpose or restricted to be used in a later period. At December 31, 2018, donor restricted net assets consisted of the following:

Amounts restricted for various real estate acquisitions, projects or operating programs	\$ 141,167
Revolving net assets dedicated to providing temporary financing of land acquisitions in various regions of the country with any revolving fund loans required to be repaid	104,389
Total net assets with donor restrictions	<u>\$ 245,556</u>

Note 12. Board-Designated Net Assets

TCF has established the Conservation Easement Stewardship Program and its Board of Directors designated \$1,000 from its net assets without donor restrictions. The program addresses all aspects of conservation easement management.

Note 13. Related Party Transactions

NCIFund is a certified community development financial institution that provides financing for and technical assistance to natural resource-based businesses. NCIFund has entered into a management services agreement with its parent organization, TCF. Under the terms of the agreement, TCF provides certain staffing and administrative services to NCIFund. The management fee under the agreement was \$1,743 for the year ended December 31, 2018, and this amount is payable by NCIFund as of December 31, 2018, and is included in receivables on the statement of financial position. The agreement is for one year and is renewable for successive one-year terms unless either party provides written notice not to renew.

TCF provides a \$5,000 note payable to NCIFund to help finance its short-term capital needs. Interest is payable quarterly on outstanding balances at an interest rate of 2%. Interest income on this note payable was \$100 for the year ended December 31, 2018. Any outstanding principal and accrued interest will be payable on August 1, 2020. The amount outstanding from the line amounted to \$5,000 at December 31, 2018, and is included in notes payable on the statement of financial position.

On March 15, 2018, TCF provided an additional \$2,000 revolving line of credit to NCIFund for additional financing. Interest is payable quarterly on outstanding balances at an interest rate of 2.5%. Any outstanding principal and accrued interest will be payable on March 1, 2023. There were no amounts drawn on the line as of December 31, 2018.

APPENDIX B-1

The Conservation Fund, a Nonprofit Corporation (Parent Only)

Notes to Combined Financial Statements (In Thousands)

Note 14. Liquidity and Availability of Financial Resources

The Organization regularly monitors liquidity required to meet its annual operating needs and other contractual commitments while also striving to maximize the return on investment of its funds not required for annual operations. The Organization's financial assets available within one year of December 31, 2018, for general expenditures are as follows:

Cash and cash equivalents	\$	3,613
Restricted cash and cash equivalents		128,616
Investments		71,536
Promises to give		103
Receivables		7,560
Notes receivable, net		56,477
Total financial assets available		<u>267,905</u>
Less those not available for general expenditure within one year due to:		
Contractual or imposed restrictions:		
Restricted cash and cash equivalents		(128,616)
Board-designated net assets		(1,000)
Donor-restricted funds		(58,727)
Notes receivable, due after one year, net		(40,955)
		<u>(229,298)</u>
Financial assets available to meet cash needs for general expenditures within one year	\$	<u>38,607</u>

The Organization is also supported by restricted programmatic funds that can be used to support programmatic and general expenditures. Because a donor's restriction requires funds to be used in a particular manner or in a future period, the Organization must maintain sufficient resources to meet those responsibilities.

The Organization has various sources of liquidity at its disposal, including cash and cash equivalents and investments. In addition, as a part of its liquidity management, the Organization invests cash in excess of daily requirements in short-term investments. The Organization assesses its operating budget and cash flow projections monthly to monitor the availability of resources to support operations. In the event of an unanticipated liquidity need, the Organization could obtain a bank line of credit.

The Conservation Fund, a Nonprofit Corporation (Parent Only)**Notes to Combined Financial Statements
(In Thousands)**

Note 15. Change in Accounting Principle

During 2018, the Organization changed its method of valuing conservation land acquired at acquisition cost, whereas in all prior years conservation land acquired by purchase was recorded at its appraised value when acquired. The new method of accounting for conservation land was adopted to provide a more accurate representation of conservation land acquired for resale and the consideration the Organization would receive upon sale or transfer of conservation land to third parties.

As noted below, the impact of the change in accounting principle resulted in a reduction to the beginning net assets and conservation land in the amount of \$18,699.

Net assets, beginning of year, as previously reported	\$ 479,067
Cumulative effect of change in accounting principle	<u>(18,699)</u>
Net assets, beginning of year, as adjusted	<u><u>\$ 460,368</u></u>

Note 16. Subsequent Events

Management has evaluated subsequent events through July 23, 2019, which is the date the financial statements were available to be issued.

On April 5, 2019, TCF executed an unsecured note payable agreement for a program-related investment to borrow \$15,000 from a foundation at a stated interest rate of 0% per annum. Principal is due at maturity on or before June 30, 2027. The note will partially fund a conservation land project.

On June 24, 2019, TCF executed an unsecured note payable agreement for a program-related investment to borrow \$8,000 from a foundation at a stated interest rate of 0% per annum. A principal payment of \$4,000 is due by June 30, 2022, with the remaining principal of \$4,000 due by June 30, 2026. The note will fund a conservation land project.

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APPENDIX B-2

**AUDITED COMBINED FINANCIAL STATEMENTS FOR THE YEAR ENDED
DECEMBER 31, 2017**

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**THE CONSERVATION FUND,
A NONPROFIT CORPORATION**

COMBINED FINANCIAL STATEMENTS
AND SUPPLEMENTARY SCHEDULES

As of and for the Year Ended December 31, 2017

And Report of Independent Auditor

APPENDIX B-2

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Report of Independent Auditor

To the Board of Directors
The Conservation Fund, a Nonprofit Corporation
Arlington, Virginia

We have audited the accompanying combined financial statements of The Conservation Fund, a Nonprofit Corporation (the "Fund"), which comprise the combined statement of financial position as of December 31, 2017, and the related combined statements of activities and changes in net assets and cash flows for the year then ended, and the related notes to the combined financial statements.

Management's Responsibility for the Combined Financial Statements

Management is responsible for the preparation and fair presentation of these combined 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 combined 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 combined financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the combined 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 combined 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 combined financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the combined financial position of The Conservation Fund, a Nonprofit Corporation as of December 31, 2017, 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.

APPENDIX B-2

Change in Accounting Principle

As disclosed in Note 15 to the combined financial statements, the Fund restated its net assets as of January 1, 2017, to implement a change in accounting principle under which conservation easements are reported at zero on the combined statement of financial position. Our opinion is not modified with respect to this matter.

Correction of Errors

As disclosed in Note 16 to the combined financial statements, the Fund restated its net assets as of January 1, 2017, and certain balances and transactions as of and for the year ended December 31, 2017, to correct the effects of errors. Our opinion is not modified with respect to this matter.

Report on Supplementary Schedules

Our audit was conducted for the purpose of forming an opinion on the combined financial statements as a whole. The combining information and combined schedule of functional expenses for the year ended December 31, 2017 which follow, and the combined schedules of activities and changes in net assets by activity, are presented for purposes of additional analysis and are not a required part of the combined financial statements. Such information is the responsibility of the Fund's management and was derived from and relates directly to the underlying accounting and other records used to prepare the combined financial statements. The information has been subjected to the auditing procedures applied in the audit of the combined financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying and other accounting records used to prepare the combined financial statements or to the combined financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the combined financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 7, 2018, except for Notes 1, 5, 6, 11, 13 and 16, as to which the date is July 15, 2019, on our consideration of the Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Fund's internal control over financial reporting and compliance.

Cherry Bekaert LLP

Tysons Corner, Virginia

June 7, 2018, except for Notes 1, 5, 6, 11, 13 and 16, as to which the date is July 15, 2019

THE CONSERVATION FUND, A NONPROFIT CORPORATION
COMBINED STATEMENT OF FINANCIAL POSITION (IN THOUSANDS)

DECEMBER 31, 2017 (Restated)

ASSETS	
Current Assets:	
Cash and cash equivalents	\$ 117,195
Short-term investments	61,771
Receivables	3,273
Notes receivables, net of allowance for doubtful accounts	28,086
Promises to give	620
Other assets	166
Total Current Assets	<u>211,111</u>
Property and Equipment:	
Buildings, furniture, and equipment	4,095
Accumulated depreciation	(2,110)
Net Property and Equipment	<u>1,985</u>
Other Assets:	
Cash-restricted	1,681
Notes receivable, net of allowance for doubtful accounts	70,843
Promises to give	608
Long-term investments	389
Demonstration projects:	
Land held for general purposes	505,722
Other receivables	8,255
Total Other Assets	<u>587,498</u>
Total Assets	<u><u>\$ 800,594</u></u>
LIABILITIES AND NET ASSETS	
Current Liabilities:	
Line of credit	\$ 150
Accounts payable	584
Accrued expenses	6,597
Deferred revenue	9,229
Amounts held for others	8
Notes payable	8,034
Total Current Liabilities	<u>24,602</u>
Other Liabilities:	
Amounts due other nonprofit organizations and government agencies	50,863
Deferred revenue	122,836
Deferred rent	508
Amounts held for others	676
Notes payable:	
Demonstration projects	106,393
Total Other Liabilities	<u>281,276</u>
Total Liabilities	<u>305,878</u>
Net Assets:	
Unrestricted	240,740
Temporarily restricted	146,514
Permanently restricted	107,462
Total Net Assets	<u>494,716</u>
Total Liabilities and Net Assets	<u><u>\$ 800,594</u></u>

The accompanying notes to the combined financial statements are an integral part of this statement.

THE CONSERVATION FUND, A NONPROFIT CORPORATION
COMBINED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS (IN THOUSANDS)

YEAR ENDED DECEMBER 31, 2017 (Restated)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Support and Revenue Before Sales of Demonstration Projects to Others:				
Contributions and grants	\$ 62,998	\$ 58,831	\$ 4,536	\$ 126,365
Contract income	11,551	-	-	11,551
Investment and other program income	7,967	74	-	8,041
Net assets released from restrictions	91,467	(91,467)	-	-
Total Support and Revenue Before Sales of Demonstration Projects to Others	173,983	(32,562)	4,536	145,957
Sales of demonstration projects to others	90,453	-	-	90,453
Total Support and Revenue	264,436	(32,562)	4,536	236,410
Expenses:				
Program:				
Demonstration projects transferred to others	158,165	-	-	158,165
Other program expenses	116,341	-	-	116,341
Total Program	274,506	-	-	274,506
Management and general expenses	2,088	-	-	2,088
Fundraising	1,768	-	-	1,768
Total Expenses	278,362	-	-	278,362
Change in net assets	(13,926)	(32,562)	4,536	(41,952)
Net assets, beginning of year, as previously reported	301,644	187,638	102,926	592,208
Cumulative effect of change in accounting principle	-	(39,076)	-	(39,076)
Correction of error	(46,978)	30,514	-	(16,464)
Net assets, beginning of year, as restated	254,666	179,076	102,926	536,668
Net assets, end of year	\$ 240,740	\$ 146,514	\$ 107,462	\$ 494,716

The accompanying notes to the combined financial statements are an integral part of this statement.

THE CONSERVATION FUND, A NONPROFIT CORPORATION
COMBINED STATEMENT OF CASH FLOWS (IN THOUSANDS)

YEAR ENDED DECEMBER 31, 2017 (Restated)

Cash flows from operating activities:

Change in net assets	\$ (41,952)
Cumulative effect of change in accounting principle	(39,076)
Adjustments to reconcile change in net assets to net cash flows provided by used in operating assets:	
Contributions restricted to revolving funds	(4,536)
Depreciation	168
Allowance for losses on notes receivable and bad debt write-offs	(790)
Contributions from implied interest discount, net	(3,325)
Disposition of demonstration projects, net of proceeds received	75,162
Contributions of demonstration projects, held for conservation	(17,647)
Net realized and unrealized (gains) losses on investments	(269)
Decrease (increase) in operating activities:	
Promises to give and receivables	(6,744)
Other assets	(40)
Increase in operating liabilities:	
Accounts payable, accrued expenses and deferred revenue	41,060
Additional cash provided by (used in) demonstration projects:	
Proceeds from disposition of demonstration projects held for conservation	90,453
Acquisition of demonstration projects held for conservation	(140,286)
Cash flows used in operating activities	<u>(47,822)</u>

Cash flows from investing activities:

Cash restricted for long-term debt repayment	3,603
Purchases of property and equipment	(1,306)
Purchases of investments	(42,386)
Issuance of notes receivable	(45,454)
Repayments of principal on notes receivable	22,962
Net decrease in amounts due other nonprofit organizations and government agencies and amounts held for others	50,809
Cash flows used in investing activities	<u>(11,772)</u>

Cash flows from financing activities:

Contributions restricted to revolving funds	4,536
Proceeds from long-term debt	35,659
Repayment of long-term debt	(12,497)
Cash flows provided by financing activities	<u>27,698</u>

Net change in cash and cash equivalents	(31,896)
Cash and cash equivalents, beginning of year	149,091
Cash and cash equivalents, end of year	<u>\$ 117,195</u>

APPENDIX B-2

THE CONSERVATION FUND, A NONPROFIT CORPORATION NOTES TO THE COMBINED FINANCIAL STATEMENTS

DECEMBER 31, 2017

Note 1—Summary of significant accounting policies

Nature of Operations and Principles of Combination – These combined financial statements present the combined assets, liabilities, net assets, and activities of The Conservation Fund (“TCF”), Sustainable Conservation, Inc. (“SCI”), and Natural Capital Investment Fund, Inc. (“NCIF”) (hereafter collectively referred to as the “Fund”). TCF’s and SCI’s mission is to create partnerships with the private sector, other nonprofit organizations, and public agencies to protect America’s outdoor heritage. NCIF is a certified community development financial institution that provides financing for natural resource-based businesses. All material intercompany transactions have been eliminated in combination.

Basis of Presentation – The combined financial statements of the Fund have been prepared on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles (“GAAP”). The Fund presents information regarding its financial position and activities according to three classes of net assets described as follows:

Unrestricted – All resources over which the governing board has discretionary control. The governing board of the Fund may elect to designate such resources for specific purposes. This designation may be removed at the Board’s discretion.

Temporarily Restricted – Resources accumulated through donations or grants for specific operating or capital purposes. Such resources will become unrestricted when the requirements of the donor or grantee have been satisfied through expenditure for the specified purpose of the program or through the passage of time.

Permanently Restricted – Resources limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Fund. The Fund records contributions to its revolving funds with permanent donor-imposed stipulations as permanently restricted net assets. These net assets are used to finance demonstration projects or provide financing for natural resource-based businesses. In the event that a note receivable funded by permanently restricted contributions becomes uncollectible, NCIF writes-off the uncollectible amount against the permanently restricted net assets via a transfer to unrestricted net assets.

Use of Estimates – The preparation of 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 and disclosure of contingent 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.

Classifications of Net Assets – The Fund’s net assets and activities that increase or decrease net assets are classified as unrestricted, temporarily restricted, or permanently restricted.

Contributed Services – Contributed services using specialized skills that would have been required to be purchased if not provided by donation are recognized under GAAP.

Cash and Cash Equivalents – The Fund considers all highly liquid debt investments purchased with maturities of three months or less to be cash equivalents.

THE CONSERVATION FUND, A NONPROFIT CORPORATION
NOTES TO THE COMBINED FINANCIAL STATEMENTS

DECEMBER 31, 2017

Note 1—Summary of significant accounting policies (continued)

Cash – Restricted – In order to secure its obligations in existing loan agreements, NCIF is required to maintain a certain bank account and balance, wherein the proceeds of the loan shall be held in a separate custodial account established at a mutually acceptable financial institution. The borrower agreed to deposit in NCIF’s account on the closing date the full amount of the proceeds of the loan and thereafter, principal or proceeds received by the borrower, and all interest, dividends, or other earnings. The amounts deposited in the account shall not be comingled with any other funds.

Total cash included in the statement of financial position includes the following:

Cash and cash equivalents	\$ 117,195
Cash - restricted	1,619
Cash held for collateral	<u>62</u>
	<u>\$ 118,876</u>

(In Thousands)

Notes Receivable and Allowance for Possible Losses – The Fund has two categories of notes receivable:

Conservation Loans – The Conservation Fund provides loans to various land trusts and other entities for use in the acquisition of conservation lands and easements.

Natural Capital Investment Fund Loans – Natural Capital Investment Fund provides capital to small and emerging natural resource-based businesses.

Notes receivable are carried at unpaid principal balances less an allowance for loan losses. Management provides for estimates of possible losses through a provision for bad debt expense and an adjustment to a valuation allowance based on its assessment of the current status of individual loans, the borrower’s ability to repay, and current economic conditions. The evaluation of the allowance is inherently subjective, and it is reasonably possible that a change in the estimate would occur in the near term, as additional information becomes available. An allowance of \$1,336,000 or 5.2% as of December 31, 2017 has been recorded for loans made by NCIF. TCF has recorded an allowance of \$4,083,000 or 5% as of December 31, 2017, for conservation loans.

Receivables and Promises to Give – Unconditional promises to give are recognized as revenue or gains in the period acknowledged. Conditional promises to give are recognized when the conditions on which they depend are substantially met. Receivables and promises to give due in less than one year are reported at their outstanding balance. Receivables and promises to give due beyond one year are carried at present value less an estimate made for doubtful promises based on a review of all outstanding promises on a monthly basis. Management determines the allowance for doubtful promises by regularly evaluating individual promises to give and considering the prior history of the donor and proven collectability of past donations. Promises to give are written-off when deemed uncollectible. Recoveries of promises to give previously written-off are recorded when received. There was no allowance for doubtful promises at December 31, 2017.

Investments – The Fund’s investments are reported at their fair values in the combined statement of financial position. Interest, dividends, and net gains or losses on investments are reported in the combined statement of activities and changes in net assets as increases or decreases in unrestricted net assets.

APPENDIX B-2

THE CONSERVATION FUND, A NONPROFIT CORPORATION NOTES TO THE COMBINED FINANCIAL STATEMENTS

DECEMBER 31, 2017

Note 1—Summary of significant accounting policies (continued)

Fair Value Measurements – The Fund’s significant financial instruments are cash, short-term investments, promises to give, grants and accounts receivable, notes receivable, and notes payable. For these financial instruments, carrying values approximate fair value.

Fair value standards establish a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

Level 1 – Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Fund has the ability to access. Investments in this category include money market funds, U.S. Treasury bills, mutual funds, and a charitable gift annuity, for which the Fund is the trustee and the underlying investments are publicly traded securities.

Level 2 – Inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in inactive markets; inputs other than quoted market prices that are observable for the asset or liability; and inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has a specified term, the Level 2 input must be observable for substantially the full term of the financial instrument. Investments in this category include collective trust funds, government bonds, municipal bonds, and corporate bonds.

Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement. The inputs into the determination of fair value require significant management judgment or estimation. Investments that are included in this category include investments in privately held entities and real estate investments for which there are no quoted prices in active markets.

The Fund uses the practical expedient for some of its investments, which permits the use of Net Asset Value (“NAV”) without adjustment under certain circumstances.

The asset’s or liability’s fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Property and Equipment – Property and equipment are recorded at cost. The Fund capitalizes all property and equipment purchased with a cost of \$25,000 or more. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. Property and equipment consist primarily of a research laboratory facility placed in service in 1999 which is being depreciated over thirty years. Depreciation expense for the year ended December 31, 2017, was \$168,000.

THE CONSERVATION FUND, A NONPROFIT CORPORATION
NOTES TO THE COMBINED FINANCIAL STATEMENTS

DECEMBER 31, 2017

Note 1—Summary of significant accounting policies (continued)

Demonstration Projects – Demonstration projects consist principally of real estate, conservation easements, and investments in partnerships and other ventures. Demonstration projects are real estate projects that have economic and/or ecological value. The Fund assists in the development and revitalization of these properties consistent with ecological principles. Costs incurred in carrying parcels of real estate such as taxes, travel, and acquisition costs are recorded as demonstration project expenses and expensed as incurred. Real estate is acquired by gift or purchase and is recorded at its appraised value when acquired. Parcels determined to have no ecological value may be sold to support land conservation efforts. To ensure the Fund's commitment to conservation, real estate with ecological value is held or transferred, including by sale, to appropriate management entities. When land is transferred, the proceeds are included as part of total support and revenue and are shown as "Sales of Demonstration Projects to Others;" the book value of the land and transaction costs incurred with the transfer are shown as program service expenses. Conservation easements represent rights to restrict the use, access and development of certain properties. Gifts of conservation easements are recognized as revenue and program expenses in equal amounts upon acquisition based on the appraised value of the easement. Purchased easements are recognized as a program expense upon acquisition also based on the appraised value of the easement. The estimated value of easements is not reported on the combined statement of financial position.

Notes Payable – Under certain circumstances, the Fund uses debt to supplement the cost of the acquisition of conservation lands and easements. Most debt is in the form of notes payable from foundations and various government agencies. The Fund records a discount and contribution revenue when note interest rates are considered below-market and amortizes the discount to interest expense over the term of the related notes.

Split Interest Arrangements / Charitable Gift Annuity – The Fund has a program to receive contributions under charitable gift annuities. The agreements call for annual disbursements of a specified amount to the donor until the donor's death, after which time the Fund may use the investments for the revolving fund, a permanent restriction, or as otherwise specified by the donor. The donated trust asset investments are recorded at current fair value.

The Fund utilizes an IRS-approved annuity table to actuarially calculate the liability associated with the estimated donor payments under this arrangement. The Fund determined the discount rate to be used in the month the split interest arrangement was entered into with the donor. The determined rate was approximately 3%. The present value of the actuarially determined liability resulting from the gift is recorded at the date of gift and adjusted annually thereafter.

Income Taxes – The Conservation Fund is a nonprofit corporation exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code ("IRC") and is a publicly-supported organization under Section 509(a)(1). SCI and NCIF are nonprofit corporations exempt from income taxes under Section 501(c)(3) and are supporting organizations to TCF under Section 509(a)(3) of the IRC. Income which is not related to exempt purposes, less applicable donations, is subject to federal and state income taxes. TCF, SCI, and NCIF had no net unrelated business income for the years ended December 31, 2017.

Accounting for Uncertainty in Income Taxes – The Fund accounts for the effect of any uncertain tax positions based on a "more likely than not" threshold to the recognition of the tax positions being sustained based on the technical merits of the position under scrutiny by the applicable taxing authority. If a tax position or positions are deemed to result in uncertainties of those positions, the unrecognized tax benefit is estimated based on a "cumulative probability assessment" that aggregates the estimated tax liability for all uncertain tax positions. The Fund has identified its tax status as a tax-exempt entity as its only significant tax position; however, the Fund has determined that such tax position does not result in an uncertainty requiring recognition. The Fund is not currently under examination by any taxing jurisdiction. The Fund's federal and state tax returns are generally open for examination for three years following the date filed.

APPENDIX B-2

THE CONSERVATION FUND, A NONPROFIT CORPORATION NOTES TO THE COMBINED FINANCIAL STATEMENTS

DECEMBER 31, 2017

Note 1—Summary of significant accounting policies (continued)

Revenue Recognition for Earned Income (Restated) – Revenue from federal awards is recognized at the time expenses allowable under the award are incurred. Revenue from contracts is recognized as the service is completed. Mitigation fees of \$132,065,000 received but not yet earned are recorded as deferred revenue in the statement of financial position as of December 31, 2017.

Expenses – Direct costs associated with specific programs and the book value of demonstration projects sold to others are recorded as program expenses.

Subsequent Events – The Fund has evaluated subsequent events through June 7, 2018, which is the date the combined financial statements were available to be issued.

Note 2—Short-term and long-term investments; fair value measurements

Short-term investments consist of U.S. Treasury notes, government agency debt instruments, a collective investment trust fund, municipal bonds, and corporate bonds totaling \$61,771,000 as of December 31, 2017. Long-term investments consisted of a charitable gift annuity totaling \$289,000 as of December 31, 2017 and a U.S. Endowment Fuel Project investment totaling \$100,000 as of December 31, 2017. Investment income from cash, cash equivalents, short-term investments, and long-term investments totaled \$1,066,000 in 2017 and consisted primarily of interest income.

Investments in collective investment trust funds consist primarily of fixed income funds. The investment objective of the funds is to invest primarily in investment grade credit securities and mortgage-backed securities. The funds may invest in government securities to protect principal in adverse credit environments. The funds' securities are selected through an active investment and risk management approach. The fair values of these investments have been estimated using the net asset value per share of the investments. Redemption for this fund is available on a monthly basis with 72-hour required notice. The funds do not have unfunded commitments.

The following table sets forth by level, within the fair value hierarchy, the Fund's investments at fair value as of December 31, 2017:

	Level 1	Level 2	Level 3	Total
Investments:				
Money market funds	\$ 5,877	\$ -	\$ -	\$ 5,877
Equity mutual funds	1,058	-	-	1,058
U.S. Treasury bills and notes	-	36,693	-	36,693
U.S. Government agency notes	-	923	-	923
Collective investment trust funds	-	12,149	-	12,149
Corporate bonds	-	2,071	-	2,071
Fixed income mutual funds	-	625	-	625
Municipal bonds	-	2,664	-	2,664
U.S. Endowment Fuel Project (NCIF)	-	-	100	100
	<u>\$ 6,935</u>	<u>\$ 55,125</u>	<u>\$ 100</u>	<u>\$ 62,160</u>

(In Thousands)

THE CONSERVATION FUND, A NONPROFIT CORPORATION
NOTES TO THE COMBINED FINANCIAL STATEMENTS

DECEMBER 31, 2017

Note 3—Promises to give

Unconditional promises to give at December 31, 2017 are as follows:

Receivable in less than one year	\$	620
Receivable in one to five years		611
Discount of 3% to state at net present value		(3)
		<u>1,228</u>
	\$	<u>1,228</u>

(In Thousands)

In addition to the unconditional promises, the Fund also has conditional promises to give totaling \$1,767,000 at December 31, 2017, which are conditioned on the Fund raising matching funds for projects and for its revolving funds.

Note 4—Notes receivable

The Fund has advanced funds in the form of notes receivable to various organizations in carrying out project or land transactions. At December 31, 2017, TCF had 54 notes receivable outstanding totaling \$76,656,000 and NCIF had 249 notes receivable outstanding totaling \$29,128,000. The notes have various interest rates and maturity dates, with the latest note maturing in 2040.

	<u>Current</u>	<u>Long-Term</u>	<u>Total</u>
Conservation loans	\$ 22,922	\$ 53,589	\$ 76,511
Natural Capital Investment Fund loans	5,498	22,434	27,932
Allowance for possible losses	(334)	(5,180)	(5,514)
Carrying value	<u>\$ 28,086</u>	<u>\$ 70,843</u>	<u>\$ 98,929</u>

(In Thousands)

For the year ended December 31, 2017, interest income from these notes was \$3,131,000.

APPENDIX B-2

THE CONSERVATION FUND, A NONPROFIT CORPORATION NOTES TO THE COMBINED FINANCIAL STATEMENTS

DECEMBER 31, 2017

Note 5—Demonstration projects, notes payable, and lines of credit (restated)

	Original Amount Borrowed	Balance Remaining
(A) Loans, demonstration projects	\$ 145,639	\$ 106,138
(B) New Forest Fund IV, LLC	13,393	13,393
(C) Operating capital loans	12,552	11,573
(D) Intermediary re-lending program	2,386	2,331
	<u>173,970</u>	<u>133,435</u>
Less current maturities		(8,034)
Amounts representing implied interest		<u>(19,008)</u>
Total		<u>\$ 106,393</u>

(In Thousands)

A) TCF has seven notes payable to foundations totaling \$29,814,000. TCF has eight other notes payable associated with demonstration projects. The principal due on these notes totaled \$76,324,000. The notes are unsecured, except one which is secured by a deed of trust, with stated interest rates between 0% and 2.3%. Maturity dates range from 2018 to 2029.

(B) SCI has three notes payable in connection with a demonstration project that will use new market tax credits for its funding. These notes total \$13,393,000, and are secured by a deed of trust on land held by the Fund. Interest is charged at 1.36% per annum paid quarterly. Note A in the amount of \$9,574,000 matures in 2019; Note B in the amount of \$3,724,000 matures in 2041, and Note C in the amount of \$95,000 matures in 2020. These notes may not be repaid partially or in full until after the 7th anniversary of the initial disbursements.

(C) NCIF has twenty four notes payable to foundations and other entities totaling \$11,573,000. The notes are unsecured with stated interest rates between 1% and 4% and maturity dates ranging from 2018 to 2028.

(D) NCIF has seven loans under an Intermediary Re-Lending Program totaling \$2,331,000 whereby the funds are used to make loans to qualified businesses. The loans bear interest at rates between 1% and 2% per annum and are repayable over a ten to twenty-five-year period. Annual principal payments on these loans total \$21,000.

THE CONSERVATION FUND, A NONPROFIT CORPORATION
NOTES TO THE COMBINED FINANCIAL STATEMENTS

DECEMBER 31, 2017

Note 5—Demonstration projects, notes payable, and lines of credit (restated) (continued)

Future maturities are as follows:

Years Ending December 31,

2018	\$ 11,698
2019	27,071
2020	27,146
2021	9,949
2022	6,099
Thereafter	<u>51,471</u>
	133,435
Less amounts representing implied interest	<u>(19,008)</u>
	<u><u>\$ 114,427</u></u>

(In Thousands)

TCF and NCIF combined have 46 below-market interest loans with outstanding balances at December 31, 2017 of \$135,889,000 designated for operations and demonstration projects. Principal on the loans will be due over the fiscal years between 2018 through 2041. When the loan proceeds were advanced, the Fund recorded a loan discount using an arm's length borrowing rate. The loans are reported in the combined statement of financial position net of unamortized discount of \$19,008,000 at December 31, 2017. The discount on the loans is being amortized to interest expense over the lives of the loans.

TCF has a line of credit with SunTrust Bank allowing it to borrow a total of up to \$25,000,000. The line of credit is unsecured, accrues interest at one-month LIBOR plus 2.75%, and is renewable no later than June 30, 2018. The Fund had no outstanding borrowings at December 31, 2017.

NCIF maintains a \$150,000 revolving line of credit with a Bank, to be drawn upon as needed, with a variable rate equal to 0.250 percentage points below The Wall Street Journal Prime Rate, which shall not be more than 7% or less than 3% as of December 31, 2017. Interest is payable quarterly, with all unpaid principal and interest due at maturity. Total outstanding loan balance was \$150,000 at December 31, 2017.

The fair value of notes payable approximates the carrying value based upon terms and rates the Fund could obtain for obligations of a similar nature.

Subsequent to year-end but prior to the issuance of these combined financial statements, TCF executed a \$25,000,000 promissory note for the purchase of a demonstration project. Interest accrues at LIBOR plus 1.75% and is payable quarterly with the principal due and payable in May 2026. The note is secured by the acquired property.

Note 6—Amounts due other nonprofit organizations and government agencies (restated)

Amounts due other nonprofit organizations and government agencies are a result of agreements or commitments the Fund has with respect to certain real estate parcels it holds. In certain cases the Fund has entered into cooperative agreements to carry out demonstration projects with other organizations. Once the projects are completed, the Fund will transfer the land parcels. In other cases, the Fund has a commitment to transfer a portion of net sales proceeds from land it owns to other organizations. These arrangements and commitments affect four parcels held by the Fund, which totaled \$50,863,000 at December 31, 2017.

APPENDIX B-2

THE CONSERVATION FUND, A NONPROFIT CORPORATION NOTES TO THE COMBINED FINANCIAL STATEMENTS

DECEMBER 31, 2017

Note 7—Commitments

The Fund leases offices under various operating leases. The combined base monthly rent is approximately \$85,500 with provisions for annual additional rent due to increases in operating expenses and lease terms.

The following schedule summarizes the future minimum lease commitments:

Years Ending December 31,

2018	\$ 702
2019	676
2020	695
2021	714
2022	734
Thereafter	1,396
	<u>\$ 4,917</u>

(In Thousands)

Total rent expense for 2017 was \$1,291,000.

Note 8—Retirement plan

The Fund has a tax-deferred 403(b) annuity pension plan covering substantially all of its employees. Employer contributions are discretionary and based upon the eligible employees' annual compensation. The contributions to the Fund's pension plan for the year ended December 31, 2017, totaled \$1,412,000.

Note 9—Concentrations

Financial instruments which potentially subject the Fund to concentrations of credit risk consist of cash, cash equivalents, and short-term investments. Cash equivalents consist of amounts in institutional money market funds and total approximately \$52,403,000 at December 31, 2017. The Fund maintains its cash in various operating bank accounts. The interest-bearing accounts are insured by the Federal Deposit Insurance Corporation ("FDIC") up to \$250,000. Cash amounts in checking accounts exceeded federal insurance limits by approximately \$65,249,000 at December 31, 2017. All cash, cash equivalents, and short-term investments are held with high credit quality financial institutions. Management believes there is no significant concentration of credit risk.

Note 10—Fundraising and management and general summary

Fundraising expense as a percentage of total support (3 year average)	<u>1.2%</u>
Management and general expense as a percentage of total support (3 year average)	<u>1.4%</u>

THE CONSERVATION FUND, A NONPROFIT CORPORATION
NOTES TO THE COMBINED FINANCIAL STATEMENTS

DECEMBER 31, 2017

Note 10—Fundraising and management and general summary (continued)

The ratio of expenses to amounts raised is computed using actual expenses and support and revenue exclusive of sales of demonstration projects to others.

Note 11—Temporarily and permanently restricted net assets (restated)

Temporarily restricted net assets are available for the following purposes and periods:

Amounts restricted to various operating programs	\$ 67,128
Amounts restricted for various real estate acquisitions or projects	79,386
Total temporarily restricted net assets	<u>\$ 146,514</u>

Permanently restricted net assets consist of the following:

Loan capital net assets dedicated to providing temporary financing of qualifying businesses with any loans required to be repaid	\$ 3,496
Revolving net assets dedicated to providing temporary financing of land acquisitions in various regions of the country with any loans required to be repaid	103,966
Total permanently restricted net assets	<u>\$ 107,462</u>

(In Thousands)

Note 12—Board-designated endowment funds

On December 11, 2012, the Fund established the Conservation Easement Stewardship Program and its Board of Directors designated \$1,000,000 from its unrestricted net assets. The program addresses all aspects of conservation easement management. As required by GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law – The Board of Directors of the Fund has interpreted the Uniform Prudent Management of Institutional Funds Act (“UPMIFA”) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Fund classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) 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 (consisting of earnings on the permanently restricted amounts) is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Fund in a manner consistent with its spending policy and the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Fund considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the 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 Fund, and (7) the Fund’s investment policies.

APPENDIX B-2

THE CONSERVATION FUND, A NONPROFIT CORPORATION NOTES TO THE COMBINED FINANCIAL STATEMENTS

DECEMBER 31, 2017

Note 12—Board-designated endowment funds (continued)

Investment Return Objectives, Risk Parameters, and Strategies – The Fund has adopted investment and spending policies, approved by the Board of Directors, for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment funds while also maintaining the purchasing power of those endowment assets over the long-term. Accordingly, the investment process seeks to achieve an after-cost total real rate of return, including investment income as well as capital appreciation, which exceeds the annual distribution with acceptable levels of risk.

Endowment assets are invested in a well-diversified asset mix, which includes equity and debt securities, that is intended to result in a consistent inflation-protected rate of return that has sufficient liquidity to make annual distributions, while growing the funds if possible. The Fund expects its endowment assets, over time, to provide both growth and income. Actual returns in any given year may vary. Investment risk is measured in terms of the total endowment fund; investment assets and allocation between asset classes and strategies are managed to not expose the fund to unacceptable levels of risk.

Spending Policy – The Fund is developing a policy of appropriating for distribution a certain percentage of its endowment fund's average fair value over time. In establishing this policy, the Fund will consider the long-term expected return on its investment assets, the nature and duration of the individual endowment funds, many of which must be maintained in perpetuity because of donor restrictions, and the possible effects of inflation. The Fund expects the current spending policy to allow its endowment funds to grow over time, which is consistent with the Fund's objective to maintain the purchasing power of the endowment assets as well as to provide additional real growth through investment return.

Funds with Deficiencies – From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Fund to retain as a fund of perpetual duration. As of December 31, 2017, there were no funds with deficiencies.

The changes in endowment funds for the year ended December 31, 2017, are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>
Net assets, December 31, 2016	\$ 1,118	\$ -	\$ -
Net interest and dividends	142	-	-
Change in fair market value	164	-	-
Realized gains	-	-	-
Transfer to unrestricted from temporarily restricted	-	-	-
Net assets, December 31, 2017	<u>\$ 1,424</u>	<u>\$ -</u>	<u>\$ -</u>

(In Thousands)

Note 13—Functional allocation of expenses (restated)

The costs of providing the various programs and supporting services have been summarized on a functional basis in the combined statement of activities and changes in net assets. Accordingly, certain costs have been allocated among the programs and supporting services benefited. The following program services are included in the accompanying combined financial statements:

THE CONSERVATION FUND, A NONPROFIT CORPORATION
NOTES TO THE COMBINED FINANCIAL STATEMENTS

DECEMBER 31, 2017

Note 13—Functional allocation of expenses (restated (continued))

Program Services:	
Core operations	\$ 2,482
Operating programs	546
Demonstration projects	113,313
Book value of demonstration projects sold to others	158,165
Total Program Services	<u>\$ 274,506</u>

(In Thousands)

Note 14—Cash flow disclosures

The following is a summary of supplemental cash flow information:

Cash paid:	
Interest	<u>\$ 957</u>

(In Thousands)

Note 15—Change in accounting principle

In 2017, the Fund changed its method of reporting the value of conservation easements. In prior years, the Fund capitalized conservation easements, whether purchased or donated, at the appraised value of the easement at acquisition and carried the easements at that appraised value on the combined statement of financial position until disposition. Donated easements were recognized as revenue at the appraised value on the combined statement of activities.

As a result of the change in accounting principle, the Fund no longer reports value of easements on the combined statement of financial position. Gifts of conservation easements are now recognized as revenue and program expenses in equal amounts upon acquisition based on the appraised value of the easement. Purchased easements are recognized as a program expense upon acquisition also based on the appraised value of the easement.

The Fund believes that this presentation provides a more accurate representation on the statement of financial position of its total assets and the consideration the Fund would receive upon transfer of the conservation easements to third parties. The Fund continues to believe that conservation easements play an important role in enabling the Fund to achieve its charitable purpose of land and water conservation through the preservation of the natural values of land.

The impact of the change in accounting policy resulted in a reduction to the beginning net assets and demonstration projects in the amount of \$39,076,000. If applied retrospectively, demonstration projects, which were reported at \$516,804,000 as of December 31, 2016, would have been reduced by \$39,076,000 resulting in an adjusted balance of \$477,728,000. The change in net assets for the year ended December 31, 2016, which was reported at a negative \$2,103,000, would have been reduced by \$3,443,000 resulting in an adjusted change in net assets of negative \$5,546,000.

APPENDIX B-2

THE CONSERVATION FUND, A NONPROFIT CORPORATION NOTES TO THE COMBINED FINANCIAL STATEMENTS

DECEMBER 31, 2017

Note 16—Correction of errors

The Fund identified and corrected errors reported in previous periods and the current period, resulting from the failure to record conveyances of land to other entities and recognizing revenue before the related performance obligations were met.

Balances as of December 31, 2016 changed as follows:

- Demonstration projects: land held for general purposes, which was reported at \$477,728,000, has been reduced by \$3,400,000 resulting in a restated balance of \$474,328,000.
- Amounts due other nonprofit organizations and government agencies, which was reported at \$86,000, has been increased by \$480,000, resulting in a restated balance of \$566,000.
- Deferred revenue (long-term), which was reported at \$61,648,000, has been increased by \$12,584,000, resulting in a restated balance of \$74,232,000.
- Unrestricted net assets, which was reported at \$301,644,000, has been reduced by \$46,978,000, resulting in a restated balance of \$254,666,000.
- Temporarily restricted net assets, which was reported at \$148,562,000, has been increased by \$30,514,000, resulting in a restated balance of \$179,076,000.

The change in net assets for the year ended December 31, 2016, was understated by \$399,000 as a result of these errors.

THE CONSERVATION FUND, A NONPROFIT CORPORATION
NOTES TO THE COMBINED FINANCIAL STATEMENTS

DECEMBER 31, 2017

Note 16—Correction of errors (continued)

Adjustments were made to the reissued 2017 financial statements as summarized below:

	Balances, as of and for the Year Ended December 31, 2017, as Previously Reported	Effect of Beginning Balance Restatement	Effect of 2017 Adjustments	Balances, as of and for the Year Ended December 31, 2017, as Adjusted
Combined Statement of Financial Position				
Receivables	\$ 4,062	\$ -	\$ (789)	\$ 3,273
Demonstration projects: Land held for general purposes	510,608	(3,400)	(1,486)	505,722
Amounts due other nonprofit organizations and government agencies	50,383	480	-	50,863
Deferred revenue (long-term)	108,204	12,584	2,048	122,836
Unrestricted net assets	296,675	(46,978)	(8,957)	240,740
Temporarily restricted net assets	111,366	30,514	4,634	146,514
Combined Statement of Activities and Changes in Net Assets				
Unrestricted contributions and grants	65,046	-	(2,048)	62,998
Net assets released from restrictions - unrestricted	96,101	-	(4,634)	91,467
Net assets released from restrictions - temporarily restricted	(96,101)	-	4,634	(91,467)
Demonstration projects transferred to others	155,890	-	2,275	158,165
Change in net assets	(37,629)	-	(4,323)	(41,952)
Combined Statement of Cash Flows				
Change in net assets	(37,629)	-	(4,323)	(41,952)
Disposition of demonstration projects, net of proceeds received	73,676	-	1,486	75,162
Change in promises to give and receivables	(7,533)	-	789	(6,744)
Change in accounts payable, accrued expenses and deferred revenue	39,012	-	2,048	41,060

(In Thousands)

SUPPLEMENTARY SCHEDULES

THE CONSERVATION FUND, A NONPROFIT CORPORATION
COMBINING SCHEDULE OF FINANCIAL POSITION (IN THOUSANDS)

DECEMBER 31, 2017 (Restated)

	The Conservation Fund	Sustainable Conservation, Inc.	Natural Capital Investment Fund, Inc.	Eliminations	Total
ASSETS					
Current Assets:					
Cash and cash equivalents	\$ 94,525	\$ 15,055	\$ 7,615	\$ -	\$ 117,195
Short-term investments	61,771	-	-	-	61,771
Receivables	4,575	13	151	(1,466)	3,273
Notes receivable, net of allowance for doubtful accounts	22,922	-	5,164	-	28,086
Promises to give	361	-	259	-	620
Due from an affiliate	148	-	-	(148)	-
Other	165	1	-	-	166
Total Current Assets	184,467	15,069	13,189	(1,614)	211,111
Property and Equipment:					
Buildings, furniture, and equipment	4,095	-	-	-	4,095
Accumulated depreciation	(2,110)	-	-	-	(2,110)
Net Property and Equipment	1,985	-	-	-	1,985
Other Assets:					
Cash-restricted	-	-	1,681	-	1,681
Notes receivable, net of allowance for doubtful accounts	54,651	95	21,097	(5,000)	70,843
Promises to give	608	-	-	-	608
Long-term investments	289	-	100	-	389
Demonstration projects:					
Land held for general purposes	473,594	32,128	-	-	505,722
Other receivables	8,239	-	16	-	8,255
Total Other Assets	537,381	32,223	22,894	(5,000)	587,498
Total Assets	\$ 723,833	\$ 47,292	\$ 36,083	\$ (6,614)	\$ 800,594

See report of independent auditor on supplementary schedules.

THE CONSERVATION FUND, A NONPROFIT CORPORATION
COMBINING SCHEDULE OF FINANCIAL POSITION (IN THOUSANDS)

DECEMBER 31, 2017 (Restated)

	The Conservation Fund	Sustainable Conservation, Inc.	Natural Capital Investment Fund, Inc.	Eliminations	Total
LIABILITIES AND NET ASSETS					
Current Liabilities:					
Line of credit	\$ -	\$ -	\$ 150	\$ -	\$ 150
Accounts payable	449	92	1,509	(1,466)	584
Accrued expenses	6,536	-	61	-	6,597
Deferred revenue	9,229	-	-	-	9,229
Amounts held for others	-	-	8	-	8
Notes payable, net of discount	7,453	-	581	-	8,034
Due to an affiliate	-	148	-	(148)	-
Total Current Liabilities	<u>23,667</u>	<u>240</u>	<u>2,309</u>	<u>(1,614)</u>	<u>24,602</u>
Other Liabilities:					
Line of credit, related party	-	-	5,000	(5,000)	-
Amounts due other nonprofit organizations and government agencies	50,863	-	-	-	50,863
Deferred revenue	122,497	339	-	-	122,836
Deferred rent	508	-	-	-	508
Amounts held for others	675	1	-	-	676
Notes payable:					
Demonstration projects	79,875	13,393	13,125	-	106,393
Total Other Liabilities	<u>254,418</u>	<u>13,733</u>	<u>18,125</u>	<u>(5,000)</u>	<u>281,276</u>
Total Liabilities	<u>278,085</u>	<u>13,973</u>	<u>20,434</u>	<u>(6,614)</u>	<u>305,878</u>
Net Assets:					
Unrestricted	197,469	33,319	9,952	-	240,740
Temporarily restricted	144,312	-	2,202	-	146,514
Permanently restricted	103,967	-	3,495	-	107,462
Total Net Assets	<u>445,748</u>	<u>33,319</u>	<u>15,649</u>	<u>-</u>	<u>494,716</u>
Total Liabilities and Net Assets	<u>\$ 723,833</u>	<u>\$ 47,292</u>	<u>\$ 36,083</u>	<u>\$ (6,614)</u>	<u>\$ 800,594</u>

See report of independent auditor on supplementary schedules.

THE CONSERVATION FUND, A NONPROFIT CORPORATION
COMBINING SCHEDULE OF ACTIVITIES AND CHANGES IN NET ASSETS (IN THOUSANDS)

YEAR ENDED DECEMBER 31, 2017 (Restated)

	The Conservation Fund	Sustainable Conservation, Inc.	Natural Capital Investment Fund, Inc.	Eliminations	Total
Support and Revenue Before Sales of Demonstration Projects to Others:					
Contributions and grants	\$ 124,679	\$ -	\$ 1,686	\$ -	\$ 126,365
Contract income	13,017	-	-	(1,466)	11,551
Investment and other program income	5,205	1,117	1,719	-	8,041
Total Support Revenue Before Sales of Demonstration Projects to Others	142,901	1,117	3,405	(1,466)	145,957
Sales of demonstration projects to others	90,397	56	-	-	90,453
Total Support and Revenue	233,298	1,173	3,405	(1,466)	236,410
Expenses:					
Program:					
Book value of demonstration projects transferred to others	158,104	61	-	-	158,165
Other program expenses	114,962	460	2,385	(1,466)	116,341
Total Program	273,066	521	2,385	(1,466)	274,506
Management and general	2,008	-	80	-	2,088
Fundraising	1,765	-	3	-	1,768
Total Expenses	276,839	521	2,468	(1,466)	278,362
Change in net assets	(43,541)	652	937	-	(41,952)
Net assets, beginning of year, as previously reported	544,829	32,667	14,712	-	592,208
Cumulative effect of change in accounting principle	(39,076)	-	-	-	(39,076)
Correction of error	(16,464)	-	-	-	(16,464)
Net assets, beginning of year, as restated	489,289	32,667	14,712	-	536,668
Net assets, end of year	\$ 445,748	\$ 33,319	\$ 15,649	\$ -	\$ 494,716

See report of independent auditor on supplementary schedules.

APPENDIX B-2

THE CONSERVATION FUND, A NONPROFIT CORPORATION
COMBINED SCHEDULE OF FUNCTIONAL EXPENSES (IN THOUSANDS)

YEAR ENDED DECEMBER 31, 2017 (Restated)

	<u>Program</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Salaries	\$ 16,695	\$ 927	\$ 636	\$ 18,258
Acquisition and program costs	3,173	28	101	3,302
Bank and finance charges	123	8	5	136
Change in split interest	(7)	-	-	(7)
Conservation research	165	8	5	178
Construction	90	4	3	97
Contractual services	14,511	359	455	15,325
Contributions and grants	4,767	-	-	4,767
Depreciation	138	18	12	168
Employee benefits	2,811	255	171	3,237
External transfers	8,386	-	-	8,386
Graphics and photography	78	2	2	82
Insurance	520	34	24	578
Interest	5,310	97	79	5,486
Loan loss reserve	71	-	-	71
Loss from notes receivable	29	-	-	29
Miscellaneous	379	6	10	395
Payroll taxes	1,099	50	35	1,184
Postage and shipping	71	3	2	76
Printing	104	5	3	112
Professional fees	782	46	24	852
Provision for loss upon disposition	51,459	-	-	51,459
Public relations and public education	80	4	3	87
Publications	190	8	6	204
Real estate and personal property tax	1,340	8	39	1,387
Rent	1,132	95	64	1,291
Repairs and maintenance	136	5	4	145
Seminars, meetings, and conferences	216	9	6	231
Supplies and equipment	694	35	24	753
Telephone and utilities	372	17	12	401
Travel and subsidiaries	1,427	57	43	1,527
	<u>116,341</u>	<u>2,088</u>	<u>1,768</u>	<u>120,197</u>
Book value of demonstration projects transferred to others	158,165	-	-	158,165
Total Expenses	<u>\$ 274,506</u>	<u>\$ 2,088</u>	<u>\$ 1,768</u>	<u>\$ 278,362</u>

See report of independent auditor on supplementary schedules.

THE CONSERVATION FUND, A NONPROFIT CORPORATION
COMBINED SCHEDULE OF ACTIVITIES AND CHANGES IN NET ASSETS BY ACTIVITY
(IN THOUSANDS)

YEAR ENDED DECEMBER 31, 2017 (Restated)

	2017		
	Operating Activities*	Real Estate Activities**	Total
Support and Revenue:			
Contributions and grants	\$ 29,253	\$ 97,112	\$ 126,365
Contract income	4,576	6,975	11,551
Investment and other program income	5,402	2,639	8,041
Sales of demonstration projects	-	90,453	90,453
Total Support and Revenue	<u>39,231</u>	<u>197,179</u>	<u>236,410</u>
Expenses:			
Book value of demonstration projects transferred to others	-	158,165	158,165
Other program expenses	116,341	-	116,341
Management and general	2,088	-	2,088
Fundraising	1,768	-	1,768
Total Expenses	<u>120,197</u>	<u>158,165</u>	<u>278,362</u>
Change in net assets for the year before transfers	(80,966)	39,014	(41,952)
Transfers	9,411	(9,411)	-
Change in net assets for the year	<u>\$ (71,555)</u>	<u>\$ 29,603</u>	<u>\$ (41,952)</u>

* Operating activity support and revenue consist of general support, contract and program income, and investment income; expenses consist of all expenses not directly related to acquiring, holding, and selling land.

** Real estate activity support and revenue consist of gifts of land and contributions directly related to land acquisition efforts and the sale of demonstration projects to others; expenses in the real estate activities column consist of the book value of demonstration projects sold to others and expenses directly related to acquiring, holding and selling land.

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APPENDIX C

SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE

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APPENDIX C

SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE

The following is a summary of certain provisions of the Indenture that are not described elsewhere in this Offering Memorandum. The Bonds are issued and secured pursuant to the Indenture. References to the Indenture or a fund or account refer to the related document, fund or account with respect to the Bonds, as described in the Offering Memorandum. Unless otherwise specified to the contrary in this Appendix C, all definitions and provisions summarized refer to the Indenture. This summary does not purport to be comprehensive and reference should be made to the Indenture for a full and complete statement of its provisions.

Definitions

Unless the context otherwise requires, the following terms shall have the meanings specified below.

“Authorized Denomination” means \$1,000 or any multiple integral thereof.

“Authorized Representative” means with respect to either Issuer, the Fund’s Chief Executive Officer, Chief Financial Officer, General Counsel, any such Executive Vice President, or any other Person designated as an Authorized Representative by a Certificate signed by the Fund’s Chief Financial Officer or General Counsel, updated as necessary, and filed with the Trustee.

“Beneficial Owner” means any Person which has or shares the power, directly or indirectly, to make investment decisions concerning ownership of any of the Bonds (including any Person holding Bonds through nominees, depositories or other intermediaries) established to the reasonable satisfaction of the Trustee or the Fund.

“Bonds” means The Conservation Fund, Taxable Green Bonds (Working Forest Conservation Program), Series 2019 authorized by, and at any time Outstanding pursuant to, the Indenture.

“Book-Entry Form” or *“Book-Entry System”* means a form or system, as applicable, under which physical bond certificates in fully registered form are registered only in the name of a Securities Depository or its nominee as Bondholder, with the physical bond certificates held by and “immobilized” in the custody of the Securities Depository and the book-entry system maintained by and the responsibility of others than the Issuers or the Trustee is the record that identifies and records the transfer of the interests of the owners of book-entry interests in those Bonds.

“Business Day” means any day other than (A) a Saturday or Sunday or legal holiday or a day on which banking institutions in the city or cities in which the Designated Office of the Trustee is located are authorized by law or executive order to close or (B) a day on which the New York Stock Exchange is closed.

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“*Certificate*”, “*Statement*”, “*Request*” or “*Requisition of the Fund*” mean, respectively, a written certificate, statement, request or requisition signed in the name of the Fund, on behalf of itself and SCI, by an Authorized Representative thereof. Any such instrument and supporting opinions or representations, if any, may, but need not, be combined in a single instrument with any other instrument, opinion or representation, and the two or more so combined shall be read and construed as a single instrument. If and to the extent required by the Indenture, each such instrument shall include the statements provided for in the Indenture.

“*Code*” means the Internal Revenue Code of 1986, as amended, or any successor statute thereto and any regulations promulgated thereunder.

“*Comparable Treasury Issue*” means the United States Treasury security or securities selected by a Designated Investment Banker as having an actual or interpolated maturity comparable to the remaining term of the Bonds to be redeemed that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of a comparable maturity to the remaining term of such Bonds.

“*Comparable Treasury Price*” means, with respect to any redemption date, the average of the Primary Treasury Dealer Quotations for such redemption date or, if the Designated Investment Banker obtains only one Primary Treasury Dealer Quotation, such Primary Treasury Dealer Quotation.

“*Default*” means any event which is or after notice or lapse of time or both would become an Event of Default.

“*Designated Investment Banker*” means a Primary Treasury Dealer appointed by the Fund.

“*Designated Office*” means the Designated Office of the Trustee, which as of the date of the Indenture is located at 500 Ross Street, 12th Floor, Pittsburgh, Pennsylvania 15262, Attention: Corporate Trust, and such other offices as the Trustee may designate from time to time by written notice to the Issuers and the Holders.

“*ERISA*” means the Employee Retirement Income Security Act of 1974, as amended.

“*ERISA Plans*” means employee benefit plans subject to ERISA, including U.S. private pension plans, certain insurance company accounts, and entities that are deemed to hold “plan assets” with respect to such plans as determined under ERISA section 3(42).

“*Event of Default*” means any of the events specified as such in the Indenture.

“*Fund*” means The Conservation Fund, a nonprofit corporation, a nonprofit organization incorporated as a nonstock corporation in the state of Maryland.

“*Holder*” or “*Bondholder*”, whenever used in the Indenture with respect to a Bond, means the Person in whose name such Bond is registered.

“*Indenture*” means the Indenture of Trust, as originally executed or as it may from time to time be supplemented, modified or amended by any Supplemental Indenture.

“*Indenture Fund*” means the fund by that name established pursuant to the Indenture.

“*Interest Payment Date*” means June 15 and December 15 of each year, commencing December 15, 2019.

“*Investment Securities*” means either of the following: (1) direct nonprepayable, noncallable obligations of the United States of America (including obligations issued or held in book-entry form on the books of the Department of the Treasury of the United States of America) or direct nonprepayable, noncallable obligations, the timely payment of the principal of and interest on which are fully guaranteed by the United States of America, including instruments evidencing a direct ownership interest in securities described in this clause such as CATS, TIGRs, and Stripped Treasury Coupons rated or assessed in the two highest Rating Categories by S&P and Moody’s and held by a custodian for safekeeping on behalf of holders of such securities; (2) money market funds registered under the Investment Company Act of 1940, the shares in which are registered under the Securities Act of 1933 and that have a rating by S&P or Moody’s in such rating agency’s two highest Rating Categories, including such funds for which the Trustee or its affiliates provide investment advisory or other management services and (3) demand deposits, including interest bearing money market accounts, time deposits, trust funds, trust accounts, overnight bank deposits, interest-bearing deposits, other deposit products, certificates of deposit, including those placed by a third party pursuant to an agreement among the Trustee and the Issuers, or bankers acceptances of depository institutions, including the Trustee or any of its affiliates.

“*Issuers*” means the Fund and SCI.

“*Make-Whole Redemption Price*” means the greater of:

- (1) 100% of the principal amount of a Bond to be redeemed; or
- (2) the sum of the present value of the remaining scheduled payments of principal and interest to the maturity date of such Bond, not including any portion of those payments of interest accrued and unpaid as of the date on which such Bond is to be redeemed, discounted to the date on which such Bond is to be redeemed on a semiannual basis assuming a 360-day year consisting of twelve 30-day months at the adjusted Treasury Rate plus 30 basis points plus, in each case, accrued and unpaid interest on such Bond to the redemption date.

“*Moody’s*” means Moody’s Investors Service, a corporation organized and existing under the laws of the State of Delaware, its successors and their assigns, or, if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a

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securities rating agency, any other nationally recognized securities rating agency designated by the Fund upon written notice to the Trustee.

“Offering Memorandum” means the final offering memorandum dated September 19, 2019, relating to the Bonds.

“Opinion of Counsel” means a written opinion of counsel (who may be counsel for the Issuers, but not an employee thereof) satisfactory to the Trustee.

“Outstanding” when used as of any particular time with reference to Bonds, means (subject to the provisions of the Indenture) all Bonds theretofore, or thereupon being, authenticated and delivered by the Trustee under the Indenture except (1) Bonds theretofore cancelled by the Trustee or surrendered to the Trustee for cancellation; (2) Bonds with respect to which all liability of the Issuers shall have been discharged in accordance with the Indenture; and (3) Bonds for the transfer or exchange of or in lieu of or in substitution for which other Bonds shall have been authenticated and delivered by the Trustee pursuant to the Indenture.

“Par Call Date” means September 15, 2029.

“Payment Date” means an Interest Payment Date or a Principal Payment Date.

“Person” means an individual, corporation, firm, association, partnership, trust, limited liability company or other legal entity or group of entities, including a governmental entity or any agency or political subdivision thereof.

“Primary Treasury Dealer” means one or more entities appointed by the Fund, which, in each case, is a primary U.S. Government securities dealer in The City of New York, New York, and its successors.

“Primary Treasury Dealer Quotations” means, with respect to each Primary Treasury Dealer and any redemption date, the average, as determined by the Designated Investment Banker, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the Designated Investment Banker by such Primary Treasury Dealer at 3:30 p.m. New York time on the third Business Day preceding such redemption date.

“Principal Payment Date” means the date of final maturity of each of the Bonds.

“Rating Category” means a generic securities rating category, without regard to any refinement or gradation of such rating category by a numerical modifier or otherwise.

“Record Date” means the first (1st) day (whether or not a Business Day) of the month of each Interest Payment Date.

“Redemption Price” means 100% of the principal amount of a Bond to be redeemed plus accrued and unpaid interest on such Bond to the redemption date.

“*Responsible Officer*” means any officer of the Trustee assigned to administer its duties under the Indenture.

“*S&P*” means S&P Global Ratings, a division of S&P Global Inc., or any successor rating agency.

“*SCI*” means Sustainable Conservation, Inc., a nonprofit organization incorporated as a stock corporation in the state of Maryland.

“*Securities Depository*” means The Depository Trust Company and its successors and assigns, or any other securities depository selected as set forth in the Indenture, which agrees to follow the procedures required to be followed by such securities depository in connection with the Bonds.

“*Series 2019 Bond Fund*” means the fund by that name established pursuant to the Indenture.

“*Series 2019 Interest Account*” means the account by that name in the Series 2019 Bond Fund established pursuant to the Indenture.

“*Series 2019 Principal Account*” means the account by that name in the Series 2019 Bond Fund established pursuant to the Indenture.

“*Series 2019 Redemption Fund*” means the fund by that name established pursuant to the Indenture.

“*Special Record Date*” means the date established by the Trustee pursuant to the Indenture as the record date for the payment of defaulted interest on the Bonds.

“*Supplemental Indenture*” means any indenture hereafter duly authorized and entered into among the Issuers and the Trustee, supplementing, modifying or amending the Indenture; but only if and to the extent that such Supplemental Indenture is specifically authorized under the Indenture.

“*Treasury Rate*” means, with respect to any redemption date, the rate per annum equal to the semiannual equivalent yield to maturity or interpolated (on a day count basis) of the Comparable Treasury Issue, assuming a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for such redemption date.

“*Trustee*” means The Bank of New York Mellon Trust Company, N.A., a national banking association duly organized and existing under and by virtue of the laws of the United States of America, or its successor or successors, as Trustee under the Indenture as provided in the Indenture.

“*Underwriter*” means Goldman Sachs & Co. LLC.

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“*Uniform Commercial Code*” means the Uniform Commercial Code as in effect in Maryland from time to time.

Establishment and Pledge of Indenture Fund

Subject only to the provisions of the Indenture permitting or requiring the application thereof for the purposes and on the terms and conditions set forth therein, the Indenture Fund and all amounts held therein are pledged, assigned and transferred by the Issuers to the Trustee for the benefit of the Bondholders to secure the full payment of the principal, Redemption Price or Make-Whole Redemption Price of and interest on the Bonds in accordance with their terms and the provisions of the Indenture. The Issuers grant to the Trustee a security interest in and acknowledges and agrees that the Indenture Fund and all amounts on deposit therein shall constitute collateral security to secure the full payment of the principal, Redemption Price or Make-Whole Redemption Price of and interest on the Bonds in accordance with their terms and the provisions of the Indenture. For purposes of creating, perfecting and maintaining the security interest of the Trustee on behalf of the Bondholders in and to the Indenture Fund and all amounts on deposit therein, the parties to the Indenture agree as follows: (1) the Indenture shall constitute a “security agreement” for purposes of the Uniform Commercial Code and the Issuers shall prepare and file or cause to be prepared and filed the initial Uniform Commercial Code filings if necessary; (2) the Trustee shall maintain on its books records reflecting the interest, as set forth in the Indenture, of the Bondholders in the Indenture Fund and/or the amounts on deposit therein; and (3) the Indenture Fund and the amounts on deposit therein and any proceeds thereof shall be held by the Trustee acting in its capacity as an agent of the Bondholders, and the holding of such items by the Trustee (including the transfer of any items among the funds and accounts in the Indenture Fund) is deemed possession of such items on behalf of the Bondholders.

Nothing in the Indenture or in the Bonds, expressed or implied, shall be construed to constitute a security interest under the Uniform Commercial Code or otherwise in the assets of the Issuers other than in any interest of the Issuers in the Indenture Fund and/or the amounts on deposit therein. No recourse for the payment of the principal, Redemption Price or Make-Whole Redemption Price of or interest on any Bond, or for any claim based thereon or otherwise in respect thereof, and no recourse under or upon any obligation, covenant or agreement of the Issuers in the Indenture or in any Supplemental Indenture or in any Bond, or because of the creation of any indebtedness represented thereby, shall be had against any employee, agent, or officer, as such, past, present or future, of the Issuers or of any successor entity, either directly or through any successor entity, whether by virtue of any constitution, statute or rule of law, or by the enforcement of any assessment or penalty or otherwise, it being expressly understood that all such liability is expressly waived and released as a condition of, and as a consideration for, the execution of the Indenture and the issue of the Bonds. No officer or agent of the Issuers, nor any Person executing the Bonds, shall in any event be subject to any personal liability or accountability by reason of the issuance of the Bonds.

Redemption

The Bonds are subject to optional redemption in whole or in part prior to maturity on or after the Par Call Date at the written direction of the Fund to the Trustee. Such redemption shall be in accordance with the terms of the Bonds, as a whole or in part on any Business Day in such order of maturity as directed by the Fund at the Redemption Price.

Prior to the Par Call Date, the Bonds are subject to optional redemption in whole or in part prior to maturity at the written direction of the Fund to the Trustee. Such redemption shall be in accordance with the terms of the Bonds, as a whole or in part on any Business Day in such order of maturity as directed by the Fund at the Make-Whole Redemption Price, as described in the form of the Bonds in the Indenture. The Issuers shall retain an independent accounting firm or an independent financial advisor to determine the Make-Whole Redemption Price of Bonds to be redeemed pursuant to the Indenture and perform all actions and make all calculations required to determine such Make-Whole Redemption Price. The Trustee and the Issuers may conclusively rely on such accounting firm's or financial advisor's calculations in connection with, and its determination of, such Make-Whole Redemption Price, and neither the Trustee nor the Issuers shall have any liability for such reliance. The determination of the Make-Whole Redemption Price by such accounting firm or financial advisor shall be conclusive and binding on the Trustee, the Issuers and the Holders of the Bonds.

Selection of Bonds for Redemption. If the Bonds are registered in Book-Entry Form and for so long as the Securities Depository or a successor securities depository is the sole registered owner of the Bonds, if less than all of the Bonds of a maturity are called for prior redemption, the particular Bonds or portions thereof to be redeemed shall be selected on a pro rata pass-through distribution of principal basis in accordance with the Securities Depository procedures, provided that, so long as the Bonds are held in Book-Entry Form, the selection for redemption of such Bonds shall be made in accordance with the operational arrangements of the Securities Depository then in effect.

It is the Issuers' intent that redemption allocations made by the Securities Depository be made on a pro rata pass-through distribution of principal basis as described above. However, neither the Issuers nor the Underwriter can provide any assurance that the Securities Depository, the Securities Depository's direct and indirect participants or any other intermediary will allocate the redemption of Bonds on such basis. If the Securities Depository operational arrangements do not allow for the redemption of the Bonds on a pro rata pass-through distribution of principal basis, then the Bonds will be selected for redemption, in accordance with the Securities Depository procedures.

Notice of Redemption. Notice of redemption shall be given by the Issuers to the Trustee, not less than forty-five (45) days (or such lesser number of days as may be acceptable to the Trustee), nor more than sixty (60) days prior to the redemption date. Notice of redemption shall be mailed by the Trustee by first class mail, or sent by electronic means, not less than 20 days, nor more than 60 days prior to the redemption date, to the respective Holders of any Bonds designated for redemption at their addresses appearing on the bond registration books of the Trustee. If the Bonds are no longer held by the Securities

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Depository or its successor or substitute, the Trustee shall also give notice of redemption by electronic means to such securities depositories and/or securities information services as shall be designated in a Certificate of the Fund. Each notice of redemption shall state the date of such notice, the date of issue of the Bonds, the redemption date, the Redemption Price or method of determining the Make-Whole Redemption Price (as applicable), the place or places of redemption (including the name and appropriate address or addresses of the Trustee), the maturity (including CUSIP number, if any), and, in the case of Bonds to be redeemed in part only, the portion of the principal amount thereof to be redeemed. Each such notice shall also state that on said date there will become due and payable on each of said Bonds the Redemption Price or Make-Whole Redemption Price thereof (as applicable) or of said specified portion of the principal amount thereof in the case of a Bond to be redeemed in part only and that from and after such redemption date interest thereon shall cease to accrue, and shall require that such Bonds be then surrendered.

Failure by the Trustee to give notice pursuant to the Indenture to any one or more of the securities information services or depositories designated by the Fund, or the insufficiency of any such notice shall not affect the sufficiency of the proceedings for redemption. Failure by the Trustee to mail notice of redemption pursuant to the Indenture to any one or more of the respective Holders of any Bonds designated for redemption shall not affect the sufficiency of the proceedings for redemption with respect to the Holders to whom such notice was mailed.

The Fund may instruct the Trustee to provide conditional notice of redemption, which may be conditioned upon the receipt of moneys or any other event. Additionally, any notice given pursuant to the Indenture may be rescinded by written notice given to the Trustee by the Fund no later than 5 Business Days prior to the date specified for redemption. The Trustee shall give notice of such rescission, as soon thereafter as practicable, in the same manner, to the same Persons, as notice of such redemption was given pursuant to the Indenture.

Partial Redemption of Bonds. Upon surrender of any Bond redeemed in part only, the Issuers shall execute (but need not prepare) and the Trustee shall prepare or cause to be prepared, authenticate and deliver to the Holder thereof, at the expense of the Issuers, a new Bond or Bonds of Authorized Denominations, equal in aggregate principal amount to the unredeemed portion of the Bond surrendered.

Effect of Redemption. Notice of redemption having been duly given as provided in the Indenture, and moneys for payment of the Redemption Price or Make-Whole Redemption Price (as applicable) of the Bonds (or portion thereof) so called for redemption being held by the Trustee, on the date fixed for redemption designated in such notice, the Bonds (or portion thereof) so called for redemption shall become due and payable at the Redemption Price or Make-Whole Redemption Price (as applicable) specified in such notice, interest on the Bonds so called for redemption shall cease to accrue, said Bonds (or portion thereof) shall cease to be entitled to any benefit or security under the Indenture, and the Holders of said Bonds shall have no rights in respect thereof except to receive payment of said Redemption Price or Make-Whole Redemption Price from funds held by the Trustee for such payment.

Funds and Accounts

The Indenture creates an Indenture Fund, a Series 2019 Bond Fund, and a Series 2019 Redemption Fund thereunder. The Indenture also creates a Series 2019 Interest Account and Series 2019 Principal Account under the Series 2019 Bond Fund. All of the funds and accounts are to be held by the Trustee.

Application of Proceeds of Bonds. The proceeds from the sale of the Bonds (net of underwriter's discount and original issue discount, if any) shall be transferred by the Underwriter pursuant to the instructions of the Issuers.

Indenture Fund. The Trustee establishes for the sole benefit of the Bondholders, a master fund referred to in the Indenture as the "Indenture Fund" containing the Series 2019 Bond Fund and the Series 2019 Redemption Fund and each of the accounts contained therein. The Indenture Fund and each of the funds and accounts in the Indenture Fund shall be identified on the books of the Trustee with reference hereto and shall be maintained by the Trustee and held in trust apart from all other moneys and securities held under the Indenture or otherwise, and the Trustee shall have the exclusive and sole right of withdrawal therefrom in accordance with the terms of the Indenture. All amounts deposited with the Trustee pursuant to the Indenture shall be held, disbursed, allocated and applied by the Trustee only as provided in the Indenture.

Series 2019 Bond Fund. Upon the receipt thereof, the Trustee shall deposit all payments received from the Issuers (other than proceeds from the sale of the Bonds received by the Trustee, if any, amounts which are to be deposited in the Series 2019 Redemption Fund or income or profit from investments which are to be applied pursuant to the Indenture) in a special fund designated the "Series 2019 Bond Fund" which the Trustee shall establish and maintain and hold in trust and which shall be disbursed and applied only as authorized in the Indenture.

At the times specified below, the Trustee shall allocate within the Series 2019 Bond Fund in the following order of priority the following amounts to the following accounts or funds, each of which the Trustee shall establish and maintain and hold in trust and each of which shall be disbursed and applied only as thereafter authorized: (1) On each Interest Payment Date, the Trustee shall deposit in the "Series 2019 Interest Account" the aggregate amount of interest becoming due and payable on such Interest Payment Date on all Bonds then Outstanding, until the balance in said account is equal to said aggregate amount of interest; and (2) On each Principal Payment Date, the Trustee shall deposit in the "Series 2019 Principal Account" the aggregate amount of principal becoming due and payable on such Principal Payment Date, until the balance in said account is equal to said aggregate amount of such principal.

Series 2019 Interest Account. All amounts in the Series 2019 Interest Account shall be used and withdrawn by the Trustee solely for the purpose of paying interest on the Bonds as it shall become due and payable (including accrued interest on any Bonds redeemed prior to maturity pursuant to the Indenture).

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Series 2019 Principal Account. All amounts in the Series 2019 Principal Account shall be used and withdrawn by the Trustee solely to pay at maturity the Bonds.

Series 2019 Redemption Fund. Upon the receipt thereof, the Trustee shall deposit the following amounts in a special fund designated the “Series 2019 Redemption Fund” which the Trustee shall establish and maintain and hold in trust: (1) all moneys deposited by the Issuers with the Trustee directed to be deposited in the Series 2019 Redemption Fund; and (2) all interest, profits and other income received from the investment of moneys in the Series 2019 Redemption Fund.

All amounts deposited in the Series 2019 Redemption Fund shall be used and withdrawn by the Trustee solely for the purpose of redeeming Bonds, in the manner and upon the terms and conditions specified in the Indenture, at the next succeeding date of redemption for which notice has been given; provided, that at any time prior to the selection of Bonds for such redemption, the Trustee shall, upon written direction of the Fund, apply such amounts to the purchase of Bonds at public or private sale, as and when and at such prices (including brokerage and other charges, but excluding accrued interest, which is payable from the Series 2019 Interest Account) as the Issuers may direct, except that the purchase price (exclusive of accrued interest) may not exceed the Redemption Price or Make-Whole Redemption Price then applicable to such Bonds; and provided further that in lieu of redemption at such next succeeding date of redemption, or in combination therewith, amounts in such account may be transferred to the Series 2019 Principal Account as set forth in a Request of the Issuers.

Payments by the Issuers; Allocation of Funds. On or before 11:00 AM on each Payment Date, until the principal of and interest on, the Bonds shall have been fully paid or provision for such payment shall have been made as provided in the Indenture, the Issuers shall pay to the Trustee a sum equal to the amount payable on such Payment Date as principal of and interest on the Bonds, less the amount, if any, in the Series 2019 Bond Fund and available therefor. Each payment made pursuant to this paragraph shall at all times be sufficient to pay the total amount of interest and principal (whether at maturity or upon acceleration) becoming due and payable on the Bonds on such Payment Date. If on any Payment Date the amounts held by the Trustee in the accounts within the Series 2019 Bond Fund are insufficient to make any required payments of principal of (whether at maturity or upon acceleration) and interest on the Bonds as such payments become due, the Issuers shall forthwith pay such deficiency to the Trustee.

The obligations of the Issuers to make the payments required by the immediately preceding paragraph and to perform and observe the other agreements on their part contained in the Indenture shall be a general obligation of the Issuers, absolute and unconditional, irrespective of any defense or any rights of set-off, recoupment or counterclaim it might otherwise have against the Trustee, and during the term of the Indenture, the Issuers shall pay all payments required to be made by the immediately preceding paragraph (which payments shall be net of any other obligations of the Issuers) as prescribed therein and all other payments required under the Indenture, free of any deductions and without abatement, diminution or set-off. Until such time as the principal of and interest on, the Bonds shall have been fully paid, or provision for the payment

thereof shall have been made as required by the Indenture, the Issuers (i) will not suspend or discontinue any payments provided for in the immediately preceding paragraph; (ii) will perform and observe all of its other covenants contained in the Indenture; and (iii) except as otherwise provided in the Indenture, will not terminate the Indenture for any cause, including, without limitation, the occurrence of any act or circumstances that may constitute failure of consideration, destruction of or damage to all or a portion of the projects financed with the proceeds of the Bonds, commercial frustration of purpose, any change in the tax or other laws of the United States of America or of Maryland or any political subdivision of either of these, or any failure of the Trustee to perform and observe any covenant, whether express or implied, or any duty, liability or obligation arising out of or connected with the Indenture, except to the extent permitted by the Indenture.

Validity of Bonds

The recital contained in the Bonds that the same are issued pursuant to the Indenture shall be conclusive evidence of their validity and of compliance with the provisions of the Indenture in their issuance.

Additional Bonds

The Issuers may, from time to time, without the consent of the Bondholders, issue additional bonds under the Indenture in addition to the Bonds (“Additional Bonds”). If issued, the Additional Bonds will become part of the same series as the Bonds and will have the same interest rate, redemption provisions, maturity date and CUSIP number as one or more of the Bonds.

Use of Securities Depository

Notwithstanding any provision of the Indenture to the contrary:

The Bonds shall be initially issued as fully registered Bonds, registered in the name of “Cede & Co.,” as nominee of the Securities Depository and shall be evidenced by one Bond in the total aggregate principal amount of the Bonds. Registered ownership of the Bonds, or any portion thereof, may not thereafter be transferred except: (1) to any successor of the Securities Depository or its nominee, or to any substitute depository designated pursuant to clause (2) of this paragraph (“substitute depository”); provided that any successor of the Securities Depository or substitute depository shall be qualified under any applicable laws to provide the service proposed to be provided by it; (2) to any substitute depository designated by the Issuers and not objected to by the Trustee, upon (i) the resignation of the Securities Depository or its successor (or any substitute depository or its successor) from its functions as depository or (ii) a determination by the Issuers that the Securities Depository or its successor (or any substitute depository or its successor) is no longer able to carry out its functions as depository; provided that any such substitute depository shall be qualified under any applicable laws to provide the services proposed to be provided by it; or (3) to any Person as provided below, upon (i) the resignation of the Securities Depository or its successor (or substitute depository or its successor) from its functions as depository; provided that no substitute depository which is not objected to by

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the Trustee can be obtained or (ii) a determination by the Issuers that it is in the best interests of the Issuers to remove the Securities Depository or its successor (or any substitute depository or its successor) from its functions as depository.

In the case of any transfer pursuant to clause (1) or clause (2) of the immediately preceding paragraph, upon receipt of the Outstanding Bonds by the Trustee, together with a Certificate of the Fund to the Trustee, a single new Bond shall be executed and delivered in the aggregate principal amount of the Bonds then Outstanding, registered in the name of such successor or such substitute depository, or their nominees, as the case may be, all as specified in such Certificate of the Fund. In the case of any transfer pursuant to clause (3) of the immediately preceding paragraph, upon receipt of the Outstanding Bonds by the Trustee together with a Certificate of the Fund to the Trustee, new Bonds shall be executed and delivered in such denominations and registered in the names of such persons as are requested in such a Certificate of the Fund, subject to the limitations of the Indenture, provided the Trustee shall not be required to deliver such new Bonds within a period less than 60 days from the date of receipt of such a Certificate of the Fund.

In the case of partial redemption or an advance refunding of the Bonds evidencing all or a portion of the principal amount Outstanding, the Securities Depository shall make an appropriate notation on the Bonds indicating the date and amounts of such reduction in principal, in form acceptable to the Trustee.

The Issuers and the Trustee shall be entitled to treat the person in whose name any Bond is registered as the Bondholder thereof for all purposes of the Indenture and any applicable laws, notwithstanding any notice to the contrary received by the Issuers or the Trustee. With respect to Bonds registered in the registry books kept by the Trustee in the name of Cede & Co., as nominee of the Securities Depository, the Issuers and the Trustee shall have no responsibility or obligation with respect to the payment to any Beneficial Owner or any other person, other than the Securities Depository, of any amount with respect to the principal of and premium, if any, and interest on the Bonds only to or upon the order of the Securities Depository, and all such payments shall be valid and effective fully to satisfy and discharge the Issuers' obligations with respect to the principal of and premium, if any, and interest on the Bonds to the extent of the sum or sums so paid.

Particular Covenants

Punctual Payment. The Trustee shall, through funds provided by the Issuers, punctually pay the principal, Redemption Price or Make-Whole Redemption Price and interest to become due in respect of all the Bonds, in strict conformity with the terms of the Bonds and of the Indenture, according to the true intent and meaning thereof, from funds made available by the Issuers. When and as paid in full, all Bonds shall be delivered to the Trustee and shall forthwith be cancelled by the Trustee and delivered to, or upon the order of, the Issuers.

Compliance with Indenture. The Issuers covenant not to issue, or permit to be issued, any Bonds in any manner other than in accordance with the provisions of the Indenture, and shall not suffer or permit any Default (within their power to prevent) to

occur under the Indenture, but shall faithfully observe and perform all the covenants, conditions and requirements of the Indenture.

Against Encumbrances. The Issuers shall not create or suffer to be created any pledge, lien, charge or other encumbrance upon all or any part of the Indenture Fund or any of the amounts held therein pledged or assigned under the Indenture while any of the Bonds are Outstanding, except the pledge and assignment created by the Indenture and any statutory liens or other liens arising by operation of law. The Issuers will assist the Trustee in contesting, at the expense of the Issuers, any pledge, lien, charge or other encumbrance that does not comply with the provisions of the Indenture.

Power to Issue Bonds and Make Pledge and Assignment. The Issuers are duly authorized to issue the Bonds and to enter into the Indenture and to pledge and assign the funds and accounts purported to be pledged and assigned under the Indenture in the manner and to the extent provided in the Indenture. The Bonds are and will be legal, valid and binding obligations of the Issuers in accordance with their terms, and the Issuers and the Trustee shall at all times, to the extent permitted by law, defend, preserve and protect said pledge and assignment of funds and accounts and all the rights of the Bondholders under the Indenture against all claims and demands of all Persons whomsoever, subject to the limitations set forth in the Indenture relating to the Trustee.

Accounting Records and Financial Statements. With respect to each fund or account established and maintained by the Trustee pursuant to the Indenture, the Trustee shall at all times keep, or cause to be kept, proper books of record and account prepared in accordance with corporate trust accounting standards, in which complete and accurate entries shall be made of all transactions relating to the receipt, investment, disbursement, allocation and application of payments received from the Issuers and the proceeds of the Bonds. Such books of record and account shall be available for inspection by the Issuers and any Bondholder, or his or her agent or representative duly authorized in writing, at reasonable hours (during the normal business hours of the Trustee) and under reasonable circumstances.

The Trustee shall furnish or make available to the Issuers within 30 days after the end of each month, a complete financial statement (which need not be audited and may be its regular account statements) covering receipts, disbursements, allocation and application of any moneys (including proceeds of Bonds) in any of the funds and accounts established pursuant to the Indenture for such month; provided that the Trustee shall not be obligated to deliver an accounting for any fund or account that has a balance of \$0.00 and has not had any activity since the last reporting.

Maintenance of Corporate Existence. Each of the Issuers shall maintain its existence under the laws of Maryland and shall not dissolve or dispose of all or substantially all its assets (excluding any dispositions in the ordinary course of either Issuer's operations involving the purchase and sale of real properties), or consolidate with or merge into another entity or entities, or permit one or more other entities to consolidate with or merge into it, except that it may consolidate with or merge into one or more other entities or permit one or more other entities to consolidate with or merge into it, or transfer

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all or substantially all of its assets to one or more other entities (and thereafter dissolve or not dissolve as it may elect), if (1) the surviving, resulting or transferee entity or entities each is a corporation having certain status and powers set forth in the Indenture, (2) the transaction does not result in a conflict, breach or default under any bond, indenture, note or other evidence of indebtedness of the Fund or SCI, the charter or by-laws of the Fund or SCI, any gifts, bequests or devises pledged to or received by the Fund or SCI, or any contract, lease or other instrument to which the Fund or SCI is a party or by which it is bound, (3) the surviving, resulting or transferee entity or entities each (a) assumes by written agreement with the Trustee all the obligations of such Issuer under the Indenture, (b) notifies the Trustee in writing of any change in the name of such Issuer, and (c) executes, delivers, registers, records and files such other instruments the Trustee may reasonably require to confirm, perfect or maintain the security granted under the Indenture. Notwithstanding the foregoing, SCI may merge into the Fund or, if SCI ceases to have assets and revenues greater than \$50,000 in the aggregate, may be dissolved; provided that the Issuers shall execute a Supplemental Indenture to amend the Indenture in accordance with the Indenture. *Continuing Disclosure.* The Issuers will be required to post on the Fund's website (or other generally available electronic media) within 180 days of the Issuers' fiscal year a copy of the Issuers' audited combined financial statements, as well as information with respect to the business of the Issuers that includes, at a minimum, information of the kind, and in substantially the same form and scope, found in Appendix A to the Offering Memorandum in the tables captioned "Five-Year Project History" (under the section "Conservation Acquisition") and "Working Forest Fund Acquisitions Summary by Year."

Deemed Representations of the Bondholders. By acquiring the Bonds, each Holder will be deemed to represent that either (i) it is not acquiring Bonds with assets of an ERISA Plan or other plan subject to the prohibited transaction restrictions of ERISA, the Code, or similar law, or (ii) the acquisition and holding of the Bonds will not give rise to a nonexempt prohibited transaction.

Events of Default and Remedies of Bondholders

Events of Default. The following events shall be "Events of Default": (a) default in the due and punctual payment of the principal, Redemption Price or Make-Whole Redemption Price of any Bond when and as the same shall become due and payable, whether at maturity as therein expressed, by proceedings for redemption, by acceleration or otherwise; (b) default in the due and punctual payment of any interest on any Bond that continues more than 5 days from the date that such interest shall become due and payable; (c) default by either Issuer in the performance or observance of any of the other covenants, agreements or conditions on its part contained in the Indenture or in the Bonds (other than the Continuing Disclosure, a covenant described above), if such default shall have continued for a period of 60 days after written notice thereof, specifying such default and requiring the same to be remedied and stating that such notice is a "Notice of Default" under the Indenture, shall have been given to the Issuers by the Trustee, or to the Issuers and the Trustee by the Holders of not less than a majority in aggregate principal amount of the Bonds at the time Outstanding; (d) the commencement by either Issuer of a voluntary case under the federal bankruptcy laws, or if either Issuer shall become insolvent or unable

to pay its debts as they become due, or shall make an assignment for the benefit of creditors, or shall apply for, consent to or acquiesce in the appointment of, or taking possession by, a trustee, receiver, custodian or similar official or agent for itself or any substantial part of its property; (e) the appointment of a trustee, receiver, custodian or similar official or agent for either Issuer or for any substantial part of its property and such trustee or receiver shall not be discharged within 60 days; or (f) an order or decree for relief in an involuntary case under the federal bankruptcy laws shall be entered against either Issuer, or a petition seeking reorganization, readjustment, arrangement, composition, or other similar relief as to it under the federal bankruptcy laws or any similar law for the relief of debtors shall be brought against it and shall be consented to by it or shall remain undismissed for 60 days.

Acceleration of Maturity. If an Event of Default shall occur, then, and in each and every such case during the continuance of such Event of Default, the Trustee may, upon notice in writing to the Issuers, declare the principal of all the Bonds then Outstanding, and the interest accrued thereon, to be due and payable immediately, and upon any such declaration by the Trustee the same shall become and shall be immediately due and payable, anything in the Indenture or in the Bonds contained to the contrary notwithstanding.

Any such declaration, however, is subject to the condition that if, at any time after such declaration and before any judgment or decree for the payment of the moneys due shall have been obtained or entered, there shall be deposited with the Trustee a sum sufficient to pay all the principal, Redemption Price or Make-Whole Redemption Price of and interest on the Bonds payment of which is overdue, with interest on such overdue principal at the rate borne by the Bonds, and the reasonable charges and expenses of the Trustee, and any and all other Defaults known to the Trustee (other than in the payment of principal of and interest on the Bonds due and payable solely by reason of such declaration) shall have been made good or cured to the satisfaction of the Trustee or provision deemed by the Trustee to be adequate shall have been made therefor, then, and in every such case, the Trustee shall, on behalf of the Holders of all of the Bonds by written notice to the Issuers, rescind and annul such declaration and its consequences and waive such Default; but no such rescission and annulment shall extend to or shall affect any subsequent Default, or shall impair or exhaust any right or power consequent thereon.

Rights as a Secured Party. The Trustee, as appropriate, may exercise all of the rights and remedies of a secured party under the Uniform Commercial Code with respect to securities in the Indenture Fund, including without limitation the Series 2019 Bond Fund and the Series 2019 Redemption Fund, including the right to sell or redeem such securities and the right to retain the securities in satisfaction of the obligation of the Issuers under the Indenture. Notice sent by registered or certified mail, postage prepaid, or delivered during business hours, to the Issuers at least 10 days before an event under Uniform Commercial Code Sections 9-610 and 9-611, or any successor provision of law shall constitute reasonable notification of such event.

Application of Moneys Collected by the Trustee. If an Event of Default shall occur and be continuing, all moneys then held or thereafter received by the Trustee under any of the provisions of the Indenture (subject to provisions of the Indenture requiring moneys to

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be held for payment of particular Bonds) shall be applied by the Trustee as follows and in the following order:

(A) To the payment of reasonable fees and expenses of the Trustee (including reasonable fees and disbursements of its counsel) incurred in and about the performance of its powers and duties under the Indenture;

(B) To the payment of any expenses necessary in the opinion of the Trustee to protect the interests of the Holders of the Bonds; and

(C) To the payment of the principal, Redemption Price or Make-Whole Redemption Price of and interest then due on the Bonds (upon presentation of the Bonds to be paid, and stamping thereon of the payment if only partially paid, or surrender thereof if fully paid) subject to the provisions of the Indenture, as follows:

(1) Unless the principal of all of the Bonds shall have become or have been declared due and payable,

First: To the payment to the Persons entitled thereto of all installments of interest then due in the order of the maturity of such installments, and, if the amount available shall not be sufficient to pay in full any installment or installments due on the same date, then to the payment thereof ratably, according to the amounts due thereon, to the Persons entitled thereto, without any discrimination or preference; and

Second: To the payment to the Persons entitled thereto of the unpaid principal, Redemption Price or Make-Whole Redemption Price of any Bonds which shall have become due, whether at maturity or by call for redemption, in the order of their due dates, with interest on the overdue principal at the rate borne by the Bonds, and, if the amount available shall not be sufficient to pay in full all the Bonds due on any date, together with such interest, then to the payment thereof ratably, according to the amounts of principal, Redemption Price or Make-Whole Redemption Price due on such date to the Persons entitled thereto, without any discrimination or preference.

(2) If the principal of all of the Bonds shall have become or have been declared due and payable, to the payment of the principal and interest then due and unpaid upon the Bonds, with interest on the overdue principal at the rate borne by the Bonds, and, if the amount available shall not be sufficient to pay in full the whole amount so due and unpaid, then to the payment thereof ratably, without preference or priority of principal over interest, or of interest over principal, or of any installment of interest over any other installment of interest, or of any Bond over any other Bond, according to the amounts due respectively for principal and interest, to the Persons entitled thereto without any discrimination or preference.

Trustee to Represent Bondholders. The Trustee is irrevocably appointed (and the successive respective Holders of the Bonds, by taking and holding the same, shall be

conclusively deemed to have so appointed the Trustee) as trustee and true and lawful attorney-in-fact of the Holders of the Bonds for the purpose of exercising and prosecuting on their behalf such rights and remedies as may be available to such Holders under the provisions of the Bonds, the Indenture and applicable provisions of any law. Upon the occurrence and continuance of an Event of Default or other occasion giving rise to a right in the Trustee to represent the Bondholders, the Trustee in its discretion may, and upon the written request of the Holders of not less than a majority in aggregate principal amount of the Bonds then Outstanding, and upon being indemnified to its satisfaction therefor, shall, proceed to protect or enforce its rights or the rights of such Holders by such appropriate action, suit, mandamus or other proceedings as it shall deem most effectual to protect and enforce any such right, at law or in equity, either for the specific performance of any covenant or agreement contained in the Indenture, or in aid of the execution of any power granted in the Indenture, or for the enforcement of any other appropriate legal or equitable right or remedy vested in the Trustee, or in such Holders under the Bonds, the Indenture or any applicable law; and upon instituting such proceeding, the Trustee shall be entitled, as a matter of right, to the appointment of a receiver of the amounts pledged under the Indenture, pending such proceedings. If more than one such request is received by the Trustee from the Holders, the Trustee shall follow the written request executed by the Holders of the greatest percentage (which percentage shall be, in any case, not less than a majority in aggregate principal amount) of the Bonds then Outstanding. All rights of action under the Indenture or the Bonds or otherwise may be prosecuted and enforced by the Trustee without the possession of any of the Bonds or the production thereof in any proceeding relating thereto, and any such suit, action or proceeding instituted by the Trustee shall be brought in the name of the Trustee for the benefit and protection of all the Holders of such Bonds, subject to the provisions of the Indenture.

Bondholders' Direction of Proceedings. The Holders of a majority in aggregate principal amount of the Bonds then Outstanding shall have the right, by an instrument or concurrent instruments in writing executed and delivered to the Trustee, and upon indemnifying the Trustee to its satisfaction therefor, to direct the time, method and place of conducting all remedial proceedings taken by the Trustee under the Indenture, provided that such direction shall not be otherwise than in accordance with law and the provisions of the Indenture, and that the Trustee shall have the right to decline to follow any such direction which in the opinion of the Trustee would be unjustly prejudicial to Bondholders not parties to such direction.

Limitation on Bondholder's Right to Sue. No Holder of any Bond shall have the right to institute any suit, action or proceeding at law or in equity, for the protection or enforcement of any right or remedy under the Indenture or any applicable law with respect to such Bond, unless (1) such Holder shall have given to the Trustee written notice of the occurrence of an Event of Default; (2) the Holders of not less than a majority in aggregate principal amount of the Bonds then Outstanding shall have made written request upon the Trustee to exercise the powers granted in the Indenture or to institute such suit, action or proceeding in its own name; (3) such Holder or said Holders shall have tendered to the Trustee indemnity satisfactory to it against the costs, expenses and liabilities to be incurred in compliance with such request; and (4) the Trustee shall have refused or omitted to

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comply with such request for a period of 60 days after such written request shall have been received by, and said tender of indemnity shall have been made to, the Trustee.

Such notification, request, tender of indemnity and refusal or omission are declared by the Indenture, in every case, to be conditions precedent to the exercise by any Holder of Bonds of any remedy under the Indenture or under law; it being understood and intended that no one or more Holders of Bonds shall have any right in any manner whatever by his or their action to affect, disturb or prejudice the security of the Indenture or the rights of any other Holders of Bonds, or to enforce any right under the Indenture or applicable law with respect to the Bonds, except in the manner provided in the Indenture, and that all proceedings at law or in equity to enforce any such right shall be instituted, had and maintained in the manner provided in the Indenture and for the benefit and protection of all Holders of the Outstanding Bonds, subject to the provisions of the Indenture.

Absolute Obligation of Fund; Joint and Several Obligation. Notwithstanding any other provision of the Indenture, or in the Bonds, nothing shall affect or impair the obligation of the Issuers, which is absolute and unconditional, to pay the principal, Redemption Price or Make-Whole Redemption Price of and interest on the Bonds to the respective Holders of the Bonds at their respective dates of maturity, or upon call for redemption, as provided in the Indenture, or, subject to the provisions of the Indenture regarding limitation on Bondholders' right to sue, affect or impair the right of such Holders to enforce such payment by virtue of the contract embodied in the Bonds. The obligations under the Indenture shall be the joint and several obligation of each of the Fund and SCI.

Termination of Proceedings. In case any proceedings taken by the Trustee or any one or more Bondholders on account of any Event of Default shall have been discontinued or abandoned for any reason or shall have been determined adversely to the Trustee or the Bondholders, then in every such case the Issuers, the Trustee and the Bondholders, subject to any determination in such proceedings, shall be restored to their former positions and rights under the Indenture, severally and respectively, and all rights, remedies, powers and duties of the Issuers, the Trustee and the Bondholders shall continue as though no such proceedings had been taken.

Remedies Not Exclusive. No remedy conferred in the Indenture upon or reserved to the Trustee or to the Holders of the Bonds is intended to be exclusive of any other remedy or remedies, and each and every such remedy, to the extent permitted by law, shall be cumulative and in addition to any other remedy given under the Indenture or now or hereafter existing at law or in equity or otherwise.

Delay or Omission Not Waiver. No delay or omission of the Trustee or of any Holder of the Bonds to exercise any right or power arising upon the occurrence of any Default shall impair any such right or power or shall be construed to be a waiver of any such Default or an acquiescence therein; and every power and remedy given by the Indenture to the Trustee or to the Holders of the Bonds may be exercised from time to time and as often as may be deemed expedient.

Waiver of Past Defaults. The Trustee may, and upon written request of the Holders of not less than a majority in aggregate principal amount of the Outstanding Bonds shall, on behalf of the Holders of all the Bonds waive any past Default under the Indenture and its consequences, except a Default: (A) in the payment of the principal, Redemption Price or Make-Whole Redemption Price of or interest on any Bond, or (B) in respect of a covenant or other provision of the Indenture which, pursuant to the Indenture, cannot be modified or amended without the consent of the Holder of each Outstanding Bond affected. Upon any such waiver, such Default shall cease to exist, and any Event of Default arising therefrom shall be deemed to have been cured, for every purpose of the Indenture, but no such waiver shall extend to any subsequent or other Default or impair any right consequent thereon.

Undertaking for Costs. Subject to the provisions of the Indenture regarding the Trustee's rights to compensation and indemnification, the parties to the Indenture agree, and each Holder of any Bond by such Person's acceptance thereof shall be deemed to have agreed, that any court may in its discretion require, in any suit for the enforcement of any right or remedy under the Indenture, or in any suit against the Trustee for any action taken or omitted by it as Trustee, the filing by any party litigant in such suit of an undertaking to pay the costs of such suit, and that such court may in its discretion assess reasonable costs, including reasonable attorneys fees, against any party litigant in such suit, having due regard to the merits and good faith of the claims or defenses made by such party litigant; but the provisions of this paragraph shall not apply to any suit instituted by the Trustee or to any suit instituted by any Bondholder or group of Bondholders holding in the aggregate more than a majority in aggregate principal amount of the Outstanding Bonds.

Notice of Default. Upon a Responsible Officer's actual knowledge of the existence of any Default under the Indenture, the Trustee shall notify the Issuers in writing as soon as practicable but in any event within 5 Business Days.

Upon a Responsible Officer's actual knowledge of the existence of any Default under the Indenture, the Trustee shall transmit by mail to all Bondholders, as their names and addresses appear in the bond register, notice of such Default under the Indenture within 90 days, unless such Default shall have been cured or waived; provided, however, that, except in the case of a Default in the payment of the principal, Redemption Price or Make-Whole Redemption Price of or interest on any Bond, the Trustee shall be protected in withholding such notice if and so long as the board of directors, the executive committee or a trust committee of directors or Responsible Officers of the Trustee in good faith determine that the withholding of such notice is in the interest of the Bondholders; and provided, further, that in the case of any Default of the character specified in (c) under "Events of Default" above, no such notice to Bondholders shall be given until at least 30 days after the occurrence thereof.

Trustee May File Proofs of Claim. In case of the pendency of any receivership, insolvency, liquidation, bankruptcy, reorganization, arrangement, adjustment, composition or other judicial proceeding relative to the Issuers or any other obligor upon the Bonds or the property of the Issuers or of such other obligor or their creditors, the Trustee (irrespective of whether the principal of the Bonds shall then be due and payable as therein

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expressed or by declaration or otherwise and irrespective of whether the Trustee shall have made any demand on the Issuers for the payment of overdue principal or interest) shall be entitled and empowered, by intervention in such proceeding or otherwise: (1) to file and prove a claim for the whole amount of principal (or Redemption Price or Make-Whole Redemption Price, as applicable) and interest owing and unpaid in respect of the Bonds and to file such other papers or documents as may be necessary or advisable in order to have the claims of the Trustee (including any claim for the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel including expenses and fees of outside counsel and allocated costs of internal legal counsel) and of the Bondholders allowed in such judicial proceeding; and (2) to collect and receive any moneys or other property payable or deliverable on any such claims and to distribute the same; and any receiver, assignee, trustee, liquidator or sequestrator (or other similar official) in any such judicial proceeding is, by the Indenture, authorized by each Bondholder to make such payments to the Trustee and, in the event that the Trustee shall consent to the making of such payments directly to the Bondholders, to pay to the Trustee any amount due to it for the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel including expenses, costs and fees of outside counsel and allocated costs of internal legal counsel, and any other amounts due the Trustee under the Indenture.

Nothing contained in the Indenture shall be deemed to authorize the Trustee to authorize or consent to or accept or adopt on behalf of any Bondholder any plan of reorganization, arrangement, adjustment or composition affecting the Bonds or the rights of any Holder thereof, or to authorize the Trustee to vote in respect of the claim of any Bondholder in any such proceeding. When the Trustee incurs costs or expenses (including legal fees, costs and expenses) or renders services after the occurrence of an Event of Default, such costs and expenses and the compensation for such services are intended to constitute expenses of administration under any federal or state bankruptcy, insolvency, arrangement, moratorium, reorganization or other debtor relief law.

The Trustee

Duties, Immunities and Liabilities of Trustee. The Trustee shall, prior to an Event of Default, and after the curing or waiver of all Events of Default which may have occurred, perform such duties and only such duties as are specifically set forth in the Indenture, and, except to the extent required by law, no implied covenants or obligations shall be read into the Indenture against the Trustee. The Trustee shall, during the existence of any Event of Default (which has not been cured or waived), exercise such of the rights and powers vested in it by the Indenture, and use the same degree of care and skill in their exercise, as a prudent person would exercise or use under the circumstances in the conduct of such person's own affairs.

The Fund may, upon 30 days written notice, remove the Trustee at any time unless an Event of Default shall have occurred and then be continuing, and shall remove the Trustee if at any time requested to do so by an instrument or concurrent instruments in writing signed by the Holders of not less than a majority in aggregate principal amount of the Bonds then Outstanding (or their attorneys duly authorized in writing) or if at any time

the Trustee shall cease to be eligible in accordance with the Indenture, or shall become incapable of acting, or shall be adjudged a bankrupt or insolvent, or a receiver of the Trustee or its property shall be appointed, or any public officer shall take control or charge of the Trustee or of its property or affairs for the purpose of rehabilitation, conservation or liquidation, in each case by giving written notice of such removal to the Trustee, and thereupon shall appoint a successor Trustee by an instrument in writing.

The Trustee may at any time resign by giving written notice of such resignation to the Issuers and by giving the Bondholders notice of such resignation by mail at the addresses shown on the registration books maintained by the Trustee. Upon receiving such notice of resignation, the Fund shall promptly appoint a successor Trustee by an instrument in writing. The Trustee shall not be relieved of its duties until such successor Trustee has accepted appointment.

Any removal or resignation of the Trustee and appointment of a successor Trustee shall become effective upon acceptance of appointment by the successor Trustee. If no successor Trustee shall have been appointed and have accepted appointment within 30 days of giving notice of removal or notice of resignation as aforesaid, the resigning Trustee or any Bondholder (on behalf of itself and all other Bondholders) may petition any court of competent jurisdiction for the appointment of a successor Trustee, and such court may thereupon, after such notice (if any) as it may deem proper, appoint such successor Trustee. Any successor Trustee appointed under the Indenture, shall signify its acceptance of such appointment by executing and delivering to the Issuers and to its predecessor Trustee a written acceptance thereof, and thereupon such successor Trustee, without any further act, deed or conveyance, shall become vested with all the moneys, estates, properties, rights, powers, trusts, duties and obligations of such predecessor Trustee, with like effect as if originally named Trustee in the Indenture; but, nevertheless at the written request of the successor Trustee, such predecessor Trustee shall execute and deliver any and all instruments of conveyance or further assurance and do such other things as may reasonably be required for more fully and certainly vesting in and confirming to such successor Trustee all the right, title and interest of such predecessor Trustee in and to any property held by it under the Indenture and shall pay over, transfer, assign and deliver to the successor Trustee any money or other property subject to the trusts and conditions set forth in the Indenture. Upon request of the successor Trustee, the Issuers shall execute and deliver any and all instruments as may be reasonably required for more fully and certainly vesting in and confirming to such successor Trustee all such moneys, estates, properties, rights, powers, trusts, duties and obligations. Upon acceptance of appointment by a successor Trustee as provided in this paragraph, the Issuers shall mail or cause to be mailed (at the expense of the Issuers) a notice of the succession of such Trustee to the trusts under the Indenture to the Bondholders at the addresses shown on the registration books maintained by the Trustee. If the Issuers fail to mail such notice within 15 days after acceptance of appointment by the successor Trustee, the successor Trustee shall cause such notice to be mailed at the expense of the Issuers.

Any successor Trustee shall be a trust company or bank having trust powers in Maryland, having a combined capital and surplus of (or if such trust company or bank is a member of a bank holding system, its bank holding company shall have a combined capital

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and surplus of) at least fifty million dollars (\$50,000,000), and subject to supervision or examination by federal or Maryland authority. In case at any time the Trustee shall cease to be eligible in accordance with the provisions of this paragraph, the Trustee shall resign immediately in the manner and with the effect specified in the Indenture.

Preservation and Inspection of Documents. All documents received by the Trustee under the provisions of the Indenture shall be retained in its possession and shall be subject upon prior written notice to the inspection of the Issuers and any Bondholder, and their agents and representatives duly authorized in writing, at reasonable hours (during the normal business hours of the Trustee) and under reasonable conditions.

Modification or Amendment of the Indenture

Amendments Permitted. The Indenture and the rights and obligations of the Issuers and of the Holders of the Bonds and of the Trustee may be modified or amended from time to time and at any time by an indenture or indentures supplemental to the Indenture, which the Issuers and the Trustee may enter into when the written consent of the Holders of a majority in aggregate principal amount of the Bonds then Outstanding shall have been filed with the Trustee. No such modification or amendment shall (1) extend the fixed maturity of any Bond, or reduce the amount of principal thereof, or reduce the rate of interest thereon, or extend the time of payment of interest thereon, or reduce any redemption price or premium payable upon the redemption thereof, without the consent of the Holder of each Bond so affected, or (2) reduce the aforesaid percentage of Bonds the consent of the Holders of which is required to effect any such modification or amendment, or permit the creation of any lien on the Indenture Fund or the amounts pledged under the Indenture prior to or on a parity with the lien created by the Indenture, or deprive the Holders of the Bonds of the lien created by the Indenture on the Indenture Fund and such amounts (except as expressly provided in the Indenture), without the consent of the Holders of all Bonds then Outstanding. It shall not be necessary for the consent of the Bondholders to approve the particular form of any Supplemental Indenture, but it shall be sufficient if such consent shall approve the substance thereof. Promptly after the execution by the Issuers and the Trustee of any Supplemental Indenture pursuant to this paragraph, the Trustee shall mail a notice, setting forth in general terms the substance of such Supplemental Indenture, to the Bondholders at the addresses shown on the registration books maintained by the Trustee. Any failure to give such notice, or any defect therein, shall not, however, in any way impair or affect the validity of any such Supplemental Indenture.

The Indenture and the rights and obligations of the Issuers, of the Trustee and of the Holders of the Bonds may also be modified or amended from time to time and at any time by an indenture or indentures supplemental to the Indenture, which the Issuers and the Trustee may enter into without the necessity of obtaining the consent of any Bondholders, but only to the extent permitted by law and only for any one or more of the following purposes: (1) to add to the covenants and agreements of the Issuers contained in the Indenture other covenants and agreements thereafter to be observed, to pledge or assign additional security for the Bonds (or any portion thereof), or to surrender any right or power reserved in the Indenture to or conferred upon the Issuers, provided that such covenant, agreement, pledge, assignment or surrender shall not materially adversely affect the

interests of the Holders of the Bonds; (2) to make such provisions for the purpose of curing any ambiguity, inconsistency or omission, or of curing or correcting any defective provision, contained in the Indenture, or in regard to matters or questions arising under the Indenture, as the Issuers or the Trustee may deem necessary or desirable and not inconsistent with the Indenture, and which shall not materially adversely affect the interests of the Holders of the Bonds; (3) to modify, amend or supplement the Indenture or any Supplemental Indenture in such manner as to permit the qualification thereof under the Trust Indenture Act of 1939, as amended, or any similar federal statute hereafter in effect, and to add such other terms, conditions and provisions as may be permitted by said act or similar federal statute, and which shall not materially adversely affect the interests of the Holders of the Bonds (provided, however, that such modifications, amendments, supplements and additions shall be permitted under this paragraph only if qualification under said act or similar federal statute is required by applicable law now or hereafter in effect); (4) to amend the Indenture to remove SCI as an Issuer at any time permitted under the Indenture (*i.e.*, upon the merger of SCI with and into TCF or upon the dissolution of SCI if SCI ceases to have assets and revenues greater than \$50,000); or (5) to provide for the procedures required to permit any Bondholder, at its option, to utilize an uncertificated system of registration of its Bond or to facilitate the registration of the Bonds in the name of a nominee of the Securities Depository in accordance with the provisions of the Indenture.

The Trustee may in its discretion, but shall not be obligated to, enter into any such Supplemental Indenture authorized by either of the two preceding paragraphs which materially adversely affects the Trustee's own rights, duties or immunities under the Indenture or otherwise.

In executing any Supplemental Indenture permitted by the terms described in the preceding three paragraphs, the Trustee shall be entitled to receive, and shall be fully protected in relying upon, an opinion of counsel stating that the execution of such Supplemental Indenture is authorized or permitted by the Indenture and complies with the terms thereof.

Effect of Supplemental Indenture. Upon the execution of any Supplemental Indenture pursuant to the Indenture, the Indenture shall be deemed to be modified and amended in accordance therewith, and the respective rights, duties and obligations under the Indenture of the Issuers, the Trustee and all Holders of Bonds Outstanding shall thereafter be determined, exercised and enforced under the Indenture subject in all respects to such modification and amendment, and all the terms and conditions of any such Supplemental Indenture shall be deemed to be part of the terms and conditions of the Indenture for any and all purposes.

Amendment of Particular Bonds. The provisions of the Indenture regarding modification or amendment of the Indenture shall not prevent any Bondholder from accepting any amendment as to the particular Bonds held by such Bondholder, provided that due notation thereof is made on such Bonds.

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Defeasance

Discharge of Indenture. The Bonds may be paid or discharged by the Issuers or the Trustee on behalf of the Issuers in any of the following ways: (A) by paying or causing to be paid the principal, Redemption Price or Make-Whole Redemption Price of and interest on all Bonds Outstanding, as and when the same become due and payable; (B) by depositing with the Trustee, in trust, at or before maturity, moneys or securities in the necessary amount (as provided in the Indenture) to pay when due or redeem all Bonds then Outstanding; or (C) by delivering to the Trustee, for cancellation by it, all Bonds then Outstanding.

If the Issuers shall also pay or cause to be paid all other sums payable under the Indenture by the Issuers, then and in that case at the election of the Issuers (evidenced by a Certificate of the Fund filed with the Trustee signifying the intention of the Issuers to discharge all such indebtedness and the Indenture and upon receipt by the Trustee of an Opinion of Counsel to the effect that the obligations under the Indenture and the Bonds have been discharged), and notwithstanding that any Bonds shall not have been surrendered for payment, the Indenture and the pledge of the Indenture Fund and all amounts held therein made under the Indenture and all covenants, agreements and other obligations of the Issuers under the Indenture (except as otherwise provided in the Indenture) shall cease, terminate, become void and be completely discharged and satisfied and the Bonds deemed paid.

Discharge of Liability on Bonds. Upon the deposit with the Trustee, in trust, at or before maturity, of money or securities in the necessary amount (as provided in the Indenture) to pay or redeem any Outstanding Bond (whether upon or prior to its maturity or the redemption date of such Bond), provided that, if such Bond is to be redeemed prior to maturity, notice of such redemption shall have been given as provided in the Indenture or provision satisfactory to the Trustee shall have been made for the giving of such notice, then all liability of the Issuers in respect of such Bond shall cease, terminate and be completely discharged, and the Bonds shall be deemed paid, except only that thereafter the Holder thereof shall be entitled to payment of the principal, Redemption Price or Make-Whole Redemption Price of and interest on such Bond by the Issuers, and the Issuers shall remain liable for such payments, but only out of such money or securities deposited with the Trustee as aforesaid for their payment, subject, however, to the provisions of the Indenture regarding payment of Bonds after discharge of the Indenture.

The Issuers may at any time surrender to the Trustee for cancellation by it any Bonds previously issued and delivered, which the Issuers may have acquired in any manner whatsoever, and such Bonds, upon such surrender and cancellation, shall be deemed to be paid and retired.

Payment of Bonds After Discharge of Indenture. Notwithstanding any provisions of the Indenture, any moneys held by the Trustee in trust for the payment of the principal, Redemption Price or Make-Whole Redemption Price of, or interest on, any Bonds and remaining unclaimed for three years (or, if shorter, one day before such moneys would escheat to the state under then applicable New York law) after such principal, Redemption

Price or Make-Whole Redemption Price or interest, as the case may be, has become due and payable (whether at maturity or upon call for redemption), shall be repaid to the Issuers free from the trusts created by the Indenture, and all liability of the Trustee and the Issuers with respect to such moneys shall thereupon cease; provided, however, that before the repayment of such moneys to the Issuers as aforesaid, the Trustee may (at the cost of the Issuers) first mail to the Holders of Bonds which have not yet been paid, at the addresses shown on the registration books maintained by the Trustee, a notice, in such form as may be deemed appropriate by the Trustee with respect to the Bonds so payable and not presented and with respect to the provisions relating to the repayment to the Issuers of the moneys held for the payment thereof.

Substitute Defeasance Securities. At the written Request of the Fund, and upon compliance with the conditions set forth below, the Trustee shall redeem, sell, transfer or otherwise dispose of any Investment Securities held by the Trustee pursuant to the Indenture and purchase substitute Investment Securities, as identified by the Issuers, in principal amounts and bearing interest at rates such that the principal of and interest on such substitute Investment Securities to be purchased, together with the principal of and interest on any securities then held by the Trustee pursuant to the Indenture that are not to be redeemed, sold, transferred or otherwise disposed of, shall be sufficient to pay the principal, Redemption Price or Make-Whole Redemption Price and interest as the same become due. The Trustee shall purchase such substitute Investment Securities with the proceeds derived from the redemption, sale, transfer, or other disposition on the date of such transaction. The transactions may be consummated only if the Trustee shall have received (i) a report prepared by a firm of independent, certified public accountants selected by the Fund who are recognized on a nationwide basis for skill and expertise in the preparation of such verifications confirming that the amounts of moneys and investments remaining after such payment will mature and will earn interest in such amounts and at such times so that sufficient moneys will be available to pay when due all outstanding installments of interest on and principal, Redemption Price and Make-Whole Redemption Price of the Bonds; and (ii) an Opinion of Counsel selected by the Issuers to the effect that such substitution of Investment Securities is permitted under the Indenture. If, following any such substitution of Investment Securities, the funds held by the Trustee under the Indenture contain moneys that will not be required for the payment of installments of interest on and principal, Redemption Price or Make-Whole Redemption Price of the Bonds, the Issuers may direct that such excess moneys be promptly paid over to the Issuers.

Purchase of Bonds by the Issuers. The Issuers may purchase the Bonds on the open market and tender them to the Trustee for cancellation at any time. If, following any such tender of Bonds by the Issuers, the funds held by the Trustee under the Indenture contain moneys that will not be required for the payment of installments of interest on and principal, Redemption Price or Make-Whole Redemption Price of the Bonds, the Fund may direct in writing that such excess moneys be promptly paid over to the Issuers; provided, however, that (i) the Trustee and the Issuers shall, at the expense of the Issuers, confirm by a mathematical verification prepared by a firm of independent, certified public accountants selected by the Fund who are recognized on a nationwide basis for skill and expertise in the preparation of such verifications that the amounts of moneys and investments

APPENDIX C

remaining after such payment will mature and will earn interest in such amounts and at such times so that sufficient moneys will be available to pay when due all outstanding installments of interest on and principal, Redemption Price and Make-Whole Redemption Price of the Bonds; and (ii) the Trustee shall have received an Opinion of Counsel selected by the Issuers to the effect that such purchase, tender and cancellation is permitted under the Indenture.

Limitation of Rights to Parties and Bondholders

Nothing in the Indenture or in the Bonds expressed or implied is intended or shall be construed to give to any Person other than the Issuers, the Trustee and the Holders of the Bonds, any legal or equitable right, remedy or claim under or in respect of the Indenture or any covenant, condition or provision therein contained; and all such covenants, conditions and provisions are and shall be held to be for the sole and exclusive benefit of the Issuers, the Trustee and the Holders of the Bonds.

Evidence of Rights of Bondholders

Any request, consent or other instrument required or permitted by the Indenture to be signed and executed by Bondholders may be in any number of concurrent instruments of substantially similar tenor and shall be signed or executed by such Bondholders in Person or by an agent or agents duly appointed in writing.

The fact and date of the execution by any Person of any such request, consent or other instrument or writing may be proved by the certificate of any notary public or other officer of any jurisdiction, authorized by the laws thereof to take acknowledgments of deeds, certifying that the Person signing such request, consent or other instrument acknowledged to him the execution thereof, or by an affidavit of a witness of such execution duly sworn to before such notary public or other officer.

The ownership of Bonds shall be proved by the registration books for the Bonds held by the Trustee.

Any request, consent, or other instrument or writing of the Holder of any Bond shall bind every future Holder of the same Bond and the Holder of every Bond issued in exchange therefor or in lieu thereof, in respect of anything done or suffered to be done by the Trustee or the Issuers in accordance therewith or reliance thereon.

Waiver of Personal Liability

No member, officer, agent or employee of the Issuers shall be individually or personally liable for the payment of the principal, Redemption Price or Make-Whole Redemption Price of or interest on the Bonds or be subject to any personal liability or accountability by reason of the issuance thereof or the performance of any duty under the Indenture; but nothing contained in the Indenture shall relieve any such member, officer, agent or employee from the performance of any official duty provided by law or by the Indenture.

Governing Law; Venue

The Indenture shall be construed in accordance with and governed by the laws of the State of New York applicable to contracts made and performed in the State of New York, without regard to conflict of law principles. The Indenture shall be enforceable in the State of New York, and any action arising under the Indenture shall (unless waived by the Issuers) be filed and maintained in the State of New York.

CUSIP Numbers

Neither the Trustee nor the Issuers shall be liable for any defect or inaccuracy in the CUSIP number that appears on any Bond or in any redemption notice.

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THE
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