The Conservation Note Prospectus

Up to $25,000,000

0% to 0.75% for a 1-year term

0% to 1.25% for a 3-year term

0% to 2.00% for a 5-year term

$25,000 Minimum Investment Requirement**
***Investments may be increased in increments of $1,000.*

Unsecured General Obligation Debt

The minimum investment amount could be raised in the future by The Nature Conservancy.

Investor dollars are not used to pay sales commissions or any other expenses of the offering.

Prospectus dated January 24, 2014.

This Prospectus contains essential information about the Conservation Note (individually, a "Note" and, collectively, the "Notes"), a security that raises capital to finance conservation efforts around the world. The Notes are issued by The Nature Conservancy, a District of Columbia nonprofit corporation that is a tax-exempt 501(c)(3) public charity (the "Conservancy"). The Notes will be administered by Piedmont Fund Services, Inc., a third-party servicing agent retained by the Conservancy and headquartered in Vienna, Virginia. Prospective investors are advised to read this Prospectus carefully prior to making any decisions to invest in the Notes. The Conservancy's world headquarters are located at 4245 North Fairfax Drive, Suite 100, Arlington, Virginia 22203-1606.

This prospectus is intended to provide potential investors with information necessary to make an informed investment decision. However, nothing contained herein is intended as legal, accounting, tax, or investment advice, and it should not be taken as such. A prospective investor should consult his or her own legal counsel and/or financial advisor concerning potential investments in the Notes. An investor must rely on his or her own evaluations of the Conservancy, the Notes, and the terms of this offering, including the merits and risks involved.

In this prospectus and in the course of its operations, the Conservancy will make a number of forward-looking statements. The words "believe," "expect," "intend," "anticipate," "estimate," "project," and other similar expressions identify forward-looking statements, which speak only as of the date the statement was made. Forward-looking statements are inherently subject to risks and uncertainties, some of which cannot be predicted or quantified. Future events and actual results could differ materially from those set forth in, contemplated by, or underlying these forward-looking statements. Statements in this prospectus, including those contained in the section entitled "Risk Factors," describe factors, among others, that could contribute to or cause such differences. No independent examiner has evaluated the reasonableness of the Conservancy's forward-looking projections.

The Note is a high-risk investment that cannot easily be liquidated. Descriptions of some of the risk factors associated with an investment in the Notes can be found beginning on page 3 of this prospectus. However, there can be no assurance that this list is comprehensive. Unforeseen risk factors not included in this prospectus may adversely affect the Conservancy's operations in the future. Furthermore, the Notes are subject to restrictions on transferability and resale and may not be transferred or resold except as permitted under the Securities Act of 1933, as amended (the "Securities Act") and the Securities Exchange Act of 1934, as amended (the "Exchange Act") and applicable state securities laws, or pursuant to registration or exemption therefrom. Investors should be aware that they may be required to bear the financial risks of a high-risk investment for an indefinite period of time.

The return of the funds of any prospective purchaser is dependent upon the financial condition of the Conservancy. From a financial point of view, the Notes should not be a primary investment in relation to the overall size of an investor's portfolio. An investor in the Notes should be able to lose up to his or her entire investment without suffering financial hardship. Investors are encouraged to consider the concept of investment diversification when determining the amount of Notes that would be appropriate for them in relation to their overall investment portfolio and personal financial needs.

A date has not been set for the termination of this offering. The Conservancy reserves the right to suspend the sale of the Notes for a period of time or to reject any specific purchase order, with or without a reason. The Conservancy may accept subscriptions for less than the minimum amount specified in its sole discretion. Payment from each investor will be due upon acceptance of the Investment Application from the investor.

This prospectus contains all of the representations by the Conservancy concerning this offering. Investors are advised to read this prospectus and the investment application form carefully prior to making any decision to purchase the Notes. Investors are cautioned not to rely on any information not expressly set forth in this prospectus. No person has been authorized to give any information or to make any representation in connection with this offering other than those contained in this prospectus, and if given or made, such information or representations must not be relied upon as having been made by the Conservancy.

THE NOTES ARE BEING OFFERED UNDER AN EXEMPTION FROM FEDERAL REGISTRATION PURSUANT TO SECTION 3(A)(4) OF THE SECURITIES ACT AND SECTION 3(C)(10) OF THE INVESTMENT COMPANY ACT OF 1940, AS AMENDED (THE "INVESTMENT COMPANY ACT"). THE SECURITIES AND EXCHANGE COMMISSION HAS NOT MADE AN INDEPENDENT DETERMINATION THAT THESE SECURITIES ARE EXEMPT FROM REGISTRATION. THE NOTES 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 NOTES' EXEMPTION FROM REGISTRATION. THE NOTES WILL NOT BE LISTED ON ANY SECURITIES EXCHANGE.

INVESTORS SHOULD CAREFULLY READ THIS PROSPECTUS IN CONJUNCTION WITH THE DISCLOSURES IN THE CONSERVATION NOTE INVESTMENT APPLICATION FORM FOUND IN APPENDIX D BEFORE INVESTING. THIS FORM MAY ALSO BE OBTAINED FREE OF CHARGE BY CONTACTING PIEDMONT FUND SERVICES USING THE CONTACT INFORMATION PROVIDED IN THIS PROSPECTUS.

THIS PROSPECTUS DOES NOT CONSTITUTE AN OFFER TO SELL OR THE SOLICITATION OF AN OFFER TO BUY FROM ANY PERSON IN ANY STATE OR ANY OTHER POLITICAL JURISDICTION IN WHICH SUCH OFFER OR SOLICITATION MAY NOT LAWFULLY BE MADE. FEDERAL AND STATE SECURITIES LAWS MAY AFFECT THE CONSERVANCY'S ABILITY TO CONTINUE TO SELL NOTES IN CERTAIN STATES.

THESE SECURITIES HAVE NOT BEEN RECOMMENDED BY ANY FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY. FURTHERMORE, THE FOREGOING AUTHORITIES HAVE NOT DETERMINED THE ACCURACY, ADEQUACY, TRUTHFULNESS, OR COMPLETENESS OF THIS DOCUMENT AND HAVE NOT EVALUATED THE MERIT OF THESE SECURITIES, OR APPROVED, DISAPPROVED OR ENDORSED THE OFFERING. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

THE NOTES ARE NOT AND WILL NOT BE INSURED OR GUARANTEED BY THE FEDERAL DEPOSIT INSURANCE COMPANY (FDIC), THE SECURITIES INVESTMENT PROTECTION CORPORATION (SIPC), OR ANY OTHER AGENCY.

FOR RESIDENTS OF ALABAMA ONLY:

THESE SECURITIES ARE OFFERED PURSUANT TO A CLAIM OF EXEMPTION FROM REGISTRATION UNDER SECTION 37(H) OF THE ALABAMA SECURITIES ACT AND SECTION 3(A)(4) OF THE SECURITIES ACT OF 1933. A REGISTRATION STATEMENT RELATING TO THESE SECURITIES HAS NOT BEEN FILED WITH THE ALABAMA SECURITIES COMMISSION OR WITH THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION. NEITHER THE ALABAMA SECURITIES COMMISSION NOR THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION HAS PASSED UPON THE VALUE OF THESE SECURITIES, MADE ANY RECOMMENDATIONS AS TO THEIR PURCHASE, APPROVED OR DISAPPROVED OF THE OFFERING, OR PASSED UPON THE ADEQUACY OR ACCURACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS UNLAWFUL.

FOR RESIDENTS OF INDIANA ONLY:

THE INDIANA SECURITIES DIVISION HAS NOT IN ANY WAY PASSED UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, THE SECURITIES OFFERED, OR PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS.

FOR RESIDENTS OF KENTUCKY ONLY:

THESE SECURITIES ARE ISSUED PURSUANT TO A CLAIM OF EXEMPTION FROM REGISTRATION UNDER SECTION KRS 292.400(9) OF THE KENTUCKY SECURITIES ACT.

FOR RESIDENTS OF OREGON ONLY:

IN MAKING AN INVESTMENT DECISION INVESTORS MUST RELY ON THEIR OWN EXAMINATION OF THE PERSON OR ENTITY CREATING THE SECURITIES AND THE TERMS OF THE OFFERING, INCLUDING THE MERITS AND RISKS INVOLVED. THESE SECURITIES HAVE NOT BEEN RECOMMENDED BY ANY FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY. FURTHERMORE, THE FOREGOING AUTHORITIES HAVE NOT CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THIS DOCUMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE. THESE SECURITIES ARE SUBJECT TO RESTRICTIONS ON TRANSFERABILITY AND RESALE AND MAY NOT BE TRANSFERRED OR RESOLD EXCEPT AS PERMITTED UNDER THE SECURITIES ACT OF 1933 AS AMENDED, PURSUANT TO REGISTRATION OR EXEMPTION THEREFROM. INVESTORS SHOULD BE AWARE THAT THEY WILL BE REQUIRED TO BEAR THE FINANCIAL RISKS OF THIS INVESTMENT FOR AN INDEFINITE PERIOD OF TIME.

FOR RESIDENTS OF SOUTH CAROLINA ONLY:

IF YOU WERE A RESIDENT OF THE STATE OF SOUTH CAROLINA WHEN YOU PURCHASED A NOTE, YOU MAY DECLARE AN “EVENT OF DEFAULT” ON YOUR NOTE ONLY IF ONE OF THE FOLLOWING OCCURS:

• WE DO NOT PAY OVERDUE PRINCIPAL AND INTEREST ON THE NOTE WITHIN THIRTY DAYS AFTER WE RECEIVE WRITTEN NOTICE FROM YOU THAT WE FAILED TO PAY THE PRINCIPAL OR INTEREST WHEN DUE; OR

• A SOUTH CAROLINA RESIDENT WHO OWNS A NOTE OF THE “SAME ISSUE” AS YOUR NOTE (I.E., THE SAME TYPE, TERM AND OFFERING) HAS RIGHTFULLY DECLARED AN EVENT OF DEFAULT AS TO HIS OR HER NOTE.

TO DECLARE AN EVENT OF DEFAULT, YOU MUST SUBMIT A WRITTEN DECLARATION TO US. THE RIGHTFUL DECLARATION OF AN EVENT OF DEFAULT AS TO ANY ONE NOTE OF AN ISSUE CONSTITUTES AN EVENT OF DEFAULT ON THE ENTIRE ISSUE IN SOUTH CAROLINA. UPON A RIGHTFUL DECLARATION OF AN EVENT OF DEFAULT ON A NOTE:

• THE PRINCIPAL AND INTEREST ON YOUR NOTE BECOMES IMMEDIATELY DUE AND PAYABLE;

• IF YOU REQUEST IN WRITING, WE WILL SEND YOU A LIST OF NAMES AND ADDRESSES OF ALL INVESTORS IN THE STATE OF SOUTH CAROLINA WHO OWN A NOTE OF THE SAME ISSUE AS YOUR NOTE; AND

• THE OWNERS OF 25% OR MORE OF THE TOTAL PRINCIPAL AMOUNT OF NOTES OF THE SAME ISSUE OUTSTANDING IN THE STATE OF SOUTH CAROLINA CAN DECLARE THE ENTIRE ISSUE IN THE STATE OF SOUTH CAROLINA DUE AND PAYABLE.

FOR RESIDENTS OF WASHINGTON ONLY:

INVESTORS MAY NOT PURCHASE A NOTE UNLESS PRIOR TO THE PURCHASE THE INVESTOR WAS A MEMBER OF, CONTRIBUTOR TO, OR LISTED AS PARTICIPANTS IN THE CONSERVANCY, OR A RELATIVE OF A MEMBER, CONTRIBUTOR OR PARTICIPANT. ANY PROSPECTIVE

PURCHASER IS ENTITLED TO REVIEW FINANCIAL STATEMENTS OF THE ISSUER WHICH SHALL BE FURNISHED UPON REQUEST. RECEIPT OF NOTICE OF EXEMPTION BY THE WASHINGTON ADMINISTRATOR OF SECURITIES DOES NOT SIGNIFY THAT THE ADMINISTRATOR HAS APPROVED OR RECOMMENDED THESE SECURITIES, NOR THAT THE ADMINISTRATOR HAS PASSED UPON THE OFFERING. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE. THE RETURN OF THE FUNDS OF THE PURCHASER IS DEPENDENT UPON THE FINANCIAL CONDITION OF THE ORGANIZATION.

NOTES ARE NOT OFFERED FOR SALE TO PERSONS LOCATED IN FLORIDA OR TENNESSEE.

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KEY INVESTMENT TERMS	
Issuer:	The Nature Conservancy, a District of Columbia nonprofit corporation that is a tax-exempt 501(c)(3) public charity.
Securities Offered:	Up to $25,000,000 of Unsecured General Obligation Debt
Authorized Denominations:	Minimum investments of $25,000 with increases in increments of $1,000
Term of Investments:	Notes may be purchased for terms of 1 year, 3 years, or 5 years.
Interest Rates and Payment Options:	Interest rates range from 0 to 2% depending on the maturity selected. Investors may elect to receive annual cash interest payments, have interest compounded, or donate interest to the Conservancy.
Offering Period:	No termination date has been set for this offering.
Rating:	Moody's: Aa2
Use of Proceeds:	Proceeds of the offering will be used for general corporate purposes. The Conservancy's mission is to conserve the land and waters on which all life depends. Although the Conservancy will exercise discretion over how these funds are allocated among its conservation activities, it anticipates that the use of proceeds may include: • Acquisition, management and restoration of land or easements for conservation purposes • Bridge financing of land or easement acquisition for subsequent transfer to public and private conservation buyers • Other conservation finance transactions such as debt-for-nature swaps
Distribution and Administration of Notes:	Notes will be sold by the Conservancy. In addition, the Conservancy intends to engage authorized broker-dealers to sell the Notes. Administration of investor accounts, including payment of interest and principal, will be handled by Piedmont Fund Services, Inc., a third-party servicing agent.
Interest Accrual:	Interest begins to accrue upon the date that investor funds are received. Accruals are calculated on an actual over 365 basis.

Ranking:	The Notes constitute unsecured general obligations of the Conservancy. The Conservancy has secured obligations that rank senior to the Notes and has other general unsecured obligations.
Redemption at Investor's Request:	Investors may request early redemption of all or part of any Note. The Conservancy may honor any such request in its sole discretion. Penalties apply for early redemption.
Redemption at the Conservancy's Option	The Conservancy may, at its election, call and redeem any or all of the Notes in whole or in part at any time prior to maturity at a price of the principal amount redeemed plus any accrued and unpaid interest.
Renewal Options:	Investors may renew their Notes at maturity at then-current rates and terms offered by the Conservancy.
Covenants:	The Notes are not subject to any indenture or other covenant.
Risk Factors:	Please see "Risk Factors" beginning on page 3.
Tax Consequences:	The purchase of Notes by an investor is not deductible for federal tax purposes. Any interest paid on the Notes to an investor is taxable. Please see “Tax Consequences” beginning on page 7.

RISK FACTORS

An investment in the Notes involves various material risks, including the loss of principal. Prior to any investment, and in consultation with their financial and legal advisors, investors should carefully consider, among other matters, the following risk factors. There can be no assurance that the following list of risks associated with an investment in a Note is comprehensive. Additional risks not presently known to the Conservancy or that are currently deemed immaterial could also materially and adversely affect the Conservancy's financial condition, results of operations, business, and prospects.

General

Payment of the Notes is dependent upon the ability of the Conservancy to generate revenues sufficient to provide for their payment while meeting operating expenses and other cash requirements. Future revenues and expenses of the Conservancy are subject to future events and conditions that cannot be determined at this time. In addition, the Notes may not remain outstanding until their stated maturity. The discussion herein of risks is not intended as dispositive, comprehensive or definitive, but rather is to summarize certain matters that could affect payment of principal of and interest on the Notes. 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.

Risk Level of Unsecured Investments

The Notes are unsecured general obligations of the Conservancy and are not deposits or obligations of, or guaranteed or endorsed by, any bank. The Conservancy has other outstanding unsecured general obligations as well as secured obligations. The Notes are not insured by any federal or state agency, including the FDIC. Payment of principal and interest will depend solely upon the financial condition of the Conservancy. Further, no sinking fund or other similar deposit has been or will be established by the Conservancy. Therefore, the relative risk level may be higher for the Notes than for other similar securities.

Payment of Debt Service; Revenue Sources

Payment of the Notes depends on the ability of the Conservancy to generate revenues sufficient to cover debt service on the Notes and all other indebtedness of the Conservancy while meeting its operating expenses and other cash requirements. No representation can be made or assurance given that revenues will be realized by the Conservancy in amounts sufficient to make the payments necessary to meet the obligations of the Conservancy and to make debt service payments on the Notes as they become due. Future revenues and expenses of the Conservancy are subject to, among other things, the capabilities of the management of the Conservancy and future economic conditions and other conditions which are unpredictable, and which may affect the revenues of the Conservancy and, therefore, payments of principal of and interest on the Notes as well as other obligations of the Conservancy. The Conservancy's net revenues are subject to a variety of economic and non-economic circumstances, many of which are not within the Conservancy's control. Examples of these factors include, but are not limited to, overall charitable giving in the United States, the success of the Conservancy's conservation land sales, membership programs and other fundraising activities and the effect of federal income tax laws on charitable organizations such as the Conservancy. The Conservancy depends for a substantial portion of its revenues on membership dues, contributions, conservation land sales, fundraising and government and private grants and contracts. There is a risk that revenues from these sources may decrease as a result of the level of popularity of the Conservancy's activities or as a result of general economic conditions which are not within the Conservancy's control. If the Conservancy's unrestricted revenues from these sources were to decrease, it could adversely affect the Conservancy's ability to make the debt service payments on the Notes.

A significant portion of the Conservancy's revenue is derived from grants and donations. 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 Conservancy's ability to meet its obligations to Noteholders.

The Conservancy has a substantial amount of money invested in cash and securities accounts, and a significant portion of the Conservancy's total revenues and support is derived from income earned on investments of the Conservancy's funds. If the Conservancy's securities decline in value or yield, there is a risk that the Conservancy would not receive sufficient income from those investments which, together with revenues from its operations, would allow it to pay its expenses including debt service payments on the Notes and its other debt. While the Conservancy believes that its investments are being managed prudently and that it has adopted policies designed to ensure the prudent management of its investments in the future, there can be no assurance that developments in the securities markets will not have an adverse effect on the market value of those investments and the income generated therefrom. For a discussion of the Conservancy's investment income for recent years, see "Endowment Fund and Investments" in Appendix A hereto.

Payment of the Notes is not secured by any mortgage on, or security interest in, any of the Conservancy's real property or other assets.

Additional Indebtedness; Liens on Assets

The Conservancy may issue additional indebtedness, secured or unsecured, and grant liens or encumbrances on any of its property. The incurrence by the Conservancy of additional indebtedness, secured or unsecured, may adversely affect the Conservancy's ability to make payments required on the Notes. Further, if the Conservancy incurs additional indebtedness, the market perception of the Conservancy's ability to pay debt service on the Notes, regardless of the Conservancy's actual ability to make such payments, may result in a decrease in the market price of the Notes. The Notes are not secured by a lien on any fixed assets of the Conservancy. The granting of mortgages, deeds of trust, security interests and other liens on its properties to secure other obligations of the Conservancy may hinder or preclude realization from such properties of amounts sufficient to pay the Notes if the Conservancy should encounter financial difficulties.

Maintenance of Tax-Exempt Status

The Conservancy has received a letter from the Internal Revenue Service ("IRS") confirming its status as a tax-exempt organization described in Section 501(c)(3) of the Internal Revenue Code of 1986, as amended (the "Code"). To maintain such status, the Conservancy must conduct its operations in a manner consistent with representations previously made to the IRS and with current and future IRS regulations and rulings governing tax-exempt charitable organizations.

The maintenance of the federal tax-exempt status of an organization is contingent on compliance with general rules promulgated in the Code and related regulations regarding the organization and operation of tax-exempt entities, including their operation for charitable purposes and their avoidance of transactions which may cause their earnings or assets to inure to the benefit of private individuals. As these general principles were developed primarily for public charities which do not conduct large-scale technical operations and business activities, they often do not adequately address the myriad of operations and transactions entered into by modem nonprofit organizations with global operations. One of the tools available to the IRS to discipline a tax-exempt entity for private inurement or unlawful private benefit is revocation of the entity's tax-exempt status. Although the IRS has not often revoked the tax-exempt status of an organization, it could do so in the future.

In recent years, the IRS and members of Congress have expressed the view that there should exist more restrictive rules governing the tax-exempt status of 501(c)(3) organizations generally. Future regulations and rulings of the IRS could adversely affect the ability of the Conservancy 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 payment of the Notes. If the Conservancy should fail to meet any of the requirements specified by the Code and regulations thereunder as necessary to maintain its tax-exempt status, the Conservancy, its property, and its revenues could become subject to federal, state and local taxation, and such loss of tax-exempt status would likely have a significant adverse effect on the Conservancy and its operations.

Unrelated Business Income

In recent years, the IRS and state, county and local taxing authorities have been undertaking audits and reviews of the operations of tax-exempt organizations with respect to their exempt activities and the generation of unrelated business taxable income ("UBTI"). The Conservancy has participated in the past and may in the future participate in activities which generate UBTI. Management of the Conservancy believes it has properly accounted for and reported UBTI; nevertheless, an investigation or audit could lead to a challenge which could result in taxes, interest and penalties with respect to unreported UBTI and in some cases could ultimately affect the tax-exempt status of the Conservancy as well as the exclusion from gross income for federal income tax purposes of the interest payable on outstanding tax-exempt debt issued on behalf of the Conservancy.

Liquidity

Some of the capital raised by the Notes may be used to purchase threatened tracts of land and resell them to organizations interested in environmental conservation. As a result, these investments are inherently illiquid. Although the Conservancy's policy is to identify potential buyers before executing any land purchases, there can be no guarantee that the Conservancy will be able to sell the land in a timely manner. As a result, the Conservancy may not have enough cash on hand to repay Noteholders on time or at all.

Litigation

The Conservancy is involved in litigation in the ordinary course of its business. Litigation can be time consuming and costly, and there can be no assurance that the Conservancy will not become involved in litigation that could have a material adverse effect on its business or its ability to repay the Notes when due or at all.

International Investments

Some of the transactions financed by Note sales are conducted in foreign countries. International investments are inherently subject to additional risks including the limited availability of information, currency fluctuations, and the volatility of local political and economic conditions.

Federal and State Regulations

Future changes in federal or state laws, rules, or regulations governing the sale of securities by religious, charitable, or other nonprofit organizations may make it more difficult for the Conservancy to offer the Notes. Such an occurrence could result in a decrease in the amount of the Notes sold by the Conservancy, which could potentially affect the Conservancy's operations and its ability to meet its obligations to Noteholders.

Interest Rates

Investors may select an interest rate from among those offered by the Conservancy. Interest rates for the Note currently range from 0% to 2%. Once a Note is issued with the selected rate, the interest rate will not change prior to maturity. However, the Conservancy may change the rates offered for selection at any time. Should commercial rates rise relative to the rates established in this offering, the Conservancy is not legally obligated to redeem the principal or make a partial redemption of a Note prior to its maturity. If commercial rates fall relative to those established in this offering, the Conservancy may call and redeem some or all of the Notes prior to maturity, and investors may be unable to reinvest at higher interest rates. Interest rates offered for the Notes may not be as high as those offered by other institutions for similar securities. Furthermore, risks of investment in the Notes may be greater than implied by the relatively low interest rates on the Notes.

Risks Associated with Environmental Contamination

If environmental contamination were discovered on land owned by the Conservancy, the federal government could require a clean-up of the site, and the Conservancy could be required to pay all or a part of such clean-up costs, which could be substantial. The Conservancy has no reason to believe that any land owned by it has environmental problems of a material nature. However, there can be no assurances that all of its land is free of liability for environmental concerns.

Interest Rate Swap Risks

The Conservancy has used interest rate swap agreements (the "Swap Agreements") to hedge or modify its exposure to interest rate changes. The Swap Agreements may involve various risks, including, without limitation: risk of early termination at the option of the swap counterparty for any reason on or after July 1, 2010; a required payment upon early termination based on prevailing market rates, at that time, as a result of a downgrade of the credit rating of the Conservancy at any time (affects two of three agreements); credit failure of the counterparty to the Swap Agreements; and other risks. The Swap Agreements may be subject to periodic "mark-to-market" valuations and may have a negative value to the Conservancy. If either the counterparty or the Conservancy terminates a Swap Agreement during a negative value situation, the Conservancy may be subject to a termination payment to the counterparty. Any such payment could be substantial. For a description of the Swap Agreements, see "Interest Rate Exchange Agreements" in Appendix A and Note 14 (Assets and Liabilities carried at fair value) of the "Notes to Consolidated Financial Statements of The Nature Conservancy" in Appendix B hereto.

Penalty for Early Redemption at the Request of an Investor

Please see "Early Redemption by the Conservancy at the Request of an Investor" beginning on page 12 below. There are no penalties if the Conservancy redeems any Note at its option prior to maturity.

Key Personnel

The Conservancy's operations will be dependent upon the efforts of management personnel, who are expected to continue to devote their time to its activities. If any of these executives becomes unable to execute his or her responsibilities, or if the Conservancy is unable to attract and retain skilled management personnel, its business, results of operations, and ability to repay the Notes could be adversely affected.

Market Risk

A portion of the Conservancy's liquid assets is invested in readily marketable securities and is therefore subject to various market risks. As a result, the Conservancy may incur losses if the market values of those investments decline.

Public and Secondary Markets

The nature of this offering does not afford the opportunity of a public or secondary market. Consequently, the purchase of a Note should be viewed as an investment to be held to maturity.

Difficulty of Achieving and/or Measuring Conservation Results

While the Conservancy prides itself on achieving tangible, lasting conservation results at scale, all conservation activities, including those conservation activities funded by the proceeds of this Note, are by nature difficult to achieve and often may not be measurable for years after implementation. There is no guarantee of conservation success or outcome, despite the best efforts of Conservancy staff and partners working on such projects or activities.

Tax Consequences

Although the Conservancy is a 501(c)(3) nonprofit corporation, the interest paid or accrued on the Notes will be taxable as ordinary income to the investor in the earlier of the year it is paid or the year it is accrued, depending on the investor's method of accounting. If interest is reinvested over the life of a Note and is paid at the time of redemption, the investor must nevertheless report the interest as income on the investor's federal income tax returns and state income tax returns, if applicable, as it is reinvested over the life of the Note. Investors will be provided with a Form 1099 in January of each year detailing the interest earned on their investments in the prior year. The Conservancy may withhold federal income tax from each payment of interest if an investor fails to provide the Conservancy with his or her social security or employer identification number at the time of making an investment in the Notes or if the Conservancy is notified that an investor has underreported his or her income to the Internal Revenue Service. Investors will not be taxed on the return of the principal amount of a Note or on the payment of previously accrued and taxed interest. Investors will not receive a receipt for a charitable contribution and will not be entitled to a charitable deduction for the purchase of the Notes.

If an investor (or an investor and his or her spouse together) have invested or loaned more than $250,000 in the aggregate with or to the Conservancy and other charitable organizations that control, are controlled by or under common control with the Conservancy, the investor may be deemed to receive additional taxable interest under Section 7872 of the Internal Revenue Code if the interest paid is below the applicable federal rate, as that term is defined in that Section 7872. In that situation, the Internal Revenue Service may impute income up to that applicable federal rate. Any investor who believes this applies should consult his or her tax advisor.

In the event an investor chooses to donate to the Conservancy interest otherwise payable on the Notes, that donation may be eligible to be treated as a charitable contribution deduction under the Internal Revenue Code because the Conservancy is a recognized 501(c)(3) exempt organization.

This section summarizes some federal income tax consequences of an investment in the Notes based upon the IRC, the regulations promulgated under the IRC and existing administrative interpretations and court decisions. Future legislation, regulations, administrative interpretations, or court decisions could change these authorities either prospectively or retroactively. This summary does not address all aspects of federal income taxation that may be important to an investor in light of his or her particular circumstances or if the investor is subject to special rules, such as rules applicable to financial institutions or tax-exempt organizations or if an investor is not a citizen or resident of the United States.

This discussion of federal income tax consequences was written to support the promotion or marketing of the Notes and is not intended or written to be used, and cannot be used, by any taxpayer for the purpose of avoiding tax penalties. Each prospective investor is advised to consult the investor's own tax counsel or advisor as to the federal state, local, or foreign income or other tax consequences particular to the investor's investment in the Notes.

No Minimum Offering

The sale of the Note is not subject to a minimum offering amount. A low sales volume will not prompt a cancellation of this offering or an early redemption of any outstanding Notes. Because there is no minimum amount of the offering, the estimated proceeds of the offering cannot be determined.

Bankruptcy

The Notes are subject to bankruptcy, insolvency, moratorium, reorganization and other state and federal laws affecting the enforcement of creditors' rights. Bankruptcy proceedings by the Conservancy could have adverse effects on Noteholders that might reduce or delay payments on the Notes.

Note Ratings

There is no assurance that the ratings assigned to the Notes at the time of issuance will not be lowered or withdrawn at any time, which could adversely affect the market price and marketability of the Notes. See "RATINGS" below.

Competition for Contributions

The Conservancy competes for the contributions of donors against other conservation and environmental organizations and other non-profit 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 Conservancy believes that its global reach and long history of conservation efforts provides a competitive advantage, other organizations may be more effective in soliciting donations. The Conservancy's ability to repay the Notes could be adversely affected if it is unable to successfully compete for charitable contributions and other sources of revenue.

Miscellaneous

The paragraphs above discuss certain Noteholders' risks, but are not intended to be a complete enumeration of all risks associated with the purchase or holding of the Notes. Unforeseen circumstances affecting the operations of the Conservancy may affect revenues and payments of principal of and interest on the Notes.

IMPORTANT INFORMATION REGARDING FORWARD-LOOKING STATEMENTS

If and when included in this Prospectus, the words "expects," "forecasts," "projects," "intends," "anticipates," "estimates" and analogous expressions are intended to identify forward-looking statements and any such statements inherently are subject to a variety of risks and uncertainties that could cause actual results to differ materially from those projected. Such risks and uncertainties include, among others, general economic and business conditions, changes in political, social and economic conditions, regulatory initiatives and compliance with governmental regulations, litigation and various other events, conditions and circumstances, many of which are beyond the control of the Conservancy. These forward-looking statements speak only as of the date of this Prospectus. The Conservancy disclaims any obligation or undertaking to release publicly any updates or revisions to any forward-looking statement contained herein to reflect any change in the Conservancy's expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based.

DESCRIPTION OF THE CONSERVANCY

The Nature Conservancy is a District of Columbia nonprofit corporation that is a tax-exempt 501(c)(3) public charity. The Conservancy's mission is to conserve the lands and waters on which all life depends. The Conservancy was founded on October 11, 1951 in Washington, D.C. and began as The Ecologists Union, an association created by a group of scientists who resolved to take "direct action" to save threatened natural areas. Today, the Conservancy works throughout North America, in the 50 United States, Canada and Mexico, Europe Central and South America (Belize, Costa Rica, Guatemala, Honduras, Nicaragua, Panama, Argentina, Brazil, Bolivia, Chile, Colombia, Ecuador, Paraguay, Peru, and Venezuela), the Caribbean (Dominican Republic, Bahamas, Grenadines, Jamaica, Puerto Rico and the United States Virgin Islands), Asia Pacific (Australia, China (including Hong Kong), Federated States of Micronesia, Indonesia, Mongolia, Palau, Palmyra Atoll, Papua New Guinea, and the Solomon Islands), and Africa (Namibia, Zambia, Mozambique, Tanzania, and Kenya.

Certain information, including financial information, concerning the Conservancy is included in APPENDIX A - "CERTAIN INFORMATION CONCERNING THE NATURE CONSERVANCY" and, APPENDIX B - "CONSOLIDATED FINANCIAL STATEMENTS OF THE NATURE CONSERVANCY AS OF AND FOR THE YEAR ENDED JUNE 30, 2013, FOR THE YEAR ENDED JUNE 30, 2012, FOR THE YEAR ENDED JUNE 30, 2011 AND FOR THE YEARS ENDED 2010 and 2009, TOGETHER WITH THE REPORTS THEREON" attached hereto, which should be read in their entirety.

OVERVIEW OF THE CONSERVATION NOTE

This section provides detail on the legal and financial terms of the Notes. Final terms of any particular Note will be determined at the time of sale and may vary from and supersede the terms set forth in this prospectus. Before *deciding to purchase any Notes, investors should read the more detailed information appearing elsewhere in this document, including the Investment Application Form in Appendix C and form of Note set forth in Appendix D.*

What is a Conservation Note?

The Conservation Note is a promissory note issued by The Nature Conservancy that helps channel investment capital to conservation activities in the United States and around the globe. The Notes pay an interest rate of between 0% and 2% and can be purchased with terms of 1, 3, or 5 years.

Use of Proceeds

The Note proceeds will increase the Conservancy's capacity to engage in a variety of conservation efforts. These efforts include land conservation, marine protected areas, "Debt-for-Nature" restructurings and other vehicles for furthering the Conservancy's mission to conserve the lands and waters on which all life depends. For more detail on these programs, please see the "USE OF PROCEEDS" section beginning on page 13.

Seniority; Security

The Notes are unsecured general obligations of the Conservancy. The Conservancy has outstanding other unsecured general obligations and secured obligations. Moreover, the Conservancy is not restricted 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 Notes.

Who Can Invest

The Notes are marketed to both individual and institutional investors.

Minimum Investment

The minimum investment for the Notes is $25,000.

Distribution

The Conservancy, as the issuer of the Notes, is offering the Notes directly. In addition, the Conservancy intends to engage certain authorized broker-dealers to sell the Notes. The Conservancy is either registered to sell the Notes or is exempt from registration in those states where the Note is offered for sale. Certain Conservancy employees and affiliated persons are authorized to disseminate information about the Conservancy and about the Notes. Interested parties must complete and execute the Investment Application found in Appendix D of this prospectus and return it, together with payment, to Piedmont Fund Services, Inc., a third-party servicing agent retained by the Conservancy. The mailing address is printed on the application. Piedmont Fund Services, Inc. provides investor administration services for the Conservancy and its investors, handling all correspondence, tracking interest payments, and mailing periodic reports to investors. Potential investors may also contact Piedmont Fund Services, Inc. at 877-386-3107. Please read all materials carefully before you invest or send payment. All program-related inquires, however, should be directed to the Conservancy at 888-879-4110.

Registered Brokers

The Conservancy will sell the Notes directly, and intends to seek to enter agreements with registered brokers for the sale of the Notes. The Conservancy will supplement this Prospectus as needed to disclose arrangements with registered brokers.

Note: The Conservancy anticipates that Broker fees will not be paid using proceeds from the sale of the Notes. Instead, Brokers will be compensated using separate Conservancy funds.

How to Invest

Investors select a term and interest rate pairing from currently available options by completing the Investment Application included in Appendix D of this prospectus, and returning it, together with payment, to Piedmont Fund Services, Inc. whose mailing address is printed on the application. Please see "Investor Guide" for more details. Potential investors should note that the Conservancy may reject any incomplete application.

The Conservancy reserves the right to suspend the sale of the Notes for a period of time or to reject any investment application, with or without a reason.

Settlement Method

Transactions of Notes are settled with the Conservancy acting as registrar and paying agent.

Note Administration and Interest Accrual

Notes begin to accrue interest upon the receipt of funds sent by the investor to the Conservancy. The interest payment and maturity dates of the Notes will be the 15th of the month in which the Conservancy receives the investor's funds. For example, if a new investment is received on January 2, 2013, interest will begin accruing from that day forward. However, the investment's anniversary and maturity dates will fall on January 15th.

Interest accrues on an actual over 365-day basis, and investors may elect to have their interest paid out, reinvested annually or donated to the Conservancy. Administration of the Notes is handled by Piedmont Fund Services, Inc.

Interest Payments

Investors may elect to:

- Receive annual cash interest payments;
- Have interest compounded annually and paid at maturity only; or
- Donate any interest to the Conservancy.

The election may be made by checking the appropriate box on the Investment Application Form. For investors who elect annual cash interest payments, Interest will be paid once a year on a Note's Anniversary Date.

Tax Reporting

The amount an investor pays for the Notes is not deductible as a charitable contribution.

In general, cash-basis taxpayers are required to report interest on their tax return only after the interest has been paid; thus, investors who purchase Notes in November 2013 will receive the first payments of interest in November 2014 and will be able to report this interest on their 2014 tax returns.

Investors will be provided with a Form 1099 in January of each year detailing the interest earned on their investments in the prior year. Federal and state tax is due on the interest paid to investors on the Notes even if an investor chooses to reinvest the interest or donate it to the Conservancy. Investors will receive a Form 1099 accordingly. The Conservancy will provide acknowledgement to the Noteholder of any interest donated in accordance with IRS 501(c)(3) charitable contribution requirements and you may be entitled to a charitable contribution deduction for that amount, subject to any applicable limitations.

Options at Maturity

The Conservancy's intent is to mail a notice to investors approximately 45 days or more prior to the maturity of their Note, providing instructions for redemption and renewal. Investors wishing to renew their Notes must select one of the reinvestment options offered in the maturity letter and return it to Piedmont Fund Services, Inc. Investors who do not respond to this notice at least seven days prior to their maturity date will be automatically paid out.

Early Redemption by the Conservancy at the Request of an Investor

The Conservancy may redeem all or a portion of any Note prior to maturity in its sole discretion upon written request by an investor. The minimum partial redemption amount is $5,000. The Conservancy is not obligated to honor any redemption request. Any accrued but unpaid interest on a Note redeemed within one year of its issuance will be forfeited to the Conservancy. If the Conservancy redeems a Note after one year from issuance but prior to maturity, then 50% of the accrued but unpaid interest for the year in which the Note was redeemed will be forfeited to the Conservancy.

Early Redemption by the Conservancy at its Option

The Conservancy may, at its election and in its sole discretion, call and redeem any or all of the Notes in whole or in part at any time prior to maturity at a price of the principal amount being redeemed plus any accrued and unpaid interest. There is no penalty for any redemption by the Conservancy at its option.

Financial Reporting

Current audited financial statements for the Conservancy will be made available to investors upon written request, and will be mailed to investors within 120 days of its most recent fiscal year end.

Transfer on Death Accounts

Neither Transfer on Death (TOD) nor Payable on Death (POD) accounts are offered for the Notes. These accounts allow registered owners to pass accounts directly to beneficiaries upon death in some states. An estate planner should be consulted regarding such beneficiary designations.

Secondary Market

The nature of this program does not currently afford the opportunity of a secondary market. Consequently, the Note should be viewed as an investment to be held to maturity.

USE OF PROCEEDS

Capital raised from the offering of the Notes will be used for general corporate purposes, including to increase the Conservancy's capacity to engage in conservation efforts around the globe. A description of the work that the Conservancy does and examples of the kinds of Conservancy projects that could be supported by this offering are described in greater detail below.

Sales of Conservation Notes as of January 24, 2014

As of January 24, 2014, the Conservancy has $24,749,000 aggregate principal amount of the Conservation Notes outstanding, and $251,000 aggregate principal amount of Conservation Notes remain available for sale.

The Conservancy's Conservation Approach

The Nature Conservancy is a leading conservation organization working to protect the most ecologically important lands and waters around the world for nature and people. We envision a world where forests, grasslands, deserts, rivers and oceans are healthy; where the connection between natural systems and the quality of human life is valued; and where the places that sustain all life endure for future generations.

We use our creativity, diplomacy, global reach and proven experience to work with local communities and all sectors of society to build collaborative partnerships focused on implementing innovative conservation solutions that benefit nature and enhance the well-being of people.

Our longevity, size and reach position us to be a transformative global leader. We have garnered a reputation as the trusted advisor to governments, business, private landowners and local communities because of our non-confrontational, pragmatic style.

Science-based and outcome oriented, we develop, analyze and use the best available science to solve increasingly complex conservation challenges and to prioritize our global conservation work ensuring that we implement the right strategies in the right places to achieve tangible, lasting and measurable conservation results at scales that matter.

The Conservancy uniquely embodies the concept of working locally and globally simultaneously, tapping local results to inform global strategies and policy. Finally, by showing that tangible, large-scale conservation results can be delivered, we provide hope that the Earth's special places can be restored and conserved for future generations.

Global Challenges, Innovative Solutions

We live in an age of unprecedented threats to our natural world. As global population increases, corresponding demands for food, water and energy have accelerated the impact on Earth's natural systems, and the resulting effects of climate change are broad, pervasive and unpredictable.

The Conservancy faces this reality by focusing on four global challenges: (1) Restoring our oceans; (2) Securing our water; (3) Conserving our lands; and (4) Addressing our changing climate.

And, we pursue three broad solutions on land, sea and air: (1) Protecting and restoring natural systems; (2) Using nature sustainably; and (3) Broadening the constituency for conservation.

Taking Action: How We Work

The bulk of the Conservancy's resources — human and financial — are focused on working with others to execute the conservation strategies we develop together.

In its early years, the Conservancy focused largely on land acquisition to achieve its mission to conserve the lands and waters on which all life depends. Over the decades, in response to increasing environmental threats, we have expanded the array of methods and tools we use to achieve lasting conservation results. In each place we work, we tailor our approach to local circumstances — natural and human — using science-driven methods, tools and techniques that have proven successful in addressing conservation challenges.

Compatible Economic Development. On many projects, innovative Conservancy strategies guided by sound science, including ecotourism and sustainable forestry, provide income to local communities while safeguarding natural resources and the ecosystem services they generate.

Conservation Land Acquisition. In the U.S., where the Conservancy currently owns more than 2 million acres, land acquisition is an important conservation tool. Outside the U.S., the Conservancy generally does not acquire land, but works with local communities and national governments to encourage the protection of ecologically important places. There are a number of specific approaches to the Conservancy's land acquisition work:

> **Acquiring Land for Conservancy Ownership:** The Conservancy owns and manages the largest system of private nature preserves in the world. In many cases, a Conservancy land acquisition will be used to acquire land to be added to its existing holdings or to create new preserves. In some projects, the Conservancy will acquire partial interests in land, such as timber or mineral rights or water rights as part of a strategy to achieve its conservation objectives.
>
> **Government Coop Projects:** The Conservancy often works with government agencies to acquire land or interests in land on behalf of a cooperating agency, where that agency is determined to be the best owner for the conservation land. Typically, the Conservancy will acquire the land with its own funds forestalling a sale for an inappropriate use and then re-sell the land to the agency when its funds become available.
>
> **Conservation Buyer Projects:** The Conservancy also works with private, conservation-minded individuals, or "conservation buyers," interested in acquiring and protecting ecologically valuable lands. The Conservancy identifies and purchases target properties within priority conservation areas, or in zones that buffer and surround core natural areas. The Conservancy then widely and publicly markets the property, seeking a buyer committed to protecting the

property's important natural values and willing to ensure the land's long-term conservation by placing a conservation easement on the land. This cost-effective strategy allows the Conservancy to achieve significant, lasting conservation results with limited funding.

Conservation Easements: An effective tool for conserving private lands, a conservation easement is a restriction placed on a piece of property to protect its important ecological or open space values. The easement is either voluntarily donated or sold by the landowner and constitutes a legally binding agreement that limits certain types of uses or prevents development from taking place on the land in perpetuity while the land remains in private hands. Through the use of easements, the Conservancy has successfully protected millions of acres of land while keeping it in private hands and generating significant public benefits. Conservation easements protect land for future generations while allowing owners to retain many private property rights and to live on and use their land, at the same time potentially providing them with tax benefits.

Market-Based Conservation Transactions. Increasingly, the Conservancy is using its capability gained in real estate transactions and applying those institutional skills to transactions in other economic sectors for conservation purposes. For example, the Conservancy recently purchased fishing trawler licenses from individual fishers in order to address unsustainable ground-fishing practices. The licenses will be re-sold with restrictions to prevent the destructive practices.

Conservation Finance. The Conservancy has helped create sustainable sources of financing for biodiversity conservation programs. These efforts have included Global Environment Fund (GEF) grants, conservation trust funds in 20 countries, and debt-for-nature swaps. In a typical debt-for-nature swap, the Conservancy helps purchase or retire indebtedness of a developing nation in exchange for that nation's funding of conservation efforts within its borders with the money that otherwise would have been spent on debt service. More recently, the Conservancy is using carbon trading both as a source of revenue for conservation and as a conservation tool.

Public Finance Campaigns. For more than twenty years, the Conservancy has worked in the U.S. at the state and local level with conservation supporters and partner organizations to develop public funding for conservation. Public finance campaigns have generated more than $24 billion dollars for conservation throughout the U.S. These collaborative efforts enable leverage of private donations by magnitudes of more than 300 to 1.

Conservation-Friendly Public Policies. Without supportive public policy, conservation efforts are destined to fail. The Conservancy works to encourage ecologically sound legislative action in areas such as road construction, parks management, invasive species management, wetlands protection and international agreements.

Managing Parks and Protected Areas. The Conservancy actively works with governments, local communities and other stakeholders to ensure designated parks and protected areas outside of the U.S. are managed in such a way as to conserve biological diversity while accounting for the needs of local stakeholders. These efforts often involve local communities directly in management activities.

Partnering with Land Management Agencies. The Conservancy works with public land management agencies in a variety of ways. Through land acquisition programs, the Conservancy assists public agencies in acquiring or trading key properties through land exchanges and purchases. The Conservancy also works cooperatively with public agencies on conservation planning and in developing and implementing strategies, such as fire management and invasive species control and eradication, to enhance wildlife habitat on public lands.

Restoring Degraded Lands. Recognizing that in many places, pristine, intact lands and waters are few, the Conservancy works to restore important natural areas. From reseeding native prairie to large scale wetlands restoration projects, in carefully selected places the Conservancy uses the latest conservation science to guide its work putting nature back together again.

Working with Businesses. The Conservancy works collaboratively to engage the business community in our biodiversity conservation mission by helping them adopt environmentally-responsible business and land management practices and designing employee volunteer opportunities, events and joint marketing and awareness-raising efforts. In addition, many businesses support our critical conservation work through financial and land donations.

LEGAL MATTERS

Material Litigation

There is not now pending or, to the knowledge of the Conservancy, threatened, any litigation against the Conservancy seeking to restrain or enjoin the issuance or delivery of the Notes or questioning or affecting the validity of the Notes or the proceedings and authority under which the Notes are to be issued, or which, if determined adversely to the Conservancy, would individually or in the aggregate have a material adverse effect on the financial position or results of operations of the Conservancy.

The Conservancy is a party to various litigation arising out of the normal conduct of its operations. In the opinion of the Conservancy's management, the ultimate resolution of these matters will not materially affect the financial position, changes in net assets, or cash flows of the Conservancy.

LEGAL OPINION

The legality of the issuance of the Notes will be passed upon for the Conservancy by Orrick, Herrington & Sutcliffe LLP, New York, New York.

FINANCIAL STATEMENTS

The Conservancy's consolidated financial statements, as of June 30, 2013, 2012, 2011, and 2010 and for the years then ended, which are included in Appendix B to this Offering Memorandum, have been audited by PricewaterhouseCoopers LLP, independent accountants, as stated in their reports therein. A summary statement of financial position of the Conservancy as of June 30 of each of the years 2009 through 2013, and a summary of revenue and expenses of the Conservancy for each of the last five fiscal years are included in Appendix A hereto.

RATINGS

Moody's has assigned a long-term rating of Aa2 to the Notes prior to their original delivery date.

The rating assigned by Moody's reflects only its current view, as discussed more fully in the rating report issued by Moody's.

Explanation of the significance of such ratings may be obtained from time to time from Moody's. A rating is not a recommendation to buy, sell or hold the Notes. There is no assurance that such rating will not be withdrawn or revised downward.

INVESTOR GUIDE

How to Invest / Interest Rate Selection

Interest rates and interest payment methods are selected at time of purchase from the available options listed on the Investment Application. The Conservancy reserves the right to alter the rate structure for the Notes from time to time, as it deems necessary. Such changes would not affect the Notes previously sold under the terms of this prospectus.

To invest, fill out the Investor Application Form and submit it to Piedmont Fund Services, Inc. at the address indicated on the Application Form. Confirmation of investment will be sent to investors upon receipt of completed application materials and payment. The Notes will be issued in uncertificated form only. The Notes will be recorded on the books and records of the Conservancy, but will not be issued in certificated form. Investors may inquire by telephone about their investment or about the Notes in general by calling Piedmont Fund Services, Inc. at 877-386-3107.

All purchases must be made in U.S. dollars and checks must be drawn on U.S. banks. The Conservancy reserves the right to suspend the sale of the Notes for a period of time or to reject any specific purchase order, with or without reason. If an investor's check does not clear, the purchase will be canceled and the investor will be charged a $10 fee plus any additional costs incurred by the Conservancy.

Payment at Maturity

The Notes may be redeemed at the time of maturity. Investors will be sent a written Notice approximately 45 days or more prior to the Note's maturity date. The notice will provide instructions for redemption and reinvestment. Investors wishing to renew their Notes must complete the form and return it to Piedmont Fund Services, Inc., prior to their maturity date. If investors do not take any action, their principal and accrued interest will be automatically paid out. Early redemptions or partial redemptions are possible at the Conservancy's discretion (see "Early Redemption by the Conservancy at its Option" (on page 12).

Telephone Transactions

In order to purchase or redeem Notes an investor must have completed a written application. The Conservancy is not liable for acting in good faith on telephone instructions relating to investor accounts, so long as it follows reasonable procedures to determine that the telephone instructions are genuine. These procedures may include recording the telephone call and requiring some form of personal identification. Investors can verify the accuracy of a telephone transaction immediately upon receipt of a written confirmation statement. Any change of address must be made in writing. Investors may verify a change of address by calling Piedmont Fund Services, Inc., at 877-386-3107.

Taxpayer ID

The Conservancy cannot process new investments without a Social Security number or a Taxpayer Identification Number (TIN). If this information is not received within 60 days after an account is established, the account may be closed with an interest penalty.

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APPENDIX A

CERTAIN INFORMATION CONCERNING THE NATURE CONSERVANCY

Introduction

The Nature Conservancy (the "Conservancy") is a U.S. nonprofit corporation incorporated in the District of Columbia. The Conservancy's mission is to "conserve the lands and waters on which all life depends." The Conservancy was founded in 1951 and began as The Ecologists Union, an association created by a group of scientists who resolved to take "direct action" to save threatened natural areas. Today, the Conservancy has programs throughout the 50 United States, Canada, Central and South America, the Caribbean, Asia, Australia, Europe, and Africa.

The Conservancy utilizes a strategic, science-based approach to its conservation which involves all sectors of society – communities, businesses, government agencies, multilateral institutions, individuals and other nonprofit organizations. In 2011, building on its 60-year record of protecting important natural places around the world, the Conservancy adopted a new conservation framework, "Global Challenges/Global Solutions" (hereafter the "Framework"). In short, the Framework directs the Conservancy to help solve critical challenges facing the world by significantly improving the health of globally important natural systems. Under the Framework, the Conservancy concentrates on the following current global challenges:

- *Conserving Critical Lands* so that these vital living systems expand production of food, energy and other natural resources;
- *Restoring Oceans* essential for food security and economic growth throughout much of the world;
- *Securing Fresh Water* needed to water crops, produce fish, power factories and carry goods to market; and
- *Reducing Impacts of Climate Change* which already are affecting people and the places in which they live.

In response to the current global challenges, the Conservancy pursues global solutions that operate at the intersection of nature's and people's needs. The Conservancy's core value of tangible, lasting results requires focus on solutions. As a result, the Conservancy develops specific strategies, linked to its place-based work at a system scale, under the following broad solution categories:

- *Protecting and Restoring Natural Systems* which will require transformative policy, transactions and financing;
- *Using Nature Sustainably* so that society values the benefits and services from nature, and incentivizes new investments for conservation both the private and public sectors; and
- *Broadening the Constituency for Conservation* by growing the constituency of private citizens, policymakers, financiers and others who recognize nature's relevance to society and economic prosperity.

Governance and Administration

All fiduciary and legal authority for the Conservancy is vested in its Board of Directors (the "Board"). The Board is responsible for the oversight of all business of the Conservancy. The Board consists of not less than nine and no more than 25 members, as determined by the Board, including the elected officers (i.e., Chair, Vice-Chairs, Treasurer, and Secretary) and the President, ex officio. Except under a few defined circumstances, no Board member may serve more than three consecutive three-year terms. The Board has designated four standing committees: (1) Finance, (2) Audit, (3) Governance, Nominating and Human Resources, and (4) Conservation Activities Review; and two ad hoc committees, Development and External Affairs. This structure reflects the Board's continued focus on both strategic direction and sound governance. The Board and its committees meet a minimum of three times per year.

Board of Directors

Name	**Affiliation**	**Address**	**Max Term**
Teresa Beck	Former President, American Stores Company	Salt Lake City, Utah	2006-2015
David Blood	Senior Partner Generation Investment Management	London, England	2010-2019
Shona L. Brown	Senior Vice President Google, Inc.	Palo Alto, California	2011-2020
Gretchen C. Daily*	Department of Biological Sciences Stanford University	Stanford, California	2006-2015
Steven A. Denning	Chairman General Atlantic LLC	Greenwich, Connecticut	2007-2017
Joseph H. Gleberman	Advisory Director Goldman Sachs & Co.	New York, New York	2012 - 2022
Jeremy Grantham	Co-founder and Chief Investment Strategist Grantham, Mayo, Van Otterloo & Co. (GMO)	Boston, Massachusetts	2012-2021

Name	Affiliation	Address	Max Term
Frank E. Loy (Secretary)	Former Undersecretary of State for Global Affairs	Washington, DC	2006-2015
Jack Ma	Lead Founder, Chairman, and CEO Alibaba Group	Hangzhou, China	2010-2019
Claudia Madrazo	Conservationist & Artist	Mexico City, Mexico	2013 - 2022
Craig O. McCaw (Chairman of the Board)	Chairman and CEO, Eagle River Inc.	Santa Barbara, California	2010-2019
Thomas J. Meredith	Co-founder and General Partner Meritage Capital	Austin, Texas	2009-2018
Thomas S. Middleton	Senior Managing Director Blackstone Group	New York, New York	2007-2016
Ana M. Parma	Research Scientist Centro Nacional Patagonico CONICET	Puerto Madryn, Argentina	2013 - 2022
Stephen Polasky	Professor of Environmental Economics University of Minnesota	St. Paul, Minnesota	2009-2018
James E. Rogers (Vice Chair)	Chairman, President and CEO Duke Energy	Charlotte, North Carolina	2012–2021
Muneer A. Satter (Treasurer	Managing Director The Goldman Sachs Group, Inc.	Chicago, Illinois	2006-2015
Mark R. Tercek (President and Chief Executive Officer)	President and CEO The Nature Conservancy	Arlington, Virginia	2008-Indefinite

Name	Affiliation	Address	Max Term
Thomas J. Tierney	Chairman and Co-Founder The Bridgespan Group, Inc.	Boston, Massachusetts	2007-2017
Moses Tsang	Chairman and Managing Partner Ajia Partners Chairman and CEO EC Investment Services	Hong Kong	2010-2019
Frances A. Ulmer	Chair U.S. Arctic Research Commission	Anchorage, Alaska	2011-2020
P. Roy Vagelos	Retired Chairman & CEO Merck & Co., Inc.	Whitehouse Station, New Jersey	2012 - 2022
Margaret C. Whitman*	President and CEO Hewlett-Packard Company	Palo Alto, California	2011-2020

*leave of absence as of 10/11/2013

Executive Leadership Team

The Conservancy's executive management drives strategic direction, but positions tactical decision-making as close to the ground as possible in order to foster innovation and enhance accountability. Local offices are responsible for developing and implementing conservation strategies consistent with the Conservancy's overall mission and priorities established under the Framework. Consistent with this philosophy, the Conservancy is led by a President and Chief Executive Officer who reports to the Board of Directors, and is supported by executive management who is ultimately responsible for allocating resources and implementing strategies in accordance with the goals and priorities of the organization established by the Board of Directors.

Set forth below are biographies for executive management.

Mark Tercek, President and Chief Executive Officer. Mr. Tercek earned his M.B.A with distinction from the Harvard Business School in 1984 and B.A. with honors from Williams College in 1979. As President and CEO, Mark oversees the entire organization and is the only staff member who also sits on the Board of Directors. Mr. Tercek was appointed president and CEO of The Nature Conservancy in July 2008. Previously, he was a managing director at Goldman Sachs, where he headed the firm's Center for Environmental Markets and its Environmental Strategy Group. Tercek joined Goldman Sachs in 1984 and was named a partner in 1996. Mr. Tercek currently serves on the board of the Nicholas Institute, Resources for the Future, and Western Reserve Academy.

Brian McPeek, Chief Operating Officer. Mr. McPeek earned a master's in International Relations from Georgetown University, School of Foreign Service and a B.A. from Duke University. As Chief Operating Officer, Mr. McPeek oversees all Conservation Programs, Marketing and Philanthropy. Prior to joining the Conservancy in 2005, Mr. McPeek was with McKinsey & Company. In addition, he has served in a variety of positions during eight years of active duty as an officer in the U.S. Air Force, including assignments with the Office of the Secretary of Defense and Air Force Headquarters**.**

Stephen Howell, Vice President, Chief Financial and Administrative Officer. Mr. Howell received a B.B.A. in Accounting from the University of Texas in 1980 and has been a CPA since 1982. Mr. Howell oversees all aspects of the Finance, Human Resources, Technology and Information Systems, Facilities and Administration. Prior to joining the Conservancy in 1995, Mr. Howell worked for the international accounting firms of Deloitte, Haskins and Sells and Coopers and Lybrand. Mr. Howell is a member of the AICPA and Virginia Society of CPA's; serves on the Investment and Audit Subcommittees of the American Psychological Association; and serves as a board member and Audit Committee Chair of BioOne.

Peter Kareiva, Chief Scientist. Dr. Kareiva earned an M.S. in Environmental Biology from the University of California, Irvine, and a Ph.D. in Ecology and Evolutionary Biology from Cornell University. Dr. Kareiva oversees the Conservancy's Central Science function, which facilitates the creation and sharing of conservation science tools, methods and learning amongst the hundreds of field-based Conservancy scientists, as well as with partners in academia, government and elsewhere. Prior to joining The Nature Conservancy in 2002, Dr. Kareiva spent more than 20 years in academics and at the National Oceanic and Atmospheric Administration, where he directed the Northwest Fisheries Science Center Conservation Biology Division**.** Dr. Kareiva currently sits on NOAA's Science Advisory Board.

Glenn Prickett, Chief External Affairs Officer. Mr. Prickett graduated from Yale University in 1988 with a B.A. in Economics and Political Science. As Chief External Affairs Officer, Mr. Prickett is responsible for all aspects of the Conservancy's government relations programs, both U.S. and in other countries, as well as its Corporate Affairs function. Prior to coming to the Conservancy in 2010, Mr. Prickett worked at Conservation International's Center for Environmental Leadership in Business. He also served in the Clinton Administration as chief environmental advisor at the U.S. Agency for International Development, where he coordinated policy and budget for U.S. environmental and energy assistance to developing nations.

William Ginn, Executive Vice President of Conservation Initiatives. Mr. Ginn holds a B.A. from the College of the Atlantic. As Executive Vice President of Conservation Initiatives, Bill is responsible for building a global program to advance our impact investing work and major conservation deals around the globe. Prior to joining The Nature Conservancy in 1999, Mr. Ginn developed one of the first major U.S. companies in the organic recycling area, which was later sold to a Fortune 500 solid waste company. He currently serves as a member of the Advisory Board of BPI Energy Holdings, Inc., and sits on the Boards of Nordson Corp. and The Davey Tree Expert Company.

Angela Sosdian, Director of Philanthropy for Gift Planning. Ms Sosdian holds a B.A. in Biology from Harvard University. As Chief Philanthropy Resources Officer, Ms. Sosdian oversees the Conservancy's decentralized private giving and long-term gift planning operations. Ms. Sosdian joined the Conservancy in 1980 and has held a variety of fundraising positions throughout her career. Ms. Sosdian has served as officer and board member of the National Committee on Planned Giving (now the Partnership for Philanthropic Planning), and is an Editorial Advisory Committee member of the Journal of Gift Planning.

Rebecca Bowen, Principal Development Officer. Ms. Bowen holds a B.A. in English Literature from Barnard College, Columbia University. As Co-director of Principal Gifts, Ms. Bowen oversees a team focused on raising gifts of $10 million or more towards the Conservancy's global priorities. Prior to joining the Conservancy in 2005, Ms. Bowen served in major gift fundraising for Chicago's Museum of Science and Industry, the YMCA of Metropolitan Chicago, and the Lincoln Park Zoo**.**

Catherine Nardone, Chief Philanthropy Officer. Ms. Nardone holds a B.S. in Communications from Boston University. As Co-director of Principal Gifts, Ms. Nardone oversees a team focused on raising gifts of $10 million or more towards the Conservancy's global priorities. Prior to joining the Conservancy in 2008, Ms. Nardone worked in a variety of development positions at the prestigious law schools at Harvard and Stanford, and was appointed Associate Dean for external relations at Stanford Law School in 2002.

Mark Burget, Executive Vice President and Managing Director of the North America Conservation Region. Mr. Burget holds a J.D and M.B.A. from the University of Virginia, and a B.A in Government from Dartmouth College. Mark Burget serves The Nature Conservancy as Executive Vice President and North America Managing Director. Prior to returning to the Conservancy, Mr. Burget served as President and Chief Operating Officer of the ClimateWorks Foundation. Mr. Burget previously served as The Nature Conservancy's Chief Conservation Programs Officer, overseeing country programs in North America, Latin America, Africa, Australia and the Asia-Pacific Region. Mr. Burget originally joined the Conservancy in 1992 and over the past twenty years has served as Director of Global Priorities, Director of the California Program and Director of the Colorado Program.

Wisla Heneghan, General Counsel. Ms. Heneghan holds a Juris Doctor degree from the Boston University School of Law and a bachelor's degree from the State University of New York at New Paltz. As General Counsel, Ms. Heneghan oversees legal matters for the Conservancy, including maintenance of legal instruments governing the corporation and its legal interests. Prior to joining the Conservancy, Ms. Heneghan served as Vice President and Associate General Counsel for Staples, Inc., a global office products company. Before joining Staples, Ms. Heneghan was in private legal practice with the law firm of Goodwin Procter where she served in the firm's national real estate group, and the law firm of Mintz, Levin, Cohn, Ferris, Glovsky and Popeo where she practiced in the firm's commercial litigation, criminal litigation and real estate groups.

Peter Wheeler, Executive Vice President. Mr. Wheeler has a long and distinguished career as an investment banker. Until Dec 2010, he was Head of Wholesale Banking, EMEA and Americas for Standard Chartered. Previously, Peter spent fifteen years with Goldman Sachs. Peter is Chairman of IPValue, a leading business services company that partners with major global companies with deep research commitments to manage their intellectual property commercialization activity. He has served on the supervisory board of Actis, the emerging markets private equity firm, and the board of Climate Change Capital, one of the early innovators among specialist financial service organisations serving the low carbon economy. He is a seed investor in EKO asset management partners, a New York based specialized investment and advisory firm focused on discovering and monetizing unrealized or unrecognized environmental assets.

Janine M. Wilkin, Chief of Staff. Ms. Wilkin earned her M.B.A. with a concentration in Marketing from The George Washington University and her B.S. in Psychology from The Pennsylvania State University. Prior to her role as a Chief of Staff, Ms. Wilkin served in leadership roles in marketing and philanthropy. She also serves on an advisory board for Conservation Leadership through Learning, an innovative Master's level program in development at Colorado State University. Before joining the Conservancy in 2005, Ms. Wilkin worked for America Online (AOL), where she held a variety of marketing and general management positions. Prior to AOL, Ms. Wilkin worked at the Time Life division of Time Warner, where she held several direct marketing and new product development roles.

Remuneration

None of our directors was paid any remuneration for serving as a director. The following table presents all of the direct and indirect remuneration paid to our top five highly compensated officers in the aggregate during the fiscal year ended June 30, 2013:

	Compensation[(1)]	Estimated amount of other compensation from the organization and related organizations
Five Officers (Aggregate)	$2,284,123	$158,011

The remuneration of the top three highly compensated officers of the Conservancy for the year ended June 30, 2013 is as follows:

	Compensation[(1)]	Estimated amount of other compensation from the organization and related organizations
Mark Tercek	$616,146	$30,674
Joe Keenan	$440,247	$34,961
Mark Burget	$431,745	$30,557

[(1)] Represents compensation reportable on the Conservancy's IRS Form 990 (Return of Organization Exempt from Income Tax)

Employees

The Conservancy has over 3,500 full-time employees worldwide. The Conservancy's employees are critical to its overall success and are skilled in a variety of areas including science, conservation, marketing, philanthropy, finance, legal, external affairs, human resources, and information technology. Many of these employees hold advanced degrees in science, law, and/or business. The Conservancy considers its employee relations to be very good and has no collective bargaining agreements.

Conserving Critical Lands

Overview

Throughout its 60-year history, the Conservancy has utilized land acquisition as one of its key conservation strategies. However, the Conservancy has gradually evolved and broadened the strategy to include more than just the purchase and perpetual management of a property to help conserve the important biodiversity. Today, guided by cutting-edge science, the Conservancy's land conservation strategies have matured into a "whole system" approach, recognizing that conservation efforts must be large enough to sustain key ecological processes and services, but at the same time recognize the need for economic activity and the sustaining of human livelihoods.

Under the Framework, the Conservancy envisions global scale solutions to conserving critical lands to include, among others, the following types of strategies:

- Develop by Design – where the Conservancy engages directly with governments and corporations to find the right balance between necessary infrastructure development and nature conservation;
- Promoting Responsible Agriculture – where the Conservancy guides agricultural expansion in ways that minimize the impact on nearby wildlife and natural habitat;
- Empowering Indigenous People – where the Conservancy partners with local peoples to support sustainable management of their lands; and
- New Finance Mechanisms – where the Conservancy applies innovative approaches to secure sustainable financing necessary to dramatically increase the scale of conservation at important landscapes.

While not all aspects of these strategies involve direct land acquisition by the Conservancy, they all involve working at or creating lasting impacts at places. This focus on tangible, lasting conservation results at places distinguishes the Conservancy from the many other organizations working in the conservation space. As a result, the Conservancy will continue to hold and manage lands for conservation purposes, especially where the Conservancy aims to prove the value of the ecological services provided to humans, or where innovative conservation strategies are being developed and tested for later replication.

In many cases, however, the long-term conservation strategy at a place may involve subsequent sale to a federal, state, or local agency, or a private interest; accompanied by an easement, sustainable management plan, or the like to ensure the long-term conservation of the interest. In these cases, the Conservancy may purchase an interest in the land and hold it until the governmental agency or conservation group is ready to acquire it from the Conservancy. As a result, the Conservancy often identifies an agency or conservation group to which the Conservancy will sell the land for conservation purposes before the Conservancy acquires it, thereby performing a "financing" role in furtherance of accomplishing a conservation outcome.

In fiscal year 2013, the Conservancy acquired (through purchase, gift or otherwise) more than 187million of land and interests in land and transferred (through sale, gift or otherwise) to others more than $161 million of book value in land and interests in land.

As of June 2013, the Conservancy has protected over 100 million acres worldwide; in the United

States, TNC has protected over 20 million acres over its history; working with partners, TNC has helped protect over 80 million acres in the Latin America/Caribbean and Asia/Pacific regions.

Categories of Land Buyers

A key element of the Conservancy's work involves identifying and expanding the marketplace of buyers of conservation land projects. Among the type of buyers the Conservancy has dealt with in the past are federal, state and local governments, nonprofit organizations, private individual conservation buyers, and corporations. This diversified market not only increases the potential market for conservation land, but also helps to protect the Conservancy in the event that a given group's conservation land purchases are reduced.

The mix of potential conservation land buyers has varied over the years. Factors that influence this mix include, among others: the presence or absence of state and local funding available to support land conservation; the relative balance between federal and state or local involvement in protection efforts; the extent of interest and funding capacity of other nonprofit organizations; the broader real estate market as it affects individual conservation buyers; and income tax implications for potential conservation buyers and sellers. The following table reflects the percentage of land sales (measured in dollars) to each category of buyers over the last five fiscal years.

Percentage of Land Sales by Type Conservation of Buyer

	Federal Government	**State Government**	**Local Government**	**Nonprofit Organizations**	**Other Buyers**	**Corporations***
2009	7.0%	54.3%	17.9%	1.4%	2.1%	17.3%
2010	8.2%	60.4%	5.3%	3.0%	1.5%	21.6%
2011	9.7%	73.7%	2.1%	0.4%	4.6%	9.5%
2012	20.9%	58.1%	3.3%	1.3%	7.3%	9.0%
2013	9.3%	48.9%	6.5%	2.7%	3.0%	29.6%

* Land sales to corporations include sales of property to entities, such as limited liability corporations (LLC) or limited liability partnerships (LLP), where individual buyers take title to the real property in a tax pass-through entity that also allows the owners to protect themselves from certain land ownership liabilities.

Financial Management

The Conservancy undertakes three distinct financial activities. It is (1) a global operating enterprise with offices in nearly 700 locations around the globe; (2) a capital project financing and execution organization that buys, sells and finances large-scale conservation projects; and (3) the manager of a large, complex investment portfolio. The consolidated financial statements depict the aggregated financial results of all three financial activities.

The Board approves the annual operating budget and proposed land acquisitions (or other capital commitments) of greater than $10,000,000 or that present substantial risk to the organization. Proposed land acquisitions greater than $1,000,000 but less than or equal to $10,000,000 are approved by the

President or his delegate. Proposed land acquisitions less than or equal to $1,000,000 are approved by the Conservation Region Directors or their delegates.

The Finance Committee of the Board reviews financial results including operating results, capital capacity, borrowing activity, and investment performance. The Finance Committee also reviews the performance of the Conservancy's investment managers, establishes investment asset allocation guidelines, and determines the endowment income spending rate.

Financial Reporting

The Conservancy's consolidated financial statements include the activities of all of the Conservancy's chapters and affiliates, both domestic and international, including those entities which are separately incorporated. All significant intercompany transactions have been eliminated in the preparation of the consolidated financial statements. The Conservancy continuously reviews the business necessity of these subsidiary entities, and dissolves or merges such entities into the Conservancy when a business purpose is no longer served. The assets and financial activity of all separately incorporated affiliates combined does not represent a material portion of the total consolidated assets and activities of the Conservancy for each fiscal year shown on the Summary Statement of Financial Position and Summary of Revenue and Expenses. Virtually all cash and investments are owned and held by the Conservancy itself. The separate corporations are not obligated to pay interest on the Notes.

Financial Statements and Summary Financial Information

The Conservancy's financial statements for the years ended June 30, 2013, 2012, 2011, and 2010 (presented in Appendix B) were prepared in accordance with generally accepted accounting principles (GAAP) and were audited by independent accountants. The Summary Statement of Financial Position and Summary of Revenue and Expenses presented in this Appendix A should be read in conjunction with the audited financial statements and notes thereto set forth in Appendix B to this Prospectus.

The Summary of Revenue and Expenses for each of the five years ended June 30 has been derived from the audited financial statements of those years. The summary includes all revenue and expenses related to the Conservancy’s annual operations, capital project work, and investment income from the Conservancy’s Endowment Fund.

Summary Statement of Financial Position
As of June 30, 2009 through 2013
(in thousands)

	2013	2012	2011	2010	2009
Assets:					
Cash and receivables	$339,962	$277,827	$251,366	$240,546	$200,365
Other assets	80,444(1)	73,953(1)	138,321(1)	114,176	101,439
Property, plant and equipment	105,317	105,541	106,492	101,111	95,970
Investments	1,926,363	1,851,389	1,900,408	1,676,962	1,542,981
Conservation lands and easements	3,731,231	3,713,205	3,632,427	3,531,964	3,696,450
Total assets	**$6,183,317**	**$6,021,915**	**$6,029,014**	**$5,664,759**	**$5,637,205**
Liabilities:					
Payables and deferred revenue	242,046	255,521(2)	281,777(2)	186,883	420,645
Notes payable	376,346	389,040	411,298	450,448	464,828
Split Interest liabilities	143,874	140,814	139,946	133,237	128,081
Total liabilities	**$762,266**	**$785,375**	**$833,021**	**$770,568**	**$1,013,554**
Net Assets:					
Unrestricted	4,470,002	4,339,412	4,319,905	4,101,045	3,884,107
Temporarily restricted	634,916	588,550	574,995	504,529	458,145
Permanently restricted	316,133	308,578	301,093	288,617	281,399
Total net assets	**5,421,051**	**5,236,540**	**5,195,993**	**4,894,191**	**4,623,651**
Total liabilities and net assets	**$6,183,317**	**$6,021,915**	**$6,029,014**	**$5,664,759**	**$5,637,205**

(1) For FY2011 includes $92,813, for FY2012 includes $41,972, and for FY2013 includes $49,169 "Collateral received under securities lending agreement", an item not included in previous years' financials.

(2) For FY2011 includes $92,813, for FY2012 includes $41,972, and for FY2013 includes $49,169 "Payable under securities lending agreement", an item not included in previous years' financials.

Summary of Revenue and Expenses
For the Years Ended June 30, 2009 through 2013
(in thousands)

	2013	2012	2011	2010	2009
Support and Revenue:					
Contributions	$512,438	$617,070	$527,196	$481,437	$539,849
Government grants	120,717	158,004	160,375	138,135	126,915
Investment income	116,725	(37,072)	246,042	171,889	(368,472)
Other	199,291	133,132	238,752	198,732	248,931
Total	**$949,171**	**$871,134**	**$1,172,365**	**$990,193**	**$547,223**
Expenses:					
Conservation activities and actions	398,890	468,835	401,514	349,101	386,690
Conservation land sold or donated to governmental agencies and other conservation organizations	161,311	166,069	290,255	200,476	257,785
General and administration	115,448	110,674	103,660	98,683	103,869
Fundraising and membership development	89,011	85,009	75,134	71,393	76,077
Total	**$764,660**	**$830,587**	**$870,563**	**$719,653**	**$824,421**
Increase (decrease) in net assets	**$184,511**	**$40,547**	**$301,802**	**$270,540**	**$(277,198)**

Discussion of Recent Financial Performance

Financial Results

Overall Fiscal Year 2013 Results

Fiscal year 2013 continues the four-year trend of positive financial results following the global financial crisis of 2008-2009. Overall revenue exceeded last fiscal year's numbers, growing 9%, largely due to positive investment income. Contributions and dues were down from last year.

Fiscal discipline continues under the organization's five-year financial plan (FY2011-FY2015). Total program expenses decreased 12%, while overall expenses were down 8%. The organization added $185 million to net assets, ending the fiscal year at $5.4 billion. Net assets increased for the fourth straight year.

Fundraising and Membership

The Conservancy's total contributions decreased 17% in fiscal year 2013 as illustrated in the table below. Donations of Goods & Services, as well as Land and Easements, faced difficult comparisons from fiscal

2012, which were at relatively high levels. Financial contributions, the largest segment, fell 4.8%. Corporate and foundation giving both exceeded goals and posted significant increases from the prior year. Membership, as measured by unique supporters, grew in fiscal year 2013 by 8.4%.

Fundraising Results
As of June 30, 2009 through 2013
(in millions)

	Financial Contributions*	Goods & Services	Land and Easements	Total Contributions
2009	404.2	12.5	123.1	539.8
2010	381.9	11.8	87.8	481.5
2011	424.2	29.1	73.9	527.2
2012	429.5	84.0	103.5	617.0
2013	408.7	28.2	75.5	512.4

*On average, over 90% of the Conservancy's private fundraising support is provided by individuals and foundations.

The significant financial market fluctuations and economic uncertainty of the past few years continue to impact overall private fundraising results. As a result, the Conservancy expects fundraising to continue to be challenging for the next few years, particularly in the United States where the vast majority of the Conservancy's fundraising base resides. The Conservancy continues to make fundraising investments in larger countries outside of the United States in an effort to broaden its base of supporters and to diversify its philanthropic revenue streams.

As of the end of fiscal year 2013, the Conservancy had 1,269,837 members, as measured by unique supporters across a range of membership levels. The purpose of the Conservancy's membership base is to raise revenue for operations, to build a prospect base for outright major and planned gifts, and to serve as a volunteer force and united voice in support of the Conservancy initiatives. Revenue from membership fees is included in "Contributions for Operations" in the Summary of Revenue and Expenses.

Approximate Annual Membership (by fiscal year)

2009	2010	2011	2012	2013
1,237,816	1,206,357	1,154,153	1,171,537	1,269,837

The Conservancy's membership is primarily comprised of citizens of the United States but, consistent with overall fundraising diversification plans, investments are planned to expand the membership to include more supporters from outside of the United States, and to broaden the use of the internet and other cost-effective channels of engagement to help facilitate membership growth.

Annual Operating Budget

The Conservancy prepares an annual operating budget based on the projected operating expenses of local offices throughout the world, and of the centrally-managed administrative and fundraising services. The Conservancy's total operating budget, which had increased steadily for decades, was adjusted sharply downward by approximately $80 million during fiscal year 2009. The full impact of these cost reductions was fully evident in reduced operations spending in fiscal year 2010. After this one-time adjustment, the Conservancy's spending on operations grew by 7% in fiscal year 2011, 6% in fiscal year 2012, and 7% in fiscal year 2013. Fiscal year 2014's operating budget of $579.8 million has been approved by the Board of Directors and is comprised of the following:

- Personnel - 57.1%
- Contractors/grantees – 22.0%
- Travel, communications and supplies – 12.7%
- Occupancy – 3.6%
- Other – 4.6%

The annual operating budget for fiscal year 2014 is expected to be funded from the following sources:

- Dues and contributions, including membership, to support operations - 43.9%
- Investment income - 10.9%
- Grants and contracts - 15.7%
- Leases, royalties, and fees - 4.2%
- A combination of other income and prior year surpluses - 25.2%.

A portion of the Conservancy's investment income is available to support the annual operations of the organization. For fiscal 2014, the Conservancy's policy is to include in its operating budget a contribution from the Endowment Fund equal to 5% of the fund's average fair market value over the previous 60 months.

Capital Activity

The Conservancy's total, and net, assets have continued to grow subsequent to fiscal year 2009. Net assets have increased in recent years primarily as a result of positive investment returns and contributed conservation land and easements. Land activity, however, has declined given the current economic environment. Purchases of land have declined from the prior year. Gifts of land and easements, which tend to be more episodic, increased over the prior year such that overall conservation land assets continue to increase, net of sales. The current outlook for capital activity depends greatly on broader economic conditions, but current forecasts suggest that purchases and sales, may continue to lag the levels of more recent years. Available project-financing capital remains considerable, even after the restructure of our debt portfolio to reduce external debt, lower rates, and increase flexibility. Both total debt outstanding and total project loans outstanding remain well under Board-established limits.

Endowment Fund and Investments

At June 30, 2013, the Conservancy had total investments of approximately $1.93 billion, as reflected in the tables below.

(in thousands)	
Capital Fund investments	$ 644,254
Split interest arrangement investments	$ 286,263
Endowment investments	$ 995,846
Total	$1,926,363

The total investments further break down as follows:

(in thousands)

Short-term investments	$7,691
Repurchase agreements	2,379
Fixed income:	
U.S. treasuries	67,389
Asset-backed securities	5,961
Corporate debt	420,137
Mortgage-backed securities	14,742
U.S. agencies	55,834
Convertible securities	2,542
Public equity:	
Consumer discretionary	16,679
Consumer staples	11,984
Energy	26,511
Financial services	47,174
Health care	33,743
Industrials	74,535
Information technology	30,856
Materials	12,423
Telecommunications	5,811
Utilities	9,379
Other industries	128
Commingled equity funds	290,852
Mutual funds	54,477
Closed end mutual funds	44,226
Hedge funds	180,090
Private equity	191,310
Private real estate	30,536
Split interests, trusteed	252,186
Split interests, non-trusteed	36,788
TOTAL	**1,926,363**

In addition to "Endowment Investments" listed above, which include both true and board designated, "quasi" endowments, the Conservancy invests a combination of working capital, unused prior-year surpluses, and funds designated for future land acquisition in the "Capital Fund Investments" portfolio. In addition, based on its robust planned giving program, the Conservancy manages considerable investment assets in charitable remainder trusts and the like, displayed as "Split interest arrangement investments" in the first table above.

Asset Allocation

Asset allocation of the split interest arrangement investments is based on the combination of individual trust types and terms. Asset allocation policy targets and ranges for the Endowment Fund and Capital Fund, as of June 30, 2013, were as follows (in percent):

Endowment					
	Long Equity	Fixed Income & Cash	Hedge Funds	Private Equity	Real Assets
Allocation	41.8	21.2	14.8	19.1	3.1
Policy Targets	35.0	30.0	15.0	15.0	5.0
Difference	**+6.8**	**-8.8**	**-0.2**	**+4.1**	**-1.9**
Target Range	25-45	25-50	10-20	10-20	0-10

Capital					
	Long Equity	Fixed Income & Cash	Hedge Funds	Private Equity	Real Assets
Allocation	34.9	60.0	5.1	n/a	n/a
Policy Targets	35.0	60.0	5.0	n/a	n/a
Difference	**-0.1**	**0.0**	**+0.1**	**n/a**	**n/a**
Target Range	20-40	50-80	0-10	n/a	n/a

Liquidity

The Conservancy maintains significant liquidity in the investment portfolios to meet the needs of the organization. Over the years, the Endowment Fund investment portfolio has rarely been required to provide liquidity as annual contributions to the Endowment Fund, as well as dividends and realized gains, have been more than sufficient to fund the annual operations draw on the endowment pursuant to the Conservancy's endowment spending rate. As a result, the vast majority of the illiquid investments (primarily private equity and some hedge funds) are invested in the Endowment Fund.

Given the opportunistic nature of the Conservancy's land acquisition business, and to help stabilize operations during unforeseen revenue swings, the Conservancy maintains considerable liquidity in the Capital Fund investment portfolio. The cash/fixed income policy target was 60% at the end of fiscal year 2013, and the vast majority of the remainder of the Capital Fund is invested in publicly-traded, highly-liquid equity securities. A significant portion of the Capital Fund portfolio is liquid on a daily basis, and most of the rest can be liquidated if need be, in less than a week's time.

The following schedule summarizes monthly, annual, and longer-term liquidity maintained by the Conservancy in its aggregate portfolio (includes Endowment and Capital Funds) as of June 30, 2013. This liquidity profile changes regularly.

(in millions)

Monthly liquidity[(1)]	Annual liquidity[(2)]	Liquidity with greater than 1 year lockup[(3)]
$1,192	$157	$286

(1) Monthly liquidity includes cash and cash equivalents (including money market funds, P-1 rated commercial paper, repurchase agreements, and bank accounts), certificates of deposit, U.S. Treasuries and Aaa-rated Agencies, publicly traded fixed income securities, and publicly traded equities.
(2) Annual liquidity includes hedge funds and equity funds with greater than one month and not more than one year lockup.
(3) Liquidity with greater than one year lockup includes hedge funds, private equity and venture capital, real estate, equity funds, and split interest investments with greater than one year lockup.

Investment Management

The Conservancy's investments are managed by professional investment managers appointed by the Finance Committee of the Board of Directors. Each manager invests a portion of the portfolio, and is measured against performance standards established by the Finance Committee. These performance standards are derived from relevant indices and industry standards based on type of investment managed. As there are currently more than 40 investment managers in the portfolio, typically no single manager oversees more than 5% of the total portfolio, excluding cash and fixed income investments. The Conservancy employs a Director of Investments who works with both the Finance Committee and an external investment advisor in the management and oversight of the portfolio.

Indebtedness

As of June 30, 2013, there was outstanding $302,710,252 principal amount of bonds issued for the benefit of the Conservancy. This total includes several series of variable rate bonds issued by the Colorado Educational and Cultural Facilities Authority for the benefit of the Conservancy:

- $14,252,000 principal amount of Series 2002A Bonds; and
- $140,480,000 principal amount of Series 2012 Bonds.

Each of the Series 2002A and 2012 Bonds are variable rate bonds, the interest on which is not includible in gross income for federal income tax purposes. These bonds have a demand feature for which the Conservancy provides self-liquidity.

The above total also includes $100,000,000 principal amount of fixed rate bonds issued by the Conservancy in July 2009, and $47,978,252 principal amount of fixed rate notes issued by the Conservancy to the New York State Environmental Facilities Corporation in November 2009.

In addition, as of June 30, 2013, there was outstanding $24,900,000 principal amount of Conservation Notes issued for the benefit of the Conservancy. This total is not included in the above total of principal amount of bonds.

Interest Rate Exchange Agreements

The Conservancy is a party to three interest rate exchange agreements with an aggregate notional amount of $310,428,000. Pursuant to each agreement, the Conservancy is obligated to pay the applicable swap counterparty amounts based on a fixed interest rate and is to receive payment from the swap counterparty based on variable interest rates. The Conservancy is not required to post collateral to secure its obligations under these interest rate exchange agreements. Under two interest rate exchange agreements with notional amounts of $190 million and $95.375 million, the swap counter-party has the option to terminate. The swap counterparty for all three interest rate exchange agreements is Morgan Stanley Capital Services, Incorporated. The amount that would have been payable by the Conservancy to Morgan Stanley, had Morgan Stanley exercised its option to terminate these interest rate exchange agreements on June 30, 2013, was $40.9 million.

Interest Rate Exchange Agreements		
Notional Amount	**Rate Paid by Conservancy**	**Rate Received by Conservancy**
$190,000,000	2.962%	67% of 3 month LIBOR
$95,375,000	4.373%	3 month LIBOR
$25,053,000	3.56%	67% of 1 month LIBOR

Retirement Plan

The Conservancy offers employees a qualified defined contribution retirement plan that provides for both employee and employer contributions to individual retirement accounts. Employees may participate in the plan on the pay date following one month of service with the Conservancy. Employees may contribute from 1 percent to 100 percent of their eligible annual pay subject to the annual IRS dollar limit. New employees are automatically enrolled at 4% of their eligible annual pay, but may opt out of the plan for up to 60 days.

Following the completion of one year of service, the Conservancy provides for a dollar for dollar match of up to 8 percent of compensation contributed by the employee, subject to IRS limitations. The Conservancy employee matching contributions and any associated earnings vest at 100 percent once the employee reaches three or more years of service. The account will also become 100 percent vested when the employee reaches age 65, becomes permanently disabled or dies, regardless of years of service.

Insurance

The Conservancy carries insurance policies including real and personal property, legal liability, general comprehensive liability, workers' compensation, employer's liability, automobile liability, and a variety of other special policies to insure other risks relating to the Conservancy's work.

APPENDIX B

CONSOLIDATED FINANCIAL STATEMENTS OF THE NATURE CONSERVANCY AS OF AND FOR THE YEAR ENDED JUNE 30, 2013, FOR THE YEAR ENDED JUNE 30, 2012, FOR THE YEAR ENDED JUNE 30, 2011, AND FOR THE YEARS ENDED JUNE 30, 2010 and 2009, TOGETHER WITH REPORTS THEREON

The Nature Conservancy

Consolidated Financial Statements
For the year ended June 30, 2013
And report thereon

pwc

Independent Auditor's Report

To the Board of Directors of
The Nature Conservancy

We have audited the accompanying consolidated financial statements of The Nature Conservancy and its chapters and affiliates ("The Conservancy"), which comprise the consolidated statement of financial position as of June 30, 2013, and the related consolidated statements of activities and of cash flows for the year then ended.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated 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 consolidated 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 the consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Conservancy's preparation and fair presentation of the consolidated 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 Conservancy'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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of The Nature Conservancy and its chapters and affiliates at June 30, 2013, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Our audit was conducted for the purpose of forming an opinion on the 2013 consolidated financial statements taken as a whole. The accompanying summarized consolidated statements of financial position as of June 30, 2013 and 2012, the summarized consolidated statements of activities for the years ended June 30, 2013 and 2012, and the schedule of functional expenses for the year ended June 30, 2013, with summarized totals for the year ended June 30, 2012 are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. The information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves and other additional procedures, in accordance with auditing standards generally accepted in the United States of America. In our opinion, the 2013 information is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole. The 2012 prior year summarized comparative information has been derived from the Conservancy's 2012 consolidated financial statements, and in our report dated October 12, 2012, we expressed an unqualified opinion on those consolidated financial statements.

PricewaterhouseCoopers LLP

October 17, 2013

The Nature Conservancy
Consolidated Statement of Financial Position
As of June 30, 2013

(Amounts in thousands)

Assets		
Cash and cash equivalents		$ 107,718
Restricted cash		29,620
Government grants and contracts receivable		24,542
Pledges receivable, net		178,082
Collateral received under securities lending agreement		49,169
Deposits on land and other assets		31,275
Property and equipment, net of accumulated depreciation and amortization		105,317
Investments		
Investments - Capital fund	644,254	
Investments - Split interest arrangements	286,263	
Investments - Endowment fund	995,846	
Total investments		1,926,363
Conservation lands		1,865,034
Conservation easements		1,866,197
Total assets		$ 6,183,317
Liabilities		
Accounts payable and accrued liabilities		$ 100,801
Payable under securities lending agreement		49,169
Deferred revenue and refundable advances		92,076
Bonds and notes payable		376,346
Split interest arrangements		143,874
Total liabilities		762,266
Net assets		
Unrestricted		
Undesignated	(48,284)	
Board-designated		
Land, easements, and project funds	3,764,115	
Quasi endowment and similar funds	754,171	
Total unrestricted		4,470,002
Temporarily restricted		634,916
Permanently restricted		316,133
Total net assets		5,421,051
Total liabilities and net assets		$ 6,183,317

The accompanying notes are an integral part of these consolidated financial statements.

The Nature Conservancy
Consolidated Statement of Activities
For the year ended June 30, 2013

(Amounts in thousands)	Unrestricted	Temporarily restricted	Permanently restricted	Total
Support and revenues				
Dues and contributions	$ 198,924	$ 204,563	$ 7,321	$ 410,808
Contributed goods and services	28,244	-	-	28,244
Land and easements contributed for conservation	73,386	-	-	73,386
Government grants and contracts	120,717	-	-	120,717
Investment income	93,949	22,776	-	116,725
Other income	90,663	-	-	90,663
Total support and revenue before sales of conservation land and easements and net assets released from restrictions	605,883	227,339	7,321	840,543
Sales of conservation land and easements to governments and others	108,628	-	-	108,628
Net assets released from restrictions	180,828	(180,828)	-	-
Total support and revenues	895,339	46,511	7,321	949,171
Expenses				
Program expenses				
Conservation activities and actions	398,890	-	-	398,890
Book value of conservation land and easements sold or donated to governments and others	161,311	-	-	161,311
Total program expenses	560,201	-	-	560,201
Support services expenses				
General and administration	115,448	-	-	115,448
Fund-raising				
General fund-raising	66,910	-	-	66,910
Membership development	22,101	-	-	22,101
Total support services expenses	204,459	-	-	204,459
Total expenses	764,660	-	-	764,660
Increase in net assets	130,679	46,511	7,321	184,511
Reclassification of net assets	(89)	(145)	234	-
Total increase in net assets	130,590	46,366	7,555	184,511
Net assets at beginning of year	4,339,412	588,550	308,578	5,236,540
Net assets at end of year	$ 4,470,002	$ 634,916	$ 316,133	$ 5,421,051

The accompanying notes are an integral part of these consolidated financial statements.

The Nature Conservancy
Consolidated Statement of Cash Flows
For the year ended June 30, 2013

(Amounts in thousands)

Reconciliation of increase in net assets to cash provided by operating activities:			
Increase in net assets		$ 184,511	
Non-cash adjustments:			
Contributed land and easements	$ (75,466)		
Losses on sales of land, easements, and property	62,071		
Realized/Unrealized investment gains	(83,261)		
Change in value of split interest agreements	(4,524)		
Change in value of interest rate swaps	(19,647)		
Depreciation and amortization	8,170		
Loan guarantee	7,177		
Other - net	13,116	(92,364)	
Changes in assets and liabilities:			
Increase in receivables	(11,216)		
Decrease in restricted cash	4,381		
Increase in other assets	(2,169)		
Increase in split interests	3,060		
Decrease in other liabilities	(782)	(6,726)	
Cash provided by (used in) land activities:			
Proceeds from sales of land and easements	120,673		
Purchases of land and easements	(113,970)	6,703	
Contributions for long-term purposes		(7,321)	
Net cash provided by operating activities			$ 84,803
Investing activities:			
Proceeds from sale of investments		1,230,310	
Purchases of investments		(1,208,252)	
Purchases of property and equipment		(16,688)	
Other - net		(9,256)	
Net cash used in investing activities			(3,886)
Financing activities:			
Proceeds from securities lending program		(7,197)	
Repayments of securities lending program		7,197	
Principal payments on debt		(106,328)	
Proceeds from issuance of debt		86,757	
Other - net		7,324	
Net cash used in financing activities			(12,247)
Net change in cash			68,670
Cash and cash equivalents, beginning of year			39,048
Cash and cash equivalents, end of year			$ 107,718
Supplemental data			
Interest paid			$ 17,823

The accompanying notes are an integral part of these consolidated financial statements.

ACCOUNTING POLICY FOOTNOTES

The following notes present disclosures of the significant accounting policies and related information relating to balances and amounts contained in the Consolidated Statements of Financial Position and Activities. These notes are an integral part of the consolidated financial statements.

1. ORGANIZATION

The Nature Conservancy (The Conservancy) is a global conservation organization. The mission of The Conservancy is to conserve the lands and waters on which all life depends. The Conservancy conducts its activities throughout the United States, Canada, Latin America, the Caribbean, Africa, Asia, and the Pacific.

The Conservancy's primary sources of revenue are contributions from the public (including gifts of land), investment income, government grants, and sales of conservation interests to government agencies or other conservation buyers. These resources are used to help solve critical challenges by significantly improving the health of globally important natural systems that enhance the lives of people around the world. Under its conservation framework, The Conservancy concentrates on four global challenges: conserving critical lands, restoring oceans, securing fresh water, and reducing the impact of climate change. Working with partners – including indigenous communities, governments, and businesses – The Conservancy pursues solutions that protect and restore natural systems, use nature sustainably, and broaden support for conservation.

2. CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements are presented on the accrual basis of accounting and include the accounts of all The Conservancy's chapters and affiliates, both domestic and international, including those which are separately incorporated, receive gifts, and perform conservation activities in the name of The Conservancy. All significant intercompany transactions have been eliminated.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States 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 the estimated amounts.

3. CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Cash, Cash Equivalents, and Restricted Cash
Cash represents operating cash held in bank accounts in high quality financial institutions in the United States and 33 foreign countries. The cash in foreign accounts is uninsured, but is limited per country to amounts that, in the opinion of management, are not material to the financial statements. Cash equivalents represents short-term, highly liquid investments with maturities of less than three months. Restricted cash represents monies held in trust related to requirements of specific conservation project agreements.

Government Grants and Contracts Receivable/Deferred Revenue
The Conservancy receives grants and contracts from federal, state, and local agencies to be used for specific programs or land purchases. The excess of reimbursable expenditures over cash receipts is included in government grants receivable and any excess of cash receipts over reimbursable expenditures is included in deferred revenue.

Pledges Receivable
Pledges receivable represent unconditional promises to give and are reported at fair value by discounting the expected future pledge payments at the prime interest rate at the balance sheet date,

and accordingly are categorized as Level 3 assets. The primary unobservable input used in the fair value measurement of the Conservancy's pledges receivable is the discount rate. Significant fluctuations in the discount rate could result in a material change. The discount rate used in the present value technique to determine fair value of pledges receivable is revised at each measurement date to reflect current market conditions and the creditworthiness of donors. In addition, management evaluates payment history and market conditions to estimate allowances for doubtful pledges. Changes in the fair value of pledges receivable are reported in the statement of activities as contribution revenue except for changes in the allowance which are reported as program expenses at each subsequent reporting date. Pledges receivable past due by 90 days are, in the opinion of management, not material to the financial statements.

Not recorded as pledges receivable are $56,347,000, that are conditioned upon The Conservancy raising matching gifts or acquiring certain conservation lands. Conditional promises to give are recognized as contributions when the donor-imposed conditions are substantially met.

Securities Lending Agreement

The Conservancy lends certain securities in its investment portfolio to qualified borrowers on a short-term, fully collateralized basis in exchange for interest to help offset custodial fees. Collateral in the form of cash in US dollars, securities issued or guaranteed by the US government, or irrevocable letters of credit issued by banks independent of the borrowers is marked-to-market on a daily basis, and the borrower is required to deliver the difference between the daily market value of the collateral and 102% of the loaned securities' original fair market value if denominated in US dollars or 105% if denominated in foreign currency. The lending agent, in its agreement with The Conservancy, guarantees the repayment of the loan in the event the borrower defaults. The Conservancy retains all the benefits of ownership including rights to dividends, interest, and other cash distributions pertaining to the loaned securities. The Conservancy also retains the right to redeem the loaned securities prior to the stipulated redemption date.

At June 30, 2013, The Conservancy recorded $49,169,000 in collateral received under its securities lending program and an equal amount payable to the borrowers under the agreement. These amounts are reflected in assets and liabilities in the statement of financial position.

Property and Equipment

Property and equipment are carried at cost. Depreciation and amortization is provided using the straight-line method for all depreciable assets over their estimated future lives as follows:

Building and improvements	5 – 30 years
Computer equipment and software	3 – 5 years
Furniture, fixtures, and other	4 – 25 years

Concentration of Credit Risk

The Conservancy's excess cash is invested with high quality institutions, the largest concentrations of which are invested in U.S. Agencies (43.3%), Repurchase Agreements (31.2%), and U.S. Treasury securities (25.2%); 95% of the repurchase agreements are backed by U.S. Treasuries and U.S. Agencies.

Pursuant to its investment policy, The Conservancy's investments cannot have more than 10% of their assets at market value in securities of any one issuer, be they short-term or long-term, other than the U.S. Government and its Agencies. At June 30, 2013, the single largest non-U.S.

Government issuer exposure was 6.8% of the Capital and Endowment Fund investments. This issue is in the form of a global commingled equity fund.

Investments
Investments are carried at estimated fair market value and reported in three distinct categories:

- *Capital fund* **–** funds held primarily for the future acquisition of conservation land, easements, and for funding other conservation projects.

- *Split interest arrangements* **–** donations that are held in trust by The Conservancy or third party trustees, representing beneficial interests in trusts.

- *Endowment fund* **–** funds held as long-term capital to generate income for The Conservancy's operations.

Endowment Investment and Spending Policies
The Conservancy's Endowment (Endowment) includes both donor-restricted endowment funds and funds designated by the Board of Directors (Board) to function as endowments. The amount of Endowment income provided each year for operations is established by the Finance Committee of the Board, through its adoption of an annual endowment spending rate and spending rate base. The spending rate for the year ended June 30, 2013 was 5.0% of the average fair market value of the 60 months of calendar years 2007 through 2011.

The Conservancy recognizes that significant risk must be assumed to achieve its stated long-term investment objectives. Therefore, asset allocations and ranges are necessarily diverse, and consider liquidity needs. The Conservancy has considered its ability to withstand short and intermediate term variability and concluded that the portfolio can tolerate some interim fluctuations in market values and rates of return in order to achieve its objectives. However, The Conservancy realizes that market performance varies and that the portfolio's investment objectives may not be achievable during short-term periods.

The Conservancy has chosen not to manage its underlying assets directly, but to utilize independent investment managers. To maintain prudent diversification and to manage risk, The Conservancy's portfolio is divided among 50 to 60 separate managers.

Conservation Lands and Easements
The Conservancy records land and land interests at cost if purchased or at fair value at the date of acquisition, if all or part of the land was received as a donation. Fair value is generally determined by appraisal at the time of acquisition and is not subsequently adjusted. Upon sale or gift, the book value of the land or land interest is reported as a program expense and the related proceeds, if any, are reported as revenue in the consolidated statement of activities.

Conservation land is real property with significant ecological value. These properties are either managed in an effort to protect the natural biological diversity of the property, or transferred to other organizations who will manage the lands in a similar fashion.

Conservation easements are comprised of listed rights and/or restrictions over the owned property that are conveyed by a property owner to The Conservancy, almost always in perpetuity, in order to protect the owned property as a significant natural area, as defined in federal tax regulations. These intangible assets may be sold or transferred to others so long as the assignee agrees to carry out, in perpetuity, the conservation purposes intended by the original grantor. Conservation easements, by their very nature, do not generate material amounts of cash inflow annually.

Bonds and Notes Payable

The Conservancy uses debt, both fixed and variable, primarily to finance the acquisition of conservation lands and easements. Debt is reported at cost.

In order to partially insulate itself from the variable nature of the interest rates on its outstanding debt, The Conservancy has three interest rate swap agreements. The Conservancy pays a fixed rate of 4.373% on $95,375,000 in return for receipt of variable rate interest in the amount of 3- month LIBOR and pays a fixed rate of 2.962% on $190,000,000 in return for receipt of variable rate interest in the amount of 67% of 3-month LIBOR. The Conservancy pays a fixed rate of 3.56% on $25,053,000 in return for receipt of variable rate interest in the amount of 67% of 1-month LIBOR. Maturities of the swap agreements range from 2027 to 2033 and the counterparty to these swaps has the option to terminate at their discretion. The interest rate swap agreements are reflected in the accompanying statement of position as accounts payable and accrued liabilities.

Due to the nature of certain variable rate bond agreements, The Conservancy may receive notice of an optional tender on its variable-rate bonds, in which case The Conservancy would have an obligation to purchase the bonds tendered if unable to secure alternate financing at that time. The Conservancy entered into a standby liquidity support agreement with a financial institution to support the original principal amount of $100,000,000 of the variable rate demand obligations. Under this agreement, the financial institution agreed to supply additional liquidity to The Conservancy up to that amount, with which The Conservancy can purchase the bonds if The Conservancy cannot remarket the bonds. In the event of a draw on the $100,000,000 liquidity support line, the due date would be three years from the earlier of the date of the draw or September 13, 2015.

Interest expense incurred on total notes payable for 2013 was $18,945,000.

Split Interest Arrangements

The Conservancy enters into split interest arrangements whereby donations are held in trust by The Conservancy or third party trustees and invested. Income earned on the invested funds is payable to the donor or the donor’s designee for a specified period of time or until the donor’s death, after which time The Conservancy may use the investments for operations or a restricted use specified by the donor. The donated trust asset investments are recorded at current fair value or at an estimated fair value based on the latest available information.

The Conservancy utilizes an IRS-approved annuity table to actuarially calculate the liability associated with the estimated donor payments under these arrangements. The Conservancy determines the discount rate to be used in the month the split interest arrangements are entered into with the donor and these rates have ranged from 1% to 9%. The present value of the actuarially determined liability resulting from these gifts is recorded at the date of gift and adjusted annually thereafter.

Net Assets
The Conservancy's net assets are reported in the following three classes:

- *Unrestricted net assets* – Revenues derived from dues, unrestricted contributions, government grants and contracts, investment income (other than the temporarily restricted portion of true endowment investment income), and other inflows of assets whose use by The Conservancy is not limited by donor-imposed restrictions. Certain unrestricted net assets have been designated by the Board of Directors to be maintained as land, easements, other conservation project funds, and quasi endowment funds.

- *Temporarily restricted net assets* – Contributions and other inflows of assets whose use by The Conservancy is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of The Conservancy, such as usage for specific programs, including certain overhead and indirect costs, or for spending from true endowment investment income.

  When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and are reported on the consolidated statements of activities as net assets released from restrictions.

- *Permanently restricted net assets* – Contributions and other inflows of assets whose use by The Conservancy is limited by donor-imposed stipulations that the principal must be maintained permanently by The Conservancy. The total amount of permanently restricted net assets on the consolidated statements of financial position includes the donor-restricted endowment funds as well as amounts contributed to create a permanent capital fund. This revolving fund is used to finance capital projects and donations to this fund are to be maintained in perpetuity for only this purpose.

<u>*Classification of endowment net assets*</u>
The Board of Directors of The Conservancy (Board) has approved management's interpretation of the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as enacted by the Council of the District of Columbia. UPMIFA requires the preservation of the fair value of the original gifts as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary.

The Endowment includes both donor-restricted endowment funds and funds designated by the Board to function as endowments. The Conservancy classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, and (b) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by The Conservancy. The Conservancy considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the endowment fund;
- The purposes of the institution and the endowment fund;
- General economic conditions;

- The possible effect of inflation or deflation;
- The expected total return from income and appreciation of investments;
- Other resources of the institution; and
- The investment policy of the institution.

Endowments with Eroded Corpus
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 The Conservancy requires to be retained as principal in perpetuity. Deficiencies of this nature that are reported in unrestricted net assets were $4,380,000 as of June 30, 2013. These deficits resulted from unfavorable market fluctuations that occurred shortly after the investment of newly established endowments and authorized appropriation that was deemed prudent.

4. CONSOLIDATED STATEMENT OF ACTIVITIES

Contributions
Unconditional donor promises to give cash and other assets are reported at fair value at the date that there is sufficient verifiable evidence documenting that a promise was made by the donor and received by The Conservancy. The promises are reported as either temporarily or permanently restricted support if received with donor stipulations that sufficiently limit the use of the donated assets.

The Conservancy recognizes contributed professional services from third parties and contributed goods and trade lands as revenue and as expense or assets, at the fair value of those services or goods when received. Trade lands are real property with minimal ecological value. These properties are sold to provide funds for The Conservancy to carry out its conservation work. During 2013 contributed goods and services totaled $28,244,000 and contributed trade lands totaled $2,080,000.

Government Grants and Contracts
Government grants and contracts are considered to be exchange transactions, the majority of which are cost-reimbursable grants. Revenue, including approved indirect cost recovery, is recognized when allowable costs have been incurred. The Conservancy's costs incurred under its government grants and contracts are subject to audit by government agencies. Management believes that disallowance of costs, if any, would not be material to the consolidated financial position or consolidated changes in net assets of The Conservancy.

Program expense allocation
Operating expenses are allocated to program and support categories based on separate cost center types as defined below. Conservation land and easements that are acquired by The Conservancy, but not sold or donated, are reflected as an increase in conservation land and easements on the consolidated statements of financial position and are excluded from the program expense categories on the consolidated statements of activities.

The Conservancy accounts for its program expenditures in the following categories:

- *Conservation Activities and Actions* – Expenditures related to the broad spectrum of activities and actions critical to advancing The Conservancy's mission. Expenditures related to understanding, monitoring, maintaining, restoring, and managing natural areas owned by The

Conservancy and others are included, as well as expenditures for developing and enhancing The Conservancy's ability to gather and share ecological information and to assess and evaluate threats to natural systems. In addition, this area includes expenditures to mitigate, prevent, or slow the effects of these threats, including investments in the institutional development of domestic and international conservation organizations. Expenditures related to improving public land management and supporting the development of sound global policies, including participating in conferences and events that help establish a common vision for conservation worldwide are included, as well as expenditures associated with community outreach and education of key stakeholders and land users in areas where Conservancy conservation programs reside.

- *General and Administration* – Expenditures related to building and maintaining an efficient business infrastructure, including those related to corporate governance, to support and advance the programmatic conservation objectives of The Conservancy.

- *General Fund-Raising* **–** Expenditures related to fund-raising strategies that provide the revenue stream for both operations and capital needs to further the accomplishment of The Conservancy's mission and objectives.

- *Membership Development* **–** Expenditures related to the acquisition and retention of The Conservancy's members primarily through the use of a direct-mail program.

5. COMMITMENTS AND CONTINGENCIES

Litigation
The Conservancy is a party to various litigations arising out of the normal conduct of its operations. In the opinion of The Conservancy's management, the ultimate resolution of these matters will not materially affect the financial position, changes in net assets, or cash flows of The Conservancy.

Leases
The Conservancy has entered into non-cancelable operating leases for office space, which expire at various dates through 2025. Certain of these leases contain rent escalation clauses, usually based on the consumer price index.

Land acquisitions and other commitments
The Conservancy has entered into contracts for the purchase of land and other purchase commitments that have not closed as of June 30, 2013, in the amount of $24,229,000, of which $270,000 is reflected in the accompanying statement of position as accounts payable and accrued liabilities.

The Conservancy has remaining funding commitments to private equity, real estate, and hedge fund investment managers of $100,956,000 at June 30, 2013.

6. RETIREMENT PLANS

The Conservancy's employees are eligible after one month of service to participate in The Nature Conservancy Savings and Retirement Plan (the Plan), in which employees can make voluntary, tax-deferred contributions within specified limits. The Plan was established under the provisions of Internal Revenue Code Section 401(k) and has received a favorable determination as to its tax status from the Internal Revenue Service. Certain employees are also eligible to participate in a non-qualified deferred compensation plan created pursuant to Internal Revenue Code Section 457(b). The Conservancy's contributions to the plans were $13,238,000 for the year ended June 30, 2013.

7. INCOME TAXES

The Conservancy has been granted an exemption from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code. The Internal Revenue Service has classified The Conservancy as other than a private foundation. The Conservancy pays a nominal amount of tax relating to several unrelated business income activities, primarily rental income from debt-financed property. The Conservancy takes no tax positions that it considers to be uncertain.

8. SUBSEQUENT EVENTS

All subsequent events were evaluated through October 17, 2013, which is the date the financial statements were issued.

FOOTNOTE SCHEDULES

The following schedules represent required disclosures of more detailed information regarding certain balances and amounts contained in the Consolidated Statements of Financial Position and Activities. These are an integral part of the footnotes to the Consolidated Statements.

9. Pledges receivable

As of June 30, 2013 unconditional promises to give were as follows:

(In thousands)

Amounts due in		
Less than one year	$	117,869
One to five years		65,037
More than five years		5,190
Subtotal		188,096
Less fair value adjustments:		
Discount of 3.25% to present value		4,514
Allowance for doubtful accounts		5,500
	$	178,082

10. Deposits on land and other assets

Deposits on land and other assets consisted of the following at June 30, 2013:

(In thousands)

Deposits on land	$	1,022
Trade lands		10,547
Other receivables		1,460
Prepaid expenses		11,429
Notes receivable		2,693
Other assets		4,124
Total	$	31,275

11. Property and equipment

Property and equipment consisted of the following at June 30, 2013:

(In thousands)

Land	$	6,960
Buildings and improvements		119,150
Construction in progress		13,721
Computer equipment and software		11,806
Furniture, fixtures, and other		14,348
		165,985
Accumulated depreciation and amortization		(60,668)
Total	$	105,317

Depreciation and amortization expense was $8,170,000 during the year ended June 30, 2013. Of the total assets listed above, $12,271,000 was fully depreciated at June 30, 2013.

12. Bonds and notes payable

(In thousands)	
Unsecured Colorado Educational and Cultural Facilities Authority Revenue Bonds, Tax Exempt, Series 2002A issued in the original principal amount of $25,053,000 to refund the Industrial Development Authority of Arlington County (IDA) Tax Exempt Revenue Bonds Series 1997A and portions of the IDA Revenue Bonds Taxable Series 1997B; variable interest rate pursuant to rate swap, 0.08% as of June 30, 2013, due July, 2024.	$ 14,252
Unsecured Colorado Educational and Cultural Facilities Authority Revenue Refunding Bonds, Tax Exempt, Series 2012 issued in the original principal amount of $144,435,000, with a variable interest rate reset weekly, 0.06% as of June 30, 2013, due July, 2033.	140,480
Unsecured Taxable Revenue Bonds Series 2009 in the aggregate principal amount of $100,000,000 issued July 1, 2009 to refund the Extendible Floating Rate Notes, Taxable Revenue Bonds Series EXL5 on October 5, 2009; fixed rate of 6.30% due July, 2019.	100,000
New York State Environmental Facilities Corporation private bonds issued in the aggregate amount of $50,000,000 with a fixed interest rate of 3.90%, due June, 2024.	47,978
Loans and mortgages, some of which are collateralized by the land, and payable in monthly installments, including interest ranging from 0% to 6.0%; final payments are due at various dates through 2033.	43,450
Conservation Notes, unsecured notes payable in various amounts with interest ranging from 0.75% to 2.0%, due at various dates through 2018.	24,900
Other notes payable without interest due on demand	5,286
Total	$ 376,346

The fair value of long-term debt, including current maturities, is estimated based on current market rates offered to or by The Conservancy for similar instruments. The fair value of the Unsecured Taxable Revenue Bonds Series 2009 is $120,474,000 based on market prices at June 30, 2013 and would be considered a Level 1 investment if carried at fair value. Based on a blended borrowing rate of 4.27% as of June 30, 2013, the fair value of the remaining long-term debt is approximately $273,942,000 and would be considered a Level 2 investment if carried at fair value.

The following schedule of amounts due is based on the maturity dates per the debt agreements:

(In thousands)		
2014	$	108,163
2015		51,531
2016		50,064
2017		19,636
2018		12,869
Thereafter		134,083
Total	$	376,346

13. Net assets

Temporarily restricted net assets are available for the following purposes:

(In thousands)		
Land acquisition and other conservation projects	$	224,259
Time restricted for periods after June 30		185,477
Time and purpose restricted for periods after June 30		137,219
True endowment gains subject to future Board of Director's appropriation		87,961
Total	$	634,916

Permanently restricted net assets are restricted in perpetuity; the income derived from these investments is expendable to support the operations of The Conservancy. The total amount of permanently restricted net assets on the consolidated statement of financial position includes the donor-restricted endowment funds of $155,549,000 displayed in the tables below, as well as other amounts such as those contributed to create a permanent capital fund. This fund, the land preservation fund, is used to finance capital projects and is to be maintained in perpetuity for only this purpose. Permanently restricted net assets primarily in the land preservation fund were $158,000,000 as of June 30, 2013.

Endowment funds are categorized in the following net asset classes as of June 30, 2013:

(In thousands)		**Unrestricted**		**Temporarily Restricted**		**Permanently Restricted**		**Total**
Donor-restricted endowment funds	$	(4,380)	$	87,961	$	155,549	$	239,130
Board-designated endowment funds		754,052		-		-		754,052
Total endowment funds	$	749,672	$	87,961	$	155,549	$	993,182

Changes in endowment funds by net asset classification for the year ended June 30, 2013 are summarized as follows:

(In thousands)	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 719,041	$ 81,052	$ 150,878	$ 950,971
Investment returns	58,656	18,252	-	76,908
Contributions and other revenue	1,365	416	7,805	9,586
Interfund transfers	9,443	1,609	(3,404)	7,648
Appropriation of assets for expenditure	(52,201)	-	-	(52,201)
Net assets released from restrictions	13,368	(13,368)	-	-
Total endowment funds	749,672	87,961	155,279	992,912
Reclassification of net assets	-	-	270	270
Total endowment funds	$ 749,672	$ 87,961	$ 155,549	$ 993,182

14. Assets and liabilities carried at fair value

Assets and liabilities carried at fair value are classified in the fair value hierarchy based on the lowest level of input that is significant to the valuation.

Fair value for Level 1 is based upon quoted prices in active markets for identical assets and liabilities. Market price data is generally obtained from exchange or dealer markets.

Fair value for Level 2 is based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and on model-based valuation techniques, for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the assets. Inputs are obtained from various sources including market participants, dealers, and brokers.

Fair value for Level 3 is based on valuation techniques that use significant inputs that are unobservable as they trade infrequently or not at all.

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

In order to partially insulate itself from the variable nature of the interest rates on its outstanding debt, The Conservancy has three interest rate swap agreements that fix the rates on several variable rate bonds. Interest rate swaps are valued using both observable and unobservable inputs, such as quotations received from the counterparty, dealers or brokers, whenever available and considered reliable. In instances where models are used, the value of the interest rate swap depends upon the contractual terms of, and specific risks inherent in, the instrument as well as the availability and reliability of observable inputs. Such inputs include market prices for reference securities, yield curves, credit curves, measures of volatility, prepayment rates, assumptions for nonperformance risk, and correlations of such inputs. The Conservancy's interest rate swap arrangements have inputs which can generally be corroborated by market data and are therefore classified within Level 2.

Fair value of interest rate swaps at June 30, 2013:

(In thousands)		
Interest rate contracts		
Statement of Financial Position Location:		
Accounts payable and accrued liabilities	$	(41,521)
Change in fair value in Statement of Activities:		
Other income	$	(19,647)

Split interest agreements where The Conservancy is not the trustee are valued at the present value of the future distributions expected to be received over the term of the agreement. There is no market for these agreements, and they are therefore classified within Level 3.

Assets and liabilities categorized by input level:

(In thousands)

	Level 1	Level 2	Level 3	Total
Investments:				
Short-term investments	$ 324	$ 7,367	$ -	$ 7,691
Repurchase agreements	-	2,379	-	2,379
Fixed income:				
U.S. treasuries	67,389	-	-	67,389
Asset-backed securities	-	5,961	-	5,961
Commercial paper	-	-	-	-
Corporate debt	-	420,137	-	420,137
Mortgage-backed securities	-	14,742	-	14,742
U.S. agency bonds	-	55,834	-	55,834
Common trust fund	-	-	-	-
Convertible securities	-	2,542	-	2,542
Public equity:				
Consumer discretionary	16,679	-	-	16,679
Consumer staples	11,984	-	-	11,984
Energy	26,511	-	-	26,511
Financial services	47,174	-	-	47,174
Health care	33,743	-	-	33,743
Industrials	74,535	-	-	74,535
Information technology	30,856	-	-	30,856
Materials	12,423	-	-	12,423
Telecommunications	5,811	-	-	5,811
Utilities	9,379	-	-	9,379
Other industries	128	-	-	128
Commingled equity funds	-	-	290,852	290,852
Mutual funds	54,477	-	-	54,477
Closed end mutual funds	44,226	-	-	44,226
Hedge funds	-	-	180,090	180,090
Private equity	-	-	191,310	191,310
Private real estate	-	-	30,536	30,536
Split interests, trusteed	125,575	108,365	18,246	252,186
Split interests, non-trusteed	-	-	36,788	36,788
Total investments at fair value	561,214	617,327	747,822	1,926,363
Collateral received under securities lending agreement	$ 49,169	$ -	$ -	$ 49,169
Pledges receivable	-	-	178,082	178,082
Total assets measured at fair value	$ 610,383	$ 617,327	$ 925,904	$ 2,153,614
Interest rate swaps liability	$ -	$ 41,521	$ -	$ 41,521
Payable under securities lending agreement	49,169	-	-	49,169
Total liabilities measured at fair value	$ 49,169	$ 41,521	$ -	$ 90,690

Investments included in Level 3 primarily consist of The Conservancy's ownership in alternative investments (principally limited partnership interests in hedge and private equity funds) as well as public equity investments held within private arrangements. The value of certain alternative investments represents the ownership interest in the NAV of the respective partnership. Approximately 67% of Level 3 investments held by the partnerships consist of marketable securities and 33% are securities that do not have readily determinable fair values. The fair values of the securities held by limited partnerships that do not have readily determinable fair values are determined by the general partner and are based on appraisals, or other estimates that require varying degrees of judgment. If no public market exists for the investment securities, the fair value is determined by the general partner taking into consideration, among other things, the cost of the securities, prices of recent significant placements of securities of the same issuer, and subsequent developments concerning the companies to which the securities relate. The Conservancy has performed significant due diligence around these investments to ensure NAV is an appropriate measure of fair value.

Investments valued using NAV as of June 30, 2013:

(In thousands)	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Global equity funds	$ 154,722	$ -	Monthly, quarterly	10 business days, 30 days
International equity funds	136,130	-	Monthly	6 business days, on 15th of prior month
Bond funds	49,869	-	Daily	Daily
Hedge funds	180,090	29,999	Monthly, quarterly, rolling 2, 3 & 4 years	45 - 90 days, 3-4 months
Private equity funds	189,781	42,877	N/A	N/A
Real estate funds	30,536	28,080	N/A	N/A
Total	$ 741,128	$ 100,956		

Rollforward of Level 3 financial instruments:

(In thousands)	Fair value as of June 30, 2012	Realized gains (losses)	Unrealized gains (losses)	Purchases	Sales	Fair value as of June 30, 2013
Commingled equity funds	$ 243,114	$ 3,017	$ 31,465	$ 25,000	$ (11,744)	$ 290,852
Hedge funds	184,006	(3,421)	15,254	25,021	(40,770)	180,090
Private equity	188,442	23,944	(4,981)	19,650	(35,745)	191,310
Real estate	24,788	637	3,061	9,566	(7,516)	30,536
Split interest arrangements	54,046	(115)	(446)	2,059	(510)	55,034
Total	694,396	24,062	44,353	81,296	(96,285)	747,822
Pledges receivable	176,851	-	1,231	-	-	178,082
Total investments and pledges	$ 871,247	$ 24,062	$ 45,584	$ 81,296	$ (96,285)	$ 925,904

Of the net realized and unrealized gains of $69,646,000 in the table above, $68,416,000 are reflected in the accompanying statement of activities as investment gains. The remaining amounts include a net $1,230,000 increase in pledges, of which a $1,730,000 increase is reflected in the accompanying statement of activities as dues and contributions and a $500,000 decrease is reflected as conservation activities and actions program expense.

Investment gains consisted of the following for the year ended June 30, 2013:

(In thousands)

Dividends and interest income	$	28,940
Realized and unrealized gains (net of expenses of $11,243)		83,261
Change in value of split interest arrangements		4,524
Investment gains	$	116,725

15. Leases

The following is a schedule of future minimum lease payments for all operating leases as of June 30, 2013:

(in thousands)

2014	$	5,965
2015		4,873
2016		3,798
2017		2,585
2018		1,962
Thereafter		3,504
Total minimum lease payments	$	22,687

Rent expense was $12,139,000 for the year ended June 30, 2013.

SUPPLEMENTAL SCHEDULES

Following are supplemental schedules:

Consolidated Statements of Financial Position as of June 30, 2013 (with comparative totals as of June 30, 2012)

Summarized Consolidated Statements of Activities for the year ended June 30, 2013 (with comparative totals for the year ended June 30, 2012)

Schedule of Functional Expenses as reported in the Consolidated Statement of Activities for the year ended June 30, 2013 by natural account classification (with comparative totals for the year ended June 30, 2012).

While these schedules are not required under Generally Accepted Accounting Principles, they provide useful additional detail to help the user of these financial statements understand how funds are spent, as well as providing prior year comparisons.

The Nature Conservancy
Supplemental Schedule - Consolidated Statements of Financial Position
As of June 30, 2013 and 2012

(Amounts in thousands)	**2013**	**2012**
Assets		
Cash and cash equivalents	$ 107,718	$ 39,048
Restricted cash	29,620	34,001
Government grants and contracts receivable	24,542	27,927
Pledges receivable, net	178,082	176,851
Collateral received under securities lending agreement	49,169	41,972
Deposits on land and other assets	31,275	31,981
Property and equipment, net of accumulated depreciation and amortization	105,317	105,541
Investments - Capital fund	644,254	628,666
Investments - Split interest arrangements	286,263	272,493
Investments - Endowment fund	995,846	950,230
Conservation lands	1,865,034	1,923,426
Conservation easements	1,866,197	1,789,779
Total assets	$ 6,183,317	$ 6,021,915
Liabilities		
Accounts payable and accrued liabilities	$ 100,801	$ 120,587
Payable under securities lending agreement	49,169	41,972
Deferred revenue and refundable advances	92,076	92,962
Bonds and notes payable	376,346	389,040
Split interest arrangements	143,874	140,814
Total liabilities	762,266	785,375
Net assets		
Unrestricted		
Undesignated	(48,284)	(42,528)
Board-designated		
Land, easements, and project funds	3,764,115	3,658,400
Quasi endowment and similar funds	754,171	723,540
	4,470,002	4,339,412
Temporarily restricted	634,916	588,550
Permanently restricted	316,133	308,578
Total net assets	5,421,051	5,236,540
Total liabilities and net assets	$ 6,183,317	$ 6,021,915

The Nature Conservancy
Supplemental Schedule - Summarized Consolidated Statements of Activities
For the years ended June 30, 2013 and 2012

(Amounts in thousands)	2013	2012
Support and revenues		
Dues and contributions	$ 439,052	$ 521,865
Land and easements contributed for conservation	73,386	95,205
Government grants and contracts	120,717	158,004
Investment income	116,725	(37,072)
Sales of conservation land and easements to governments and others	108,628	105,740
Other	90,663	27,392
Total support and revenues	949,171	871,134
Expenses		
Program expenses	560,201	634,904
General and administration	115,448	110,674
Fund-raising		
General fund-raising	66,910	63,690
Membership development	22,101	21,319
Total expenses	764,660	830,587
Increase in net assets	184,511	40,547
Net assets at beginning of year	5,236,540	5,195,993
Net assets at end of year	$ 5,421,051	$ 5,236,540

The Nature Conservancy
Supplemental Schedule - Schedules of Functional Expenses
For the year ended June 30, 2013 with summarized totals for the year ended June 30, 2012

(Amounts in thousands)	Program expenses	Support services expenses				Totals	
			Fund-raising		Total Support		
	Conservation activities and actions	General and administration	General fund-raising	Membership development	services expenses	2013 Total expenses	2012 Total expenses
Personnel	$ 173,712	$ 69,990	$ 51,132	$ 3,547	$ 124,669	$ 298,381	$ 285,257
Contract, professional fees	61,470	9,326	3,259	5,278	17,863	79,333	77,776
Grants and allocations	44,713	127	33	-	160	44,873	74,426
Supplies	8,167	3,608	695	809	5,112	13,279	13,691
Telecommunications	2,347	1,551	390	17	1,958	4,305	5,257
Postage and mailing service	1,290	356	394	6,956	7,706	8,996	9,481
Occupancy	2,223	9,607	309	-	9,916	12,139	11,475
Equipment rental and maintenance	4,497	1,262	207	-	1,469	5,966	6,429
Printing and publication	3,300	233	816	4,847	5,896	9,196	9,116
Travel	14,897	3,001	2,744	205	5,950	20,847	21,360
Conferences and meetings	7,102	1,843	1,303	29	3,175	10,277	10,043
Interest	18,999	5	-	-	5	19,004	19,194
Depreciation and amortization	5,930	1,785	455	-	2,240	8,170	7,243
Equipment	2,508	112	29	-	141	2,649	2,288
Taxes and licenses	1,120	669	83	12	764	1,884	1,855
Utilities, repairs, maintenance, and construction	4,444	2,045	411	-	2,456	6,900	9,561
Insurance	2,335	1,557	72	-	1,629	3,964	3,076
Real estate taxes	4,414	989	26	-	1,015	5,429	5,681
Closing costs	2,527	601	-	-	601	3,128	2,751
Contributed goods and services non-cash expense	18,138	5,229	4,487	390	10,106	28,244	84,032
All other	14,757	1,552	65	11	1,628	16,385	4,526
Subtotal	398,890	115,448	66,910	22,101	204,459	603,349	664,518
Book value of conservation land and easements sold or donated to government and others	161,311	-	-	-	-	161,311	166,069
Total	$ 560,201	$ 115,448	$ 66,910	$ 22,101	$ 204,459	$ 764,660	$ 830,587

The Nature Conservancy

Consolidated Financial Statements
For the year ended June 30, 2012
And report thereon

Report of Independent Auditors

To the Board of Directors of
The Nature Conservancy

In our opinion, the accompanying consolidated statement of financial position and the related consolidated statements of activities and of cash flows present fairly, in all material respects, the financial position of The Nature Conservancy and its chapters and affiliates (The Conservancy) at June 30, 2012, and the changes in their net assets and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of The Conservancy's management. Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit of these statements 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Our audit was conducted for the purpose of forming an opinion on the 2012 basic consolidated financial statements taken as a whole. The accompanying consolidated statements of financial position as of June 30, 2012 and 2011, the summarized consolidated statements of activities for the years ended June 30, 2012 and 2011, and the schedule of functional expenses for the year ended June 30, 2012 with summarized totals for the year ended June 30, 2011 are presented for purposes of additional analysis and are not a required part of the basic consolidated financial statements. The information is the responsibility of management and was derived from and relates to underlying accounting and other records used to prepare financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 financial statements taken as a whole. The 2012 information has been subjected to the auditing procedures applied in our audit of the basic consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic consolidated financial statements taken as a whole. The 2011 prior year summarized comparative information has been derived from The Conservancy's 2011 consolidated financial statements, and in our report dated October 14, 2011, we expressed an unqualified opinion on those consolidated financial statements.

PricewaterhouseCoopers LLP

October 12, 2012

PricewaterhouseCoopers LLP, 1800 Tysons Boulevard, McLean, VA 22102-4261
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The Nature Conservancy
Consolidated Statement of Financial Position
As of June 30, 2012

(Amounts in thousands)

Assets		
Cash		$ 39,048
Restricted cash		34,001
Government grants and contracts receivable		27,927
Pledges receivable, net		176,851
Collateral received under securities lending agreement		41,972
Deposits on land and other assets		31,981
Property and equipment, net of accumulated depreciation and amortization		105,541
Investments:		
Investments - Capital fund	628,666	
Investments - Split interest arrangements	272,493	
Investments - Endowment fund	950,230	
Total investments		1,851,389
Conservation lands		1,923,426
Conservation easements		1,789,779
Total assets		$ 6,021,915
Liabilities		
Accounts payable and accrued liabilities		$ 120,587
Payable under securities lending agreement		41,972
Deferred revenue and refundable advances		92,962
Notes payable		389,040
Split interest arrangements		140,814
Total liabilities		785,375
Net assets		
Unrestricted		
Undesignated	(42,528)	
Board-designated		
Land, easements, and project funds	3,658,400	
Quasi endowment and similar funds	723,540	
Total unrestricted		4,339,412
Temporarily restricted		588,550
Permanently restricted		308,578
Total net assets		5,236,540
Total liabilities and net assets		$ 6,021,915

The accompanying notes are an integral part of these consolidated financial statements.

The Nature Conservancy
Consolidated Statement of Activities
For the year ended June 30, 2012

(Amounts in thousands)

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Support and revenues				
Dues and contributions	$ 221,561	$ 208,786	$ 7,485	$ 437,832
Contributed goods and services	84,033	-	-	84,033
Land and easements contributed for conservation	95,205	-	-	95,205
Government grants and contracts	158,004	-	-	158,004
Investment loss	(16,271)	(20,801)	-	(37,072)
Other income	27,392	-	-	27,392
Total support and revenue before sales of conservation land and easements and net assets released from restrictions	569,924	187,985	7,485	765,394
Sales of conservation land and easements to governments and others	105,740	-	-	105,740
Net assets released from restrictions	174,430	(174,430)	-	-
Total support and revenues	850,094	13,555	7,485	871,134
Expenses				
Program expenses				
Conservation activities and actions	468,835	-	-	468,835
Book value of conservation land and easements sold or donated to governments and others	166,069	-	-	166,069
Total program expenses	634,904	-	-	634,904
Support services expenses				
General and administration	110,674	-	-	110,674
Fund-raising				
General fund-raising	63,690	-	-	63,690
Membership development	21,319	-	-	21,319
Total support services expenses	195,683	-	-	195,683
Total expenses	830,587	-	-	830,587
Total increase in net assets	19,507	13,555	7,485	40,547
Net assets at beginning of year	4,319,905	574,995	301,093	5,195,993
Net assets at end of year	$ 4,339,412	$ 588,550	$ 308,578	$ 5,236,540

The accompanying notes are an integral part of these consolidated financial statements.

The Nature Conservancy
Consolidated Statement of Cash Flows
For the year ended June 30, 2012

(Amounts in thousands)

Reconciliation of increase in net assets to cash provided by operating activities:			
Increase in net assets		$ 40,547	
Non-cash adjustments:			
Contributed land and easements	$ (103,522)		
Loss on sales of land and easements	60,989		
Realized/Unrealized investment losses	49,163		
Change in value of split interest agreements	18,319		
Change in value of interest rate swaps	24,611		
Depreciation and amortization	7,243		
Other - net	8,620	65,423	
Changes in assets and liabilities:			
Receivables	(32,510)		
Other - net	6,558	(25,952)	
Cash provided by (used in) land activities:			
Proceeds from sales of land and easements	109,902		
Purchases of land and easements	(152,738)	(42,836)	
Net cash provided by operating activities			$ 37,182
Investing activities:			
Proceeds from sale of investments		2,087,134	
Purchases of investments		(2,096,759)	
Proceeds from notes receivable		13,495	
Other - net		(14,352)	
Net cash used in investing activities			(10,482)
Financing activities:			
Proceeds from securities lending program		50,841	
Repayments of securities lending program		(50,841)	
Principal payments on debt		(237,051)	
Proceeds from issuance of debt		214,908	
Other - net		(9,650)	
Net cash used in financing activities			(31,793)
Net change in cash			(5,093)
Cash, beginning of year			44,141
Cash, end of year			$ 39,048
Supplemental data			
Interest paid			$ 18,135

The accompanying notes are an integral part of these consolidated financial statements.

ACCOUNTING POLICY FOOTNOTES

The following notes present disclosures of the significant accounting policies and related information relating to balances and amounts contained in the Consolidated Statements of Financial Position and Activities. These notes are an integral part of the consolidated financial statements.

1. ORGANIZATION

The Nature Conservancy (The Conservancy) is a global conservation organization. The mission of The Conservancy is to conserve the lands and waters on which all life depends. The Conservancy conducts its activities throughout the United States, Canada, Latin America, the Caribbean, Africa, Asia, and the Pacific.

The Conservancy's primary sources of revenue are contributions from the public (including gifts of land), investment income, government grants, and sales of conservation interests to government agencies or other conservation buyers. These resources are used to help solve critical challenges by significantly improving the health of globally important natural systems that enhance the lives of people around the world. Under its conservation framework, The Conservancy concentrates on four global challenges: conserving critical lands, restoring oceans, securing fresh water, and reducing the impact of climate change. Working with partners – including indigenous communities, governments, and businesses – The Conservancy pursues solutions that protect and restore natural systems, use nature sustainably, and broaden support for conservation.

2. CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements are presented on the accrual basis of accounting and include the accounts of all The Conservancy's chapters and affiliates, both domestic and international, including those which are separately incorporated, receive gifts, and perform conservation activities in the name of The Conservancy. All significant intercompany transactions have been eliminated.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States 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 the estimated amounts.

3. CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Cash and Restricted Cash

Cash represents operating cash held in bank accounts in high quality financial institutions in the United States and 30 foreign countries. The cash in foreign accounts is uninsured, but is limited per country to amounts that, in the opinion of management, are not material to the financial statements. Restricted cash represents monies held in trust related to requirements of specific conservation project agreements.

Government Grants and Contracts Receivable/Deferred Revenue

The Conservancy receives grants and contracts from federal, state, and local agencies to be used for specific programs or land purchases. The excess of reimbursable expenditures over cash receipts is included in government grants receivable and any excess of cash receipts over reimbursable expenditures is included in deferred revenue.

Pledges Receivable

Pledges receivable represent unconditional promises to give and are reported at fair value by discounting the expected future pledge payments at the prime interest rate at the balance sheet date. The discount rate used in the present value technique to determine fair value of pledges receivable is revised at each measurement date to reflect current market conditions and the creditworthiness of donors. In addition, management evaluates payment history and market conditions to estimate allowances for doubtful pledges. Changes in the fair value of pledges receivable are reported in the statement of activities as contribution revenue except for changes in the allowance which are reported as program expenses at each subsequent reporting date. Pledges receivable past due by 90 days are, in the opinion of management, not material to the financial statements.

Not recorded as pledges receivable are $50,472,000, that are conditioned upon The Conservancy raising matching gifts or acquiring certain conservation lands. Conditional promises to give are recognized as contributions when the donor-imposed conditions are substantially met.

Securities Lending Agreement
The Conservancy lends certain securities in its investment portfolio to qualified borrowers on a short-term, fully collateralized basis in exchange for interest to help offset custodial fees. Collateral in the form of cash in US dollars, securities issued or guaranteed by the US government, or irrevocable letters of credit issued by banks independent of the borrowers is marked-to-market on a daily basis, and the borrower is required to deliver the difference between the daily market value of the collateral and 102% of the loaned securities' original fair market value if denominated in US dollars or 105% if denominated in foreign currency. The lending agent, in its agreement with The Conservancy, guarantees the repayment of the loan in the event the borrower defaults. The Conservancy retains all the benefits of ownership including rights to dividends, interest, and other cash distributions pertaining to the loaned securities. The Conservancy also retains the right to redeem the loaned securities prior to the stipulated redemption date.

At June 30, 2012, The Conservancy recorded $41,972,000 in collateral received under its securities lending program and an equal amount payable to the borrowers under the agreement. These amounts are reflected in assets and liabilities in the statement of financial position.

Property and Equipment
Property and equipment are carried at cost. The Conservancy's minimum capitalization threshold is $50,000. Depreciation and amortization is provided using the straight-line method for all depreciable assets over their estimated future lives as follows:

Building and improvements	5 – 30 years
Computer equipment and software	3 – 5 years
Furniture, fixtures, and other	4 – 25 years

Concentration of Credit Risk
The Conservancy's excess cash in investment accounts is invested with high quality institutions, the largest concentrations of which are invested in Repurchase Agreements (36.6%), U.S. Treasury securities (26.3%), and U.S. Agencies (24.2%).

Pursuant to The Conservancy's investment policy, the investments described below cannot have more than 10% of their assets in securities of any one issuer, be they short-term or long-term, other than the U.S. Government. At June 30, 2012, the single largest non-U.S. Government issuer exposure was 5.25% of the total portfolio.

Investments
Investments are carried at estimated fair market value and reported in three distinct categories:

- *Capital fund* **–** funds held primarily for the future acquisition of conservation land, easements, and for funding other conservation projects.

- *Split interest arrangements* **–** donations that are held in trust by The Conservancy or third party trustees, representing beneficial interests in trusts.

- *Endowment fund* **–** funds held as long-term capital to generate income for The Conservancy's operations.

Endowment Investment and Spending Policies
The Conservancy's Endowment (Endowment) includes both donor-restricted endowment funds and funds designated by the Board of Directors (Board) to function as endowments. The amount of Endowment income provided each year for operations is established by the Finance Committee of the Board, through its adoption of an annual endowment spending rate and spending rate base. The spending rate for the year ended June 30, 2012 was 5.5% of the average fair market value over the 36 months of calendar years 2010, 2009 and 2008. For year beginning July 1, 2012, the spending rate will be 5.0% of the average fair market value of the 60 months of calendar years 2007 through 2011.

In order to maintain the purchasing power of the Endowment, The Conservancy has historically targeted a nominal rate of return that compensates for both the endowment payout as well as the rate of inflation. With an expectation of slower economic growth and continued market volatility, reduced inflationary pressures, and a more conservative investment asset allocation, The Conservancy revised its investment objective in October 2011 to target a return of 5%, commensurate with the lower spending rate applicable beginning July 1, 2012.

The Conservancy recognizes that significant risk must be assumed to achieve its stated long-term investment objectives. Therefore, asset allocations and ranges are necessarily diverse, and consider liquidity needs. The Conservancy has considered its ability to withstand short and intermediate term variability and concluded that the portfolio can tolerate some interim fluctuations in market values and rates of return in order to achieve its objectives. However, The Conservancy realizes that market performance varies and that the portfolio's investment objectives may not be achievable during short-term periods.

The Conservancy has chosen not to manage its underlying assets directly, but to utilize independent investment managers. To maintain prudent diversification and to manage risk, The Conservancy's portfolio is divided among 40 to 50 separate managers.

Conservation Lands and Easements
The Conservancy records land and land interests at cost if purchased or at fair value at the date of acquisition, if all or part of the land was received as a donation. Fair value is generally determined by appraisal at the time of acquisition and is not subsequently adjusted. Upon sale or gift, the book value of the land or land interest is reported as a program expense; and the related proceeds, if any, are reported as revenue in the consolidated statement of activities.

Conservation land is real property with significant ecological value. These properties are either managed in an effort to protect the natural biological diversity of the property, or transferred to other organizations who will manage the lands in a similar fashion.

Conservation easements are comprised of listed rights and/or restrictions over the owned property that are conveyed by a property owner to The Conservancy, almost always in perpetuity, in order to protect the owned property as a significant natural area, as defined in federal tax regulations. These intangible assets may be sold or transferred to others so long as the assignee agrees to carry out, in perpetuity, the conservation purposes intended by the original grantor. Conservation easements, by their very nature, do not generate material amounts of cash inflow annually.

Notes Payable

The Conservancy uses debt, both fixed and variable, primarily to finance the acquisition of conservation lands and easements. Debt is reported at cost.

In order to partially insulate itself from the variable nature of the interest rates on its outstanding debt, The Conservancy has three interest rate swap agreements. The Conservancy pays a fixed rate of 4.373% on $95,375,000 in return for receipt of variable rate interest in the amount of 3- month LIBOR and pays a fixed rate of 2.962% on $190,000,000 of principal in return for receipt of variable rate interest in the amount of 67% of 3-month LIBOR. The Conservancy pays a fixed rate of 3.56% on $25,053,000 in return for receipt of variable rate interest in the amount of 67% of 1-month LIBOR. Maturities of the swap agreements range from 2027 to 2033 and the counterparty to these swaps has the option to terminate at their discretion.

Due to the nature of certain variable rate bond agreements, The Conservancy may receive notice of an optional tender on its variable-rate bonds, in which case The Conservancy would have an obligation to purchase the bonds tendered if unable to secure alternate financing at that time. The Conservancy entered into a standby liquidity support agreement with a financial institution to support the original principal amount of $85,000,000 of the variable rate demand obligations. Under this agreement, the financial institution agreed to supply additional liquidity to The Conservancy - up to that amount with which The Conservancy can purchase the bonds if The Conservancy cannot remarket the bonds. At this time, the due date on the $85,000,000 liquidity support line would be over a three year period.

The Conservancy has an unsecured line of credit providing total borrowings as of June 30, 2012 of up to $30,000,000. As of June 30, 2012 the balance on the line of credit was $26,000,000. Interest is payable at various rates based on LIBOR plus 0.50%, depending on repayment terms, as of June 30, 2012.

Interest expense incurred on total notes payable for 2012 was $18,738,000.

Split Interest Arrangements

The Conservancy enters into split interest arrangements whereby donations are held in trust by The Conservancy or third party trustees and invested. Income earned on the invested funds is payable to the donor or the donor's designee for a specified period of time or until the donor's death, after which time The Conservancy may use the investments for operations or a restricted use specified by the donor. The donated trust asset investments are recorded at current fair value or at an estimated fair value based on the latest available information.

The Conservancy utilizes an IRS-approved annuity table to actuarially calculate the liability associated with the estimated donor payments under these arrangements. The Conservancy determines the discount rate to be used in the month the split interest arrangements are entered into with the donor and these rates have ranged from 1.2% to 9%. The present value of the actuarially determined liability resulting from these gifts is recorded at the date of gift and adjusted annually thereafter.

Net Assets
The Conservancy's net assets are reported in the following three classes:

- *Unrestricted net assets* **–** Revenues derived from dues, unrestricted contributions, government grants and contracts, investment income (other than the temporarily restricted portion of true endowment investment income), and other inflows of assets whose use by The Conservancy is not limited by donor-imposed restrictions. Certain unrestricted net assets have been designated by the Board of Directors to be maintained as land, easements, other conservation project funds, and quasi endowment funds.

- *Temporarily restricted net assets* **–** Contributions and other inflows of assets whose use by The Conservancy is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of The Conservancy, such as usage for specific programs, including certain overhead and indirect costs, or for spending from true endowment investment income.

  When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and are reported on the consolidated statements of activities as net assets released from restrictions.

- *Permanently restricted net assets* – Contributions and other inflows of assets whose use by The Conservancy is limited by donor-imposed stipulations that the principal must be maintained permanently by The Conservancy. The total amount of permanently restricted net assets on the consolidated statements of financial position includes the donor-restricted endowment funds as well as amounts contributed to create a permanent capital fund. This fund is used to finance capital projects and donations to this fund are to be maintained in perpetuity for only this purpose.

Classification of endowment net assets
The Board of Directors of The Conservancy (Board) has approved management's interpretation of the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as enacted by the Council of the District of Columbia. UPMIFA requires the preservation of the fair value of the original gifts as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary.

The Endowment includes both donor-restricted endowment funds and funds designated by the Board to function as endowments. The Conservancy classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, and (b) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by The Conservancy. The Conservancy considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the endowment fund;
- The purposes of the institution and the endowment fund;
- General economic conditions;
- The possible effect of inflation or deflation;
- The expected total return from income and appreciation of investments;
- Other resources of the institution; and
- The investment policy of the institution.

Endowments with Eroded Corpus
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 The Conservancy requires to be retained as principal in perpetuity. Deficiencies of this nature that are reported in unrestricted net assets were $5,310,000 as of June 30, 2012. These deficits resulted from unfavorable market fluctuations that occurred shortly after the investment of newly established endowments and authorized appropriation that was deemed prudent.

4. CONSOLIDATED STATEMENT OF ACTIVITIES

Contributions
Unconditional donor promises to give cash and other assets are reported at fair value at the date that there is sufficient verifiable evidence documenting that a promise was made by the donor and received by The Conservancy. The promises are reported as either temporarily or permanently restricted support if received with donor stipulations that sufficiently limit the use of the donated assets.

The Conservancy recognizes contributed professional services from third parties and contributed goods and trade lands as revenue and as expense or assets, at the fair value of those services or goods when received. Trade lands are real property with minimal ecological value. These properties are sold to provide funds for The Conservancy to carry out its conservation work. During 2012 contributed goods and services totaled $84,033,000 and contributed trade lands totaled $8,317,000.

Government Grants and Contracts
Government grants and contracts are considered to be exchange transactions, the majority of which are cost-reimbursable grants. Revenue, including approved indirect cost recovery, is recognized when allowable costs have been incurred. The Conservancy's costs incurred under its government grants and contracts are subject to audit by government agencies. Management believes that disallowance of costs, if any, would not be material to the consolidated financial position or consolidated changes in net assets of The Conservancy.

Program expense allocation
Operating expenses are allocated to program and support categories based on separate cost center types as defined below. Conservation land and easements that are acquired by The Conservancy, but not sold or donated, are reflected as an increase in conservation land and easements on the

consolidated statements of financial position and are excluded from the program expense categories on the consolidated statements of activities.

The Conservancy accounts for its program expenditures in the following categories:

- *Conservation Activities and Actions* **–** Expenditures related to the broad spectrum of activities and actions critical to advancing The Conservancy's mission. Expenditures are related to understanding, monitoring, maintaining, restoring, and managing natural areas owned by The Conservancy and others are included, as well as expenditures for developing and enhancing The Conservancy's ability to gather and share ecological information and to assess and evaluate threats to the elements of natural diversity within ecoregions in which The Conservancy works. In addition, this area includes expenditures to mitigate, prevent, or slow the effects of threats to the elements of biodiversity, including investments in the institutional development of domestic and international conservation organizations. Expenditures related to improving public land management and supporting the development of sound global policies, including participating in conferences and events that help establish a common vision for conservation worldwide. Finally, this category includes expenditures relating to community outreach and education of key stakeholders and land users in areas where Conservancy conservation programs reside.

- *General and Administration* – Expenditures related to building and maintaining an efficient business infrastructure, including those related to corporate governance, to support and advance the programmatic conservation objectives of The Conservancy.

- *General Fund-Raising* **–** Expenditures related to fund-raising strategies that provide the revenue stream for both operations and capital needs to further the accomplishment of The Conservancy's mission and objectives.

- *Membership Development* **–** Expenditures related to the acquisition and retention of The Conservancy's primarily members through the use of a direct-mail program.

5. COMMITMENTS AND CONTINGENCIES

Litigation
The Conservancy is a party to various litigations arising out of the normal conduct of its operations. In the opinion of The Conservancy's management, the ultimate resolution of these matters will not materially affect the financial position, changes in net assets, or cash flows of The Conservancy.

Leases
The Conservancy has entered into noncancelable operating leases for office space, which expire at various dates through 2023. Certain of these leases contain rent escalation clauses, usually based on the consumer price index.

Land acquisitions and other commitments
The Conservancy has entered into contracts for the purchase of land and other purchase commitments that have not closed as of June 30, 2012, in the amount of $48,892,000.

The Conservancy has remaining funding commitments to private equity and hedge fund investment managers of $95,049,000 at June 30, 2012.

6. RETIREMENT PLANS

The Conservancy's employees are eligible after one month of service to participate in The Nature Conservancy Savings and Retirement Plan (the Plan), in which employees can make voluntary, tax-deferred contributions within specified limits. The Plan was established under the provisions of Internal Revenue Code Section 401(k) and has received a favorable determination as to its tax status from the Internal Revenue Service. Certain employees are also eligible to participate in a non-qualified deferred compensation plan created pursuant to Internal Revenue Code Section 457(b). The Conservancy's contributions to the plans were $12,153,000 for the year ended June 30, 2012.

7. INCOME TAXES

The Conservancy has been granted an exemption from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code. The Internal Revenue Service has classified The Conservancy as other than a private foundation. The Conservancy pays a nominal amount of tax relating to several unrelated business income activities, primarily rental income from debt-financed property. The Conservancy takes no tax positions that it considers to be uncertain.

8. SUBSEQUENT EVENTS

All subsequent events were evaluated through October 12, 2012, which is the date the financial statements were issued.

FOOTNOTE SCHEDULES

The following schedules represent required disclosures of more detailed information regarding certain balances and amounts contained in the Consolidated Statements of Financial Position and Activities. These are an integral part of the footnotes to the Consolidated Statements.

9. Pledges receivable

As of June 30, 2012 unconditional promises to give were as follows:

(In thousands)

Amounts due in	
Less than one year	$ 106,454
One to five years	76,508
More than five years	3,430
Subtotal	186,392
Less fair value adjustments:	
Discount of 3.25% to present value	4,541
Allowance for doubtful accounts	5,000
	$ 176,851

10. Deposits on land and other assets

Deposits on land and other assets consisted of the following at June 30, 2012:

(In thousands)

Deposits on land	$ 955
Trade lands	13,476
Other receivables	2,167
Prepaid expenses	9,457
Notes receivable	2,349
Other assets	3,577
Total	$ 31,981

11. Property and equipment

Property and equipment consisted of the following at June 30, 2012:

(In thousands)

Land	$ 6,910
Buildings and improvements	116,517
Construction in progress	11,101
Computer equipment and software	11,210
Furniture, fixtures, and other	13,379
	159,117
Less - Accumulated depreciation and amortization	(53,576)
Total	$ 105,541

Depreciation and amortization expense was $7,243,000 during the year ended June 30, 2012. Of the total assets listed above, $10,544,000 was fully depreciated at June 30, 2012.

12. Notes payable

(In thousands)

Unsecured borrowings on line of credit. Interest is payable at various rates based on LIBOR plus 0.50% , depending on repayment terms; 0.74% at June 30, 2012.	$ 26,000
Unsecured Colorado Educational and Cultural Facilities Authority Revenue Bonds, Tax Exempt, Series 2002A issued in the original principal amount of $25,053,000 to refund the Industrial Development Authority of Arlington County (IDA) Tax Exempt Revenue Bonds Series 1997A and portions of the IDA Revenue Bonds Taxable Series 1997B; variable interest rate pursuant to rate swap, 0.19% as of June 30, 2012, due July, 2024.	15,192
Unsecured Tax Exempt, Series 2012 issued in the original principal amount of $144,435,000, with a variable interest rate reset weekly, 0.18% as of June 30, 2012, due July, 2033.	144,435
Unsecured Taxable Revenue Bonds Series 2009 in the aggregate principal amount of $100,000,000 issued July 1, 2009 to refund the Extended Floating Rate Notes, Taxable Revenue Bonds Series EXL5 on October 5, 2009; fixed rate of 6.30% due July, 2019.	100,000
New York State Environmental Facilities Corporation private bonds issued in the aggregate amount of $50,000,000 with a fixed interest rate of 3.90%, due June, 2024.	50,000
Other Notes Payable:	
Loans and mortgages, some of which are collateralized by the land and by a $42,000 restricted cash account, and payable in monthly installments, including interest ranging from 0% to 6.0%; final payments are due at various dates through 2022.	48,113
Conservation Notes, unsecured notes payable in various amounts with interest ranging from 1% to 2%, due at various dates through 2017.	250
Other notes payable without interest due on demand	5,050
Total	$ 389,040

The fair value of long-term debt, including current maturities, is estimated based on current market rates offered to or by The Conservancy for similar instruments. Based on a blended borrowing rate of 5.69% as of June 30, 2012, the fair value of long-term debt is approximately $385,282,000.

The following schedule of amounts due is based on the maturity dates per the debt agreements:

(In thousands)

2013	$	133,681
2014		52,009
2015		37,476
2016		7,109
2017		19,223
Thereafter		139,542
Total	$	389,040

13. Net assets

Temporarily restricted net assets are available for the following purposes:

(In thousands)

Land acquisition and other conservation projects	$	213,074
Time restricted for periods after June 30		167,163
Time and purpose restricted for periods after June 30		127,261
True endowment gains subject to future Board of Director's appropriation		81,052
Total	$	588,550

Permanently restricted net assets are restricted in perpetuity; the income derived from these investments is expendable to support the operations of The Conservancy. The total amount of permanently restricted net assets on the consolidated statement of financial position includes the donor-restricted endowment funds of $150,878,000 displayed in the tables below, as well as amounts contributed to create a permanent capital fund. This fund, the land preservation fund, is used to finance capital projects and is to be maintained in perpetuity for only this purpose. Permanently restricted net assets primarily in the land preservation fund were $157,700,000 as of June 30, 2012.

Endowment funds are categorized in the following net asset classes as of June 30, 2012:

(In thousands)		Unrestricted		Temporarily Restricted		Permanently Restricted		Total
Donor-restricted endowment funds	$	(5,310)	$	81,052	$	150,878	$	226,620
Board-designated endowment funds		724,351		-		-		724,351
Total endowment funds	$	719,041	$	81,052	$	150,878	$	950,971

Changes in endowment funds by net asset classification for the year ended June 30, 2012 are summarized as follows:

(In thousands)	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 764,499	$ 92,429	$ 143,972	$1,000,900
Investment returns	(8,308)	(2,482)	-	(10,790)
Contributions and other revenue	365	164	5,081	5,610
Interfund transfers	6,152	672	1,825	8,649
Appropriation of assets for expenditure	(53,398)	-	-	(53,398)
Net assets released from restrictions	9,731	(9,731)	-	-
Total endowment funds	$ 719,041	$ 81,052	$ 150,878	$ 950,971

14. Assets and liabilities carried at fair value

Assets and liabilities carried at fair value are classified in the fair value hierarchy based on the lowest level of input that is significant to the valuation.

Fair value for Level 1 is based upon quoted prices in active markets for identical assets and liabilities. Market price data is generally obtained from exchange or dealer markets.

Fair value for Level 2 is based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and on model-based valuation techniques, for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the assets. Inputs are obtained from various sources including market participants, dealers, and brokers.

Fair value for Level 3 is based on valuation techniques that use significant inputs that are unobservable as they trade infrequently or not at all.

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

In order to partially insulate itself from the variable nature of the interest rates on its outstanding debt, The Conservancy has three interest rate swap agreements that fix the rates on several variable rate bonds. Interest rate swaps are valued using both observable and unobservable inputs, such as quotations received from the counterparty, dealers or brokers, whenever available and considered reliable. In instances where models are used, the value of the interest rate swap depends upon the contractual terms of, and specific risks inherent in, the instrument as well as the availability and reliability of observable inputs. Such inputs include market prices for reference securities, yield curves, credit curves, measures of volatility, prepayment rates, assumptions for nonperformance risk, and correlations of such inputs. The Conservancy’s interest rate swap arrangements have inputs which can generally be corroborated by market data and are therefore classified within Level 2.

Fair value of interest rate swaps at June 30, 2012:

(In thousands)

Interest rate contracts		
Statement of Financial Position location:		
Accounts payable and accrued liabilities	$	61,168
Change in fair value in Statement of Activities:		
Other loss (income)	$	24,611

Split interest agreements where The Conservancy is not the trustee are valued at the present value of the future distributions expected to be received over the term of the agreement. There is no market for these agreements, and they are therefore classified within Level 3.

Assets and liabilities categorized by input level:

(In thousands)

	Level 1	Level 2	Level 3	Total
Investments:				
Short-term investments	$ 507	$ 21,084	$ -	$ 21,591
Repurchase agreements	-	47,420	-	47,420
Fixed income:				
U.S. treasuries	52,088	-	-	52,088
Asset-backed securities	-	5,183	-	5,183
Corporate debt	-	437,688	-	437,688
Mortgage-backed securities	-	20,102	-	20,102
U.S. agencies	-	45,210	-	45,210
Convertible securities	-	6,603	-	6,603
Public equity:				
Consumer discretionary	21,804	-	-	21,804
Consumer staples	10,825	-	-	10,825
Energy	22,808	-	-	22,808
Financial services	33,299	-	-	33,299
Health care	26,536	-	-	26,536
Industrials	53,377	-	-	53,377
Information technology	26,252	-	-	26,252
Materials	10,474	-	-	10,474
Telecommunications	6,688	-	-	6,688
Utilities	8,043	-	-	8,043
Other industries	702	-	-	702
Commingled equity funds	-	-	243,114	243,114
Mutual funds	52,383	-	-	52,383
Closed end mutual funds	26,760	-	-	26,760
Hedge funds	-	-	184,006	184,006
Private equity	-	-	188,442	188,442
Private real estate	-	-	24,788	24,788
Split interests, trusteed	122,892	98,265	16,278	237,435
Split interests, non-trusteed	-	-	37,768	37,768
Total investments at fair value	475,438	681,555	694,396	1,851,389
Collateral received under securities lending agreement	$ 41,972	$ -	$ -	$ 41,972
Pledges receivable	-	-	176,851	176,851
Total assets measured at fair value	$ 517,410	$ 681,555	$ 871,247	$ 2,070,212
Interest rate swaps payable	$ -	$ 61,168	$ -	$ 61,168
Payable under securities lending agreement	41,972	-	-	41,972
Total liabilities measured at fair value	$ 41,972	$ 61,168	$ -	$ 103,140

Investments included in Level 3 primarily consist of The Conservancy's ownership in alternative investments (principally limited partnership interests in hedge and private equity funds) as well as public equity investments held within private arrangements. The value of certain alternative investments represents the ownership interest in the NAV of the respective partnership. Approximately 60% of Level 3 investments held by the partnerships consist of marketable securities and 40% are securities that do not have readily determinable fair values. The fair values of the securities held by limited partnerships that do not have readily determinable fair values are determined by the general partner and are based on appraisals, or other estimates that require varying degrees of judgment. If no public market exists for the investment securities, the fair value is determined by the general partner taking into consideration, among other things, the cost of the securities, prices of recent significant placements of securities of the same issuer, and subsequent developments concerning the companies to which the securities relate. The Conservancy has performed significant due diligence around these investments to ensure NAV is an appropriate measure of fair value.

Investments valued using NAV as of June 30, 2012:

(In thousands)	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Global equity funds	$ 116,800	$ -	Monthly, quarterly	10 business days, 30 days
International equity funds	126,315	-	Monthly	6 business days, on 15th of prior month
Bond funds	48,654	-	Daily	Daily
Hedge funds	184,006	23,888	Monthly, quarterly, annually, rolling 2, 3 & 5 years	45 - 90 days, 3-4 months
Private equity funds	187,069	53,205	N/A	N/A
Real estate funds	24,788	17,956	N/A	N/A
Total	$ 687,632	$ 95,049		

Rollforward of Level 3 financial instruments:

(In thousands)	Fair value as of June 30, 2011	Realized gains (losses)	Unrealized gains (losses)	Sales	Purchases	Fair value as of June 30, 2012
Common trust funds	$ 84,578	$ 401	$ (243)	$ (87,458)	$ 2,722	$ -
Commingled equity funds	314,512	43,105	(65,485)	(139,097)	90,079	243,114
Hedge funds	266,045	33,647	(34,710)	(91,814)	10,838	184,006
Private equity	174,609	6,884	7,346	(22,804)	22,407	188,442
Real estate	9,685	381	1,110	(1,891)	15,503	24,788
Split interest arrangements	52,095	39	715	(574)	1,771	54,046
Total	901,524	84,457	(91,267)	(343,638)	143,320	694,396
Pledges receivable	146,044	-	30,807	-	-	176,851
Total investments and pledges	$1,047,568	$ 84,457	$ (60,460)	$ (343,638)	$ 143,320	$ 871,247

Of the net realized and unrealized gains of $23,997,000 in the table above, $6,810,000 are reflected in the accompanying statement of activities as investment losses. The remaining amounts include a net $30,807,000 increase in pledges, of which a $31,307,000 increase is reflected in the accompanying statement of activities as dues and contributions and a $500,000 decrease is reflected as conservation activities and actions program expense. Unrealized losses of $70,409,000 relate to assets still held as of June 30, 2012.

Investment losses consisted of the following for the year ended June 30, 2012:

(In thousands)

Dividends and interest income	$	30,410
Realized and unrealized losses (net of expenses of $8,513)		(49,163)
Change in value of split interest arrangements		(18,319)
Investment loss	$	(37,072)

15. Leases

The following is a schedule of future minimum lease payments for all operating leases as of June 30, 2012:

(in thousands)

2013	$	5,537
2014		4,100
2015		3,071
2016		2,094
2017		1,193
Thereafter		1,298
Total minimum lease payments	$	17,293

Rent expense was $11,475,000 for the year ended June 30, 2012.

SUPPLEMENTAL SCHEDULES

Following are supplemental schedules:

Consolidated Statements of Financial Position as of June 30, 2012 (with comparative totals as of June 30, 2011)

Summarized Consolidated Statements of Activities for the year ended June 30, 2012 (with comparative totals for the year ended June 30, 2011)

Schedule of Functional Expenses as reported in the Consolidated Statement of Activities for the year ended June 30, 2012 by natural account classification (with comparative totals for the year ended June 30, 2011)

While these schedules are not required under Generally Accepted Accounting Principles, they provide useful additional detail to help the user of these financial statements understand how funds are spent, as well as providing prior year comparisons.

The Nature Conservancy
Supplemental Schedule - Consolidated Statements of Financial Position
As of June 30, 2012 and 2011

(Amounts in thousands)	2012	2011
Assets		
Cash	$ 39,048	$ 44,141
Restricted cash	34,001	34,957
Government grants and contracts receivable	27,927	26,224
Pledges receivable	176,851	146,044
Collateral received under securities lending agreement	41,972	92,813
Deposits on land and other assets	31,981	45,508
Property and equipment, net of accumulated depreciation and amortization	105,541	106,492
Investments - Capital fund	628,666	614,869
Investments - Split interest arrangements	272,493	281,974
Investments - Endowment fund	950,230	1,003,565
Conservation lands	1,923,426	1,927,139
Conservation easements	1,789,779	1,705,288
Total assets	$ 6,021,915	$ 6,029,014
Liabilities		
Accounts payable and accrued liabilities	$ 120,587	$ 94,005
Payable under securities lending agreement	41,972	92,813
Deferred revenue and refundable advances	92,962	94,959
Notes payable	389,040	411,298
Split interest arrangements	140,814	139,946
Total liabilities	785,375	833,021
Net assets		
Unrestricted		
Undesignated	(42,528)	(47,004)
Board-designated		
Land, easements, and project funds	3,658,400	3,597,911
Quasi endowment and similar funds	723,540	768,998
	4,339,412	4,319,905
Temporarily restricted	588,550	574,995
Permanently restricted	308,578	301,093
Total net assets	5,236,540	5,195,993
Total liabilities and net assets	$ 6,021,915	$ 6,029,014

The Nature Conservancy
Supplemental Schedule - Summarized Consolidated Statements of Activities
For the years ended June 30, 2012 and 2011

(Amounts in thousands)	**2012**	**2011**
Support and revenues		
Dues and contributions	$ 521,865	$ 457,729
Land and easements contributed for conservation	95,205	69,467
Government grants and contracts	158,004	160,375
Investment income	(37,072)	246,042
Sales of conservation land and easements to governments and others	105,740	185,108
Other	27,392	53,644
Total support and revenues	871,134	1,172,365
Expenses		
Program expenses	634,904	691,769
General and administration	110,674	103,660
Fund-raising		
General fund-raising	63,690	57,921
Membership development	21,319	17,213
Total expenses	830,587	870,563
Increase in net assets	40,547	301,802
Net assets at beginning of year	5,195,993	4,894,191
Net assets at end of year	$ 5,236,540	$ 5,195,993

The Nature Conservancy
Supplemental Schedule - Schedules of Functional Expenses
For the year ended June 30, 2012 with summarized totals for the year ended June 30, 2011

(Amounts in thousands)	Program expenses	Support services expenses				Totals	
	Conservation activities and actions	General and administration	Fund-raising: General fund-raising	Fund-raising: Membership development	Support services expenses	2012 Total expenses	2011 Total expenses
Personnel	$ 168,819	$ 65,645	$ 48,413	$ 2,380	$ 116,438	$ 285,257	$ 271,376
Contract, professional fees	59,412	8,777	3,894	5,693	18,364	77,776	77,681
Grants and allocations	74,255	136	35	-	171	74,426	67,210
Supplies	8,646	2,933	715	1,397	5,045	13,691	13,104
Telecommunications	2,946	1,796	496	19	2,311	5,257	5,040
Postage and mailing service	1,292	309	481	7,399	8,189	9,481	8,700
Occupancy	2,041	9,207	227	-	9,434	11,475	11,193
Equipment rental and maintenance	5,004	1,219	206	-	1,425	6,429	5,983
Printing and publication	3,763	206	937	4,210	5,353	9,116	9,056
Travel	15,245	2,923	3,007	185	6,115	21,360	18,748
Conferences and meetings	6,475	1,928	1,618	22	3,568	10,043	8,925
Interest	19,194	-	-	-	-	19,194	19,877
Depreciation and amortization	5,115	1,673	455	-	2,128	7,243	6,878
Equipment	2,133	123	32	-	155	2,288	2,678
Taxes and licenses	1,212	534	108	1	643	1,855	1,582
Utilities, repairs, maintenance, and construction	7,184	2,145	232	-	2,377	9,561	6,784
Insurance	1,869	1,148	59	-	1,207	3,076	3,625
Real estate taxes	4,780	875	26	-	901	5,681	6,016
Closing costs	2,391	360	-	-	360	2,751	2,798
Contributed goods and services non-cash expense	73,864	7,473	2,695	-	10,168	84,032	29,097
All other	3,195	1,264	54	13	1,331	4,526	3,957
Subtotal	468,835	110,674	63,690	21,319	195,683	664,518	580,308
Book value of conservation land and easements sold or donated to government and others	166,069	-	-	-	-	166,069	290,255
Total	$ 634,904	$ 110,674	$ 63,690	$ 21,319	$ 195,683	$ 830,587	$ 870,563

The Nature Conservancy

Consolidated Financial Statements
For the year ended June 30, 2011
And report thereon

pwc

Report of Independent Auditors

To the Board of Directors of
The Nature Conservancy

In our opinion, the accompanying consolidated statement of financial position and the related consolidated statements of activities and of cash flows present fairly, in all material respects, the financial position of The Nature Conservancy and its chapters and affiliates (The Conservancy) at June 30, 2011, and the changes in their net assets and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of The Conservancy's management. Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit of these statements 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Our audit was conducted for the purpose of forming an opinion on the 2011 basic consolidated financial statements taken as a whole. The consolidated statements of financial position as of June 30, 2011 and 2010, the summarized consolidated statements of activities for the years ended June 30, 2011 and 2010, and the schedule of functional expenses for the year ended June 30, 2011 with summarized totals for the year ended June 30, 2010 are presented for purposes of additional analysis and are not a required part of the basic consolidated financial statements. The 2011 information has been subjected to the auditing procedures applied in our audit of the basic consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic consolidated financial statements taken as a whole. The 2010 prior year summarized comparative information has been derived from The Conservancy's 2010 consolidated financial statements, and in our report dated December 6, 2010, we expressed an unqualified opinion on those consolidated financial statements.

PricewaterhouseCoopers LLP

October 14, 2011

The Nature Conservancy
Consolidated Statement of Financial Position
As of June 30, 2011

(Amounts in thousands)

Assets	
Cash	$ 44,141
Restricted cash	34,957
Government grants and contracts receivable	26,224
Pledges receivable, net	146,044
Collateral received under securities lending agreement	92,813
Deposits on land and other assets	45,508
Property and equipment, net of accumulated depreciation and amortization	106,492
Investments - Capital fund	614,869
Investments - Split interest arrangements	281,974
Investments - Endowment fund	1,003,565
Conservation lands	1,927,139
Conservation easements	1,705,288
Total assets	$ 6,029,014
Liabilities	
Accounts payable and accrued liabilities	$ 94,005
Payable under securities lending agreement	92,813
Deferred revenue and refundable advances	94,959
Notes payable	411,298
Split interest arrangements	139,946
Total liabilities	833,021
Net assets	
Unrestricted	
Undesignated	(47,004)
Board-designated	
Land, easements, and project funds	3,597,911
Quasi endowment and similar funds	768,998
	4,319,905
Temporarily restricted	574,995
Permanently restricted	301,093
Total net assets	5,195,993
Total liabilities and net assets	$ 6,029,014

The accompanying notes are an integral part of these consolidated financial statements.

The Nature Conservancy
Consolidated Statement of Activities
For the year ended June 30, 2011

(Amounts in thousands)	**Unrestricted**	**Temporarily restricted**	**Permanently restricted**	**Total**
Support and revenues				
Dues and contributions	$ 223,390	$ 219,763	$ 14,576	$ 457,729
Land and easements contributed for conservation	69,467	-	-	69,467
Government grants and contracts	160,375	-	-	160,375
Investment income	192,458	53,584	-	246,042
Other income	53,644	-	-	53,644
Total support and revenue before sales of conservation land and easements and net assets released from restrictions	699,334	273,347	14,576	987,257
Sales of conservation land and easements to governments and others	185,108	-	-	185,108
Net assets released from restrictions	202,881	(202,881)	-	-
Total support and revenues	1,087,323	70,466	14,576	1,172,365
Expenses				
Program expenses				
Conservation activities and actions	401,514	-	-	401,514
Book value of conservation land and easements sold or donated to governments and others	290,255	-	-	290,255
Total program expenses	691,769	-	-	691,769
Support services expenses				
General and administration	103,660	-	-	103,660
Fund-raising				
General fund-raising	57,921	-	-	57,921
Membership development	17,213	-	-	17,213
Total support services expenses	178,794	-	-	178,794
Total expenses	870,563	-	-	870,563
Increase in net assets	216,760	70,466	14,576	301,802
Transfers	2,100	-	(2,100)	-
Total increase in net assets	218,860	70,466	12,476	301,802
Net assets at beginning of year	4,101,045	504,529	288,617	4,894,191
Net assets at end of year	$ 4,319,905	$ 574,995	$ 301,093	$ 5,195,993

The accompanying notes are an integral part of these consolidated financial statements.

The Nature Conservancy
Consolidated Statement of Cash Flows
For the year ended June 30, 2011

(Amounts in thousands)

Reconciliation of increase in net assets to cash provided by operating activities:			
Increase in net assets		$ 301,802	
Non-cash adjustments:			
Contributed land and easements	$ (73,898)		
Losses on sales of land and easements	107,795		
Realized/Unrealized investment gains	(208,680)		
Depreciation and amortization	6,878		
Other - net	(38,458)	(206,363)	
Changes in assets and liabilities:			
Deposits on land	55,093		
Receivables	336		
Accounts payable and accrued liabilities	(4,111)		
Other - net	24,853	76,171	
Cash provided by (used in) land activities:			
Proceeds from sales of land and easements	196,717		
Purchases of land and easements	(323,057)	(126,340)	
Net cash provided by operating activities			$ 45,270
Investing activities:			
Proceeds from sale of investments		1,863,991	
Purchases of investments		(1,842,353)	
Other - net		(34,782)	
Net cash used in investing activities			(13,144)
Financing activities:			
Principal payments on debt		(54,184)	
Proceeds from issuance of debt		20,284	
Other - net		14,576	
Net cash used in financing activities			(19,324)
Net change in cash			12,802
Cash, beginning of year			31,339
Cash, end of year			$ 44,141
Supplemental data			
Interest paid			$ 19,048

The accompanying notes are an integral part of these consolidated financial statements.

ACCOUNTING POLICY FOOTNOTES

The following notes present disclosures of the significant accounting policies and related information relating to balances and amounts contained in the Consolidated Statements of Financial Position and Activities. These notes are an integral part of the consolidated financial statements.

1. ORGANIZATION

The Nature Conservancy (The Conservancy) is a global conservation organization. The mission of The Conservancy is to preserve plants, animals, and natural communities that represent the diversity of life on Earth by protecting the lands and waters they need to survive. The Conservancy conducts its activities throughout the United States, Canada, Latin America, the Caribbean, Africa, Asia, and the Pacific.

The Conservancy's primary sources of revenue are contributions from the public (including gifts of land), investment income, government grants, and sales of conservation interests to government agencies or other conservation buyers. These resources are used to conserve portfolios of functional conservation areas within and across ecoregions and to pursue pragmatic solutions to conservation challenges. Through this portfolio approach, The Conservancy works with partners – including indigenous communities, governments and businesses – to conserve a variety of ecological systems and species.

2. CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements are presented on the accrual basis of accounting and include the accounts of all The Conservancy's chapters and affiliates, both domestic and international, including those which are separately incorporated, receive gifts, and perform conservation activities in the name of The Conservancy. All significant intercompany transactions have been eliminated.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States 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 the estimated amounts.

3. CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Cash and Restricted Cash

Cash represents operating cash held in bank accounts in high quality financial institutions in the United States and 30 foreign countries. The cash in foreign accounts is uninsured, but is limited per country to amounts that, in the opinion of management, are not material to the financial statements. Restricted cash represents monies held in trust related to requirements of specific conservation project agreements.

Government Grants and Contracts Receivable/Deferred Revenue

The Conservancy receives grants and contracts from federal, state, and local agencies to be used for specific programs or land purchases. The excess of reimbursable expenditures over cash receipts is included in government grants receivable and any excess of cash receipts over reimbursable expenditures is included in deferred revenue.

Pledges Receivable

Pledges receivable represent unconditional promises to give and are reported at fair value by discounting the expected future pledge payments at the prime interest rate at the balance sheet date. The discount rate used in the present value technique to determine fair value of pledges receivable is revised at each measurement date to reflect current market conditions and the creditworthiness of donors. In addition, management evaluates payment history and market conditions to estimate allowances for doubtful pledges. Changes in the fair value of pledges receivable are reported in the statement of activities as contribution revenue except for changes in the allowance which are reported as program expenses at each subsequent reporting date. Pledges receivable past due by 90 days are, in the opinion of management, not material to the financial statements.

Not recorded as pledges receivable are $55,145,000, that are conditioned upon The Conservancy raising matching gifts or acquiring certain conservation lands. Conditional promises to give are recognized as contributions when the donor-imposed conditions are substantially met.

Securities Lending Agreement
The Conservancy lends certain securities in its investment portfolio to qualified borrowers on a short-term, fully collateralized basis in exchange for interest to help offset custodial fees. Collateral in the form of cash in US dollars, securities issued or guaranteed by the US government, or irrevocable letters of credit issued by banks independent of the borrowers is marked-to-market on a daily basis, and the borrower is required to deliver the difference between the daily market value of the collateral and 102% of the loaned securities' original fair market value if denominated in US dollars or 105% if denominated in foreign currency. The lending agent, in its agreement with The Conservancy, guarantees the repayment of the loan in the event the borrower defaults. The Conservancy retains all the benefits of ownership including rights to dividends, interest, and other cash distributions pertaining to the loaned securities. The Conservancy also retains the right to redeem the loaned securities prior to the stipulated redemption date.

At June 30, 2011, The Conservancy recorded $92,813,000 in collateral received under its securities lending program and an equal amount payable to the borrowers under the agreement. These amounts are reflected in assets and liabilities in the statement of financial position.

Property and Equipment
Property and equipment are carried at cost. The Conservancy's minimum capitalization threshold is $50,000. Depreciation and amortization is provided using the straight-line method for all depreciable assets over their estimated future lives as follows:

Building and improvements	5 – 30 years
Computer equipment and software	3 – 5 years
Furniture, fixtures, and other	4 – 25 years

Concentration of Credit Risk
The Conservancy's excess cash in investment accounts is invested with high quality institutions, the largest concentrations of which are invested in Commercial Paper (45.3%), U.S. Agencies (22.8%) and U.S. Treasury securities (11.0%).

Pursuant to the Conservancy's investment policy, the investments described below cannot have more than 10% of their assets in securities of any one issuer, be they short-term or long-term, other than the U.S. Government. At June 30, 2011, the single largest non-U.S. Government issuer exposure was 0.64% of the total portfolio.

Investments
Investments are carried at estimated fair market value and reported in three distinct categories:

- *Capital fund* – funds held primarily for the future acquisition of conservation land, easements, and for funding other conservation projects.

- *Split interest arrangements* – donations that are held in trust by The Conservancy or third party trustees, representing beneficial interests in trusts.

- *Endowment fund* – funds held as long-term capital to generate income for The Conservancy's operations.

Endowment Investment and Spending Policies
The Conservancy's Endowment (Endowment) includes both donor-restricted endowment funds and funds designated by the Board of Directors (Board) to function as endowments. The amount of Endowment income provided each year for operations is established by the Finance Committee of the Board, through its adoption of an annual endowment spending rate and spending rate base. The spending rate for the year ended June 30, 2011 was 5.5% of the average fair market value over the 36 months of calendar years 2009, 2008 and 2007.

In order to maintain the purchasing power of the Endowment, The Conservancy must earn a nominal rate of return that compensates for both the endowment payout as well as the rate of inflation. With the current endowment payout of 5.5% and long-term inflation projected at 2.5%, The Conservancy needs to earn approximately 8% annually to maintain the purchasing power of the endowment. The Conservancy also seeks to grow endowment principal beyond inflation, and therefore strives to produce a premium above 8% over the long term, as discussed below.

The Conservancy recognizes that significant risk must be assumed to achieve its stated long-term investment objectives. Therefore, asset allocations and ranges are necessarily diverse, and consider liquidity needs. The Conservancy has considered its ability to withstand short and intermediate term variability and concluded that the portfolio can tolerate some interim fluctuations in market values and rates of return in order to achieve its objectives. However, The Conservancy realizes that market performance varies and that the portfolio's investment objectives may not be achievable during short-term periods.

The Conservancy has chosen not to manage its underlying assets directly, but to utilize independent investment managers. To maintain prudent diversification and to manage risk, the Conservancy's portfolio is divided among 40 to 50 separate managers.

Conservation Lands and Easements
The Conservancy records land and land interests at cost if purchased or at fair value at the date of acquisition, if all or part of the land was received as a donation. Fair value is generally determined by appraisal at the time of acquisition and is not subsequently adjusted. Upon sale or gift, the book value of the land or land interest is reported as a program expense; and the related proceeds, if any, are reported as revenue in the consolidated statement of activities.

Conservation land is real property with significant ecological value. These properties are either managed in an effort to protect the natural biological diversity of the property, or transferred to other organizations who will manage the lands in a similar fashion.

Conservation easements are comprised of listed rights and/or restrictions over the owned property that are conveyed by a property owner to The Conservancy, almost always in perpetuity, in order to protect the owned property as a significant natural area, as defined in federal tax regulations. These intangible assets may be sold or transferred to others so long as the assignee agrees to carry out, in perpetuity, the conservation purposes intended by the original grantor. Conservation easements, by their very nature, do not generate material amounts of cash inflow annually.

Notes Payable

The Conservancy uses debt, both fixed and variable, primarily to finance the acquisition of conservation lands and easements. Debt is reported at cost.

In order to partially insulate itself from the variable nature of the interest rates on much of its outstanding debt, The Conservancy has two interest rate swap agreements. The Conservancy pays a fixed rate of 4.373% on $95,375,000 in return for receipt of variable rate interest in the amount of LIBOR; and pays a fixed rate of 2.962% on $190,000,000 of principal in return for receipt of variable rate interest in the amount of 67% of LIBOR. The counterparty to these swaps has the option to terminate at their discretion.

Due to the nature of certain variable rate bond agreements, The Conservancy may receive notice of an optional tender on its variable-rate bonds, in which case The Conservancy would have an obligation to purchase the bonds tendered if unable to secure alternate financing at that time. The Conservancy entered into standby purchase agreements with a financial institution to support the original principal amount of $192,400,000 of the variable rate demand obligations. Under these agreements, the financial institution agreed to purchase the bonds if The Conservancy cannot remarket the bonds at which time the due dates would become accelerated to a three year period.

The Conservancy has an unsecured line of credit providing total borrowings as of June 30, 2011 of up to $30,000,000. As of June 30, 2011 the balance on the line of credit was $0. Interest is payable at various rates based on LIBOR plus 0.50%, depending on repayment terms, as of June 30, 2011.

Interest expense incurred on total debt for 2011 was $19,856,000.

Split Interest Arrangements

The Conservancy enters into split interest arrangements whereby donations are held in trust by the Conservancy or third party trustees and invested. Income earned on the invested funds is payable to the donor or the donor's designee for a specified period of time or until the donor's death, after which time The Conservancy may use the investments for operations or a restricted use specified by the donor. The donated trust asset investments are recorded at current fair value or at an estimated fair value based on the latest available information.

The Conservancy utilizes an IRS-approved annuity table to actuarially calculate the liability associated with the estimated donor payments under these arrangements. The Conservancy determines the discount rate to be used in the month the split interest arrangements are entered into with the donor and these rates have ranged from 1.8% to 9%. The present value of the actuarially determined liability resulting from these gifts is recorded at the date of gift and adjusted annually thereafter.

Net Assets

The Conservancy's net assets are reported in the following three classes:

- *Unrestricted net assets* – Revenues derived from dues, unrestricted contributions, government grants and contracts, investment income (other than the temporarily restricted portion of true endowment investment income), and other inflows of assets whose use by The Conservancy is not limited by donor-imposed restrictions. Certain unrestricted net assets have been designated by the Board of Directors to be maintained as land, easements, other conservation project funds, and quasi endowment funds.

- *Temporarily restricted net assets* – Contributions and other inflows of assets whose use by The Conservancy is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of The Conservancy, such as usage for specific programs, including certain overhead and indirect costs, or for spending from true endowment investment income.

  When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and are reported on the consolidated statements of activities as net assets released from restrictions.

- *Permanently restricted net assets* – Contributions and other inflows of assets whose use by The Conservancy is limited by donor-imposed stipulations that the principal must be maintained permanently by The Conservancy. The total amount of permanently restricted net assets on the consolidated statements of financial position includes the donor-restricted endowment funds as well as amounts contributed to create a permanent capital fund. This fund is used to finance capital projects and is to be maintained in perpetuity for only this purpose.

Classification of endowment net assets

The Board of Directors of The Conservancy (Board) has approved management's interpretation of the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as enacted by the Council of the District of Columbia. UPMIFA requires the preservation of the fair value of the original gifts as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary.

The Endowment includes both donor-restricted endowment funds and funds designated by the Board to function as endowments. The Conservancy classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, and (b) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by The Conservancy. The Conservancy considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the endowment fund;
- The purposes of the institution and the endowment fund;
- General economic conditions;
- The possible effect of inflation or deflation;
- The expected total return from income and appreciation of investments;
- Other resources of the institution; and

- The investment policy of the institution.

Endowments with Eroded Corpus
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 The Conservancy requires to be retained as principal in perpetuity. Deficiencies of this nature that are reported in unrestricted net assets were $3,454,000 as of June 30, 2011. These deficits resulted from unfavorable market fluctuations that occurred shortly after the investment of newly established endowments and authorized appropriation that was deemed prudent.

4. CONSOLIDATED STATEMENT OF ACTIVITIES

Contributions
Unconditional donor promises to give cash and other assets are reported at fair value at the date that there is sufficient verifiable evidence documenting that a promise was made by the donor and received by The Conservancy. The promises are reported as either temporarily or permanently restricted support if received with donor stipulations that sufficiently limit the use of the donated assets.

The Conservancy recognizes contributed professional services from third parties and contributed goods and trade lands as revenue and as expense or asssets, at the fair value of those services or goods when received. Trade lands are real property with minimal ecological value. These properties are sold to provide funds for The Conservancy to carry out its conservation work. During 2011 contributed goods and services totaled $29,097,000 and contributed trade lands totaled $4,431,000.

Government Grants and Contracts
Government grants and contracts are considered to be exchange transactions, the majority of which are cost-reimbursable grants. Revenue, including approved indirect cost recovery, is recognized when allowable costs have been incurred. The Conservancy's costs incurred under its government grants and contracts are subject to audit by government agencies. Management believes that disallowance of costs, if any, would not be material to the consolidated financial position or consolidated changes in net assets of The Conservancy.

Program expense allocation
Operating expenses are allocated to program and support categories based on separate cost center types as defined below. Conservation land and easements that are acquired by The Conservancy, but not sold or donated, are reflected as an increase in conservation land and easements on the consolidated statements of financial position and are excluded from the program expense categories on the consolidated statements of activities.

The Conservancy accounts for its program expenditures in the following categories:

- *Conservation Activities and Actions* – Expenditures related to the broad spectrum of activities and actions critical to advancing The Conservancy's mission. Expenditures related to understanding, monitoring, maintaining, restoring, and managing natural areas owned by The Conservancy and others are included, as are expenditures for developing and enhancing The Conservancy's ability to gather and share ecological information and to assess and evaluate threats to the elements of natural diversity within ecoregions in which The Conservancy works. In addition, this area includes expenditures to mitigate, prevent, or slow the effects of threats to the elements of biodiversity, including investments in the institutional development of domestic and international conservation organizations. Expenditures related to improving public land management and supporting the development of sound global policies, including participating in conferences and events that help establish a common vision for conservation worldwide. Finally, this category includes expenditures relating to community outreach and education of key stakeholders and land users in areas where Conservancy conservation programs reside.

- *General and Administration* – Expenditures related to building and maintaining an efficient business infrastructure, including those related to corporate governance, to support and advance the programmatic conservation objectives of The Conservancy.

- *General Fund-Raising* – Expenditures related to fund-raising strategies that provide the revenue stream for both operations and capital needs to further the accomplishment of The Conservancy's mission and objectives.

- *Membership Development* – Expenditures related to the acquisition and retention of The Conservancy's members, primarily through the use of a direct-mail program.

5. COMMITMENTS AND CONTINGENCIES

Litigation
The Conservancy is a party to various litigations arising out of the normal conduct of its operations. In the opinion of The Conservancy's management, the ultimate resolution of these matters will not materially affect the financial position, changes in net assets, or cash flows of The Conservancy.

Leases
The Conservancy has entered into noncancelable operating leases for office space, which expire at various dates through 2019. Certain of these leases contain rent escalation clauses, usually based on the consumer price index.

Land acquisitions and other commitments
The Conservancy has entered into contracts for the purchase of land and other purchase commitments that had not closed as of June 30, 2011, in the amount of $63,351,000.

The Conservancy has remaining funding commitments to private equity and hedge fund investment managers of $85,336,000 at June 30, 2011.

6. RETIREMENT PLANS

The Conservancy's employees are eligible after one month of service to participate in The Nature Conservancy Savings and Retirement Plan (the Plan), in which employees can make voluntary, tax-deferred contributions within specified limits. The Plan was established under the provisions of Internal Revenue Code Section 401(k) and has received a favorable determination as to its tax status from the Internal Revenue Service. Certain employees are also eligible to participate in a non-qualified deferred compensation plan created pursuant to Internal Revenue Code Section 457(b). The Conservancy's contributions to the plans were $11,676,000 for the year ended June 30, 2011.

7. INCOME TAXES

The Conservancy has been granted an exemption from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code. The Internal Revenue Service has classified The Conservancy as other than a private foundation. The Conservancy pays a nominal amount of tax relating to several unrelated business income activities, primarily rental income from debt-financed property. The Conservancy takes no tax positions that it considers to be uncertain.

8. SUBSEQUENT EVENTS

All subsequent events were evaluated through October 14, 2011, which is the date the financial statements were issued.

FOOTNOTE SCHEDULES

The following schedules represent required disclosures of more detailed information regarding certain balances and amounts contained in the Consolidated Statements of Financial Position and Activities. These are an integral part of the footnotes to the Consolidated Statements.

9. Pledges receivable

As of June 30, 2011 unconditional promises to give were as follows:

(In thousands)

Amounts due in		
Less than one year	$	88,555
One to five years		61,755
More than five years		3,983
Subtotal		154,293
Less fair value adjustments:		
Discount of 3.25% to present value		3,749
Allowance for doubtful accounts		4,500
	$	146,044

10. Deposits on land and other assets

Deposits on land and other assets consisted of the following at June 30, 2011:

(In thousands)

Deposits on land	$	2,157
Trade lands		8,748
Other receivables		2,541
Prepaid expenses		13,357
Notes receivable		15,874
Other assets		2,831
Total	$	45,508

11. Property and equipment

Property and equipment consisted of the following at June 30, 2011:

(In thousands)

Land	$	6,910
Buildings and improvements		112,957
Construction in progress		10,766
Computer equipment and software		9,275
Furniture, fixtures, and other		14,215
		154,123
Less - Accumulated depreciation and amortization		(47,631)
Total	$	106,492

Depreciation and amortization expense was $6,878,000 during the year ended June 30, 2011. Of the total assets listed above, $9,927,000 was fully depreciated at June 30, 2011.

12. Investments

Investments consisted of the following at June 30, 2011:

(In thousands)

	Capital Fund investments	Split interest arrangement investments	Endowment investments	Total
Short term investments	$ 60,528	$ 6,358	$ 4,828	$ 71,714
Fixed income - bonds	180,209	77,788	141,521	399,518
Equities	307,992	148,443	470,307	926,742
Real estate trusts	-	13,060	9,685	22,745
Hedge funds	63,681	-	202,364	266,045
Private equity investments	1,449	-	173,160	174,609
Receivables from trusts	-	39,035	-	39,035
	613,859	284,684	1,001,865	1,900,408
Interfund loans	1,010	(2,710)	1,700	-
Total investments	$ 614,869	$ 281,974	$ 1,003,565	$ 1,900,408

Investment income consisted of the following for the year ended June 30, 2011:

(In thousands)

Dividends and interest income	$ 18,730
Realized and unrealized gains (net of expenses of $7,047)	208,680
Change in value of split interest arrangements	18,632
Investment income	$ 246,042

13. Notes payable

(In thousands)

Unsecured Colorado Educational and Cultural Facilities Authority Revenue Bonds:		
Tax Exempt, Series 2002A issued in the original principal amount of \$25,053,000 to refund the Industrial Development Authority of Arlington County (IDA) Tax Exempt Revenue Bonds Series 1997A and portions of the IDA Revenue Bonds Taxable Series 1997B; fixed interest rate pursuant to rate swap, 3.56% as of June 30, 2011, due July, 2027.	$ 16,098	
Tax Exempt, Series 2003A-TE2008 issued in the original principal amount of \$102,400,000, with a variable interest rate reset weekly, 0.08% as of June 30, 2011, due July, 2033.	96,400	
Taxable, Series 2008A issued in the original principal amount of \$90,000,000, with variable interest rate reset weekly, 0.15% as of June 30, 2011, due July, 2033.	86,275	198,773
Other Notes Payable:		
Unsecured Taxable Revenue Bonds Series 2009 in the aggregate principal amount of \$100,000,000 issued July 1, 2009 to refund the Extended Floating Rate Notes, Taxable Revenue Bonds Series EXL5 on October 5, 2009; fixed rate of 6.30% due July, 2019.		100,000
New York State Environmental Facilities Corporation private bonds issued in the aggregate amount of \$50,000,000 with a fixed interest rate of 3.90%, due June, 2024.		50,000
Loans and mortgages, some of which are collateralized by the land and by a \$122,000 restricted cash account, and payable in monthly installments, including interest ranging from 0% to 8.5%; final payments are due at various dates through 2022.		57,150
Other notes payable without interest due on demand		5,375
Total		$ 411,298

The fair value of long-term debt, including current maturities, is estimated based on current market rates offered to or by The Conservancy for similar instruments. Based on a blended borrowing rate of 4.80% as of June 30, 2011, the fair value of long-term debt is approximately $410,360,000.

The following schedule of amounts due is based on the maturity dates per the debt agreements:

(In thousands)

2012	$	107,544
2013		69,014
2014		74,623
2015		7,240
2016		6,436
Thereafter		146,441
Total	$	411,298

14. Net assets

Temporarily restricted net assets are available for the following purposes:

(In thousands)

Land acquisition and other conservation projects	$	204,800
Time restricted for periods after June 30		176,551
Time and purpose restricted for periods after June 30		101,215
True endowment gains subject to future Board of Director's appropriation		92,429
Total	$	574,995

Permanently restricted net assets are restricted in perpetuity; the income derived from these investments is expendable to support the operations of The Conservancy. The total amount of permanently restricted net assets on the consolidated statement of financial position includes the donor-restricted endowment funds displayed in the tables below, as well as amounts contributed to create a permanent capital fund. This fund, the land preservation fund, is used to finance capital projects and is to be maintained in perpetuity for only this purpose. Permanently restricted net assets primarily in the land preservation fund were $156,656,000 as of June 30, 2011.

Endowment funds are categorized in the following net asset classes as of June 30, 2011:

(In thousands)	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ (3,454)	$ 92,429	$ 143,972	$ 232,947
Board-designated endowment funds	767,953	-	-	767,953
Total endowment funds	$ 764,499	$ 92,429	$ 143,972	$ 1,000,900

Changes in endowment funds by net asset classification for the year ended June 30, 2011 are summarized as follows:

(In thousands)	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 683,732	$ 72,175	$ 132,667	$ 888,574
Investment returns	121,847	34,952	-	156,799
Contributions	8	1,782	13,296	15,086
Interfund transfers	2,545	3,135	109	5,789
Other revenue	5	-	-	5
Appropriation of assets for expenditure	(65,353)	-	-	(65,353)
Net assets released from restrictions	19,615	(19,615)	-	-
Total endowment funds	762,399	92,429	146,072	1,000,900
Transfers	2,100	-	(2,100)	-
Total endowment funds	$ 764,499	$ 92,429	$ 143,972	$1,000,900

15. Assets carried at fair value

Assets carried at fair value are classified in the fair value hierarchy based on the lowest level of input that is significant to the valuation.

Fair value for Level 1 is based upon quoted prices in active markets for identical assets and liabilities. Market price data is generally obtained from exchange or dealer markets.

Fair value for Level 2 is based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and on model-based valuation techniques, for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the assets. Inputs are obtained from various sources including market participants, dealers, and brokers.

Fair value for Level 3 is based on valuation techniques that use significant inputs that are unobservable as they trade infrequently or not at all.

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

In order to partially insulate itself from the variable nature of the interest rates on much of its outstanding debt, The Conservancy has two interest rate swap agreements which fix the rates on several variable rate bonds. Interest rate swaps are valued using both observable and unobservable inputs, such as quotations received from the counterparty, dealers or brokers, whenever available and considered reliable. In instances where models are used, the value of the interest rate swap depends upon the contractual terms of, and specific risks inherent in, the instrument as well as the availability and reliability of observable inputs. Such inputs include market prices for reference securities, yield curves, credit curves, measures of volatility, prepayment rates, assumptions for nonperformance risk, and correlations of such inputs. The Conservancy's interest rate swap arrangements have inputs which can generally be corroborated by market data and are therefore classified within Level 2.

Fair Value of interest rate swaps at June 30, 2011:

(In thousands)

Interest rate contracts		
Statement of Financial Position Location:		
Accounts payable and accrued liabilities	$	36,557
Change in fair value in Statement of Activities:		
Other income	$	5,359

Split interest agreements where The Conservancy is not the trustee are valued at the present value of the future distributions expected to be received over the term of the agreement. There is no market for these agreements, and they are therefore classified within Level 3.

Assets categorized by input level:

(In thousands)	Level 1	Level 2	Level 3	Total
Investments:				
Short-term investments	$ 10,798	$ 8,478	$ -	$ 19,276
Fixed income:				
U.S. treasuries	24,893	-	-	24,893
Asset-backed securities	-	2,753	-	2,753
Commercial paper	-	43,308	-	43,308
Corporate debt	-	108,860	-	108,860
Mortgage-backed securities	-	21,315	-	21,315
U.S. agency bonds	-	33,628	-	33,628
Common trust fund	-	-	84,578	84,578
Convertible securities	-	2,099	-	2,099
Public equity:				
Retail and wholesale	53,212	-	-	53,212
Financial services	41,960	-	-	41,960
Technology	60,208	-	-	60,208
Health care	32,257	-	-	32,257
Energy	32,487	-	-	32,487
Transportation and utilities	10,892	-	-	10,892
Other services	16,256	-	-	16,256
Other industries	70,388	-	-	70,388
Commingled equity funds	-	-	314,512	314,512
Mutual funds	126,583	-	-	126,583
Closed end mutual funds	65,920	-	-	65,920
Hedge funds	-	-	266,045	266,045
Private equity	-	-	174,609	174,609
Private real estate	-	-	9,685	9,685
Split interests, trusteed	175,311	57,278	13,060	245,649
Split interests, non-trusteed	-	-	39,035	39,035
Total investments	$ 721,165	$ 277,719	$ 901,524	$ 1,900,408
Pledges receivable			$ 146,044	$ 146,044
Liabilities:				
Interest rate swaps payable		$ 36,557		$ 36,557

Investments included in Level 3 primarily consist of The Conservancy's ownership in alternative investments (principally limited partnership interests in hedge and private equity funds) as well as public equity investments held within private arrangements. The value of certain alternative investments represents the ownership interest in the net asset value (NAV) of the respective partnership. Approximately 78% of Level 3 investments held by the partnerships consist of marketable securities and 22% are securities that do not have readily determinable fair values. The fair values of the securities held by limited partnerships that do not have readily determinable fair values are determined by the general partner and are based on appraisals, or other estimates that require varying degrees of judgment. If no public market exists for the investment securities, the fair value is determined by the general partner taking into consideration, among other things, the cost of the securities, prices of recent significant placements of securities of the same issuer, and subsequent developments concerning the companies to which the securities relate. The Conservancy has performed significant due diligence around these investments to ensure NAV is an appropriate measure of fair value.

Investments valued using NAV:

(In thousands)	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Global equity funds	$ 125,188	$ -	Monthly, quarterly	10 business days, 30 days
International equity funds	189,323	-	Monthly	6 business days, on 15th of prior
Bond funds	158,447	-	Daily, semi-monthly	Daily
Hedge funds	266,045	3,242	Monthly, quarterly, rolling 2, 3 & 5	45 - 90 days, 3-4 months
Private equity funds	173,160	65,134	N/A	N/A
Real estate funds	9,685	16,960	N/A	N/A
Total	$ 921,848	$ 85,336		

Rollforward of Level 3 financial instruments:

(In thousands)

	Fair value as of June 30, 2010	Net realized and unrealized gains (losses)	Net purchases and (sales)	Net transfers into (out of) Level 3	Fair value as of June 30, 2011
Common trust funds	$ -	$ 564	$ 84,014	$ -	$ 84,578
Commingled equity funds	330,402	74,503	(90,393)	-	314,512
Real estate	-	1,102	3,273	5,310	9,685
Hedge funds	208,823	28,426	28,796	-	266,045
Private equity	142,986	24,001	12,932	(5,310)	174,609
Split interest arrangements	48,658	851	2,586	-	52,095
Total investments	730,869	129,447	41,208	-	901,524
Pledges receivable	141,177	4,867	-	-	146,044
Total investments and pledges	$ 872,046	$ 134,314	$ 41,208	$ -	$ 1,047,568

Of the net realized and unrealized gains of $134,314,000 in the table above, $128,699,000 are reflected in the accompanying statement of activities as investment income. The remaining amounts include a net $4,867,000 increase in pledges, of which a $5,867,000 increase is reflected in the accompanying statement of activities as dues and contributions and a $1,000,000 decrease is reflected as conservation activities and actions program expense. The remaining $748,000 is an increase in split interests reflected in the accompanying statement of financial position as an increase in the split interest arrangements liability. $91,237,000 of the $128,699,000 change in net assets reported as investment income relates to assets still held as of June 30, 2011.

16. Leases

The following is a schedule of future minimum lease payments for all operating leases as of June 30, 2011:

(in thousands)

2012	$	4,061
2013		3,459
2014		2,743
2015		2,084
2016		1,413
Thereafter		2,032
Total minimum lease payments	$	15,792

Rent expense was $11,194,000 for the year ended June 30, 2011.

SUPPLEMENTAL SCHEDULES

Following are supplemental schedules:

Consolidated Statements of Financial Position as of June 30, 2011 (with comparative totals as of June 30, 2010)

Summarized Consolidated Statements of Activities for the year ended June 30, 2011 (with comparative totals for the year ended June 30, 2010)

Schedule of Functional Expenses as reported in the Consolidated Statement of Activities for the year ended June 30, 2011 by natural account classification (with comparative totals for the year ended June 30, 2010)

While these schedules are not required under Generally Accepted Accounting Principles, they provide useful additional detail to help the user of these financial statements understand how funds are spent, as well as providing prior year comparisons.

The Nature Conservancy
Supplemental Schedule - Consolidated Statements of Financial Position
As of June 30, 2011 and 2010

(Amounts in thousands)	2011	2010
Assets		
Cash	$ 44,141	$ 31,339
Restricted cash	34,957	36,603
Government grants and contracts receivable	26,224	31,427
Pledges receivable	146,044	141,177
Collateral received under securities lending agreement	92,813	106,485
Deposits on land and other assets	45,508	114,176
Property and equipment, net of accumulated depreciation and amortization	106,492	101,111
Investments - Capital fund	614,869	539,065
Investments - Split interest arrangements	281,974	246,571
Investments - Endowment fund	1,003,565	891,326
Conservation lands	1,927,139	1,892,328
Conservation easements	1,705,288	1,639,636
Total assets	$ 6,029,014	$ 5,771,244
Liabilities		
Accounts payable and accrued liabilities	$ 94,005	$ 98,116
Payable under securities lending agreement	92,813	106,485
Deferred revenue and refundable advances	94,959	88,767
Notes payable	411,298	450,448
Split interest arrangements	139,946	133,237
Total liabilities	833,021	877,053
Net assets		
Unrestricted		
Undesignated	(47,004)	(28,825)
Board-designated		
Land, easements, and project funds	3,597,911	3,441,919
Quasi endowment and similar funds	768,998	687,951
	4,319,905	4,101,045
Temporarily restricted	574,995	504,529
Permanently restricted	301,093	288,617
Total net assets	5,195,993	4,894,191
Total liabilities and net assets	$ 6,029,014	$ 5,771,244

The Nature Conservancy

Supplemental Schedule - Summarized Consolidated Statements of Activities
For the years ended June 30, 2011 and 2010

(Amounts in thousands)	2011	2010
Support and revenues		
Dues and contributions	$ 457,729	$ 397,711
Land and easements contributed for conservation	69,467	83,726
Government grants and contracts	160,375	138,135
Investment income	246,042	171,889
Sales of conservation land and easements to governments and others	185,108	148,783
Other	53,644	49,949
Total support and revenues	1,172,365	990,193
Expenses		
Program expenses	691,769	549,577
General and administration	103,660	98,683
Fund-raising		
General fund-raising	57,921	53,880
Membership development	17,213	17,513
Total expenses	870,563	719,653
Increase in net assets	301,802	270,540
Net assets at beginning of year	4,894,191	4,623,651
Net assets at end of year	$ 5,195,993	$ 4,894,191

The Nature Conservancy
Supplemental Schedule - Schedules of Functional Expenses
For the year ended June 30, 2011 with summarized totals for the year ended June 30, 2010

(Amounts in thousands)

	Program expenses	Support services expenses				Totals	
	Conservation activities and actions	General and administration	Fund-raising: General fund-raising	Fund-raising: Membership development	Support services expenses	2011 Total expenses	2010 Total expenses
Personnel	$ 164,365	$ 59,485	$ 45,483	$ 2,043	$ 107,011	$ 271,376	$ 263,276
Contract, professional fees	62,548	8,556	3,759	2,818	15,133	77,681	62,484
Grants and allocations	67,043	99	68	-	167	67,210	50,405
Supplies	8,451	2,841	689	1,123	4,653	13,104	11,788
Telecommunications	2,792	1,777	457	14	2,248	5,040	5,189
Postage and mailing service	1,317	349	480	6,554	7,383	8,700	8,803
Occupancy	2,168	8,803	222	-	9,025	11,193	11,086
Equipment rental and maintenance	4,550	1,232	201	-	1,433	5,983	5,372
Printing and publication	3,485	184	847	4,540	5,571	9,056	8,694
Travel	13,465	2,680	2,561	42	5,283	18,748	14,871
Conferences and meetings	6,196	1,788	930	11	2,729	8,925	6,399
Interest	19,877	-	-	-	-	19,877	22,632
Depreciation and amortization	5,082	1,642	154	-	1,796	6,878	5,656
Equipment	2,498	149	31	-	180	2,678	3,053
Taxes and licenses	993	508	75	6	589	1,582	1,507
Utilities, repairs, maintenance, and construction	4,167	2,362	255	-	2,617	6,784	8,372
Insurance	2,090	1,484	51	-	1,535	3,625	3,388
Real estate taxes	5,213	781	22	-	803	6,016	5,490
Closing costs	2,156	642	-	-	642	2,798	2,049
Contributed goods and services non-cash expense	21,013	6,794	1,290	-	8,084	29,097	11,594
All other	2,045	1,504	346	62	1,912	3,957	7,069
Subtotal	401,514	103,660	57,921	17,213	178,794	580,308	519,177
Book value of conservation land and easements sold or donated to government and others	290,255	-	-	-	-	290,255	200,476
Total	$ 691,769	$ 103,660	$ 57,921	$ 17,213	$ 178,794	$ 870,563	$ 719,653

The Nature Conservancy

Consolidated Financial Statements
For the years ended June 30, 2010 and 2009
And report thereon

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Report of Independent Auditors

To the Board of Directors of
The Nature Conservancy

In our opinion, the accompanying consolidated statements of financial position and the related consolidated statements of activities and of cash flows present fairly, in all material respects, the financial position of The Nature Conservancy (The Conservancy) at June 30, 2010 and 2009, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of The Conservancy's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedule of functional expenses for the year ended June 30, 2010 with summarized totals for the year ended June 30, 2009 is presented for purposes of additional analysis and is not a required part of the basic financial statements. This information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

PricewaterhouseCoopers LLP

December 6, 2010

The Nature Conservancy
Consolidated Statements of Financial Position
As of June 30, 2010 and 2009

(Amounts in thousands)	2010	2009
Assets		
Current assets		
Cash and cash equivalents	$ 31,339	$ 14,120
Restricted cash	36,603	39,200
Investments	1,861	8,578
Notes receivable - current	501	525
Government grants receivable	31,427	27,923
Pledges receivable - current	80,739	59,889
Deposits on land	57,250	56,964
Other deposits and other current assets	29,298	17,239
Total current assets	269,018	224,438
Notes receivable - long-term	10,502	10,093
Pledges receivable - long-term, net	60,438	59,233
Investments held for conservation projects	537,204	466,277
Trade lands	16,625	16,618
Property and equipment, net of accumulated depreciation and amortization	101,111	95,970
Planned giving investments	246,571	230,824
Endowment investments	891,326	837,302
Conservation lands	1,892,328	2,157,385
Conservation easements	1,639,636	1,539,065
Total assets	$ 5,664,759	$ 5,637,205

Continued

The accompanying notes are an integral part of these consolidated financial statements.

The Nature Conservancy
Consolidated Statements of Financial Position
As of June 30, 2010 and 2009

(Amounts in thousands)	**2010**	**2009**
Liabilities		
Current liabilities		
Accounts payable	$ 13,121	$ 9,446
Accrued salaries and vacation liability	20,408	20,437
Refundable advances	51,340	51,483
Other accrued liabilities - current	18,190	17,285
Current maturities of long-term debt	104,156	248,000
Deferred revenue - current	24,961	21,640
Total current liabilities	232,176	368,291
Long-term debt, less current maturities	346,292	216,828
Accrued liabilities - long-term	46,397	287,358
Deferred revenue - long-term	12,466	12,996
Planned giving liability	133,237	128,081
Total liabilities	770,568	1,013,554
Net assets		
Unrestricted		
Undesignated	(28,825)	(41,091)
Board-designated		
Land, easements, and project funds	3,441,919	3,269,676
Quasi endowment and similar funds	687,951	655,522
	4,101,045	3,884,107
Temporarily restricted	504,529	458,145
Permanently restricted	288,617	281,399
Total net assets	4,894,191	4,623,651
Total liabilities and net assets	$ 5,664,759	$ 5,637,205

The accompanying notes are an integral part of these consolidated financial statements.

The Nature Conservancy
Consolidated Statement of Activities
For the year ended June 30, 2010

(Amounts in thousands)	Unrestricted	Temporarily restricted	Permanently restricted	Total
Support and revenues				
Contributions for operations	$ 107,720	$ 59,758	$ -	$ 167,478
Contributions for land, land preservation fund, and other conservation projects	76,731	121,675	559	198,965
Contributions to endowments and similar funds	95	8,667	6,659	15,421
Contributions of goods and services	11,758	-	-	11,758
Mitigation and contracts	24,886	-	-	24,886
Government grants	138,135	-	-	138,135
Land and easements contributed for conservation	83,726	-	-	83,726
Contributions of trade lands	3,366	723	-	4,089
Investment returns	145,806	24,133	-	169,939
Change in value of planned giving investments	-	1,950	-	1,950
Royalties, fees, and other	25,063	-	-	25,063
Total support and revenues before sales of conservation land and easements and net assets released from restrictions	617,286	216,906	7,218	841,410
Sales of conservation land and easements to governments and others	148,783	-	-	148,783
Net assets released from restrictions	170,522	(170,522)	-	-
Total support and revenues	936,591	46,384	7,218	990,193
Expenses				
Program expenses				
Conservation activities and actions	349,101	-	-	349,101
Book value of conservation land and easements sold or donated to governments and others	200,476	-	-	200,476
Total program expenses	549,577	-	-	549,577
Support services expenses				
General and administration	98,683	-	-	98,683
Fund-raising				
General fund-raising	53,880	-	-	53,880
Membership development	17,513	-	-	17,513
Total support services expenses	170,076	-	-	170,076
Total expenses	719,653	-	-	719,653
Increase in net assets	216,938	46,384	7,218	270,540
Net assets at beginning of year	3,884,107	458,145	281,399	4,623,651
Net assets at end of year	$ 4,101,045	$ 504,529	$ 288,617	$ 4,894,191

The accompanying notes are an integral part of these consolidated financial statements.

The Nature Conservancy
Consolidated Statement of Activities
For the year ended June 30, 2009

(Amounts in thousands)	Unrestricted	Temporarily restricted	Permanently restricted	Total
Support and revenues				
Contributions for operations	$ 99,687	$ 60,557	$ -	$ 160,244
Contributions for land, land preservation fund, and other conservation projects	93,482	131,848	840	226,170
Contributions to endowments and similar funds	803	5,830	11,213	17,846
Contributions of goods and services	12,538	-	-	12,538
Mitigation and contracts	36,733	-	-	36,733
Government grants	126,915	-	-	126,915
Land and easements contributed for conservation	115,655	-	-	115,655
Contributions of trade lands	7,007	389	-	7,396
Investment returns	(283,725)	(36,934)	-	(320,659)
Change in value of planned giving investments	-	(47,813)	-	(47,813)
Royalties, fees, and other	25,655	-	-	25,655
Total support and revenues before sales of conservation land and easements and net assets released from restrictions	234,750	113,877	12,053	360,680
Sales of conservation land and easements to governments and others	186,543	-	-	186,543
Net assets released from restrictions	195,580	(195,580)	-	-
Total support and revenues	616,873	(81,703)	12,053	547,223
Expenses				
Program expenses				
Conservation activities and actions	386,690	-	-	386,690
Book value of conservation land and easements sold or donated to governments and others	257,785	-	-	257,785
Total program expenses	644,475	-	-	644,475
Support services expenses				
General and administration	103,869	-	-	103,869
Fund-raising				
General fund-raising	58,293	-	-	58,293
Membership development	17,784	-	-	17,784
Total support services expenses	179,946	-	-	179,946
Total expenses	824,421	-	-	824,421
Increase (decrease) in net assets	(207,548)	(81,703)	12,053	(277,198)
Reclassifications	(3,665)	-	3,665	-
Increase in net assets	(211,213)	(81,703)	15,718	(277,198)
Net assets at beginning of year	4,095,320	539,848	265,681	4,900,849
Net assets at end of year	$ 3,884,107	$ 458,145	$ 281,399	$ 4,623,651

The accompanying notes are an integral part of these consolidated financial statements.

The Nature Conservancy
Consolidated Statements of Cash Flows
For the years ended June 30, 2010 and 2009

(Amounts in thousands)	**2010**	**2009**
Cash flows from operating activities		
Increase (decrease) in net assets	$ 270,540	$ (277,198)
Adjustments to reconcile the increase (decrease) in net assets to net cash provided by (used in) operating activities:		
Contributions restricted for:		
Investment in endowment	(6,659)	(11,213)
Investment in land preservation fund and other capital projects	(559)	(840)
Contributions of trade lands	(4,089)	(7,396)
Land and easements contributed for conservation	(83,726)	(115,655)
Loss on trade land sales/valuations	2,290	1,130
Loss on sales of conservation land and easements	51,693	71,242
Depreciation and amortization	5,656	5,177
Realized/Unrealized investment (gains) losses	(149,950)	320,659
Change in value of planned giving investments	(1,950)	47,813
Changes in:		
Restricted cash	2,597	-
Government grants receivable	(3,504)	(3,574)
Pledges receivable	(22,055)	(5,735)
Deposits on land	(286)	(49,579)
Other deposits and other current assets	(12,059)	(7,141)
Accounts payable	3,675	(4,464)
Accrued salaries and vacation liability	(29)	(114)
Refundable advances	(143)	10,956
Other accrued liabilities	9,944	249,342
Deferred revenue	2,791	(293)
Planned giving liability	5,156	(12,948)
Additional cash provided by (used in) land activities:		
Proceeds from sales of conservation land and easements	148,783	186,543
Purchases of conservation land and easements	(204,488)	(628,012)
Proceeds from sales of trade lands	5,462	3,255
Purchases of of trade lands	-	(193)
Net cash provided by (used in) operating activities	$ 19,090	$ (228,238)

Continued

The accompanying notes are an integral part of these consolidated financial statements.

The Nature Conservancy
Consolidated Statements of Cash Flows
For the years ended June 30, 2010 and 2009

(Amounts in thousands)	**2010**	**2009**
Cash flows from investing activities		
Proceeds from sale of investments	$ 1,330,537	$ 1,238,058
Purchases of investments	(1,307,311)	(1,038,771)
Issuance of notes receivable	(2,194)	(2,593)
Proceeds from notes receivable	1,809	5,158
Increase in planned giving investments	(5,307)	(2,376)
Purchases of property and equipment	(11,417)	(1,433)
Net cash provided by investing activities	6,117	198,043
Cash flows from financing activities		
Decrease in restricted cash	-	561
Proceeds from contributions restricted for:		
Investment in endowment	6,659	11,213
Investment in land preservation fund and other capital projects	559	840
Principal payments on debt	(250,156)	(96,183)
Proceeds from issuance of debt	235,776	118,963
Payments of financing costs	(826)	-
Net cash (used in) provided by financing activities	(7,988)	35,394
Net change in cash and cash equivalents	17,219	5,199
Cash and cash equivalents, beginning of year	14,120	8,921
Cash and cash equivalents, end of year	$ 31,339	$ 14,120
Supplemental data		
Interest paid	$ 17,876	$ 16,120
Seller debt-financed land acquisitions	153	963
Income taxes paid	283	244
Decrease in accrued liabilities for land acquired on behalf of, and transferred to, the U.S. Federal Government	(250,000)	-

The accompanying notes are an integral part of these consolidated financial statements.

1. Organization

The Nature Conservancy (The Conservancy) is a global conservation organization. The mission of The Conservancy is to preserve plants, animals, and natural communities that represent the diversity of life on Earth by protecting the lands and waters they need to survive. The Conservancy conducts its activities throughout the United States, Canada, Latin America, the Caribbean, Africa, Asia, and the Pacific.

The Conservancy's primary sources of revenue are contributions from the public (including gifts of land), investment income, government grants, and sales of conservation interests to government agencies or other conservation buyers. These resources are used to conserve portfolios of functional conservation areas within and across ecoregions and to pursue pragmatic solutions to conservation challenges. Through this portfolio approach, The Conservancy works with partners – including indigenous communities, governments and businesses – to conserve a variety of ecological systems and species.

2. Summary of significant accounting policies

Principles of consolidation
The consolidated financial statements include the accounts of all The Conservancy's chapters and affiliates, both domestic and international, including those which are separately incorporated, receive gifts, and perform conservation activities in the name of The Conservancy. All significant intercompany transactions have been eliminated.

Basis of financial statement presentation
The consolidated financial statements are presented on the accrual basis of accounting.

Classification of net assets
The Conservancy's net assets have been grouped into the following three classes:

- **Permanently restricted net assets** – Contributions and other inflows of assets whose use by The Conservancy is limited by donor-imposed stipulations that the principal must be maintained permanently by The Conservancy.

- **Temporarily restricted net assets –** Contributions and other inflows of assets whose use by The Conservancy is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of The Conservancy, such as usage for specific programs, including certain overhead and indirect costs, or for spending from true endowment investment income.

- **Unrestricted net assets –** Revenues derived from dues, unrestricted contributions, government grants and contracts, investment income (other than the temporarily restricted portion of true endowment investment income), and other inflows of assets whose use by The Conservancy is not limited by donor-imposed restrictions. Certain unrestricted net assets have been designated by the Board of Directors to be maintained as land, easements, land preservation funds (for the purchase of conservation land), other conservation project funds, and quasi endowment funds.

Cash and cash equivalents and restricted cash
Highly liquid investments purchased with a maturity of three months or fewer when purchased are considered to be cash equivalents. Restricted cash represents monies held in trust related to requirements of specific conservation project agreements.

Concentration of credit risk
Cash and cash equivalents include cash in banks held in accounts in the United States of America and 29 foreign countries. The cash in foreign accounts is uninsured, but is limited per country to amounts deemed immaterial by management.

The Conservancy invests its excess cash with high quality financial institutions, the largest concentrations of which are invested in U.S. Agencies (85.7%) and corporate repurchase agreements (14.1%) backed by U.S. Treasury securities. Pursuant to the Conservancy's investment policy, the investments described below cannot have more than 10% of their assets in securities of any one issuer, be they short-term or long-term, other than the U.S. Government. At June 30, 2010, the single largest non-U.S. Government issuer exposure was 0.5% of the total portfolio.

Investments
Investments are carried at estimated fair market value on the consolidated statements of financial position. Fair values of investments are estimated based on quoted market prices where available. Fair values for certain private equity and real estate investments held through limited partnerships or commingled fund shares or planned giving investments held in trust by third party trustees are estimated by the respective external investment managers if market values are not readily ascertainable. These valuations necessarily involve assumptions and estimation methods that are reviewed by The Conservancy, and actual valuations could differ from those estimates. Investments may include some short term investments which consist primarily of money market funds and other short term investments temporarily held by investment managers or held for a specific purpose. The Conservancy's investments consist of the following:

- **Investments –** Short-term investments of working capital.

- **Investments held for conservation projects –** Funds for the acquisition of conservation land, easements, and for funding other conservation projects.

- **Planned giving investments –** Planned giving investments are donations that are held in trust by The Conservancy or third party trustees, representing beneficial interests in trusts. Planned giving investments are recorded at current fair value or at an estimated fair value based on the latest available information. Income earned on the invested funds is payable to the donor or the donor's designee for a specified period of time or until the donor's death, after which time The Conservancy may use the investments for operations or a restricted use specified by the donor. The Conservancy utilizes an IRS-approved annuity table to actuarially calculate the liability associated with the estimated lead payments where The Conservancy is the trustee. The Conservancy determines the discount rate to be used in the month the planned giving arrangements are entered into with the donor and these rates have ranged from 2.0 to 9.5%. The present value of the actuarially determined liability resulting from these gifts is recorded at the date of gift. The remaining portion of the gift is recorded as temporarily restricted revenue.

- **Endowment investments –** Funds held as long-term capital to generate income for The Conservancy's operations.

Land and Land Interests
The Conservancy records land and land interests at cost, if purchased, or at fair value at the date of acquisition, if all or part of the land was received as a donation. Fair value is generally determined by appraisal. These assets fall into three primary categories:

- **Trade lands –** real property with minimal ecological value. These properties are sold to provide funds for The Conservancy to carry out its conservation work.

- **Conservation lands –** real property with significant ecological value. These properties are either managed in an effort to protect the natural biological diversity of the property, or transferred to other organizations who will manage the lands in a similar fashion.

- **Conservation easements –** intangible assets comprised of listed rights and/or restrictions over the owned property that are conveyed by a property owner to The Conservancy, almost always in perpetuity, in order to protect the owned property as a significant natural area, as defined in federal regulations. These intangible assets may be sold or transferred to others so long as the assignee agrees to carry out, in perpetuity, the conservation purposes intended by the original grantor.

With the exception of trade lands, which are assets held for sale and are carried at the lower of cost or fair market value less costs to sell, land and land interests are reported at the original book value. Upon sale or gift, the book value of the land or land interest is removed as an asset from the consolidated statement of financial position and reported as a program expense. The related proceeds, if any, are reported as revenue in the consolidated statement of activities. The majority of land sales and gifts relate to transfers of real property. Conservation easements, by their very nature, do not generate material amounts of cash inflow annually.

Property and equipment
Property and equipment are carried at cost. The Conservancy's minimum capitalization threshold is $50,000. Expenditures for maintenance and repairs that do not improve or extend the lives of the respective assets are expensed as incurred. When assets are retired or sold, the related cost and accumulated depreciation are removed from the accounts, and any loss on retirement or gain or loss on disposal of the individual assets is recorded as revenue or expense.

Depreciation and amortization is provided using the straight-line method for all depreciable assets over their estimated future lives as follows:

Building and improvements	5 – 30 years
Computer equipment and software	3 – 5 years
Furniture, fixtures, and other	4 – 25 years

Contributions
Unconditional donor promises to give cash and other assets are reported at fair value at the date that there is sufficient verifiable evidence documenting that a promise was made by the donor and received by The Conservancy. The promises are reported as either temporarily or permanently

restricted support if received with donor stipulations that sufficiently limit the use of the donated assets.

When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and are reported on the consolidated statements of activities as net assets released from restrictions.

Grants and contracts
The Conservancy receives grants and contracts from federal, state, and local agencies, as well as from private organizations, to be used for specific programs or land purchases. For government grants and contracts, the excess of reimbursable expenditures over cash receipts is included in government grants receivable and any excess of cash receipts over reimbursable expenditures is included in deferred revenue. For private mitigation and other contracts, any excess of cash receipts over reimbursable expenditures is included in deferred revenue.

The Conservancy's costs incurred under its government grants and contracts are subject to audit by government agencies. Management believes that disallowance of costs, if any, would not be material to the consolidated financial position or consolidated changes in net assets of The Conservancy.

Use of estimates
The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications
Certain prior year amounts have been reclassified to conform to the current year presentation. Specifically, $56,964,000 in deposits on land and $51,483,000 in refundable advances have been reclassified from deposits and other current assets and from other accrued liabilities – current, respectively, and $39,200,000 in restricted cash has been reclassified from long-term to current in the accompanying statements of financial position.

New Accounting Pronouncements
For the year ended June 30, 2010, The Conservancy adopted Financial Accounting Standards Board (FASB) Accounting Standards codification (ASC) 105-10, *FASB Codification* ("the Codification"). The codification is the single source of authoritative accounting principles generally accepted in the United States of America ("GAAP"). Accordingly, references to GAAP have been updated.

Effective July 1, 2009, The Conservancy adopted the FASB's guidance regarding Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent) as described in the note on fair value of financial instruments.

Effective July 1, 2009, The Conservancy adopted the FASB's guidance regarding Disclosures about Derivative Instruments and Hedging Activities as described in the note on long-term debt and derivatives.

3. Fair value of financial instruments

Effective July 1, 2008, The Conservancy adopted the Financial Accounting Standards Board's (FASB) guidance regarding Fair Value Measurements, which addresses aspects of the expanding application of fair value accounting. The guidance defines fair value, establishes a consistent framework for measuring fair value and expands disclosure requirements about fair value measurements. The guidance, among other things, requires The Conservancy to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The guidance requires disclosure of the level within the fair value hierarchy in which fair value measurements in their entirety fall, segregating fair value measurements using quoted prices in active markets for identical assets or liabilities (Level 1), significant other observable inputs (Level 2), and significant unobservable inputs (Level 3). A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

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The following tables present the financial instruments carried at fair value as of June 30, 2010 and 2009, by caption on the statement of financial position by the valuation hierarchy defined above:

(In thousands)	2010			
	Level 1	**Level 2**	**Level 3**	**Total**
Investments:				
Short-term investments	$ 25,777	$ 2,139	$ -	$ 27,916
Fixed income:				
U.S. treasuries	18,044	-	-	18,044
Asset-backed securities	-	13,527	-	13,527
Corporate debt	-	63,530	-	63,530
Mortgage-backed securities	-	11,323	-	11,323
U.S. agency bonds	-	161,346	-	161,346
Convertible securities	-	3,787	-	3,787
Public equity:				
Retail and wholesale	64,952	-	-	64,952
Financial services	56,628	-	-	56,628
Technology	61,713	-	-	61,713
Health care	23,428	-	-	23,428
Energy	27,849	-	-	27,849
Transportation and utilities	6,982	-	-	6,982
Other services	25,651	-	-	25,651
Other industries	39,182	-	-	39,182
Commingled equity funds	-	-	330,402	330,402
Mutual funds	92,350	-	-	92,350
Closed end mutual funds	48,263	-	-	48,263
Hedge funds	-	-	208,823	208,823
Private equity	-	-	142,986	142,986
Split interests, trusteed	78,790	120,832	12,584	212,206
Split interests, non-trusteed	-	-	36,074	36,074
Total investments	$ 569,609	$ 376,484	$ 730,869	$ 1,676,962
Pledges receivable			$ 141,177	$ 141,177
Liabilities:				
Interest rate swaps payable		$ 41,916		$ 41,916

(In thousands)	2009			
	Level 1	**Level 2**	**Level 3**	**Total**
Investments:				
Short-term investments	$ 500	$ 40,891	$ -	$ 41,391
Fixed income:				
U.S. treasuries	57,961	-	-	57,961
Commercial paper	-	6,197	-	6,197
Asset-backed securities	-	-	6,081	6,081
Corporate debt	-	32,388	-	32,388
Mortgage-backed securities	-	-	7,089	7,089
U.S. agency bonds	-	66,157	-	66,157
Convertible securities	-	593	-	593
Public equity:				
Retail and wholesale	58,178	-	-	58,178
Financial services	51,514	-	-	51,514
Technology	43,859	-	-	43,859
Health care	29,877	-	-	29,877
Energy	21,128	-	-	21,128
Transportation and utilities	9,826	-	-	9,826
Other services	54,554	-	-	54,554
Other industries	15,463	-	-	15,463
Commingled equity funds	-	-	239,453	239,453
Mutual funds	134,137	-	4,412	138,549
Closed end mutual funds	34,985	-	-	34,985
Hedge funds	-	-	264,799	264,799
Private equity	-	-	121,916	121,916
Split interests, trusteed	81,685	115,173	9,944	206,802
Split interests, non-trusteed	-	-	34,221	34,221
Total investments	$ 593,667	$ 261,399	$ 687,915	$ 1,542,981
Pledges receivable			$ 119,122	$ 119,122
Liabilities:				
Interest rate swaps payable		$ 32,564		$ 32,564

Following is a description of The Conservancy's valuation methodologies for assets and liabilities measured at fair value.

Fair value for Level 1 is based upon quoted prices in active markets that The Conservancy has the ability to access for identical assets and liabilities. Market price data is generally obtained from exchange or dealer markets. The Conservancy does not adjust the quoted price for such assets and liabilities.

Fair value for Level 2 is based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and on model-based valuation techniques, for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the assets. Inputs are obtained from various sources including market participants, dealers, and brokers.

Fair value for Level 3 is based on valuation techniques that use significant inputs that are unobservable as they trade infrequently or not at all.

Investments included in Level 3 primarily consist of The Conservancy's ownership in alternative investments (principally limited partnership interests in hedge and private equity funds) as well as public equity investments held within private arrangements. The value of certain alternative investments represents the ownership interest in the net asset value (NAV) of the respective partnership. Approximately 79% of Level 3 investments held by the partnerships consist of marketable securities and 21% are securities that do not have readily determinable fair values. The fair values of the securities held by limited partnerships that do not have readily determinable fair values are determined by the general partner and are based on appraisals, or other estimates that require varying degrees of judgment. If no public market exists for the investment securities, the fair value is determined by the general partner taking into consideration, among other things, the cost of the securities, prices of recent significant placements of securities of the same issuer, and subsequent developments concerning the companies to which the securities relate. The Conservancy has performed significant due diligence around these investments to ensure NAV is an appropriate measure of fair value as of June 30, 2010.

Interest rate swaps are valued using both observable and unobservable inputs, such as quotations received from the counterparty, dealers or brokers, whenever available and considered reliable. In instances where models are used, the value of the interest rate swap depends upon the contractual terms of, and specific risks inherent in, the instrument as well as the availability and reliability of observable inputs. Such inputs include market prices for reference securities, yield curves, credit curves, measures of volatility, prepayment rates, assumptions for nonperformance risk, and correlations of such inputs. The Conservancy's interest rate swap arrangements have inputs which can generally be corroborated by market data and are therefore classified within Level 2.

Split interest agreements where The Conservancy is not the trustee are valued at the present value of the future distributions expected to be received over the term of the agreement. There is no market for these agreements and they are therefore classified within Level 3.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while The Conservancy believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

Effective July 1, 2009, The Conservancy adopted the FASB's guidance regarding Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent), which amended the FASB's guidance on Fair Value Measurements and Disclosures - Overall, to provide a practical expedient in estimating the fair value of certain alternative investments. Under the practical expedient, entities are permitted to use NAV without adjustment for investments within the scope of the guidance.

Investments in certain entities that calculate net asset value at June 30, 2010 are as follows:

(In thousands)	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Global equity funds	$ 138,453	$ -	Weekly, monthly, quarterly	Same day, 10 or 30 business days
International equity funds	191,949	-	Monthly	6 business days, on 15th of prior month
Hedge funds	208,823	-	Monthly, quarterly, rolling 2,3 & 5 years	45 - 90 days, 3 - 4 months
Private equity funds	141,737	92,980	N/A	N/A
Total	$ 680,962	$ 92,980		

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The following are rollforwards of the statement of financial position amounts for financial instruments classified by The Conservancy within Level 3 of the fair value hierarchy defined above as of June 30, 2010 and 2009:

(In thousands)	2010				
	Fair value as of July 1, 2009	**Net realized and unrealized gains (losses)**	**Net purchases and (sales)**	**Net transfers into (out of) Level 3**	**Fair value as of June 30, 2010**
Asset and mortgage-backed securities	$ 13,170	$ -	$ -	$ (13,170)	$ -
Commingled equity funds	239,453	42,111	23,838	25,000	330,402
Mutual funds	4,412	(13)	(4,399)	-	-
Hedge funds	264,799	29,235	(85,211)	-	208,823
Private equity	121,916	6,255	14,815	-	142,986
Split interests	44,165	(2,939)	7,432	-	48,658
Pledges	119,122	22,055	-	-	141,177
Total investments and pledges	$ 807,037	$ 96,704	$ (43,525)	$ 11,830	$ 872,046

(In thousands)	2009				
	Fair value as of July 1, 2008	**Net realized and unrealized gains (losses)**	**Net purchases and (sales)**	**Net transfers into Level 3**	**Fair value as of June 30, 2009**
Asset and mortgage-backed securities	$ 7,639	$ (6,482)	$ 12,013	$ -	$ 13,170
Commingled equity funds	303,400	(61,562)	(2,385)	-	239,453
Mutual funds	-	-	-	4,412	4,412
Hedge funds	403,760	(96,215)	(54,428)	11,682	264,799
Private equity	115,270	(18,516)	25,162	-	121,916
Split interests	45,375	(1,210)	-	-	44,165
Pledges	113,387	5,735	-	-	119,122
Total investments and pledges	$ 988,831	$ (178,250)	$ (19,638)	$ 16,094	$ 807,037

All net realized and unrealized gains (losses) in the tables above are reflected in the accompanying statement of activities and are reported in revenues as follows for the years ended June 30, 2010 and 2009, with the exceptions of a $3,500,000 decrease in pledges reported in conservation activities and actions program expense for the year ended June 30, 2010 and a $621,000 decrease in split interests reflected in the accompanying statement of financial position as a decrease in the planned giving liability as of June 30, 2010:

(In thousands)	2010		
	Contributions for land, land preservation fund, and other conservation projects	**Investment returns**	**Change in value of planned giving investments**
Total gains (losses) included in changes in net assets	$ 25,555	$ 77,588	$ (2,318)
Unrealized gains (losses) included in changes in net assets relating to assets still held	$ 25,555	$ 42,600	$ (2,318)

(In thousands)	2009		
	Contributions for land, land preservation fund, and other conservation projects	**Investment returns**	**Change in value of planned giving investments**
Total gains (losses) included in changes in net assets	$ 5,735	$ (182,775)	$ (1,210)
Unrealized gains (losses) included in changes in net assets relating to assets still held	$ 5,735	$ (181,602)	$ (1,210)

4. Notes receivable

Notes receivable relate primarily to sales of land by The Conservancy. Notes receivable are recorded annually at their net realizable value. Maturities range from 1 to 19 years with varying interest rates from 0 to 10.0%. Default interest rates may be higher.

5. Pledges receivable

As of June 30, 2010 and 2009, unconditional promises to give were as follows:

(In thousands)	2010	2009
Amounts due in		
Less than one year	$ 80,739	$ 59,889
One to five years	66,425	61,520
More than five years	907	1,349
Subtotal	148,071	122,758
Less fair value adjustments:		
Discount to present value	3,394	3,636
Allowance for doubtful accounts	3,500	-
	$ 141,177	$ 119,122

Pledges receivable greater than one year in time are discounted at the prime interest rate, 3.25% at June 30, 2010 and 2009. As a result of adopting the FASB's Fair Value Measurements guidance, including the Fair Value Option for Financial Assets and Financial Liabilities, the discount rate used in the present value technique to determine fair value of pledges receivable is revised at each measurement date to reflect current market conditions and the creditworthiness of donors. In addition, management evaluates payment history and market conditions to estimate allowances for doubtful pledges. Changes in the fair value of pledges receivable are reported in the statement of activities as contribution revenue except for changes in the allowance which are reported as program expenses at each subsequent reporting date. Pledges receivable past due by 90 days is immaterial.

As of June 30, 2010 and 2009, The Conservancy received promises to give totaling approximately $51,604,000 and $56,887,000, respectively, that are conditioned upon The Conservancy raising matching gifts or acquiring certain conservation lands. Conditional promises to give are recognized as contributions when the donor-imposed conditions are substantially met.

6. Investments

Investments consisted of the following at June 30, 2010 and 2009:

(In thousands)	2010				
	Current investments	**Investments held for conservation projects**	**Planned giving investments**	**Endowment investments**	**Total**
Short term investments	$ 972	$ 83,752	$ 4,811	$ 72,915	$ 162,450
Fixed income - bonds	-	184,430	70,279	29,899	284,608
Equities	26	223,186	124,532	481,693	829,437
Real estate trusts	-	-	12,584	-	12,584
Hedge funds	-	44,188	-	164,635	208,823
Private equity investments	863	386	-	141,737	142,986
Receivables from trusts	-	-	36,074	-	36,074
Interfund loans	-	1,262	(1,709)	447	-
Total investments	$ 1,861	$ 537,204	$ 246,571	$ 891,326	$ 1,676,962

(In thousands)	2009				
	Current investments	**Investments held for conservation projects**	**Planned giving investments**	**Endowment investments**	**Total**
Short term investments	$ 7,260	$ 160,343	$ 14,108	$ 3,820	$ 185,531
Fixed income - bonds	-	58,925	65,841	38,877	163,643
Equities	304	172,189	116,909	473,525	762,927
Real estate trusts	-	-	9,944	-	9,944
Hedge funds	-	66,522	-	198,277	264,799
Private equity investments	1,014	199	-	120,703	121,916
Receivables from trusts	-	-	34,221	-	34,221
Interfund loans	-	8,099	(10,199)	2,100	-
Total investments	$ 8,578	$ 466,277	$ 230,824	$ 837,302	$ 1,542,981

See Note 2 for a description of the classification of The Conservancy’s investments.

Planned giving investments include charitable gift annuities, which must meet certain reserve level requirements. Due to the volatility in the financial markets, those reserves were required to be increased with other sources of funds. The amount of additional funds invested in the short term planned giving investments were $1,710,000 and $10,200,000 as of June 30, 2010 and 2009, respectively.

Planned giving investments include recognition of contribution revenue which is classified as temporarily restricted contributions to endowments and similar funds. The amount of planned giving contribution revenue recognized was $8,355,000 and $5,399,000 for the years ended June 30, 2010 and 2009, respectively.

Certain investment managers of The Conservancy use derivatives and currency hedging in order to manage risks and exposures related to interest rates, security positions, and foreign currency.

Investment returns consisted of the following for the years ended June 30, 2010 and 2009:

(In thousands)	**2010**	**2009**
Dividends and interest income	$ 19,989	$ 18,479
Realized gains (losses) (net of expenses of $6,639 and $7,202, respectively)	36,513	(78,102)
Unrealized gains (losses)	113,437	(261,036)
Investment returns	$ 169,939	$ (320,659)

7. Restricted net assets

Temporarily restricted net assets are available for the following purposes:

(In thousands)	**2010**	**2009**
Land acquisition and other conservation projects	$ 187,924	$ 189,748
Time restricted for periods after June 30	147,768	135,471
Time and purpose restricted for periods after June 30	96,662	75,977
True endowment gains subject to future Board of Directors appropriation	72,175	56,949
Total	$ 504,529	$ 458,145

Permanently restricted net assets are restricted in perpetuity; the income derived from these investments is expendable to support the operations of The Conservancy.

Effective July 1, 2008, The Conservancy adopted the FASB's guidance regarding Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA), and Enhanced Disclosures for all Endowment Funds. UPMIFA, as enacted by the Council of the District of Columbia, under which laws The Conservancy is incorporated, and as interpreted by The Conservancy, requires the preservation of the fair value of the original gift as of the gift date of donor-restricted endowment funds absent explicit donor stipulations to the contrary. In addition, net appreciation on donor-restricted endowment funds is required to be classified and reported as temporarily restricted net assets.

The Conservancy's Endowment (Endowment) provides stable financial support to a wide variety of programs and activities in perpetuity, playing a critical role in enabling The Conservancy to achieve its mission. Programs supported by the Endowment include restoring, monitoring, and managing natural areas owned by The Conservancy and others, as well as many other activities and actions vital to the preservation of natural diversity. The Endowment includes both donor-restricted endowment funds and funds designated by the Board of Directors (Board) to function as endowments. Net assets associated with endowment funds, including Board-designated endowment funds, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Conservancy classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, and (b) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by The Conservancy in a manner consistent with the standard of prudence prescribed by UPMIFA.

In accordance with UPMIFA, The Conservancy considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the endowment fund;
- The purposes of the institution and the endowment fund;
- General economic conditions;
- The possible effect of inflation or deflation;
- The expected total return from income and appreciation of investments;
- Other resources of the institution; and
- The investment policy of the institution.

Endowment funds are categorized in the following net asset classes as of June 30, 2010 and 2009:

(In thousands)	**2010**			
	Unrestricted	**Temporarily Restricted**	**Permanently Restricted**	**Total**
Donor-restricted endowment funds	$ (7,096)	$ 72,175	$ 132,667	$ 197,746
Board-designated endowment funds	690,828	-	-	690,828
Total endowment funds	$ 683,732	$ 72,175	$ 132,667	$ 888,574

(In thousands)	**2009**			
	Unrestricted	**Temporarily Restricted**	**Permanently Restricted**	**Total**
Donor-restricted endowment funds	$ (9,879)	$ 56,949	$ 126,008	$ 173,078
Board-designated endowment funds	660,998	-	-	660,998
Total endowment funds	$ 651,119	$ 56,949	$ 126,008	$ 834,076

Changes in endowment funds by net asset classification for the years ended June 30, 2010 and 2009 are summarized as follows:

(In thousands)	2010			
	Unrestricted	**Temporarily Restricted**	**Permanently Restricted**	**Total**
Endowment net assets, beginning of year	$ 651,119	$ 56,949	$ 126,008	$ 834,076
Investment returns	93,654	24,133	-	117,787
Contributions	95	313	6,659	7,067
Interfund transfers	5,534	1,213	-	6,747
Other revenue	234	-	-	234
Appropriation of assets for expenditure	(77,337)	-	-	(77,337)
Net assets released from restrictions	10,433	(10,433)	-	-
Total endowment funds	$ 683,732	$ 72,175	$ 132,667	$ 888,574

(In thousands)	2009			
	Unrestricted	**Temporarily Restricted**	**Permanently Restricted**	**Total**
Endowment net assets, beginning of year	$ 866,045	$ 96,635	$ 111,130	$ 1,073,810
Investment returns	(161,040)	(36,934)	-	(197,974)
Contributions	803	430	11,213	12,446
Interfund transfers	2,851	1,312	-	4,163
Other revenue	204	-	-	204
Appropriation of assets for expenditure	(58,573)	-	-	(58,573)
Net assets released from restrictions	4,494	(4,494)	-	-
Other reclassifications	(3,665)	-	3,665	-
Total endowment funds	$ 651,119	$ 56,949	$ 126,008	$ 834,076

The total amount of permanently restricted net assets on the consolidated statements of financial position includes the donor-restricted endowment funds displayed in the above tables, as well as amounts contributed to create a permanent capital fund. This fund, the land preservation fund, is used to finance capital projects, and is to be maintained in perpetuity for only this purpose. Permanently restricted net assets in the land preservation fund were $155,614,000 and $155,355,000 as of June 30, 2010 and 2009, respectively.

Endowments with Eroded Corpus

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 Conservancy to retain as a fund of perpetual duration. In accordance with the FASB guidance, deficiencies of this nature that are reported in unrestricted net assets were $7,096,000 and $9,879,000 as of June 30, 2010 and 2009, respectively. These deficits resulted from unfavorable market fluctuations that occurred shortly after the investment of newly established endowments and authorized appropriation that was deemed prudent.

Endowment Investment and Spending Policies

The amount of endowment funds provided each year for operations is established by the Finance Committee of the Board, through its adoption of an annual endowment spending rate and spending rate base. The spending rate for the year ended June 30, 2010 was 5.5% of the average fair market value over the 36 months of calendar years 2008, 2007 and 2006.

In order to maintain the purchasing power of the Endowment, The Conservancy must earn a nominal rate of return that compensates for both the endowment payout as well as the rate of inflation. With the current endowment payout of 5.5% and long-term inflation projected at 2.5%, The Conservancy needs to earn approximately 8% to maintain the purchasing power of the endowment. The Conservancy also seeks to grow endowment principal beyond inflation, and therefore strives to produce a premium above 8% over the long term, as discussed below.

The Conservancy has determined asset allocation targets and ranges across a variety of asset classes which The Conservancy feels acceptable for inclusion in its portfolio. The Conservancy has chosen not to manage its underlying assets directly, but to utilize independent investment managers. To maintain prudent diversification and to avoid undue risk, the Conservancy’s portfolio is divided among 40 to 50 separate managers.

The Conservancy recognizes the difficulty of achieving its potential investment objectives in light of the uncertainties and complexities of contemporary investment markets. The Conservancy also recognizes that significant risk must be assumed to achieve long-term investment objectives. In establishing its investment objectives in light of its risk tolerances, The Conservancy has considered its ability to withstand short and intermediate term variability and concluded that the portfolio can tolerate some interim fluctuations in market values and rates of return in order to achieve its objectives. However, The Conservancy realizes that market performance varies and that the portfolio’s investment objectives may not be achievable during short-term periods.

8. Property and equipment

Property and equipment consisted of the following at June 30, 2010 and 2009:

(In thousands)	2010	2009
Land	$ 6,580	$ 6,670
Buildings and improvements	105,523	99,323
Construction in progress	16,130	14,726
Computer equipment and software	1,156	2,521
Furniture, fixtures, and other	12,528	10,346
	141,917	133,586
Less - Accumulated depreciation and amortization	(40,806)	(37,616)
Total	$ 101,111	$ 95,970

Depreciation and amortization expense was $5,656,000 and $5,177,000 during the years ended June 30, 2010 and 2009, respectively. Of the total assets listed above, $8,356,000 and $5,493,000 were fully depreciated at June 30, 2010 and 2009, respectively.

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9. Long-term debt and derivatives

Long-term debt consisted of the following at June 30, 2010 and 2009:

(In thousands)	2010	2009
Unsecured borrowings due at various dates through 2012. Interest is payable at various rates based on LIBOR plus 0.50%, depending on repayment terms; 0.85% and 0.82% at June 30, 2010 and 2009, respectively.	$ 237	$ 8,387
Unsecured Colorado Educational and Cultural Facilities Authority Tax Exempt Revenue Bonds, Series 2002A issued in the original principal amount of $25,053,000 to refund the Industrial Development Authority of Arlington County (IDA) Tax Exempt Revenue Bonds Series 1997A and portions of the IDA Revenue Bonds Taxable Series 1997B; fixed interest rate pursuant to rate swap, 3.56% as of June 30, 2010 and 2009, due July, 2027.	22,071	22,910
Unsecured Extendable Floating Rate Notes, Taxable Revenue Bonds Series EXL5 issued in the original principal amount of $100,000,000, with a variable interest rate reset quarterly, originally due October 5, 2009. See interest rate note below.	-	100,000
Unsecured Taxable Revenue Bonds Series 2009 in the aggregate principal amount of $100,000,000 issued July 1, 2009 to refund the Extended Floating Rate Notes, Taxable Revenue Bonds Series EXL5 on October 5, 2009; fixed rate of 6.30% due July, 2019.	100,000	-
Unsecured Colorado Educational and Cultural Facilities Authority Taxable Revenue Bonds, Series 2008A issued in the original principal amount of $90,000,000, with a variable interest rate reset weekly, due July, 2033. See interest rate note below.	88,180	90,000
Unsecured Colorado Educational and Cultural Facilities Authority Tax Exempt Revenue Bonds, Series 2003A-TE2008 issued in the original principal amount of $102,400,000, with a variable interest rate reset weekly, due July, 2033. See interest rate note below.	98,500	100,500
New York State Environmental Facilities Corporation private bonds issued in the aggregate amount of $50,000,000 with a fixed interest rate of 3.90%, due June, 2024.	50,000	-
Loans and mortgages on land, some of which are collateralized by the land and by a $202,000 restricted cash account, and payable in monthly installments, including interest ranging from 0% to 8.5%; final payments are due at various dates through 2022.	85,835	137,656
Other notes payable without interest due on demand	5,625	5,375
	450,448	464,828
Less - current maturities	(104,156)	(248,000)
Total Long-term Debt	$ 346,292	$ 216,828

In order to partially insulate itself from the variable nature of the interest rates on much of its outstanding debt, The Conservancy has two interest rate swap agreements. The Conservancy pays a fixed rate of 4.373% on $95,375,000 in return for receipt of variable rate interest in the amount of LIBOR; and 2.962% on $190,000,000 of principal in return for receipt of variable rate interest in the amount of 67% of LIBOR. The counterparty to these swaps has the option to terminate these swaps beginning on July 1, 2010 and thereafter.

The following schedule of amounts due is based on the maturity dates per the debt agreements:

Year ended June 30	*(in thousands)*
2011	$ 104,156
2012	112,310
2013	71,258
2014	3,733
2015	6,123
Thereafter	152,868
	$ 450,448

The fair value of long-term debt, including current maturities, is estimated based on current market rates offered to or by The Conservancy for similar instruments. Based on a blended borrowing rate using current market rates as of June 30, 2010 the fair value of long-term debt is approximately $449,585,000.

Due to the nature of certain variable rate bond agreements, The Conservancy may receive notice of an optional tender on its variable-rate bonds, in which case The Conservancy would have an obligation to purchase the bonds tendered if unable to secure alternate financing at that time. The Conservancy entered into standby purchase agreements with a financial institution to support the original principal amount of $192,400,000 of the variable rate demand obligations. Under these agreements, the financial institution agreed to purchase the bonds if The Conservancy cannot remarket the bonds at which time the due dates would become accelerated to a three year period. As a result, The Conservancy has classified an additional $58,222,000 as current maturities of long-term debt on the consolidated statements of financial position to reflect the potential accelerated payment schedule.

Interest expense incurred on total debt for 2010 and 2009 was $22,499,000 and $16,467,000, respectively.

The Conservancy has an unsecured line of credit providing total borrowings as of June 30, 2010 and 2009 of up to $30,000,000 and $50,000,000, respectively. As of June 30, 2010 and 2009 the balance on the line of credit was $0 and $8,000,000, respectively. Interest is payable at various rates based on LIBOR plus 0.50%, depending on repayment terms, as of June 30, 2010 and 2009.

Effective July 1, 2009, The Conservancy adopted the Financial Accounting Standards Board's (FASB) guidance regarding Disclosures about Derivative Instruments and Hedging Activities, which was an amendment to enhance the disclosure framework in the FASB's guidance regarding Accounting for Derivative Instruments and Hedging Activities. The guidance addresses constituent concerns about the impact derivative instruments can have on an entity's financial position, results of operations, and cash flows.

Fair Value of derivatives consisted of the following at June 30, 2010 and 2009:

(In thousands)	**2010**	**2009**
Derivatives not designated as hedging instruments:		
Interest rate contracts - swap agreements		
Statement of Financial Position Location:		
Accrued liabilities - long-term	$ 41,916	$ 32,564
Statement of Activities Location:		
Investment returns	$ (9,352)	$ (17,513)

10. Contributed goods and services

The Conservancy periodically receives contributed professional services from third parties and recognizes revenue at the fair value of those services. During 2010 and 2009, these services totaled $7,887,000 and $8,042,000, respectively. In addition, The Conservancy received contributed goods that totaled $3,871,000 and $4,496,000 for the years ended June 30, 2010 and 2009, respectively. Contributed goods are recorded at fair value on the date of donation. Contributed goods and services with a fair value of $50,000 or more are capitalized in accordance with The Conservancy's capitalization policy. Of the $7,887,000 and $8,042,000 in contributed services, $57,000 and $74,000 was capitalized for the years ended June 30, 2010 and 2009, respectively. Of the $3,871,000 and $4,496,000 in contributed goods, $107,000 and $0 was capitalized for the years ended June 30, 2010 and 2009, respectively.

11. Commitments and contingencies

The Conservancy is a party to various litigations arising out of the normal conduct of its operations. In the opinion of The Conservancy's management, the ultimate resolution of these matters will not materially affect the financial position, changes in net assets, or cash flows of The Conservancy.

Leases

The Conservancy has entered into noncancelable operating leases for office space, which expire at various dates through 2019. Certain of these leases contain rent escalation clauses based on the consumer price index.

The following is a schedule of future minimum lease payments for all operating leases:

Year ended June 30		*(in thousands)*
2011	$	3,898
2012		3,377
2013		2,967
2014		2,469
2015		1,922
Thereafter		2,995
Total minimum lease payments	$	17,628

Rent expense was $11,086,000 and $10,719,000 for the years ended June 30, 2010 and 2009, respectively.

Land acquisitions and other commitments
The Conservancy has entered into contracts for the purchase of land and other purchase commitments that had not closed as of June 30, 2010, in the amount of $181,651,000.

The Conservancy has remaining funding commitments to private equity and hedge fund investments of $92,980,000 at June 30, 2010.

The Conservancy is a party to an agreement whereby under certain circumstances, the Conservancy may be required to establish a special purpose entity and accept a loan from the other party to the agreement. The Conservancy would, in turn, secure the loan with a qualified existing asset, and guarantee repayment of the loan should the special purpose entity fail to perform under the terms of the loan. The Conservancy believes the likelihood of any significant loss related to this guarantee to be remote.

12. Retirement plans

The Conservancy's employees are eligible after one month of service to participate in The Nature Conservancy Savings and Retirement Plan (the Plan), in which employees can make voluntary, tax-deferred contributions within specified limits. The Plan was established under the provisions of Internal Revenue Code Section 401(k) and has received a favorable determination as to its tax status from the Internal Revenue Service. As of August 2005, certain employees are also eligible to participate in a non-qualified deferred compensation plan created pursuant to Internal Revenue Code Section 457(b). The Conservancy's contributions to the plans were $10,855,000 and $11,574,000 for the years ended June 30, 2010 and 2009, respectively.

13. Program expense allocation

Operating expenses are allocated to program and support categories based on separate cost center types as defined below. Conservation land and easements that are acquired by The Conservancy, but not sold or donated, are reflected as an increase in conservation land and easements on the consolidated statements of financial position and are excluded from the program expense categories on the consolidated statements of activities.

The Conservancy accounts for its program expenditures in the following categories:

- **Conservation Activities and Actions –** Expenditures related to the broad spectrum of activities and actions critical to advancing The Conservancy's ecoregion-based approach to conservation. Expenditures related to understanding, monitoring, maintaining, restoring, and managing natural areas owned by The Conservancy and others are included, as are expenditures for developing and enhancing The Conservancy's ability to gather and share ecological information and to assess and evaluate threats to the elements of natural diversity within ecoregions in which The Conservancy works. In addition, this area includes expenditures to mitigate, prevent, or slow the effects of threats to the elements of biodiversity, including investments in the institutional development of domestic and international conservation organizations. Expenditures related to improving public land management and supporting the development of sound global policies, including participating in conferences and events that help establish a common vision for conservation worldwide. Finally, this category includes expenditures relating to community outreach and education of key stakeholders and land users in areas where Conservancy conservation programs reside.

- **General and Administration** – Expenditures related to building and maintaining an efficient business infrastructure, including those related to corporate governance, to support and advance the programmatic conservation objectives of The Conservancy.

- **General Fund-Raising –** Expenditures related to fund-raising strategies that provide the revenue stream for both operations and capital needs to further the accomplishment of The Conservancy's mission and objectives.

- **Membership Development –** Expenditures related to the acquisition and retention of The Conservancy members, primarily through the use of a direct-mail program.

14. Income taxes

The Conservancy has been granted an exemption from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code. The Internal Revenue Service has classified The Conservancy as other than a private foundation. The Conservancy pays a nominal amount of tax relating to several unrelated business income activities, primarily rental income from debt-financed property.

Effective January 1, 2007, The Conservancy adopted the FASB's guidance related to Accounting for Income Taxes and Accounting for Uncertainty in Income Taxes. The adoption continues to have no effect on the consolidated financial statements.

15. Subsequent events

All subsequent events were evaluated through December 6, 2010.

The Nature Conservancy
Schedules of Functional Expenses
For the year ended June 30, 2010 with summarized totals for the year ended June 30, 2009

(Amounts in thousands)

	Program expenses	Support services expenses				Totals	
	Conservation		Fund-raising		Support		
	activities and actions	General and administration	General fund-raising	Membership development	services expenses	2010 Total expenses	2009 Total expenses
Personnel	$ 157,304	$ 61,199	$ 43,036	$ 1,737	$ 105,972	$ 263,276	$ 281,385
Contract, professional fees	49,105	7,019	3,013	3,347	13,379	62,484	73,193
Grants and allocations	49,901	490	14	-	504	50,405	63,623
Supplies	6,902	2,766	668	1,452	4,886	11,788	14,157
Telecommunications	2,635	2,096	446	12	2,554	5,189	5,902
Postage and mailing service	1,410	367	505	6,521	7,393	8,803	9,677
Occupancy	1,931	8,968	187	-	9,155	11,086	10,719
Equipment rental and maintenance	4,047	1,113	212	-	1,325	5,372	6,182
Printing and publication	3,302	189	810	4,393	5,392	8,694	9,751
Travel	11,148	1,847	1,842	34	3,723	14,871	17,886
Conferences and meetings	4,625	779	989	6	1,774	6,399	8,963
Interest	22,608	24	-	-	24	22,632	16,498
Depreciation and amortization	5,345	305	6	-	311	5,656	5,177
Equipment	2,759	262	32	-	294	3,053	2,958
Taxes and licenses	1,007	430	63	7	500	1,507	1,745
Utilities, repairs, maintenance, and construction	6,446	1,740	186	-	1,926	8,372	12,315
Insurance	1,966	1,366	56	-	1,422	3,388	3,401
Real estate taxes	4,776	692	22	-	714	5,490	6,164
Closing costs	1,617	432	-	-	432	2,049	1,922
Contributed goods and services non-cash expense	4,780	5,103	1,711	-	6,814	11,594	12,464
All other	5,487	1,496	82	4	1,582	7,069	2,554
Subtotal	349,101	98,683	53,880	17,513	170,076	519,177	566,636
Book value of conservation land and easements sold or donated to government and others	200,476	-	-	-	-	200,476	257,785
Total	$ 549,577	$ 98,683	$ 53,880	$ 17,513	$ 170,076	$ 719,653	$ 824,421

APPENDIX C – CONSERVATION NOTE INVESTMENT APPLICATION

Investment Application Form

I would like to invest:	**Select Note term/rate (selection of rate among offered options at discretion of investor):**	**Select treatment of interest payments:**
$______________ (minimum $25,000) in a Conservation Note. ☐ I have received, reviewed, and understand the Prospectus that details the terms, risks and other important information regarding the Conservation Note. ☐ I would like to receive information about the work of The Nature Conservancy around the globe.	**1 Years** □ 0% □ 0.5% □ 0.75% **3 Years** □ 0% □ 0.5% □ 1% □ 1.25% **5 Years** □ 0% □ 0.5% □ 1% □ 1.5% □ 2%	☐ Annual cash interest payment. ☐ Compounded interest with payment at maturity only (for terms of 3 or 5 years only). ☐ Donate any interest to the Conservancy.

Please print clearly. If you have any difficulty filling out this form, please call Piedmont Fund Services, Inc. at 877.386.3107 or the Conservancy at 888-879-4110. Please make checks payable to The Nature Conservancy.

Individual or Institution

____
First Middle Initial Last

____
Social Security or Taxpayer ID Date of Birth

____
Address

____
City State Zip

____
Home Phone Email

Joint Investor or Institutional Officer

____
First Middle Initial Last

If the purchaser has more than one name, give the Social Security Number of the actual owner of the account or, if a joint account, the first person listed.

IMPORTANT NOTICE—The USA PATRIOT Act. Federal law requires all financial institutions to obtain, verify, and record information that identifies each person who opens an account. When you purchase a Note we will verify the following information: your name, address, date of birth and potentially other identifying information.

Additional information can be obtained by contacting Piedmont Fund Services, Inc. at 877.386.3107.

The Conservation Notes are unsecured obligations and are not deposits or obligations of any bank, and are not insured by the FDIC, SIPC or any other agency.

FOR RESIDENTS OF WASHINGTON STATE ONLY
Please check the applicable statement below:

____ I became a member, contributor or participant in The Nature Conservancy prior to my decision to invest in the Conservation Note.

____ I am the relative of a person who was a member, contributor or participant in The Nature Conservancy prior to my decision to invest in the Conservation Note.

By signing below, each undersigned investor ("Investor"): agrees to purchase the Conservation Note indicated by the information inserted above on the terms and subject to the conditions stated in The Nature Conservancy's current Prospectus and any Supplements thereto, each of which Investor represents Investor received and reviewed. Investor certifies that each Investor is a resident of the state identified on this form.

Under penalty of perjury, each Investor further certifies that: (1) the taxpayer identification number shown for each individual or institution is correct, (2) Investor is not subject to backup withholding, and (3) each Investor is a U.S. citizen or a U.S. resident alien. If the correct TIN is not supplied, the Conservancy is required to withhold 28% of interest and/or redemption funds. The IRS does not require your consent to any provision of this document other than certifications to avoid back-up withholding.

If signing as joint tenants, the undersigned agree to be jointly and severally liable under this Application. If signing on behalf of a trust, the undersigned certifies that Investor is duly authorized: (i) to purchase the Conservation Note on behalf of such entity, and (ii) to execute this Application. The Investor authorizes The Nature Conservancy to act upon the instructions and directions of any authorized signer in all matters, including renewals, redemption and transfer requests. This Application is subject to acceptance by The Nature Conservancy in Arlington, Virginia.

Please Sign Here:

____
Individual, Trustee, or Officer Signature Date

____
Joint Signature Date

PLEASE MAKE CHECKS PAYABLE TO **THE NATURE CONSERVANCY.** AND RETURN CHECKS TOGETHER WITH THIS APPLICATION TO:

CONSERVATION NOTES
Piedmont Fund Services, Inc.
1604 Spring Hill Road, 3rd floor
Vienna, VA 22182

THIS NOTE IS NOT A SAVINGS ACCOUNT OR DEPOSIT AND IT IS NOT INSURED BY THE UNITED STATES OR ANY AGENCY OR FUND OF THE UNITED STATES.

THIS NOTE HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), AND MAY NOT BE TRANSFERRED, ASSIGNED, EXCHANGED OR CONVEYED UNLESS IT IS REGISTERED UNDER THE SECURITIES ACT OR UNLESS AN EXEMPTION FROM REGISTRATION IS AVAILABLE UNDER THE SECURITIES ACT.

NOTE

$__________ _______________, 20__

FOR VALUE RECEIVED, The Nature Conservancy ("**the Conservancy**") promises to pay to the order of ________________, ("**Investor**"), the principal amount of ___________ Dollars ($_____________) and interest computed on the basis of a 365-day year for the actual number of days elapsed on the unpaid principal balance at a rate per annum of ___ percent until maturity.

Interest on this Note shall be paid in annual installments beginning on the one-year anniversary of this Note, and on each succeeding anniversary until _____________, _____, at which time the remaining balance of principal and interest shall be paid in full. Each installment shall be in an amount equal to the amount of unpaid interest accrued to the date of payment of the installment.

Place and Application of Payments. Each payment upon this Note shall be made at Investor's address shown on the books and records of the Conservancy.

Applicable Law and Jurisdiction. This Note shall be governed by and interpreted according to the laws of the State of Virginia, without giving effect to conflict of laws rules. Investor irrevocably agrees and consents that any action against the Conservancy for collection or enforcement of this Note must be brought in any state or federal court that has subject matter jurisdiction and is located in, or whose district includes, Arlington County, Virginia, and that any such court shall have personal jurisdiction over the Conservancy for purposes of the action.

Redemption of Note by the Conservancy at Option of the Holder. This Note may be redeemed by the Conservancy in its sole discretion in whole or in part (in an amount equal to at least $5,000) at the written request of the Investor, provided, however, that (A) if all or part of this Note is redeemed by the Conservancy at the request of the Investor before the date that is one year from the date first set forth above, then all accrued and unpaid interest with respect to such redeemed amount as of the date of the redemption shall be forfeit to the Conservancy as liquidated damages; and (B) if this Note is redeemed by the Conservancy at the request of the Investor on or after the date that is one year from the date first set forth above, then 50% of the accrued and unpaid interest as of the date of the redemption with respect to such redeemed amount for the year in which the redemption occurs shall be forfeit to the Conservancy as liquidated damages. The Conservancy shall have no obligation to honor any request for redemption or to treat all Noteholders equally in the repurchase of Notes.

Optional Redemption by the Conservancy. The Conservancy shall have the right to call and redeem this Note at any time in whole or in part or from time to time at a redemption price (the "Redemption Price") equal to 100% of the principal amount of the Notes to be redeemed plus accrued and unpaid interest as of the date of redemption. Interest shall cease to accrue on this Note or any portion thereof if called for redemption.

THE CONSERVANCY AND THE INVESTOR EACH IRREVOCABLY AND UNCONDITIONALLY WAIVES ITS, HIS OR HER RIGHT TO A TRIAL BY JURY IN ANY ACTION, INCLUDING ANY CLAIM, COUNTERCLAIM, CROSS-CLAIM OR THIRD-PARTY CLAIM ("CLAIM"), THAT IS BASED UPON, ARISES OUT OF OR RELATES TO THIS NOTE OR THE INDEBTEDNESS THAT IT EVIDENCES, INCLUDING, WITHOUT LIMITATION, ANY CLAIM THAT IS BASED UPON, ARISES OUT OF OR RELATES TO ANY ACTION OR INACTION OF THE HOLDER OF THIS NOTE IN CONNECTION WITH ANY ACCELERATION, ENFORCEMENT OR COLLECTION OF THIS NOTE OR SUCH INDEBTEDNESS.

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