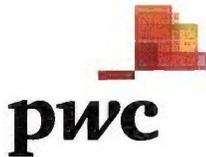


The Nature Conservancy

Consolidated Financial Statements

For the year ended June 30, 2013

And report thereon



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.

The image shows a handwritten signature in black ink that reads "PricewaterhouseCoopers up". The signature is written in a cursive, flowing style. The word "up" is written in a smaller, simpler font at the end of the signature.

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	<u>995,846</u>	
Total investments		1,926,363
Conservation lands		1,865,034
Conservation easements		<u>1,866,197</u>
Total assets		<u><u>\$ 6,183,317</u></u>

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		<u>143,874</u>
Total liabilities		<u><u>762,266</u></u>

Net assets

Unrestricted		
Undesignated	(48,284)	
Board-designated		
Land, easements, and project funds	3,764,115	
Quasi endowment and similar funds	<u>754,171</u>	
Total unrestricted		4,470,002
Temporarily restricted		634,916
Permanently restricted		<u>316,133</u>
Total net assets		<u>5,421,051</u>
Total liabilities and net assets		<u><u>\$ 6,183,317</u></u>

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

<i>(Amounts in thousands)</i>	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				<u>\$ 107,718</u>
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.

The Nature Conservancy

Notes to Consolidated Financial Statements

June 30, 2013

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,

The Nature Conservancy

Notes to Consolidated Financial Statements

June 30, 2013

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.

The Nature Conservancy

Notes to Consolidated Financial Statements

June 30, 2013

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

The Nature Conservancy

Notes to Consolidated Financial Statements

June 30, 2013

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.

The Nature Conservancy

Notes to Consolidated Financial Statements

June 30, 2013

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.

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 Nature Conservancy

Notes to Consolidated Financial Statements

June 30, 2013

- 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

The Nature Conservancy

Notes to Consolidated Financial Statements

June 30, 2013

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

The Nature Conservancy
Notes to Consolidated Financial Statements
June 30, 2013

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.

The Nature Conservancy
Notes to Consolidated Financial Statements
June 30, 2013

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	<u>5,190</u>
Subtotal	188,096
Less fair value adjustments:	
Discount of 3.25% to present value	4,514
Allowance for doubtful accounts	<u>5,500</u>
	<u>\$ 178,082</u>

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	<u>4,124</u>
Total	<u>\$ 31,275</u>

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	<u>14,348</u>
	165,985
Accumulated depreciation and amortization	<u>(60,668)</u>
Total	<u>\$ 105,317</u>

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.

The Nature Conservancy
Notes to Consolidated Financial Statements
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	<u>\$ 376,346</u>

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 Nature Conservancy
Notes to Consolidated Financial Statements
June 30, 2013

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	<u>\$ 376,346</u>

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	<u>\$ 634,916</u>

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	<u>\$ 749,672</u>	<u>\$ 87,961</u>	<u>\$ 155,549</u>	<u>\$ 993,182</u>

The Nature Conservancy
Notes to Consolidated Financial Statements
June 30, 2013

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	<u>749,672</u>	<u>87,961</u>	<u>155,279</u>	<u>992,912</u>
Reclassification of net assets	-	-	270	270
Total endowment funds	<u>\$ 749,672</u>	<u>\$ 87,961</u>	<u>\$ 155,549</u>	<u>\$ 993,182</u>

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.

The Nature Conservancy
Notes to Consolidated Financial Statements
June 30, 2013

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.

The Nature Conservancy
Notes to Consolidated Financial Statements
June 30, 2013

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, trustee	125,575	108,365	18,246	252,186
Split interests, non-trustee	-	-	36,788	36,788
Total investments at fair value	<u>561,214</u>	<u>617,327</u>	<u>747,822</u>	<u>1,926,363</u>
Collateral received under securities lending agreement	\$ 49,169	\$ -	\$ -	\$ 49,169
Pledges receivable	-	-	178,082	178,082
Total assets measured at fair value	<u>\$ 610,383</u>	<u>\$ 617,327</u>	<u>\$ 925,904</u>	<u>\$ 2,153,614</u>
Interest rate swaps liability	\$ -	\$ 41,521	\$ -	\$ 41,521
Payable under securities lending agreement	49,169	-	-	49,169
Total liabilities measured at fair value	<u>\$ 49,169</u>	<u>\$ 41,521</u>	<u>\$ -</u>	<u>\$ 90,690</u>

The Nature Conservancy
Notes to Consolidated Financial Statements
June 30, 2013

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)

	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
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	<u>\$ 741,128</u>	<u>\$ 100,956</u>		

Rollforward of Level 3 financial instruments:

(In thousands)

	<u>Fair value as of June 30, 2012</u>	<u>Realized gains (losses)</u>	<u>Unrealized gains (losses)</u>	<u>Purchases</u>	<u>Sales</u>	<u>Fair value as of June 30, 2013</u>
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	<u>694,396</u>	<u>24,062</u>	<u>44,353</u>	<u>81,296</u>	<u>(96,285)</u>	<u>747,822</u>
Pledges receivable	176,851	-	1,231	-	-	178,082
Total investments and pledges	<u>\$ 871,247</u>	<u>\$ 24,062</u>	<u>\$ 45,584</u>	<u>\$ 81,296</u>	<u>\$ (96,285)</u>	<u>\$ 925,904</u>

The Nature Conservancy
Notes to Consolidated Financial Statements
June 30, 2013

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	<u>\$ 116,725</u>

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	<u>\$ 22,687</u>

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

The Nature Conservancy
Supplemental Schedules
For the years ended June 30, 2013 and 2012

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

<i>(Amounts in thousands)</i>	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	<u>\$ 6,183,317</u>	<u>\$ 6,021,915</u>
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	<u>762,266</u>	<u>785,375</u>
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
	<u>4,470,002</u>	<u>4,339,412</u>
Temporarily restricted	634,916	588,550
Permanently restricted	316,133	308,578
Total net assets	<u>5,421,051</u>	<u>5,236,540</u>
Total liabilities and net assets	<u>\$ 6,183,317</u>	<u>\$ 6,021,915</u>

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

<i>(Amounts in thousands)</i>	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	<u>90,663</u>	<u>27,392</u>
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	<u>22,101</u>	<u>21,319</u>
Total expenses	764,660	830,587
Increase in net assets	184,511	40,547
Net assets at beginning of year	<u>5,236,540</u>	<u>5,195,993</u>
Net assets at end of year	<u>\$ 5,421,051</u>	<u>\$ 5,236,540</u>

**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**

	Program expenses		Support services expenses			Totals	
	Conservation activities and actions	General and administration	Fund-raising		Total Support services expenses	2013 Total expenses	2012 Total expenses
			General fund-raising	Membership development			
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