The Nature Conservancy

Consolidated Financial Statements
For the year ended June 30, 2018
And report thereon

Report of Independent Auditors

To the Board of Directors
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, 2018, 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.

Auditors' 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 as of June 30, 2018, 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.

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Other Matters

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The accompanying consolidated statements of financial position as of June 30, 2018 and 2017, the summarized consolidated statements of activities for the years ended June 30, 2018 and 2017, and the schedule of functional expenses for the year ended June 30, 2018 with summarized totals for the year ended June 30, 2017, 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 information is fairly stated, in all material respects, in relation to the consolidated financial statements taken as a whole.

We previously audited the consolidated statement of financial position as of June 30, 2017, and the related consolidated statements of activities and of cash flows for the year then ended (not presented herein), and in our report dated December 11, 2017 we expressed an unmodified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying summarized financial information as of June 30, 2017 and for the year then ended is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

PricewaterhouseCoopers LLP

McLean, Virginia
October 22, 2018

The Nature Conservancy
Consolidated Statement of Financial Position
As of June 30, 2018

(Amounts in thousands)

Assets		
Cash and cash equivalents		$ 66,317
Restricted cash and cash equivalents		22,071
Restricted short-term investments		25,000
Government grants and contracts receivable		32,767
Pledges receivable, net		275,386
Securities pledged under securities lending agreement		52,482
Other assets		72,438
Property and equipment, net of accumulated depreciation and amortization		126,947
Investments		
Investments - Capital fund	861,423	
Investments - Split interest arrangements	325,927	
Investments - Endowment fund	1,291,521	
Total investments		2,478,871
Conservation lands		2,036,278
Conservation easements		2,221,307
Total assets		$ 7,409,864
Liabilities		
Accounts payable and accrued liabilities		$ 116,595
Payable under securities lending agreement		52,482
Deferred revenue and refundable advances		105,449
Bonds and notes payable		345,351
Split interest arrangements payable		191,514
Total liabilities		811,391
Net assets		
Unrestricted		
Undesignated	266,258	
Land, easements, and capital funds	4,170,538	
Board-designated quasi endowment and similar funds	932,052	
Total unrestricted		5,368,848
Temporarily restricted		833,406
Permanently restricted		396,219
Total net assets		6,598,473
Total liabilities and net assets		$ 7,409,864

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, 2018

(Amounts in thousands)	Unrestricted	Temporarily restricted	Permanently restricted	Total
Support and revenues				
Dues and contributions	$ 294,544	$ 440,514	$ 25,027	$ 760,085
Contributed goods and services	31,628	-	-	31,628
Land and easements contributed for conservation	57,721	-	-	57,721
Government grants and contracts	117,894	-	-	117,894
Investment gains	160,272	32,674	-	192,946
Other income	70,784	-	-	70,784
Total support and revenues before sales of conservation land and easements and net assets released from restrictions	732,843	473,188	25,027	1,231,058
Sales of conservation land and easements to governments and others	57,482	-	-	57,482
Net assets released from restrictions	472,293	(472,293)	-	-
Total support and revenues	1,262,618	895	25,027	1,288,540
Expenses				
Program expenses				
Conservation activities and actions	523,959	-	-	523,959
Book value of conservation land and easements sold or donated to governments and others	98,740	-	-	98,740
Total program expenses	622,699	-	-	622,699
Support services expenses				
General and administration	163,778	-	-	163,778
Fund-raising				
General fund-raising	79,621	-	-	79,621
Membership development	45,729	-	-	45,729
Total support services expenses	289,128	-	-	289,128
Total expenses	911,827	-	-	911,827
Increase/(decrease) in net assets	350,791	895	25,027	376,713
Reclassification of net assets	33	593	(626)	-
Total increase/(decrease) in net assets	350,824	1,488	24,401	376,713
Net assets at beginning of year	5,018,024	831,918	371,818	6,221,760
Net assets at end of year	$ 5,368,848	$ 833,406	$ 396,219	$ 6,598,473

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, 2018

(Amounts in thousands)

Reconciliation of change in net assets to cash used in operating activities:			
Change in net assets		$ 376,713	
Non-cash adjustments:			
Contributed land and easements	$ (66,882)		
Contributed securities	(31,870)		
Losses on disposition of land, easements, and others	55,487		
Realized/Unrealized investment gain	(180,080)		
Change in value of split interest investments	(25,478)		
Change in value of interest rate swaps	(12,168)		
Depreciation and amortization	14,674		
Debt forgiveness	(100)	(246,417)	
Changes in assets and liabilities:			
Decrease in receivables	29,776		
Increase in restricted cash	(2,478)		
Increase in other assets	(17,048)		
Increase in split interests arrangements payable	1,612		
Increase in other liabilities	22,179	34,041	
Cash provided by (used in) land activities:			
Proceeds from sales of land and easements	56,328		
Purchases of land and easements	(306,594)	(250,266)	
Proceeds from sale of contributed securities		30,757	
Contributions for long-term purposes		(3,424)	
Net cash used in operating activities			$ (58,596)
Investing activities:			
Proceeds from sale of capital and endowment investments		952,017	
Purchases of capital and endowment investments		(922,508)	
Purchases of property and equipment		(21,433)	
Proceeds from notes receivable		3,042	
Net cash provided by investing activities			11,118
Financing activities:			
Changes in securities pledged under securities lending agreement		4,855	
Changes of payable under securities lending agreement		(4,855)	
Purchases of split interest investments		(21,069)	
Proceeds from split interest arrangements		34,164	
Principal payments on debt		(80,653)	
Proceeds from issuance of debt		122,790	
Proceeds from restricted contributions		3,424	
Net cash provided by financing activities			58,656
Net change in cash and cash equivalents			11,178
Cash and cash equivalents, beginning of year			55,139
Cash and cash equivalents, end of year			$ 66,317
Supplemental data			
Interest paid			$ 14,055

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, Europe, 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. 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 Cash Equivalents, Restricted Cash, and Restricted Short-term Investments
Cash represents operating cash held in bank accounts in high quality financial institutions in the United States and 39 other countries. The cash in non-U.S. 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 represent short-term, highly liquid investments with maturities of three months or less when purchased. Restricted cash represents monies held in trust related to requirements of specific conservation project agreements. Restricted short-term investments represent certificates of deposit held in trust related to requirements of specific conservation project agreements.

Government Grants and Contracts Receivable/Deferred Revenue and Refundable Advances
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 and refundable advances.

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 consolidated 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 $90,471,000, 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, 2018, The Conservancy recorded $52,482,000 in securities pledged 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 consolidated 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. Commercial papers (31.4%), corporate bonds and notes (27.6%), and certificates of deposit (26.6%).

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, 2018, the single largest non-U.S. Government issuer exposure was 5.57% of the Capital and Endowment Fund long term investments. This issue is in the form of a global commingled equity fund.

Investments
Investments are reported in three distinct categories:

- *Capital fund* – excess working capital and 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 allocated to quasi endowments, which by Board policy 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, 2018 was 5.0% of the average fair market value of the 60 months of calendar years 2012 through 2016.

The Conservancy recognizes that 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 55 to 65 separate managers.

Most investments are carried at estimated fair market value. Certain equity investments without readily determinable fair values presented using the measurement alternative in ASC 320 are valued using the initial investment in the LLC and are unimpaired and unadjusted as of June 30, 2018 based on lack of observable price changes for identical or similar investments of the same issuer.

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 carrying value. At June 30, 2018, The Conservancy is in compliance with all debt covenants.

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 fair value of these interest rate swap agreements is reflected in the accompanying consolidated statement of financial 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 a different source of financing at that time. At June 30, 2018, The Conservancy had a standby liquidity support agreement with a financial institution to support the original principal amount of $50,000,000 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 could purchase the bonds if The Conservancy could not remarket the bonds. In the event of a draw on the $50,000,000 liquidity support line, the due date would be September 14, 2018.

Interest expense incurred on total notes payable for 2018 was $14,247,000.

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. Agreed-upon amounts of the invested funds are 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 fair value based on the latest available information.

The Conservancy utilizes the 2012 Individual Annuity Reserving 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 to reflect fair value.

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 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 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 netted in unrestricted net assets were $643,000 as of June 30, 2018. 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 the fiscal year ended June 30, 2018 contributed goods and services totaled $31,628,000 and contributed trade lands that is reflected as Dues and contributions in the accompanying consolidated statement of activities totaled $9,162,000.

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 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.

Leases
The Conservancy has entered into non-cancelable operating leases for office space, which expire at various dates through 2031. 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, 2018, in the amount of $116,385,000.

The Conservancy has remaining funding commitments to private equity, real estate, and hedge fund investment managers of $245,072,000 at June 30, 2018.

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 nonqualified deferred compensation plan created pursuant to Internal Revenue Code Section 457(b). The Conservancy's contributions to the plans were $18,470,000 for the year ended June 30, 2018.

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 22, 2018, which is the date the financial statements were issued.

9. RELATED PARTY TRANSACTIONS

The Conservancy recorded $4,052,000 in contribution revenue from current and former Board members during the fiscal year ended June 30, 2018, and $210,000 from current and former Board members is reflected as pledges receivable in the accompanying consolidated statement of financial position. The Conservancy has an unsecured $10,000,000 zero-interest loan agreement payable in full in 2026 to a current Board member reflected in notes payable in the accompanying consolidated statement of financial position. Conditional pledges disclosed in the accompanying notes to the consolidated financial statement include $15,000,000 from current and former Board members.

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 financial statements.

10. Pledges receivable

As of June 30, 2018, unconditional promises to give were as follows:

(In thousands)

Amounts due in	
Less than one year	$ 161,388
One to five years	122,603
More than five years	12,820
Subtotal	296,811
Fair value adjustments:	
Discount of 5.00%	(13,425)
Allowance for doubtful accounts	(8,000)
Total	$ 275,386

11. Other assets

Other assets consisted of the following at June 30, 2018:

(In thousands)

Deposits on land	$ 3,969
Trade lands	15,919
Other receivables	19,596
Prepaid expenses	7,097
Notes receivable	18,937
Other assets	6,920
Total	$ 72,438

12. Property and equipment

Property and equipment consisted of the following at June 30, 2018:

(In thousands)

Land for operations	$ 7,686
Buildings and improvements	167,235
Construction in progress	9,347
Computer equipment and software	36,020
Furniture, fixtures, and other	27,003
	247,291
Accumulated depreciation and amortization	(120,344)
Total	$ 126,947

Depreciation and amortization expense was $14,674,000 during the year ended June 30, 2018. Of the total assets listed above, $41,242,000 was fully depreciated at June 30, 2018.

13. 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, variable interest rate pursuant to rate swap, 1.47% as of June 30, 2018, due July 2024.	$ 8,983
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, 1.49% as of June 30, 2018, due July 2033.	118,145
Unsecured Taxable Revenue Bonds Series 2009 in the aggregate principal amount of $100,000,000 issued July 1, 2009, fixed rate of 6.30% due July 2019.	100,000
Loans and mortgages, some of which are collateralized by the land and other assets, and payable in monthly or annual installments, including interest ranging from 0% to 3.85%; final payments are due at various dates through 2033.	113,144
Other notes payable without interest due on demand	5,079
Total	$ 345,351

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

(In thousands)

2019	$ 160,468
2020	123,613
2021	7,284
2022	4,887
2023	14,590
Thereafter	34,509
Total	$ 345,351

14. Split interest arrangements payable

(In thousands)

Payable under charitable gift annuities	$ 94,777
Payable under charitable remainder trusts	81,326
Payable under pooled income funds	3,193
Payable under unsold unitrust	12,218
Total	$ 191,514

15. Net Assets

Temporarily restricted net assets are available for the following purposes:

(In thousands)

Land acquisition and other conservation projects	$	275,940
Time restricted for periods after June 30		216,797
Time and purpose restricted for periods after June 30		205,317
True endowment gains subject to future Board of Directors' appropriation		135,352
Total	$	833,406

Permanently restricted net assets are restricted in perpetuity; they include donor-restricted endowments and donor-restricted permanent capital funds. The total amount of permanently restricted net assets in the consolidated statement of financial position includes donor-restricted endowment funds of $227,326,000 displayed in the table below, as well as other amounts such as those contributed to create a permanent capital fund. Permanently restricted net assets in the land preservation fund were $167,206,000 as of June 30, 2018. The Conservancy also holds $1,687,000 of contributed long-lived assets whose proceeds are donor-restricted to create a permanent endowment.

Endowment funds are categorized in the following net asset classes as of June 30, 2018:

(In thousands)	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ (643)	$ 135,352	$ 227,326	$ 362,035
Board-designated endowment funds	932,695	-	-	932,695
Total endowment funds	$ 932,052	$ 135,352	$ 227,326	$ 1,294,730

Changes in endowment funds by net asset classification for the year ended June 30, 2018 are summarized as follows:

(In thousands)	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 877,375	$ 121,037	$ 203,369	$1,201,781
Dividends and interest income	9,132	3,371	-	12,503
Realized and unrealized gains, net	69,047	25,489	-	94,536
Contribution revenue, net endowment pledge writeoff	(500)	-	23,553	23,053
Transfers to endowment funds	17,026	3,188	1,030	21,244
Appropriation of assets for expenditure	(58,161)	-	-	(58,161)
Net assets released from restrictions	17,733	(17,733)	-	-
Subtotal endowment funds	931,652	135,352	227,952	1,294,956
Reclassification of net assets	400	-	(626)	(226)
Total endowment funds	$ 932,052	$ 135,352	$ 227,326	$1,294,730

16. Assets and liabilities carried at fair value

Assets and liabilities measured 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.

Investments included in Level 3 consist of The Conservancy's split interest arrangements (principally highly liquid fixed income securities, publicly listed common stocks, alternative investments and real properties). The marketable securities are priced using unadjusted market quotes. Alternative investments are valued based on NAV as practical expedient, and real properties are valued by subsequent sales price. The Conservancy uses a standard charitable gift calculation model and a discount rate that is commensurate with fair value to determine the present value of split interest agreements where The Conservancy serves as trustee. For split interest agreements where The Conservancy is not the trustee, valuations are based on the values reported by third-party trustees, while noting that the valuation techniques for future distributions expected to be received over the term of the agreement and unobservable inputs - such as discount rates, life expectancies, and trust payouts – may vary widely among trustees. There is no market for these agreements, and therefore both assets and liabilities are classified within Level 3.

The Conservancy uses the practical expedient to determine the fair value for some of its investments, which permits the use of Net Asset Value (NAV) without adjustment under certain circumstances. Investments that are measured at fair value using the net asset value per share (or its equivalent) as a practical expedient have not been categorized in the fair value hierarchy. The fair value amounts presented in the table below allow reconciliation of the fair value hierarchy to the amounts presented in the consolidated statement of financial position.

Assets and liabilities measured at fair value:

(In thousands)

	Level 1	Level 2	Level 3	NAV as Practical Expedient	Total
Investments:					
Short-term investments	$ 11,978	$ 9,938	$ -	$ -	$ 21,916
Repurchase agreements	-	5,108	-	-	5,108
Fixed income:					
U.S. treasuries	90,319	-	-	-	90,319
Asset-backed securities	-	67,578	-	-	67,578
Commercial paper	-	34,330	-	-	34,330
Municipals	-	2,179	-	-	2,179
Corporate debt	-	173,045	-	-	173,045
Mortgage-backed securities	-	15,522	-	-	15,522
U.S. agency bonds	-	25,041	-	-	25,041
Preferred securities	2,722	-	-	-	2,722
Exchange traded stocks	231,212	-	-	-	231,212
Commingled equity funds	-	-	-	593,445	593,445
Exchange traded funds	16,765	-	-	-	16,765
Closed end funds	83,004	-	-	-	83,004
Derivatives	(32)	-	-	-	(32)
Hedge funds	-	-	-	486,368	486,368
Private equity	-	-	-	207,217	207,217
Private real estate	-	-	-	66,533	66,533
Split interests, trusteed					
U.S. agency bonds	-	5,886	-	-	5,886
Mutual funds	136,126	-	-	-	136,126
Real estate	-	-	13,424	-	13,424
U.S. treasuries	12,019	-	-	-	12,019
Short term investments	5,631	-	-	-	5,631
Exchange traded funds	16,973	-	-	-	16,973
Municipals	21	-	-	-	21
Commingled equity funds	-	103,531	-	-	103,531
Split interests, non-trusteed	-	-	32,316	-	32,316
Registered investments - Australia	169			4,386	4,555
Total investments at fair value	606,907	442,158	45,740	1,357,949	2,452,754
Securities pledged under securities lending agreements	$ 52,482	$ -	$ -	$ -	$ 52,482
Trade lands	-	-	15,919	-	15,919
Pledges receivable	-	-	275,386	-	275,386
Total assets measured at fair value	$ 659,389	$ 442,158	$ 337,045	$ 1,357,949	$ 2,796,541
Interest rate swaps liability	$ -	$ 20,214	$ -	$ -	$ 20,214
Payable under securities lending agreements	52,482	-	-	-	52,482
Payable under split interest arrangements	-	-	191,514	-	191,514
Total liabilities measured at fair value	$ 52,482	$ 20,214	$ 191,514	$ -	$ 264,210

Of the $2,478,871,000 total investments in the accompanying statement of financial position, net investments not measured at fair value or reflected in the table above are as follows:

(In thousands)

Equity method investment		21,416
Equity investment valued using the measurement alternative in ASC 320		4,437
Net investment receivables/payables and other		264
Total investments not measured at fair value	$	26,117

Rollforward of Level 3 financial instruments:

(In thousands)

	Fair value as of June 30, 2017	Unrealized gains (losses)/ pledge activity	Purchases	Sales	Net transfers into level 3	Fair value as of June 30, 2018
Split interest arrangements	$ 63,445	$ 1,148	$ 1,666	$ (20,519)	-	$ 45,740
Trade lands	-	-	-	-	15,919	15,919
Pledges receivable	302,670	(27,284)			-	275,386
Total investments and pledges	$ 366,115	$ (26,136)	$ 1,666	$ (20,519)	$ 15,919	$ 337,045

Net unrealized losses of $1,148,000 in the table above are reflected in the accompanying statement of activities as investment gains. Net pledge activity resulted in a $27,284,000 decrease in pledges receivable reflected in the accompanying statement of financial position, comprised of new pledges of $336,423,000, pledge payments of $366,890,000, and a $3,183,000 net change in pledge discount and allowance.

The value of certain alternative investments not included in the fair value hierarchy represents the ownership interest in the NAV of the respective partnership. 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 practical expedient as of June 30, 2018:

(In thousands)	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Commingled equity funds	$ 593,445	$ -	Daily (restrictions apply), weekly, monthly, quarterly	2 days, 6 business days, 7 days, 10 business days, 14 days, 30 days, 60 days, 90 days
Hedge funds	486,368	-	Monthly, quarterly, semi-annually, annually, biennially, rolling 2, 3 & 4 years	30 - 90 days
Registered investments - Australia	4,386	-	Daily, monthly, quarterly, 5 year window	2 days, 14 days, 30 days, 30 - 90 days
Private equity funds	207,217	199,029	N/A	N/A
Real estate funds	66,533	46,043	N/A	N/A
Total	$ 1,357,949	$ 245,072		

The Conservancy's investment policy allows for the use of derivatives by investment managers and at the portfolio-level to assist in managing asset allocation and exposures. These derivative exposures are exchange-traded and are reported in the fair value of the overall portfolio within Level 1.

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. The Conservancy's interest rate swap arrangements have inputs which can generally be corroborated by observable market data and are therefore classified within Level 2. 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 valuation methods described above may produce fair value calculations that may not be indicative of net realized value or reflective of future fair values. The Conservancy believes 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.

The use of derivative instruments involves the risk of imperfect correlation in movement in the price of the instruments, interest rates, and the underlying hedged assets. As a result, The Conservancy may not achieve the anticipated benefits of hedging strategies. The Conservancy's derivatives contracts held at June 30, 2018 are not accounted as hedging instruments under GAAP.

The following table lists fair value and relevant notional information of derivatives by contract type, as included in the consolidated statement of financial position and statement of activities.

Summary of derivative investments at June 30, 2018:

($ in thousands)

	Fair value as of June 30, 2018		Changes in Fair Values		As of June 30, 2018		
	Location in Consolidated Statement of Financial Position	**Amount**	**Location in Consolidated Statement of Activities**	**Amount**	**Collateral Amount**	**Notional Value**	**Number of Contracts**
Futures - emerging market equity (Long position)	Investments	$ (32)	Investment gain	$ (31)	$ 28	$ 425	8
Interest rate swaps	Accounts payable and accrued liabilities	20,214	Other income	12,168	-	224,783	3

Investment gains consisted of the following for the year ended June 30, 2018:

(In thousands)

Dividends and interest income	$ 24,651
Realized and unrealized gain	180,080
Change in value of split interest arrangements	3,808
Management expenses	(15,593)
Total investment gains	$ 192,946

17. Leases

The following is a schedule of future minimum lease payments for all operating leases as of June 30, 2018:

(In thousands)

2019	$ 8,655
2020	7,984
2021	6,871
2022	5,865
2023	5,707
Thereafter	21,064
Total minimum lease payments	$ 56,146

Occupancy expense was $14,009,000 for the year ended June 30, 2018.

SUPPLEMENTAL SCHEDULES

Following are supplemental schedules:

Consolidated statements of financial position as of June 30, 2018 (with comparative totals as of June 30, 2017)

Summarized consolidated statements of activities for the year ended June 30, 2018 (with comparative totals for the year ended June 30, 2017)

Schedule of functional expenses as reported in the consolidated statement of activities for the year ended June 30, 2018 by natural account classification (with comparative totals for the year ended June 30, 2017).

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, 2018 and 2017

(Amounts in thousands)	**2018**	**2017**
Assets		
Cash and cash equivalents	$ 66,317	$ 55,139
Restricted cash	22,071	19,593
Restricted short-term investments	25,000	25,000
Government grants and contracts receivable	32,767	35,259
Pledges receivable, net	275,386	302,670
Collateral received under securities lending agreement	52,482	57,337
Deposits on land and other assets	72,438	59,332
Property and equipment, net of accumulated depreciation and amortization	126,947	121,800
Investments - Capital fund	861,423	801,558
Investments - Split interest arrangements	325,927	320,946
Investments - Endowment fund	1,291,521	1,199,828
Conservation lands	2,036,278	1,834,243
Conservation easements	2,221,307	2,159,042
Total assets	$ 7,409,864	$ 6,991,747
Liabilities		
Accounts payable and accrued liabilities	$ 116,595	$ 117,114
Payable under securities lending agreement	52,482	57,337
Deferred revenue and refundable advances	105,449	94,919
Bonds and notes payable	345,351	303,313
Split interest arrangements payable	191,514	197,304
Total liabilities	811,391	769,987
Net assets		
Unrestricted		
Undesignated	266,258	252,404
Land, easements, and capital funds	4,170,538	3,888,245
Board-designated quasi endowment and similar funds	932,052	877,375
Total unrestricted	5,368,848	5,018,024
Temporarily restricted	833,406	831,918
Permanently restricted	396,219	371,818
Total net assets	6,598,473	6,221,760
Total liabilities and net assets	$ 7,409,864	$ 6,991,747

The Nature Conservancy
Supplemental Schedule - Summarized Consolidated Statements of Activities
For the years ended June 30, 2018 and 2017

(Amounts in thousands)	2018	2017
Support and revenues		
Dues and contributions	$ 791,713	$ 627,059
Land and easements contributed for conservation	57,721	64,651
Government grants and contracts	117,894	117,218
Investment income	192,946	200,300
Sales of conservation land and easements to governments and others	57,482	48,193
Other	70,784	86,344
Total support and revenues	1,288,540	1,143,765
Expenses		
Program expenses	622,699	556,682
General and administration	163,778	155,430
Fund-raising		
General fund-raising	79,621	78,485
Membership development	45,729	46,650
Total expenses	911,827	837,247
Increase in net assets	376,713	306,518
Net assets at beginning of year	6,221,760	5,915,242
Net assets at end of year	$ 6,598,473	$ 6,221,760

The Nature Conservancy
Supplemental Schedule - Schedules of Functional Expenses
For the year ended June 30, 2018 with summarized totals for the year ended June 30, 2017

(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	2018 Total expenses	2017 Total expenses
Personnel	$ 236,326	$ 91,821	$ 65,723	$ 4,592	$ 162,136	$ 398,462	$ 377,948
Contract, professional fees	91,040	10,306	5,352	13,182	28,840	119,880	122,690
Grants and allocations	66,934	61	19	-	80	67,014	56,545
Supplies	9,609	4,676	637	1,567	6,880	16,489	16,551
Telecommunications	1,459	1,359	172	13	1,544	3,003	3,038
Postage and mailing service	1,476	243	405	10,323	10,971	12,447	11,641
Occupancy	2,328	11,446	232	3	11,681	14,009	13,150
Equipment rental and maintenance	4,198	2,079	121	45	2,245	6,443	6,097
Printing and publication	3,784	136	1,051	13,272	14,459	18,243	13,268
Travel	16,515	3,509	2,993	113	6,615	23,130	23,517
Conferences and meetings	8,829	2,650	1,595	30	4,275	13,104	13,112
Interest	14,236	685	-	-	685	14,921	16,565
Depreciation and amortization	6,248	8,426	-	-	8,426	14,674	14,702
Equipment	4,539	365	31	-	396	4,935	4,126
Taxes and licenses	1,753	903	82	36	1,021	2,774	2,469
Utilities, repairs, maintenance, and construction	7,155	2,166	142	-	2,308	9,463	10,923
Insurance	2,774	2,802	42	-	2,844	5,618	5,784
Real estate taxes	5,475	982	15	-	997	6,472	5,260
Closing costs	1,296	974	2	-	976	2,272	2,125
Contributed goods and services non-cash expense	15,818	14,016	247	631	14,894	30,712	19,394
All other	22,167	4,173	760	1,922	6,855	29,022	14,450
Subtotal	523,959	163,778	79,621	45,729	289,128	813,087	753,355
Book value of conservation land and easements sold or donated to government and others	98,740	-	-	-	-	98,740	83,892
Total	$ 622,699	$ 163,778	$ 79,621	$ 45,729	$ 289,128	$ 911,827	$ 837,247