THE NATURE CONSERVANCY

CONSOLIDATED FINANCIAL STATEMENTS

For the year ended June 30, 2021

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Report of Independent Auditors

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, 2021, 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, 2021, 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 consolidated financial statements taken as a whole. The accompanying supplemental schedules of consolidated statements of financial position as of June 30, 2021 and 2020 and of summarized consolidated statements of activities for the years ended June 30, 2021 and 2020, 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 2021 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 2021 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, 2020, 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 22, 2020, we expressed an unmodified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying supplemental schedules of consolidated statements of financial position as of June 30, 2020 and of summarized consolidated statements of activities 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

Washington, DC
December 15, 2021

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS OF JUNE 30, 2021

Amounts in thousands

Assets		
Cash and cash equivalents	$	116,054
Restricted cash and cash equivalents		47,675
Restricted short-term investments		35,578
Government grants and contracts receivable		20,754
Notes and other receivables, net		77,164
Deposits, prepaid expenses and other assets		93,058
Pledges receivable, net		233,861
Securities pledged under securities lending agreement		61,265
Non-conservation lands		10,712
Investments		3,360,086
Right of use assets		42,337
Property and equipment, net		151,504
Conservation lands		2,171,166
Conservation easements		2,415,002
Total assets	**$**	**8,836,216**

Liabilities		
Accounts payable and accrued liabilities	$	144,021
Payable under securities lending agreement		61,265
Deferred revenue and refundable advances		164,700
Lease liabilities		48,594
Bonds and notes payable - Recourse		305,522
Split interest arrangements		222,853
Total liabilities	**$**	**946,955**

Net Assets		
Without donor restrictions, including noncontrolling interests of $67,205	$	6,251,576
With donor restrictions		1,637,685
Total net assets	**$**	**7,889,261**
Total liabilities and net assets	**$**	**8,836,216**

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

CONSOLIDATED STATEMENT OF ACTIVITIES

AS OF JUNE 30, 2021

Amounts in thousands

Operating Activities	Without Donor Restrictions	With Donor Restrictions	Total
Contribution Revenues			
Dues and contributions	$ 328,430	$ 479,891	$ 808,321
Contributed goods and services	34,695	-	34,695
Contributed land and easements for conservation	34,791	-	34,791
Contributed non-conservation land	5,201	1,113	6,314
Government grants and contracts	104,790	-	104,790
Total contribution revenues	**507,907**	**481,004**	**988,911**
Sales of conservation land and easements	62,279	-	62,279
Investment returns on operating activities	44,876	-	44,876
Other income	99,351	4,151	103,502
Total revenues	**714,413**	**485,155**	**1,199,568**
Allocation of endowment spending	65,624	-	65,624
Net assets released from restriction	394,221	(394,221)	-
Total revenues and reclassifications	**$ 1,174,258**	**$ 90,934**	**$ 1,265,192**
Expenses			
Conservation activities and actions	$ 546,505	$ -	$ 546,505
Book value of conservation land and easements	73,722	-	73,722
Total program expenses	**620,227**	**-**	**620,227**
General and administration	160,199	-	160,199
Fund-raising	122,519	-	122,519
Total expenses	**902,945**	**-**	**902,945**
Increase (decrease) in net assets from operating activities	**$ 271,313**	**$ 90,934**	**$ 362,247**
Non-operating Activities			
Investment returns on endowments	$ 221,375	$ 118,194	$ 339,569
Investment returns on other non-operating activities	175,891	54,653	230,544
Allocation of endowment spending to operations	(65,624)	-	(65,624)
Reclassification of net assets	(994)	994	-
Gain on swap agreements	28,388	-	28,388
Foreign exchange gains (losses)	2,181	65	2,246
Contributions from noncontrolling interests	25,350		25,350
Increase (decrease) in net assets from non-operating activities	**$ 386,567**	**$ 173,906**	**$ 560,473**
Total increase/(Decrease) in net assets	**$ 657,880**	**$ 264,840**	**$ 922,720**
Beginning net assets	5,593,696	1,372,845	6,966,541
Ending net assets	**$ 6,251,576**	**$ 1,637,685**	**7,889,261**

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

CONSOLIDATED STATEMENT OF CASHFLOWS

AS OF JUNE 30, 2021

Amounts in thousands

Cash Flows from Operating Activities		
Change in Net Assets	$	922,720
Adjustments to reconcile changes in net assets to net cash and cash equivalents used in operating activities		
Depreciation and amortization		10,411
Contributed conservation land and easements		(34,791)
Losses on disposition of conservation lands and easements		11,588
Proceeds from sale of conservation land and easements		62,279
Purchases of conservation land and easements		(87,646)
Change in value of split interest investment		(73,858)
Change in value of swap agreements		28,388
Contributed securities		(181,129)
Proceeds from sale of contributed securities		195,831
Contributed non-conservation land and contributed funds to be held for long term purposes		(25,663)
Net gain on investments		(562,710)
Changes in assets and liabilities		
Notes and other receivables		4,498
Pledges receivable, net		2,858
Deposits, prepaid expenses and other assets		(75,264)
Right of use assets		6,434
Accounts payable and accrued liabilities		8,727
Split interest arrangements payable		20,569
Lease liabilities		(6,152)
Non-conservation lands		7,777
Other changes		4,718
Net cash and cash equivalents used in operating activities		**239,585**
Cash Flows from Investing Activities		
Proceeds from notes collections		3,758
Issuance of notes receivable		(10,955)
Proceeds from sale of endowment and capital investments		2,626,271
Purchases of endowment and capital investments		(2,767,146)
Purchases of property and equipment		(16,564)
Net cash and cash equivalents provided by investing activities		**(164,635)**
Cash Flows from Financing Activities		
Proceeds from contribution for long term purpose		17,190
Purchases of split interest investments		(38,591)
Proceeds from split interest arrangements		32,764
Repayments of long-term debt		(176,031)
Proceeds from issuance of long-term debt		147,030
Net cash and cash equivalents provided by financing activities		**(17,639)**
Net increase in cash, cash equivalents and restricted cash		**57,311**
Cash, cash equivalents and restricted cash at beginning of year		106,419
Cash, cash equivalents and restricted cash at end of year	**$**	**163,729**
Supplemental data		
Cash paid for interest	$	29,734

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

Notes to Consolidated Financial Statements

For the year ended June 30, 2021

Note 1. Significant Accounting Policies

Nature of Organization and Activities

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), government grants, investment income 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.

Basis of Accounting

The consolidated financial statements are presented on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("GAAP"). The consolidated financial statements and accompanying notes include the accounts of all the Conservancy's business units and affiliates, both domestic and international, including those which are separately incorporated, receive gifts, and perform conservation activities in the name of The Conservancy. The Conservancy is a general partner and has substantive rights to manage and control certain partnerships and reflects the noncontrolling interests separately in net assets without donor restriction. All significant intercompany transactions have been eliminated in consolidation.

Basis of Presentation

In accordance with the provisions of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958, *Not-for-Profit Entities,* The Conservancy presents information regarding its financial position and activities according to two classes of net assets:

Net assets with donor restriction – A donor-imposed restriction is a stipulation that specifies a use for a contributed asset that is more specific than broad limits resulting from the following: a) the nature of the not-for-profit entity, b) the environment in which it operates, and c) the purposes specified in its articles of incorporation or bylaws or comparable documents. This classification includes contributions whose use by The Conservancy is limited by donor-imposed stipulations that either expire by passage of time – such as pledges receivable - or can be fulfilled by actions of The Conservancy, such as usage for land acquisition, specific programs within the shared conservation agenda - including certain overhead and indirect costs – or for appropriation from true endowment investment income.

When a stipulated time restriction ends or purpose restriction is satisfied, net assets with donor restriction are reclassified to net assets without donor restriction and are reported on the consolidated statement of activities as net assets released from restrictions.

Also included in this classification are contributions whose use by The Conservancy is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of The Conservancy, such that the principal must be maintained permanently by the Conservancy. Contributions for the donor-restricted endowment fund as well as amounts contributed to create a permanent revolving fund for land preservation are classified as net assets with donor restriction. This internal revolving fund is used to finance capital projects and donations to this fund are to be maintained in perpetuity for only this purpose.

Net assets without donor restriction – Resources that are not subject to donor-imposed stipulations, including revenues from membership dues, government grants and contracts, investment income (other than the unappropriated and purpose restricted portion of true endowment investment income), and other inflows of assets over which the Board of

Directors of The Conservancy ("Board") has discretionary control. The Board of Directors or management may designate a portion of net assets for a specific purpose; however, these funds are classified as net assets without donor restriction. Noncontrolling interests in limited partnerships represent third-party limited partner ownership in partnerships for which the Conservancy serves as general partner. The Conservancy includes all expenses in this class of net assets, since the use of restricted contributions in accordance with donors' stipulations results in the release of the restriction.

Measure of Operations

The Conservancy's measure of operations as presented in the consolidated statement of activities includes revenues from membership dues and contributions (including donor-restricted contributions to endowments), grants and contracts, transfers of conservation land and easements, allocation of endowment spending for operations, and other revenues that are not specified as non-operating below. Operating expenses – including the book value of conservation land and easements sold or donated to the government and others - are reported on the consolidated statement of activities by functional classification. Operating results also include the reclassification of net assets with donor restriction to net assets without donor restriction for which purpose or time restriction has been met.

The Conservancy's non-operating activity within the consolidated statement of activities includes investment returns and other activities related to endowment (other than annual appropriation for spending), changes in value of split interest arrangements and donor-advised funds, changes in value of derivative instruments, foreign currency remeasurement, and other infrequent transactions.

Foreign Currency

The functional currency of The Conservancy is the US dollar. Gains and losses resulting from remeasurement of foreign currencies into US dollars are recognized as non-operating activities in the consolidated statement of activities. Where transactions of foreign affiliates are recorded in local currency, assets and liabilities are translated into US dollars at the exchange rate in effect at the date of the consolidated statement of financial position.

Fair Value

The Conservancy's assets and liabilities are generally measured at fair value and are classified in the fair value hierarchy based on the lowest level of input that is significant to the valuation. This hierarchy is broken down into three levels based on inputs that market participants would use in valuing the financial instruments based on market data obtained from source independent of The Conservancy. The three-tier hierarchy of inputs is summarized in the three broad levels as follows:

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

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.

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

The Conservancy applies the practical expedient guidance contained in FASB ASC-820-10, *Fair Value Measurement and Disclosure*, to determine the fair value for some of its investments at the net asset value (NAV) reported by the fund managers. The guidance permits the use of NAV without adjustment under certain circumstances, unless it is probable that all or a portion of the investment will be sold for an amount different from NAV. As of June 30, 2021, The Conservancy had no plans to sell investments at amounts different from NAV. Investments measured at NAV as a practical expedient are not classified in the fair value hierarchy.

Most investments are carried at estimated fair value using the valuation hierarchy framework and NAV. Certain equity investments without readily determinable fair value presented using the measurement alternative in ASC 320 are valued using the initial investment in the underlying investment adjusted for impairment and observable price changes. As of June 30, 2021, based on lack of observable price changes for identical or similar investments of the same issuer no adjustments have been made.

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 dues and contributions with donor restrictions 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 as revenue and as expense or assets, at the fair value of those services or goods when received. During the fiscal year ended June 30, 2021 contributed goods and services totaled $34,695,000 in the accompanying consolidated statement of activities.

Government grants and contracts are primarily considered to be contribution transactions, the majority of which are cost-reimbursable grants. The Conservancy has elected the “simultaneous release” accounting policy option such that grants received and used within the same period are reported in net assets without donor restriction. 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.

Revenue from exchange transactions with government agencies that is reflected as other income in the accompanying consolidated statement of activities totaled $3,872,000 for the fiscal year ended June 30, 2021.

Other Accounting Policies

Disclosures related to specific items in the consolidated statement of financial position and consolidated statement of activities are included in the footnotes of these items respectively.

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 income tax relating to its unrelated business income activities, which were primarily generated by income from alternative investments in partnerships. The Conservancy takes no tax positions that it considers to be uncertain.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities 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.

Estimates and assumptions are reviewed on an ongoing basis. Revisions to estimates are recognized prospectively.

Retirement Plans

The Conservancy's employees are eligible after one month of services 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 provision of Internal Revenue Code Section 401(k) and has received a favorable determination as to its tax status from the Internal Revenue Service. Certain employees are also eligible to participate in a non-qualified deferred compensation plan created pursuant to the Internal Revenue Code Section 457(b). The Conservancy's contributions to the plans were $19,379,000 for the year ended June 30, 2021.

Subsequent Events

All subsequent events were evaluated through December 15, 2021, which is the date the financial statements were issued.

Contingencies

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

Related Party Transactions

The Conservancy recorded $ 11,070,000 in contribution revenue from current and former members of the Board of Directors of The Conservancy ("Board") during the fiscal year ended June 30, 2021, and $ 2,557,000 from current and former Board members that 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.

There are no conditional pledges from current and former Board members included in the accompanying note to the consolidated financial statements.

Recent Accounting Pronouncements

In August 2018, the FASB issued ASU 2018-13, *Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement*, which removes the requirement to disclose the valuation process for Level 3 fair value measurements and modifies other disclosures related to Level 3 fair value measurements. ASU 2018-13 is effective for fiscal years beginning after December 15, 2019 (fiscal year 2021); early adoption is permitted for any removed disclosures and entities are permitted to delay adoption of the additional disclosures until the effective date. The Conservancy partially adopted the removal of disclosures as of June 30, 2019 and adopted the remaining provisions as of June 30, 2021.

In August 2018, the FASB issued ASU 2018-15, Intangibles – Goodwill and Other – Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract. The ASU provides guidance related to implementation, setup, and other costs incurred in a cloud computing arrangement that is hosted by a vendor and thus deemed a service contract. Under the new guidance, capitalization requirements for implementation costs associated with cloud computing arrangements have been aligned with the capitalization requirements for internal-use software governed by ASC 350-40. The amendment dictates that certain costs incurred during the application development stage, such as configuration and customization costs, may be capitalized. Costs incurred in the preliminary project stage or the post implementation stage are not eligible for capitalization and must be expensed as incurred. The amendment also addresses the financial statement presentation of capitalized costs as well as amortization and impairment considerations. ASU 2018-15 is effective for fiscal years beginning after December 15, 2020 (fiscal year 2022). The Conservancy has evaluated the anticipated impact of ASU 2018-15 and does not expect the adoption of this ASU to have a material impact on the consolidated financial statements.

In March 2020, the FASB issued ASU 2020-04, "Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting," which provides optional guidance and expedients for applying GAAP to contracts and other transactions affected by reference rate reform if certain criteria are met. The amendments are intended to ease the potential burden in accounting for (or recognizing the effects of) reference rate reform on financial reporting. The amendments in this update are elective and are effective upon issuance. The Conservancy has evaluated the effect that the adoption of this standard will have on its consolidated financial statements and has noted no material impact.

Note 2. Liquidity

Financial assets and liquidity resources available within one year of June 30, 2021 for general expenditure such as operating expenses, scheduled principal payments on debt, and land acquisition are as follows (in thousands):

Cash and cash equivalents	$	116,054
Government grants and contract receivables		20,754
Current notes and other receivables for operations		50,612
Pledge payments available for operations		146,563
Working capital investments		279,963
Board approved appropriation for endowment spending (fiscal 2022)		55,203
Total financial assets available within one year	**$**	**669,149**
Additional liquidity resources:		
Bank line of credit	$	60,000
Private foundation line of credit		634
Total financial assets and liquidity resources available within one year	**$**	**729,783**

Subsequent to year-end, the limit on the Conservancy's line of credit was increased to $100,000,000.

The Conservancy's endowment funds consist of donor-restricted and Board-designated endowment funds. Income from donor-restricted endowments is restricted for specific purposes and therefore is not available for general expenditure. Although the Conservancy does not intend to spend from its Board-designated endowment funds other than amounts appropriated for general expenditure as part of the annual budget process as described in the schedule above, the total $1,128,122,000 of Board-designated net assets as of June 30, 2021, could be made available with Board or designee approval.

The Conservancy's cash flows have seasonal variations due to a concentration of contributions received at calendar year end, and financial assets are structured to be available as general expenditures, liabilities, and other obligations come due. To help manage seasonal cash flows or meet unanticipated liquidity needs – such as for opportunistic acquisition of conservation land and easements - the Conservancy maintains lines of credit with banks and private foundations that are drawn upon as needed. At June 30, 2021, there was no balance outstanding on the bank line of credit and there was an outstanding balance of $19,366,000 on the private foundation line of credit.

Note 3. Cash and Cash Equivalents

Cash represents working capital held in bank accounts in high quality financial institutions in the United States and 37 other countries. The cash in most 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 that do not have donor-imposed restrictions that limit their use to long-term investment, such as endowment funds.

Financial institutions that potentially subject The Conservancy to concentration of credit risk consist principally of cash deposits. Accounts at each institution are insured by the Federal Deposit Insurance Corporation ("FDIC") up to $250,000. At June 30, 2021, The Conservancy had $74,955,000 in excess of the FDIC insured limit.

The balances of cash and cash equivalents of $116,054,000 and restricted cash and cash equivalents of $47,675,000 reported within the statement of financial position sum to the total amount of cash, cash equivalents, and restricted cash at end of year of $163,729,000 as reported on the statement of cash flows.

Note 4. Restricted Cash and Cash Equivalents and Restricted Short-Term Investments

Restricted cash, cash equivalents, and short-term investments represent monies segregated to meet requirements of specific conservation project agreements. Restricted short-term investments are considered level 1 investments.

Restricted cash and cash equivalents consist of the following at June 30, 2021 (in thousands):

Cash held in trust for mitigation agreements	$	47,675
Total restricted cash and cash equivalents	**$**	**47,675**

Certificates of deposit held in trust for mitigation agreements	$	30,261
Certificates of deposit to satisfy reserve requirements under charitable gift annuity agreement		249
Highly liquid U.S. government and cash instruments under collateral arrangement		5,068
Total restricted short-term investments	**$**	**35,578**

Note 5. Government Grants and Contracts Receivable

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. Government receivables are expected to be realized within one year.

Unspent advances from government grants and contracts – both exchange and contribution transactions of $20,340,000 as of June 30, 2021 are reflected within deferred revenue and refundable advances on the consolidated statement of financial position.

The Conservancy has $242,047,000 in conditional government grants and contracts as of June 30, 2021.

Note 6. Notes and Other Receivables

Notes and other receivables consist of the following at June 30, 2021 (in thousands):

Notes receivables, net allowance for doubtful accounts and accrued interest	$	27,414
Advances to federal, state, and local subaward receipts		1,107
Bequest receivables		16,300
Other receivables, net allowance for doubtful accounts		32,343
Total notes and other receivables	**$**	**77,164**

The Nature Conservancy is a named irrevocable beneficiary under various wills, trusts, and non-probate gifts. Bequest receivables are recognized for significant incoming gifts which have matured and are known but for which the Conservancy has not yet received the funds.

Notes receivable are expected to be realized in the following periods (in thousands):

Less than one year	$	2,569
One to five years		8,658
More than five years		16,099
		27,326
Plus: Accrued interest receivable		88
Total notes receivable and accrued interest	**$**	**27,414**

Advances to subaward recipients, bequests receivable, and other receivables are expected to be realized within one year.

Management regularly assesses the adequacy of the allowance for doubtful accounts by performing evaluations of accounts receivable and notes receivable, including factors such as the financial condition of borrowers and the existence of any guarantees. Balances are written off when deemed uncollectable.

Note 7. Deposits, Prepaid Expenses, and Other Assets

Deposits, prepaid expenses, and other assets consist of the following at June 30, 2021 (in thousands):

Deposits on conservation land and easements	$	81,757
Prepaid expenses		6,805
Other assets		4,496
Total deposits, prepaids and other assets	**$**	**93,058**

Note 8. Pledges Receivable, net

Pledges receivable represent unconditional promises to give and are reported at fair value by discounting the expected future pledge payments at a risk-adjusted 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. Net pledge activity resulted in a $2,858,000 decrease in pledges receivable reflected in the accompanying statement of financial position, comprised of new pledges of $168,511,000, pledge payments of $174,256,000, and a $1,809,000 net change in pledge discount and allowance.

Unconditional pledges are expected to be received in the following periods (in thousands):

Less than one year	$	147,313
One to five years		99,804
More than five years		1,236
		248,353
Less: Discount of 3.25%		(5,426)
Less: Allowance for doubtful accounts		(9,066)
Total pledges receivable, net	**$**	**233,861**

Unconditional pledges receivable at June 30, 2021 have the following donor-imposed restrictions (in thousands):

Conservation programs and activities	$	219,789
Conservation land and easement acquisition and stewardship		11,367
Endowment		1,705
Other operating activities		1,000
Total pledges receivable, net	**$**	**233,861**

In addition, at June 30, 2021, the Conservancy has received promises to give that are conditioned upon the occurrence of specified future and uncertain events, such as the Conservancy raising matching gifts or acquiring certain conservation lands. Conditional promises to give are recognized as contribution revenue when the donor-imposed conditions are substantially met.

Conditional pledges at June 30, 2021 have the following conditions (in thousands):

Raised matching funds	$	23,943
Land acquisition		39,117
Completion of conservation projects		23,550
Other		9,700
Total conditional pledges	**$**	**96,310**

Note 9. 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, 2021, The Conservancy had recorded $61,265,000 in securities pledged under its securities lending agreement 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.

Note 10. Repurchase Agreements

TNC may enter into repurchase agreements, under the terms of a Master Repurchase Agreement, with selected commercial banks and broker-dealers, under which TNC acquires securities as collateral (debt obligation) subject to an obligation of the counterparty to repurchase and TNC to resell the securities (obligation) at an agreed upon time and price. TNC, through the custodian or a tri-party custodian, receives delivery of the underlying securities collateralizing repurchase agreements. TNC requires the custodian to take possession, to have legally segregated in the Federal Reserve Book Entry System, or to have segregated within the custodian's vault, all securities held as collateral for repurchase agreements. TNC and the counterparties are permitted to sell, re-pledge, or use the collateral associated with the transaction. It is TNC's policy that the market value of the collateral be at least equal to 100% of the repurchase price in the case of a repurchase agreement of one-day duration and 102% of the repurchase price in the case of all other repurchase agreements. Upon an event of default under the terms of the Master Repurchase Agreement, both parties have the right to set-off. If the seller defaults or enters an insolvency proceeding, realization of the collateral by TNC may be delayed, limited or wholly denied.

At June 30, 2021, TNC had an investment in a repurchase agreement with a gross value of $33,493,000, which is included as part of investments on the Consolidated Statement of Financial Position. The market value of the collateral is 102% of the face value of the repurchase agreement.

Note 11. Non-Conservation Lands

Real property with little or no ecological value acquired through contributions or in an exchange of conservation land is sold to provide funds for the Conservancy's conservation work. These assets are recorded at fair value in the consolidated statement of activities in the period received. During the fiscal year ended June 30, 2021 contributed non-conservation lands that is reflected in the accompanying consolidated statement of activities totaled $6,314,000. Fair value is generally determined by appraisal at the time of acquisition. The input to the fair value estimate is classified in Level 3 of the fair value hierarchy. The value of non-conservation lands is reduced to the net realizable value at fiscal year end, and the valuation allowance is reported in the consolidated statement of activities.

Changes in the fair value of non-conservation lands were shown as follows for the year ended June 30, 2021 (in thousands):

	Fair value 30-Jun-20	Transfer-in	Sales	Realized Gain/(Loss)	Unrealized Gain/(Loss)	Fair value 30-Jun-21
Non-conservation lands	$10,016	8,473	(7,540)	(188)	(49)	$10,712

Note 12. Investments

The Conservancy's investments are held 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.
- *Endowment fund* – funds held as long-term capital to generate income for The Conservancy's operations.
- *Split interest arrangements* – donations that are held in trust by The Conservancy or third-party trustees, representing beneficial interests in trusts.

The overall investment objective of the Conservancy is to invest its assets in a prudent manner that will achieve a long-term return sufficient to fund a portion of its operating activities and increase investment value after inflation. Major investment decisions are authorized by the Board's Finance Committee, which oversees The Conservancy's investment activities in accordance with established policies. The amount of Endowment income provided each year for operations is established by the Finance Committee, through its adoption of an annual endowment spending rate and spending rate base. The spending rate for the year ended June 30, 2021 was 5% of the average fair market value of the 60 months of calendar year 2016 through 2020.

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 70 to 75 separate managers. To mitigate concentration of credit risk, the Conservancy's excess cash is invested with high quality institutions, the largest concentrations of which are invested in money markets (49%), commercial paper (24%), repurchase agreements (16%), U.S. Treasuries (8%) and corporate bonds and notes (3%).

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, 2021, the largest exposures in the Capital and Endowment Fund long term investments is 4% in a single manager.

Investments are presented in the fair value hierarchy and consist of the following as of June 30, 2021 (in thousands):

	Level 1	Level 2	Level 3	NAV	Total
Capital and Endowment Investments Assets					
Short-term investments	$ 60,290	$ 71,387	$ -	$ -	$ 131,677
Repurchase agreements	$ -	$ 33,493	$ -	$ -	$ 33,493
Fixed income	$ 26,389	$ 264,432	$ -	$ -	$ 290,821
Preferred securities	$ 1,755	$ -	$ -	$ -	$ 1,755
Exchange traded stock	$ 299,964	$ -	$ -	$ -	$ 299,964
Exchange traded funds	$ 3,396	$ -	$ -	$ -	$ 3,396
Closed end funds	$ 59,791	$ -	$ -	$ -	$ 59,791
Comingled equity funds	$ -	$ -	$ -	$ 822,752	$ 822,752
Hedge funds	$ -	$ -	$ -	$ 776,284	$ 776,284
Private equity investments	$ -	$ -	$ -	$ 339,553	$ 339,553
Private real estate funds	$ -	$ -	$ -	$ 122,310	$ 122,310
Endowment investments	$ 11,083	$ -	$ -	$ 479	$ 11,562
Total capital and endowment investments	**$ 462,668**	**$ 369,312**	**$ -**	**$ 2,061,378**	**$ 2,893,358**
Liabilities					
Derivatives	$ (6)		$ -	$ -	$ (6)
Split interest arrangements					
Split interest trusteed					
U.S. Agency Bonds	$ 6	$ 3,097	$ -	$ -	$ 3,103
Mutual Funds	$ 180,957	$ -	$ -	$ -	$ 180,957
Real Estate	$ -	$ -	$ 18,760	$ -	$ 18,760
U.S. Treasuries	$ 12,396	$ -	$ -	$ -	$ 12,396
Short Term Investments	$ 4,311	$ -	$ -	$ -	$ 4,311
Exchange Traded Funds	$ 41,902	$ -	$ -	$ -	$ 41,902
Municipals	$ -	$ -	$ -	$ -	$ -
Commingled Equity Funds	$ -	$ -	$ -	$ 97,160	$ 97,160
Split interest, non-trusted	$ -	$ -	$ 37,396	$ -	$ 37,396
Total Split interest arrangements	**$ 239,572**	**$ 3,097**	**$ 56,156**	**$ 97,160**	**$ 395,985**
Total Investments measured at fair value or using NAV as a practical expedient					**$ 3,289,337**

Australian Endowment investments consist primarily of closed end funds, fixed income investments, exchange traded funds, and private equity investments.

Of the $3,360,086,000 total Investments in the accompanying consolidated 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	$ 22,244
Equity investment valued using the measurement alternative in ASC 320	8,990
Net investment receivables/payables and other	39,515
Total investments not measured at fair value	**$ 70,749**

The Conservancy's investment funds are valued by the following valuation techniques: equity securities and exchange traded funds are typically valued at the last sale price or official closing price on the exchange or principal market where the security trades; debt obligations are valued based on the evaluated prices provided by an independent pricing vendor or broker-dealers; real estate investment properties are valued based on results from an independent appraisal and a professional third-party market valuations; future contracts are typically valued at the last traded price on the exchange on which they trade. 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 as a practical expedient consist of the following as of June 30, 2021 (in thousands):

Category of Investments	**Fair Value at June 30, 2021**	**Unfunded Commitments**	**Redemption frequency**	**Redemption Notice Period**
Domestic equity funds	$ 263,880	$ -	Monthly, Quarterly	30-60 days
Global equity funds	391,911	-	Weekly, monthly, quarterly, annually	7 days, 10 business days, 30 days, 90 days
International equity funds	166,961	-	Monthly, quarterly, semi-annually,	10 business days, 30 days, 60 days,
Hedge funds	776,284	3,000	Monthly, quarterly, semi-annually, annually, biennially, rolling 2, 3 & 4 years	30 - 90 days
Private equity funds	339,553	193,007	N/A	N/A
Real estate funds	122,310	54,344	N/A	N/A
Endowment	479	-	N/A	N/A
Commingled equity funds	97,160	-	N/A	N/A
Total investments valued using NAV	**$ 2,158,538**	**$ 250,351**		

Otherwise redeemable investments valued using NAV are typically subject to lockup and rates that may vary from quarterly to 5 years or longer based on contractual agreement and there are no otherwise significant restrictions on the ability to sell investments in this portfolio.

The Conservancy's investments policy allows for the use of derivatives by investment managers and at the portfolio-level to assist in managing assets allocation and exposures. These derivative exposures are exchange-traded and are reported in the fair value of the overall portfolio within Level 1. 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 derivative contracts held at June 30, 2021 are not accounted for as hedging instruments under GAAP.

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 fair value of these interest rate swap agreements is reflected in the accompanying consolidated statement of financial position as accounts payable and accrued liabilities. No collateral is required to be posted/received for the interest rate swaps.

Swap contracts expose the Conservancy to credit risk arising from the potential inability of counterparties to perform under the terms of the contracts. The notional amounts of these contracts do not represent the Conservancy's risk of loss due to counterparty nonperformance. The Conservancy's exposure to credit risk associated with counterparty nonperformance for these contracts is limited to the fair value of such contracts and any related collateral placed with the counterparty, after enforcing any master netting agreements with counterparties that allow the Conservancy to offset amounts owed by the counterparty with amounts payable to the same counterparty. The International Swaps and Derivatives Association, Inc. Master Agreements ("ISDA") Agreements that govern and establish terms for the OTC swaps provide the Conservancy with legal right of set off that is enforceable under law.

Activity and balances related to swap instruments held at June 30, 2021 are shown as follows:

Counterparty	Original Notional	Notional at 6/30/2021	Type	Trade Date	Maturity Date	Fixed Rate	Floating Rate	Fair Value (in thousands)*
Morgan Stanley	62,000,000	62,000,000	IRS - Fixed/Pay	4/4/2019	2/1/2029	4.200%	100% of 3 mo USD LIBOR	$ (13,909)
							Total Fair Value of Swaps	$ (13,909)

*Includes credit valuation adjustment

Note 13. Property and Equipment

Property and equipment valued $50,000 or more is capitalized. Purchased property and equipment is carried at cost, and donated property and equipment is recognized at fair value at the date of contribution. Depreciation and amortization are computed using the straight-line method for all depreciable assets over the estimated useful lives of the assets, ranging from 5 to 30 years for building and building improvements, 3 to 5 years for computer equipment and software, and 4 to 25 years for furniture, fixtures, and others. $60,923,000 was fully depreciated at June 30, 2021.

Property and equipment consist of the following at June 30, 2021 (in thousands):

Land for operations	$ 8,016
Construction in progress	18,937
Buildings and improvements	193,711
Computer equipment and software	41,437
Furniture, fixtures, and other	35,765
	297,866
Less: Accumulated depreciation and amortization	(146,362)
Total property and equipment, net	**$ 151,504**

Note 14. Conservation Land and Easements

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 to manage in a similar fashion.

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 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.

The Conservancy has entered into contracts for the purchase of land and other purchase commitments that have not closed as of June 30, 2021 in the amount of $98,876,000.

Note 15. Leases

The Conservancy has entered into both non-cancelable lessor and lessee commitments.

Lessor commitments

The Conservancy's lessor commitments primarily consist of operating leases for the use of its owned premises. Leases may include options to renew at the end of the lease term. Lease payments received under these commitments include fixed payments for the rental space as well as variable payments based on usage of services and escalating costs of building operations. Total lease income of $1,822,000 was recorded for the fiscal year ended June 30, 2021.

Future fixed lease income under noncancelable operating leases is as follows as of June 30, 2021 (in thousands):

2022	$ 2,141
2023	1,966
2024	1,343
2025	660
2026	618
Thereafter	321
Total	**$ 7,049**

Lessee commitments

The Conservancy's lessee commitments predominantly consist of operating leases for office buildings and equipment. Right-of-use assets were $42,337,000 and lease liabilities were $48,549,000 as of June 30, 2021. The weighted-average discount rate used to calculate the present value of future minimum lease payments was 3.65%.

Lease terms may contain renewal and extension options and early termination features. The weighted-average lease term was 7.18 years at June 30, 2021.

Lease expenses consist of the following as of June 30, 2021 (in thousands):

Operating lease expenses (cost resulting from lease payments)	$ 12,883
Short-term lease expense	621
Variable lease expense	1,024
Less: Sublease income	(218)
Total lease expense	**$ 14,310**

The total cash amount paid for operating leases was $14,936,000, and noncash additions to operating lease assets was $2,178,000, for the fiscal year ended June 30, 2021.

Maturity analysis of future minimum lease payments for all operating leases are shown as follows as of June 30, 2021 (in thousands):

2022	$	9,852
2023		8,800
2024		7,789
2025		6,518
2026		5,337
Thereafter		18,155
Total minimum lease payment	$	56,451
Less: net present value adjustment		(7,512)
Present value of minimum lease payments	$	48,939

As of June 30, 2021, the Conservancy has three additional operating leases for office buildings that have not yet commenced with estimated ROU assets of approximately $461,000 and lease liabilities of approximately $448,000 to be recognized upon the anticipated lease commencement in July 2021.

Note 16. Bonds and Notes Payable

Bonds and notes payable consists of the following at June 30, 2021 (in thousands):

	Interest Rate	Maturity		2021
Revenue Bonds				
Series 2019A, Taxable, Unsecured	4.50%	February 2049		40,000
Series 2019B, Taxable, Unsecured	1.26%	February 2024		62,000
Series 2021A, Taxable, Unsecured	0.32%-1.86%	July 2021-July 2033		135,000
Mortgages and loans	0%-3.00%	2021-2041		68,522
Total bonds and notes payables			**$**	**305,522**

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, 2021, The Conservancy is in compliance with all financial debt covenants, including requirements to maintain specified liquidity ratios.

Recourse bonds and notes payables are those for which the lenders can hold The Conservancy liable if the bond or payable is defaulted upon.

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

2022	$	12,177
2023		18,685
2024		93,259
2025		11,761
2026		24,651
Thereafter		144,989
Total bonds and notes payable	**$**	**305,522**

Interest expense incurred on total notes payable for the year ended June 30, 2021 is $30,084,000.

Subsequent to year end, a related entity of the Conservancy entered into a transaction to purchase the debt of the country of Belize. The related entity is Belize Blue Investment Company, LLC ("BzBIC"), which is a wholly owned subsidiary of Blue Investments for Nature Inc. ("BIN"), a wholly owned subsidiary of the Conservancy. The transaction involved BzBIC obtaining a funding facility from a financial institution. BzBIC then in turn loaned those funds to the country of Belize for use in cancelling certain outstanding debt obligations. As a result of this transaction, the country of Belize will be able to commit significantly more resources to marine protection.

As part of this transaction, BzBIC obtained a loan from a financial institution totaling $364,000,000 with a per-annum interest rate of 1.60% from issuance through October 2022, 2.10% from October 2022 to October 2023, 3.60% from October 2023 to October 2025, and 4.47% from October 2025 through maturity. The loan matures in October 2040, with payments of principal and accrued interest payable semi-annually in April and October, with interest payments due beginning April of 2022, and principal payments due beginning April of 2032.

Additionally, BzBIC issued a note receivable to the country of Belize totaling $364,000,000 with a per-annum interest rate of 3.00% from issuance through October 2022, 3.55% from October 2022 to October 2023, 5.15% from October 2023 to October 2025, and 6.04% from October 2025 through maturity. The note receivable matures in October 2040, with payments of principal and accrued interest receivable semi-annually in April and October, with interest payments due beginning April of 2022, and principal payments due beginning April of 2032.

Note 17. 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, and are included in investments following the fair value hierarchy. The marketable securities and exchange traded funds are priced using unadjusted market quotes. Debt obligations are valued based on the evaluated prices provided by an independent pricing vendor or broker-dealers Alternative investments are valued based on NAV as practical expedient, and real properties are valued by subsequent sales price. For split-interest arrangements where the Conservancy is not the trustee, valuations are based on the values reported by third-party trustees. There is no market for these arrangements, and therefore is classified within Level 3. See Note 12 Investments for the fair value hierarchy of investments from split interest arrangements.

Changes in the fair value of split interest investments classified as Level 3 financial instruments for the year ended June 30, 2021 are shown as follows (in thousands):

	Fair value 30-Jun-20	Purchases	Transfer-in	Sales	Realized Gain/(Loss)	Unrealized Gain/(Loss)	Fair value 30-Jun-21
Split interest arrangements	$53,488	3,681	3,871	(5,903)	(2)	1,021	$56,156

A liability for split-interest obligation is recorded for the actuarially-determined present value of the estimated future payments to be made to the beneficiaries.

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.

Split interest arrangements payables consist of the following as of June 30, 2021 (in thousands):

Payable under charitable gift annuities	$ 100,784
Payable under charitable remainder trusts	97,967
Payable under pooled income funds	2,819
Payable under unsold unitrust	21,283
Total split interest arrangements payable	**$ 222,853**

Note 18. Net Assets

The Conservancy's net assets as of June 30, 2021, include the following (in thousands):

	Without Donor Restrictions	With Donor Restrictions	Total Net Assets
Undesignated	$ 407,365	$ -	$ 407,365
Board-designated funds functioning as endowment	1,128,318	-	1,128,318
Land preservation fund	164,561	176,849	341,410
Land, easements, and capital funds	4,478,748	384,705	4,863,453
Restricted for specific purposes	-	376,562	376,562
Split interest arrangements	5,379	170,521	175,900
Contributed long-lived assets to create permanent endowments	-	436	436
Invested in perpetuity, subject to endowment spending policy	-	528,612	528,612
Total net assets before other	**6,184,371**	**1,637,685**	**7,822,056**
Non-controlling interests	67,205	-	67,205
Total net assets	**$ 6,251,576**	**$ 1,637,685**	**$ 7,889,261**

The 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. Board-designated funds functioning as endowment represent funds, subject to the spending policy and appropriation, that have been set aside to support a variety of purposes, including funding program and supporting services. The Conservancy classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, and (b) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by The Conservancy in accordance with the spend policy stated in Note 12.

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 purpose of the institution and the endowment funds;
- General economic conditions;
- The possible effect of inflation or deflation;

- The expected total return from income and appreciation of investments;
- Other resources of the institution; and
- The investment policy of the institution.

Endowment funds are categorized as following in net asset classes as of June 30, 2021 (in thousands):

	Without Donor Restrictions	With Donor Restrictions	Total Endowment
Invested in perpetuity, subject to endowment spending policy	$ -	$ 528,612	$ 528,612
Board-designated funds functioning as endowment	1,128,318	-	1,128,318
Total endowment funds	**$ 1,128,318**	**$ 528,612**	**$ 1,656,930**

Changes in endowment net assets for the year ended June 30, 2021 are summarized as follows (in thousands):

	Without Donor Restrictions	With Donor Restrictions	Total Endowment
Endowment net assets at beginning of year	$ 940,453	$ 406,947	$ 1,347,400
Investment returns on endowments, net	221,375	118,194	339,569
Contributions and pledge payments received	375	17,587	17,962
Matching fund to donor restricted true endowment	-	505	505
Transfers to create funds functioning as endowment	14,918	1,220	16,138
Allocation of endowment spending	(65,624)	-	(65,624)
Net assets released from restrictions	16,821	(16,821)	-
Subtotal of endowment funds before reclassification	1,128,318	527,632	1,655,950
Reclassification and transfer of net assets	-	980	980
Total endowment funds	**$ 1,128,318**	**$ 528,612**	**$ 1,656,930**

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 Uniform Prudent Management of Institutional Funds Act (UPMIFA) requires The Conservancy to retain as principal in perpetuity. Deficiencies of this nature exist in 2 donor-restricted endowment funds, which together have an original gift value of $35,000, a current fair value of $15,000, and a deficiency of $20,000 as of June 30, 2021. These deficiencies resulted from unfavorable market fluctuations that occurred shortly after the investment of new contributions for donor-restricted endowment funds and authorized appropriation that was deemed prudent.

The Conservancy has a policy that permits spending from underwater endowment funds up to the Board-approved annual endowment spending rate in accordance with UPMIFA's prudence standard.

Note 19. 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* – 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 Administrative* – 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.
- *Fundraising and Membership* – 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, and expenditures related to the acquisition and retention of The Conservancy's members primarily through the use of a direct-mail program.

Each functional classification displays expenses related to the underlying operations by natural classification. Expenses are allocated directly to program and support services based on separate cost centers for each functional expense category. Certain expenses are attributable to more than one functional expense category and require allocation on a reasonable basis that is consistently applied. Salaries and other compensation that constitute direct conduct or supervision of program or support functions are allocated on the basis of estimates of time and effort, and employee benefits are allocated proportionately to salaries. Depreciation and amortization are allocated to the functional categories in which the underlying assets are used. Interest expense on external debt is allocated to the functional categories which have benefitted from the proceeds of the external debt.

Expenses by functional classification are shown as follows for the year ended June 30, 2021 (in thousands):

	Conservation	General and Administrative	Fundraising and Membership	Total Expenses
Salaries and Benefits	$ 253,205	$ 103,202	$ 74,599	$ 431,006
Professional services	113,342	9,488	11,186	134,016
Grants and subawards	64,206	252	(1)	64,457
Travel	1,580	106	175	1,861
Publication, printing and postage	5,510	299	27,953	33,762
Supplies and equipment	18,942	7,462	2,938	29,342
Depreciation and amortization	7,843	2,568	-	10,411
Interest expenses	28,091	1,710	-	29,801
Occupancy	1,799	11,766	92	13,657
Contributed goods and services non-cash expenses	14,244	17,125	3,326	34,695
All other	37,743	6,222	2,250	46,215
	546,505	**160,200**	**122,518**	**829,223**
Book value of donated conservation land & easements	73,722	-		73,722
Total expenses	$ 620,227	$ 160,200	$ 122,518	$ 902,945

Note 20. Noncontrolling Interests

The Conservancy is a general partner in partnerships in which third parties have noncontrolling equity investments, which are separately presented on the consolidated statement of position as a component of net assets without donor restriction.

Changes in consolidated net assets without donor restrictions for the year ended June 30, 2021 are summarized as follows (in thousands):

	Controlling Interests	Noncontrolling interests	Total net assets without donor restrictions
Net assets without donor restrictions at beginning of year	$ 5,551,841	$ 41,855	$ 5,593,696
Change in net assets from operating activities	271,967	(654)	271,313
Contributions from noncontrolling interests	-	25,350	25,350
Other changes in net assets from non-operating activities	360,563	654	361,217
Total net assets without donor restrictions	$ 6,184,371	$ 67,205	$ 6,251,576

Supplemental Schedules

The following supplemental schedules include the consolidated statements of financial position as of June 30, 2021 (with comparative totals as of June 30, 2020) and the summarized consolidated statements of activities for the year ended June 30, 2021 (with comparative totals for the year ended June 30, 2020).

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.

SUPPLEMENTAL SCHEDULES – CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As of June 30, 2021 and 2020

Assets	**2021**	**2020**
Cash and cash equivalents	$ 116,054	$ 76,606
Restricted cash and cash equivalents	47,675	29,813
Restricted short-term investments	35,578	35,307
Government grants and contracts receivable	20,754	32,285
Notes and other receivables	77,164	63,979
Deposits, prepaid expenses and other assets	93,058	17,794
Pledges receivable, net	233,861	236,719
Securities pledged under securities lending agreement	61,265	37,081
Non-conservation lands	10,712	10,016
Investments	3,360,086	2,592,077
Right of use assets	42,337	48,771
Property and equipment, net	151,504	152,334
Conservation lands	2,171,166	2,150,851
Conservation easements	2,415,002	2,386,747
Total Assets	**$ 8,836,216**	**$ 7,870,380**

Liabilities		
Accounts payable and accrued liabilities	$ 144,021	$ 145,425
Payable under securities lending agreement	61,265	37,081
Deferred revenue and refundable advances	164,700	126,181
Lease liabilities	48,594	54,746
Bonds and notes payable - Non-recourse	-	23,000
Bonds and notes payable - Recourse	305,522	315,123
Split interest arrangements payable	222,853	202,283
Total Liabilities	**946,955**	**903,839**

Net Assets		
Without donor restrictions, including noncontrolling interests of $67,205 in 2021 and $41,855 in 2020	$ 6,251,576	$ 5,593,696
With donor restrictions	1,637,685	1,372,845
Total Net Assets	**7,889,261**	**6,966,541**
Total Liabilities and Net Assets	**$ 8,836,216**	**$ 7,870,380**

SUPPLEMENTAL SCHEDULES – SUMMARIZED CONSOLIDATED STATEMENTS OF ACTIVITIES

For the years ended June 30, 2021 and 2020

Operating Activities	2021	2020
Contribution revenues:		
Dues and contributions	$ 808,321	$ 740,534
Contributed goods and services	34,695	39,997
Contributed conservation land and easements	34,791	84,716
Contributed non-conservation land	6,314	2,714
Government grants and contracts	104,790	126,423
Total contribution revenues	988,911	994,384
Sale of conservation land and easements	62,279	64,227
Investment returns on operating activities	44,876	10,519
Other income	103,502	122,711
Total revenues	1,199,568	1,191,841
Allocation of endowment spending	65,624	61,626
Total revenues and reclassifications	**1,265,192**	**1,253,467**
Expenses:		
Conservation	546,505	536,341
Book value of conservation land and easements sold or donated	73,722	124,988
Total program expenses	620,227	661,329
General and administrative	160,199	180,679
Fundraising and membership	122,519	138,127
Total expenses	**902,945**	**980,135**
Increase (decrease) in net assets from operating activities	**362,247**	**273,332**
Non-Operating Activities		
Investment returns on endowments	339,569	61,940
Investment returns on other non-operating activities	230,544	5,793
Allocation of endowment spending to operations	(65,624)	(61,626)
Gains (losses) on interest rate swap agreements	28,388	(24,602)
Foreign exchange gains (losses)	2,246	(2,533)
Contributions from noncontrolling interests	25,350	(2,398)
Increase (decrease) in net assets from non-operating activities	**560,473**	**(23,426)**
Total increase in net assets	**922,720**	**249,906**
Net assets at beginning of year	6,966,541	6,716,635
Net assets at end of year	**$ 7,889,261**	**$ 6,966,541**