THE NATURE CONSERVANCY

CONSOLIDATED FINANCIAL STATEMENTS

For the year ended June 30, 2020

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, 2020, 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, 2020, 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.

Emphasis of Matter

As discussed in Note 1 to the consolidated financial statements, the Conservancy changed the manner in which it accounts for leases in fiscal year 2020. Our opinion is not modified with respect to this matter.

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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, 2020 and 2019 and of summarized consolidated statements of activities for the years ended June 30, 2020 and 2019, 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 2020 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 2020 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, 2019, 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 20, 2019, 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, 2019 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

McLean, Virginia
December 22, 2020

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS OF JUNE 30, 2020

Amounts in thousands

Assets		
Cash and cash equivalents	$	76,606
Restricted cash and cash equivalents		29,813
Restricted short-term investments		35,307
Government grants and contracts receivable		32,285
Notes and other receivables, net		63,979
Deposits, prepaid expenses and other assets		17,794
Pledges receivable, net		236,719
Securities pledged under securities lending agreement		37,081
Non-conservation lands		10,016
Investments		2,592,077
Right to use assets		48,771
Property and equipments, net		152,334
Conservation lands		2,150,851
Conservation easements		2,386,747
Total assets	**$**	**7,870,380**

Liabilities		
Accounts payable and accrued liabilities	$	145,425
Payable under securities lending agreement		37,081
Deferred revenue and refundable advances		126,181
Lease liability		54,746
Bonds and notes payable - Non-recourse		23,000
Bonds and notes payable - Recourse		315,123
Split interest arrangements		202,283
Total liabilities	**$**	**903,839**

Net Assets		
Without donor restrictions, including noncontrolling interests of $41,855	$	5,593,696
With donor restrictions		1,372,845
Total net assets	**$**	**6,966,541**
Total liabilities and net assets	**$**	**7,870,380**

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

CONSOLIDATED STATEMENT OF ACTIVITIES

AS OF JUNE 30, 2020

Amounts in thousands

Operating Activities	Without Donor Restrictions	With Donor Restrictions	Total
Contribution Revenues			
Dues and contributions	$ 298,234	$ 442,300	$ 740,534
Contributed goods and services	39,997	-	39,997
Contributed land and easements for conservation	84,716	-	84,716
Contributed non-conservation land	1,960	754	2,714
Government grants and contracts	126,423	-	126,423
Total contribution revenues	**551,330**	**443,054**	**994,384**
Sales of conservation land and easements	64,227	-	64,227
Investment returns on operating activities	10,519	-	10,519
Other income	122,711	-	122,711
Total revenues	**748,787**	**443,054**	**1,191,841**
Allocation of endowment spending	61,626	-	61,626
Net assets released from restriction	291,144	(291,144)	-
Total revenues and reclassifications	**$ 1,101,557**	**$ 151,910**	**$ 1,253,467**
Expenses			
Conservation activities and actions	$ 536,341	$ -	$ 536,341
Book value of conservation land and easements	124,988	-	124,988
Total program expenses	661,329	-	661,329
General and administration	180,679	-	180,679
Fund-raising	138,127	-	138,127
Total expenses	**980,135**	**-**	**980,135**
Increase (decrease) in net assets from operating activities	**$ 121,422**	**$ 151,910**	**$ 273,332**
Non-operating Activities			
Investment returns on endowments	$ 40,770	$ 21,170	$ 61,940
Investment returns on other non-operating activities	26,321	(20,528)	5,793
Allocation of endowment spending to operations	(61,626)	-	(61,626)
Reclassification of net assets	(4,773)	4,773	-
Loss on interest rate swap agreements	(24,602)	-	(24,602)
Foreign exchange gains (losses)	(2,533)	-	(2,533)
Distributions from noncontrolling interests	(2,398)	-	(2,398)
Increase (decrease) in net assets from non-operating activities	$ (28,841)	$ 5,415	$ (23,426)
Total increase/(Decrease) in net assets	**$ 92,581**	**$ 157,325**	**$ 249,906**
Beginning net assets	5,501,115	1,215,520	6,716,635
Ending net assets	**$ 5,593,696**	**$ 1,372,845**	**6,966,541**

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

CONSOLIDATED STATEMENT OF CASHFLOWS

AS OF JUNE 30, 2020

Amounts in thousands

Cash Flows from Operating Activities		
Change in Net Assets	$	249,906
Adjustments to reconcile changes in net assets to net cash and cash equivalents used in operating activities		
Depreciation and amortization		9,911
Contributed conservation land and easements		(84,716)
Losses on disposition of conservation lands and easements		60,761
Contributed securities		(63,597)
Contribution of non-conservation land, and for long term purpose		(18,915)
Increase in notes and other receivable		57,918
Decrease in pledge receivable		(22,597)
Decrease in deposits on land, prepaid and other assets		(1,813)
Decrease in accounts payable, and other liabilities		(19,947)
Increase in split interest arrangements payable		11,277
Increase in right of use assets		1,898
Decrease in lease liabilities		(1,299)
Proceeds from sale of contributed securities		48,755
Change in value of split interest investment		(6,415)
Change in value of interest rate swaps		(24,602)
Change in non-conservation land		11,387
Net gain on investments		(90,577)
Other changes		2,658
Proceeds from sale of conservation land and easements		64,227
Purchases of conservation land and easements		(156,210)
Net cash and cash equivalents used in operating activities		**28,010**
Cash Flows from Investing Activities		
Proceeds from notes collections		3,162
Issuance of notes receivable		(799)
Proceeds from sale of endowment and capital investments		2,149,589
Purchases of endowment and capital investments		(2,242,452)
Purchases of property and equipment		(22,352)
Net cash and cash equivalents provided by investing activities		**(112,852)**
Cash Flows from Financing Activities		
Changes in securities pledged under securities lending agreement		50,924
Changes of payable under securities lending agreement		(50,924)
Distributions from noncontrolling interests		-
Proceeds from contribution for long term purpose		15,457
Purchases of split interest investments		(23,625)
Proceeds from split interest arrangements		36,779
Repayments of long-term debt		(104,690)
Proceeds from issuance of long-term debt		44,568
Net cash and cash equivalents provided by financing activities		**(31,511)**
Net increase in cash, cash equivalents and restricted cash		**(116,353)**
Cash, cash equivalents and restricted cash at beginning of year		222,773
Cash, cash equivalents and restricted cash at end of year	**$**	**106,419**
Supplemental data		
Cash paid for interest	$	12,418

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

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 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. 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, 2020, 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, 2020, 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, 2020 contributed goods and services totaled $39,997,000 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 $4,999,000 for the fiscal year ended June 30, 2020.

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 a nominal amount of tax relating to several unrelated business income activities, primarily revenue from debt-financed property. 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 $20,283,000 for the year ended June 30, 2020.

Subsequent events

All subsequent events were evaluated through December 20, 2020, 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 $6,751,000 in contribution revenue from current and former members of the Board of Directors of The Conservancy ("Board") during the fiscal year ended June 30, 2020, and $4,910,000 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 February 2016, the FASB issued ASU 2016-02, *Leases*, which requires recognition of rights and obligations arising from lease contracts - existing and new arrangements – as assets and liabilities on the balance sheet. The following ASUs clarify the guidance in ASU 2016-02 and have the same effective date:

- In January 2018, the FASB issued ASU 2018-01, *Land Easements Practical Expedient for Transition to Topic 842*, which provides an optional transition practical expedient to not evaluate existing or expired land easements that were not previously accounted for as leases under the current guidance in Topic 840.
- In July 2018, the FASB issued ASU 2018-11, *Targeted Improvements*, which allows entities to initially apply the new leases standard at the adoption date and recognize a cumulative-effect adjustment to the opening balance of net assets in the period of adoption.
- In December 2018, the FASB issued ASU 2018-20, *Narrow improvements for lessors,* which provides a practical expedient for lessors to not separate lease and non-lease components by class of underlying asset when certain conditions are met and technical improvement for lessor accounting for certain lessor costs.

The Conservancy adopted ASC 842 as of July 1, 2019 using the modified retrospective adoption method, and applied certain practical expedients allowed under the standard including:

- Not reassessing (i) whether any expired or existing contracts are or contain leases, (ii) the lease classification for any expired or existing leases, and (iii) the accounting for initial direct costs for any existing leases;
- Not evaluating short term leases;
- Not assessing whether existing land easements are, or contain leases, and

- Making an accounting policy election by class of underlying asset, to not separate non-lease components from lease components and instead to account for each separate lease and non-lease component as a single lease component.

As a result of adopting this standard, The Conservancy recognized an incremental right of use assets and corresponding lease liabilities on its consolidated statement of financial position, however there was no material impact to The Conservancy's consolidated financial statements.

In November 2016, the FASB adopted ASU 2016-18, *Restricted Cash,* which requires that the change in restricted cash and cash equivalents be presented in the statement of cash flows along with cash and cash equivalents. ASU 2016-18 is effective for fiscal years beginning after December 15, 2018 (fiscal year 2020). The Conservancy has included the required presentation change within the Consolidated Statement of Cash Flows.

In July 2016, the FASB issued ASU 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities*, which eliminates the classification categories of equity investments and their differing treatments, except for those accounted for under the equity method of accounting or those that result in consolidation of the investee. Under ASU 2016-01, all equity investments are required to be reflected at fair value on the balance sheet with changes in fair value recognized in net income. ASU 2016-01 is effective for fiscal years beginning after December 15, 2018 (fiscal year 2020). This includes carrying all equity investments at fair values, except for those accounted for under the equity method of accounting and recognizing the fair value through non-operating activities on the Consolidated Statement of Activities. This guidance has been appropriately reflected within the financial statements.

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 is currently evaluating the impact of the additional disclosures.

Note 2. Liquidity

Financial assets and liquidity resources available within one year of June 30, 2020 for general expenditure such as operating expenses, scheduled principal payments on debt, and land acquisition are as follows (in thousands):

Cash and cash equivalents	$	76,606
Government grants and contract receivables		32,285
Current notes and other receivables for operations		39,246
Pledge payments available for operations		132,813
Working capital investments		256,178
Board approved appropriation for endowment spending (fiscal 2021)		39,844
Total financial assets available within one year	**$**	**576,972**
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	**$**	**637,606**

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 Note 2 schedule above, the total $940,453,000 of Board-designated net assets as of June 30, 2020, 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, 2020, amounts outstanding under these lines of credit amounted to $19,366,000.

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, 2020, The Conservancy had $49,221,000 in excess of the FDIC insured limit.

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, 2020 (in thousands):

Cash held in trust for mitigation agreements	$	29,813
Cash contractually restricted for use by affiliates		-
Total restricted cash and cash equivalents	**$**	**29,813**

Certificates of deposit held in trust for mitigation agreements	$	30,000
Certificates of deposit to satisfy reserve requirements under charitable gift annuity agreement		248
Highly liquid U.S. government and cash instruments under collateral arrangement		5,059
Total restricted short-term investments	**$**	**35,307**

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 $5,709,000 as of June 30,2020 are reflected in the consolidated statement of financial position.

The Conservancy has $263,994,000 in conditional government grants and contracts as of June 30,2020.

Note 6. Notes and Other Receivables

Notes and other receivable consist of the following at June 30, 2020 (in thousands):

Notes receivables, net allowance for doubtful accounts and accrued interest	$	21,262
Advances to federal, state, and local subaward receipts		1,341
Bequest receivables		27,200
Other receivables, net allowance for doubtful accounts		14,176
Total notes and other receivables	**$**	**63,979**

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

Less than one year	$	2,070
One to five years		9,474
More than five years		9,588
		21,132
Plus: Accrued interest receivable		130
Total notes receivable and accrued interest	**$**	**21,262**

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 30,2020 (in thousands):

Deposits on conservation land and easements	$	4,863
Prepaid expenses		7,238
Other assets		5,693
Total deposits, prepaids and other assets	**$**	**17,794**

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 $22,597,000 increase in pledges receivable reflected in the accompanying statement of financial position, comprised of new pledges of $199,545,000, pledge payments of $181,022, and a $4,858,000 net change in pledge discount and allowance.

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

Less than one year	$	133,024
One to five years		118,430
More than five years		1,566
		253,020
Less: Discount of 5.5%		(7,296)
Less: Allowance for doubtful accounts		(9,005)
Total pledges receivable, net	**$**	**236,719**

Unconditional pledges receivable at June 30, 2020 have the following donor-imposed restrictions (in thousands):

Conservation programs and activities	$	223,213
Conservation land and easement acquisition and stewardship		10,283
Endowment		755
Other operating activities		2,468
Total pledges receivable, net	**$**	**236,719**

In addition, at June 30, 2020, 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, 2020 have the following conditions (in thousands):

Raised matching funds	$	28,117
Land acquisition		16,199
Completion of conservation projects		13,989
Other		8,634
Total conditional pledges	**$**	**66,939**

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 market-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 of 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, 2020, The Conservancy recorded $37,081,000 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, 2020, TNC had an investment in a repurchase agreement with a gross value of $32,511,000, 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, 2020 contributed non-conservation lands that is reflected in the accompanying consolidated statement of activities totaled $2,714,000. 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 yearend, 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, 2020 (in thousands):

	Fair value 30-Jun-19	Transfer-in	Sales	Realized Gain/(Loss)	Unrealized Gain/(Loss)	Fair value 30-Jun-20
Non-conservation lands	$17,945	3,457	(8,440)	(52)	(2,894)	$10,016

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, 2020 was 5% of the average fair market value of the 60 months of calendar year 2015 through 2019.

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 commercial paper (29%), repurchase agreements (22%), certificates of deposit (21%), U.S. Treasuries (16%) and corporate bonds and notes (10%).

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 the short-term or long-term, other than the U.S. Government and its Agencies. At June 30, 2020, the largest exposures in the Capital and Endowment Fund long term investments is 5.4% in a single manager.

Investments are presented in the fair value hierarchy and consist of the following as of June 30, 2020 (in thousands):

	Level 1	Level 2	Level 3	NAV	Total
Capital and Endowment Investments					
Assets					
Short-term investments	$ 76,978	$ 6,516	$ -	$ -	$ 83,494
Repurchase agreements	-	32,511	-	-	32,511
Fixed income	41,480	112,045	-	-	153,525
Preferred securities	911	-	-	-	911
Exchange traded stock	172,536	-	-	-	172,536
Exchange traded funds	2,861	-	-	-	2,861
Closed end funds	33,958	-	-	-	33,958
Comingled equity funds	-	-	-	371,352	371,352
Hedge funds	-	-	-	533,402	533,402
Private equity investments	-	-	4,459	232,918	237,377
Private real estate funds	-	-	-	110,780	110,780
Endowment investments	777	-	-	4,388	5,165
Total capital and endowment investments	**$ 329,501**	**$ 151,072**	**$ 4,459**	**$ 1,252,840**	**$ 1,737,872**
Liabilities					
Derivatives	$ (5)		$ -	$ -	$ (5)
Split interest arrangements					
Split interest trusteed					
U.S. Agency Bonds	$ 8	$ 5,662	$ -	$ -	$ 5,670
Mutual Funds	138,952	-	-	-	138,952
Real Estate	-	-	18,099	-	18,099
U.S. Treasuries	10,198	-	-	-	10,198
Short Term Investments	6,315	-	-	-	6,315
Exchange Traded Funds	21,461	-	-	-	21,461
Municipals	-	5	-	-	5
Commingled Equity Funds	-	-	-	79,805	79,805
Split interest, non-trusted	-	-	35,389	-	35,389
Total Split interest arrangements	**$ 176,934**	**$ 5,667**	**$ 53,488**	**$ 79,805**	**$ 315,894**
Total Investments measured at fair value or using NAV as a practical expedient					**$ 2,053,761**

Of the $2,592,077,000 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	$ 21,659
Equity investment valued using the measurement alternative in ASC 320	4,709
Net investment receivables/payables and other	511,948
Total investments not measured at fair value	**$ 538,316**

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 consists of following for the year ended at June 30, 2020 (in thousands):

Category of Investments	Fair Value at June 30, 2020	Unfunded Commitments	Redemption frequency	Redemption Notice Period
Domestic equity funds	$ 45,780	$ -	Monthly	60 days
Global equity funds	268,159	-	Weekly, monthly, quarterly	7 days, 10 business days, 30 days, 90 days
International equity funds	57,413	-	Monthly, quarterly	90 days
Hedge funds	533,402	-	Monthly, quarterly, semi-annually, annually, biannually, rolling 2, 3 & 4 years	30 - 90 days
Private equity funds	232,918	188,016	N/A	N/A
Real estate funds	110,780	50,088	N/A	N/A
Endowment investments	4,388	-	N/A	N/A
Total investments valued using N	**$ 1,252,840**	**$ 238,104**		

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, 2020 are not accounted 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, 2020 are shown as follows:

Counterparty	Original Notional	Notional at 6/30/2020	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	$ (18,532)
Morgan Stanley	190,000,000	127,500,000	CNC - Fixed/Pay	4/23/2007	7/1/2033	2.962%	67% of 3 mo USD LIBOR	(23,014)
Morgan Stanley	25,053,000	11,682,000	IRS - Fixed/Pay	11/8/2002	7/1/2027	3.560%	67% of 1 mo USD LIBOR	(1,640)
							Total Fair Value of Swaps	$ (43,186)

*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. $57,395,000 was fully depreciated at June 30,2020.

Property and equipment consist of the following at June 30, 2020 (in thousands):

Land for operations	$ 7,775
Construction in progress	17,158
Buildings and improvements	195,074
Computer equipment and software	34,799
Furniture, fixtures, and other	35,706
	290,512
Less: Accumulated depreciation and amortization	(138,178)
Total property and equipment, net	**$ 152,334**

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, 2020 in the amount of $105,236,000.

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. The total lease income of $1,813,000 was recorded for fiscal year ended June 30, 2020.

Future fixed lease income under noncancelable operating leases is as follows as of June 30, 2020 (in thousands):

2021	$	1,403
2022		1,121
2023		1,029
2024		632
2025		635
Thereafter		2,734
Total	**$**	**7,554**

Lessee commitments

The Conservancy's lessee commitments predominantly consist of operating leases for office buildings and equipment. On July 1, 2019, the Conservancy recognized $49,530,000 of right-of-use assets and $54,617,124 of lease liabilities. Right-of-use assets were $48,771,000 and lease liabilities were $54,746,000, as of June 30, 2020. 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 7.97 years at June 30, 2020.

Lease expenses consist of the following as of June 30, 2020 (in thousands):

Operating lease expenses (cost resulting from lease payments)	$	14,813
Short-term lease expense		498
Variable lease expense		1,356
Less: Sublease income		(228)
Total lease expense	**$**	**16,439**

The total cash amount paid for operating leases was $16,803,000, and noncash additions to operating lease assets was $6,881,000, for the fiscal year ended June 30, 2020.

Maturity analysis of future minimum lease payments for all operating leases are shown as follows as of June 30, 2020 (in thousands):

2021	$	10,346
2022		8,738
2023		8,379
2024		7,353
2025		6,122
Thereafter		22,851
Total minimum lease payment	$	63,789
Less: net present value adjustment	$	(9,152)
Present value of minimum payments	**$**	**54,637**

At June 30, 2019 based on lease guidance in effect prior to the adoption of ASC 842 on July 1, 2019, minimum lease payments for operating leases were as follows (in thousands):

2020	$	13,036
2021		9,250
2022		7,806
2023		7,303
2024		6,903
Thereafter		23,282
Total minimum lease payment	**$**	**67,580**

As of June 30, 2020, the Conservancy has an additional operating lease for office buildings that has not yet commenced with an estimated ROU asset and lease liability of approximately $927,000 to be recognized upon the anticipated lease commencement in September 2020.

Note 16. Bonds and Notes Payable

Bonds and notes payable consists of the following at June 30, 2020 (in thousands):

	Interest Rate	Maturity	2020
Colorado Educational and Cultural Facilities Authority Revenue Bonds			
Series 2002A, Tax Exempt, Unsecured	0.20%	July 2024	$ 6,582
Series 2012, Tax Exempt, Unsecured	0.13%	July 2033	108,755
Revenue Bonds			
Series 2019A, Taxable, Unsecured	4.50%	February 2049	40,000
Series 2019B, Taxable, Unsecured	1.77%	February 2024	62,000
Mortgages and loans	0%-3.00%	2020-2039	92,958
Notes Payables	0%	On demand	4,828
Bonds and notes payables - recourse			**315,123**
Notes payables - non-recourse	2.57%	December 2020	**23,000**
Total bonds and notes payables			**$ 338,123**

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, 2020, 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.

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, 2020, 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, 2021.

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

2021	$	92,054
2022		57,459
2023		10,200
2024		87,948
2025		6,332
Thereafter		84,130
Total bonds and notes payable	**$**	**338,123**

Interest expense incurred on total notes payable for the year ended at June 30,2020 was $12,950,000.

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, 2020 are shown as follows (in thousands):

	Fair value 30-Jun-19	**Purchases**	**Transfer-in**	**Sales**	**Realized Gain/(Loss)**	**Unrealized Gain/(Loss)**	**Fair value 30-Jun-20**
Split interest arrangement	$46,269	2,188	2,712	(6,213)	(88)	$8,620	$53,488

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 30,2020 (in thousands):

Payable under charitable gift annuities	$	101,290
Payable under charitable remainder trusts		76,785
Payable under pooled income funds		2,770
Payable under unsold unitrust		21,438
Total split interest arrangements payable	**$**	**202,283**

Note 18. Net Assets

The Conservancy's net assets as of June 30, 2020, includes the following (in thousands):

	Without Donor Restrictions	With Donor Restrictions	Total Net Assets
Undesignated	$ 184,591	$ -	$ 184,591
Board-designated funds functioning as endowment	940,453	-	940,453
Land preservation fund	167,296	177,633	344,929
Land, easements, and capital funds	4,254,311	257,219	4,511,530
Restricted for specific purposes	-	420,254	420,254
Split interest arrangements	5,213	109,833	115,046
Contributed long-lived assets to create permanent endowments	-	936	936
Invested in perpetuity, subject to endowment spending policy	(23)	406,970	406,947
Total net assets before other	**5,551,841**	**1,372,845**	**6,924,686**
Non-controlling interests	41,855	-	41,855
Total net assets	**$ 5,593,696**	**$ 1,372,845**	**$ 6,966,541**

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. 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 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, 2020 (in thousands):

	Without Donor Restrictions	With Donor Restrictions	Total Endowment
Invested in perpetuity, subject to endowment spending policy	$ (23)	$ 406,970	$ 406,947
Board-designated funds functioning as endowment	940,453	-	940,453
Total endowment funds	**$ 940,430**	**$ 406,970**	**$ 1,347,400**

Changes in endowment net assets for the year ended June 30, 2020 are summarized as follows (in thousands):

	Without Donor Restrictions	With Donor Restrictions	Total Endowment
Endowment net assets at beginning of year	$ 936,726	$ 385,824	$ 1,322,550
Investment returns on endowments, net	40,770	21,170	61,940
Contributions and pledge payments received	(110)	14,255	14,145
Matching fund to donor restricted true endowment	-	2	2
Transfers to create funds functioning as endowment	8,675	901	9,576
Appropriation of endowment assets for expenditure	(61,626)	-	(61,626)
Net assets released from restrictions	15,995	(15,995)	-
Subtotal of endowment funds before reclassification	940,430	406,157	1,346,587
Reclassification and transfer of net assets	-	813	813
Total endowment funds	$ 940,430	$ 406,970	$ 1,347,400

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 15 donor-restricted endowment funds, which together have an original gift value of $37,308,000, a current fair value of $36,590,000, and a deficiency of $718,000 as of June 30, 2020. 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, 2020 (in thousands):

	Conservation	General and Administrative	Fundraising and Membership	Total Expenses
Salaries and Benefits	$ 262,705	$ 96,662	$ 79,069	$ 438,436
Professional services	115,965	11,891	16,402	144,258
Grants and subawards	68,980	41	55	69,076
Travel	12,269	2,222	2,087	16,578
Publication, printing and postage	5,419	268	26,872	32,559
Supplies and equipment	16,983	9,372	3,195	29,550
Depreciation and amortization	7,073	2,755	82	9,910
Interest expenses	11,900	1,050	-	12,950
Occupancy	2,364	13,752	131	16,247
Contributed goods and services non-cash expenses	15,532	18,186	6,734	40,452
All other	17,151	24,480	3,500	45,131
	536,341	**180,679**	**138,127**	**855,147**
Book value of donated conservation land & easements	124,988	-		124,988
Total expenses	$ 661,329	$ 180,679	$ 138,127	$ 980,135

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, 2020 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	$ 5,456,862	$ 44,253	$ 5,501,115
Change in net assets from operating activities	121,856	(434)	121,422
Distributions from noncontrolling interests	-	(2,396)	(2,396)
Other changes in net assets from non-operating activities	(26,879)	434	(26,445)
Total net assets without donor restrictions	$ 5,551,839	$ 41,857	$ 5,593,696

Note 21. Other Items

The outbreak of the COVID-19 pandemic has caused domestic and global disruptions in operations for not-for-profit organizations. The long-term effect to the Conservancy of the COVID-19 pandemic depends on various factors, including, but not limited to, the effect on donations, government grants, and the long-term effect on financial markets and consequently the returns on and value of the Conservancy's investments, which cannot be fully quantified at this time. As of June 30, 2020, and through the date of these financial statements, the Conservancy evaluated its accounting estimates for any potential future impacts of the pandemic. While this evaluation did not result in a material effect to the Conservancy's financial statements as of June 30, 2020, future evaluations could result in a material effect depending on the eventual impact to the Conservancy of the pandemic in future periods.

Supplemental Schedules

The following supplemental schedules include the consolidated statements of financial position as of June 30, 2020 (with comparative totals as of June 30, 2019) and the summarized consolidated statements of activities for the year ended June 30, 2020 (with comparative totals for the year ended June 30, 2019).

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, 2020 and 2019

Assets	2020	2019
Cash and cash equivalents	$ 76,606	$ 193,731
Restricted cash and cash equivalents	29,813	29,042
Restricted short-term investments	35,307	30,216
Government grants and contracts receivable	32,285	31,845
Notes and other receivables	63,979	124,887
Deposits, prepaid expenses and other assets	17,794	15,981
Pledges receivable, net	236,719	214,122
Securities pledged under securities lending agreement	37,081	88,005
Non-conservation lands	10,016	17,945
Investments	2,592,077	2,405,977
Right to use assets	48,771	-
Property and equipment, net	152,334	141,972
Conservation easements	2,150,851	2,288,383
Conservation lands	2,386,747	2,128,184
Total Assets	**$ 7,870,380**	**$ 7,710,290**

Liabilities		
Accounts payable and accrued liabilities	$ 145,425	$ 219,410
Payable under securities lending agreement	37,081	88,005
Deferred revenue and refundable advances	126,181	96,743
Lease liability	54,746	-
Bonds and notes payable - Non-recourse	23,000	45,500
Bonds and notes payable - Recourse	315,123	352,991
Split interest arrangements payable	202,283	191,006
Total Liabilities	**903,839**	**993,655**

Net Assets		
Without donor restrictions, including noncontrolling interests of $41,855 in 2020 and $44,253 in 2019	$ 5,593,696	$ 5,501,115
With donor restrictions	1,372,845	1,215,520
Total Net Assets	**6,966,541**	**6,716,635**
Total Liabilities and Net Assets	**$ 7,870,380**	**$ 7,710,290**

SUPPLEMENTAL SCHEDULES – SUMMARIZED CONSOLIDATED STATEMENTS OF ACTIVITIES

For the years ended June 30, 2020 and 2019

Operating Activities	**2020**	**2019**
Contribution revenues:		
Dues and contributions	$ 740,534	$ 554,378
Contributed goods and services	39,997	31,811
Contributed conservation land and easements	84,716	41,543
Contributed non-conservation land	2,714	9,122
Government grants and contracts	126,423	127,764
Total contribution revenues	994,384	764,618
Sale of conservation land and easements	64,227	57,921
Investment returns on operating activities	10,519	2,500
Other income	122,711	106,574
Total revenues	1,191,841	931,613
Allocation of endowment spending	61,626	60,492
Total revenues and reclassifications	**1,253,467**	**992,105**
Expenses:		
Conservation	536,341	520,142
Book value of conservation land and easements sold or donated	124,988	112,997
Total program expenses	661,329	633,139
General and administrative	180,679	161,705
Fundraising and membership	138,127	142,548
Total expenses	**980,135**	**937,392**
Increase (decrease) in net assets from operating activities	**273,332**	**54,713**
Non-Operating Activities		
Investment returns on endowments	61,940	91,494
Investment returns on other non-operating activities	5,793	-
Allocation of endowment spending to operations	(61,626)	(60,492)
Sale of noncontrolling interests	-	44,253
Gains (losses) on interest rate swap agreements	(24,602)	(9,309)
Foreign exchange gains (losses)	(2,533)	(2,497)
Distributions from noncontrolling interests	(2,398)	
Increase (decrease) in net assets from non-operating activities	**(23,426)**	**63,449**
Total increase in net assets	**249,906**	**118,162**
Net assets at beginning of year	6,716,635	6,598,473
Net assets at end of year	**$ 6,966,541**	**$ 6,716,635**