

# **The Nature Conservancy**

**Consolidated Financial Statements**

**For the year ended June 30, 2011**

**And report thereon**



## **Report of Independent Auditors**

To the Board of Directors of  
The Nature Conservancy

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

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

A handwritten signature in black ink that reads "PricewaterhouseCoopers up". The signature is written in a cursive, flowing style.

October 14, 2011

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

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*(Amounts in thousands)*

**Assets**

Cash	\$ 44,141
Restricted cash	34,957
Government grants and contracts receivable	26,224
Pledges receivable, net	146,044
Collateral received under securities lending agreement	92,813
Deposits on land and other assets	45,508
Property and equipment, net of accumulated depreciation and amortization	106,492
Investments - Capital fund	614,869
Investments - Split interest arrangements	281,974
Investments - Endowment fund	1,003,565
Conservation lands	1,927,139
Conservation easements	1,705,288
Total assets	<u>\$ 6,029,014</u>

**Liabilities**

Accounts payable and accrued liabilities	\$ 94,005
Payable under securities lending agreement	92,813
Deferred revenue and refundable advances	94,959
Notes payable	411,298
Split interest arrangements	139,946
Total liabilities	<u>833,021</u>

**Net assets**

Unrestricted	
Undesignated	(47,004)
Board-designated	
Land, easements, and project funds	3,597,911
Quasi endowment and similar funds	768,998
	<u>4,319,905</u>
Temporarily restricted	574,995
Permanently restricted	301,093
Total net assets	<u>5,195,993</u>
Total liabilities and net assets	<u>\$ 6,029,014</u>

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

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

*(Amounts in thousands)*

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

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

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

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*(Amounts in thousands)*

**Reconciliation of increase in net assets to  
cash provided by operating activities:**

Increase in net assets		\$	301,802	
Non-cash adjustments:				
Contributed land and easements	\$	(73,898)		
Losses on sales of land and easements		107,795		
Realized/Unrealized investment gains		(208,680)		
Depreciation and amortization		6,878		
Other - net		<u>(38,458)</u>	(206,363)	
Changes in assets and liabilities:				
Deposits on land		55,093		
Receivables		336		
Accounts payable and accrued liabilities		(4,111)		
Other - net		<u>24,853</u>	76,171	
Cash provided by (used in) land activities:				
Proceeds from sales of land and easements		196,717		
Purchases of land and easements		<u>(323,057)</u>	<u>(126,340)</u>	
Net cash provided by operating activities				\$ 45,270

**Investing activities:**

Proceeds from sale of investments		1,863,991		
Purchases of investments		(1,842,353)		
Other - net		<u>(34,782)</u>		
Net cash used in investing activities				(13,144)

**Financing activities:**

Principal payments on debt		(54,184)		
Proceeds from issuance of debt		20,284		
Other - net		<u>14,576</u>		
Net cash used in financing activities			<u>(19,324)</u>	

Net change in cash			12,802	
Cash, beginning of year			<u>31,339</u>	
Cash, end of year			<u>\$ 44,141</u>	

**Supplemental data**

Interest paid		\$	19,048	
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*The accompanying notes are an integral part of these consolidated financial statements.*

**ACCOUNTING POLICY FOOTNOTES**

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

# **The Nature Conservancy**

## **Notes to Consolidated Financial Statements**

### **June 30, 2011**

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#### **1. ORGANIZATION**

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

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

#### **2. CONSOLIDATED FINANCIAL STATEMENTS**

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

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

#### **3. CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

##### **Cash and Restricted Cash**

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

##### **Government Grants and Contracts Receivable/Deferred Revenue**

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

##### **Pledges Receivable**

Pledges receivable represent unconditional promises to give and are reported at fair value by discounting the expected future pledge payments at the prime interest rate at the balance sheet date. The discount rate used in the present value technique to determine fair value of pledges receivable is revised at each measurement date to reflect current market conditions and the creditworthiness of

# **The Nature Conservancy**

## **Notes to Consolidated Financial Statements**

### **June 30, 2011**

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donors. In addition, management evaluates payment history and market conditions to estimate allowances for doubtful pledges. Changes in the fair value of pledges receivable are reported in the statement of activities as contribution revenue except for changes in the allowance which are reported as program expenses at each subsequent reporting date. Pledges receivable past due by 90 days are, in the opinion of management, not material to the financial statements.

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

#### **Securities Lending Agreement**

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

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

#### **Property and Equipment**

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

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

#### **Concentration of Credit Risk**

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

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

#### **Investments**

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



# The Nature Conservancy

## Notes to Consolidated Financial Statements

### June 30, 2011

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- *Capital fund* – funds held primarily for the future acquisition of conservation land, easements, and for funding other conservation projects.
- *Split interest arrangements* – donations that are held in trust by The Conservancy or third party trustees, representing beneficial interests in trusts.
- *Endowment fund* – funds held as long-term capital to generate income for The Conservancy's operations.

#### Endowment Investment and Spending Policies

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

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

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

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

#### **Conservation Lands and Easements**

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

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

Conservation easements are comprised of listed rights and/or restrictions over the owned property that are conveyed by a property owner to The Conservancy, almost always in perpetuity, in order to

# **The Nature Conservancy**

## **Notes to Consolidated Financial Statements**

### **June 30, 2011**

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protect the owned property as a significant natural area, as defined in federal tax regulations. These intangible assets may be sold or transferred to others so long as the assignee agrees to carry out, in perpetuity, the conservation purposes intended by the original grantor. Conservation easements, by their very nature, do not generate material amounts of cash inflow annually.

#### **Notes Payable**

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

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

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

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

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

#### **Split Interest Arrangements**

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

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

#### **Net Assets**

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

# The Nature Conservancy

## Notes to Consolidated Financial Statements

### June 30, 2011

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- *Unrestricted net assets* – Revenues derived from dues, unrestricted contributions, government grants and contracts, investment income (other than the temporarily restricted portion of true endowment investment income), and other inflows of assets whose use by The Conservancy is not limited by donor-imposed restrictions. Certain unrestricted net assets have been designated by the Board of Directors to be maintained as land, easements, other conservation project funds, and quasi endowment funds.
- *Temporarily restricted net assets* – Contributions and other inflows of assets whose use by The Conservancy is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of The Conservancy, such as usage for specific programs, including certain overhead and indirect costs, or for spending from true endowment investment income.

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

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

#### Classification of endowment net assets

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

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

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

**The Nature Conservancy**  
**Notes to Consolidated Financial Statements**  
**June 30, 2011**

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- The investment policy of the institution.

*Endowments with Eroded Corpus*

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or The Conservancy requires to be retained as principal in perpetuity. Deficiencies of this nature that are reported in unrestricted net assets were \$3,454,000 as of June 30, 2011. These deficits resulted from unfavorable market fluctuations that occurred shortly after the investment of newly established endowments and authorized appropriation that was deemed prudent.

**4. CONSOLIDATED STATEMENT OF ACTIVITIES**

**Contributions**

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

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

**Government Grants and Contracts**

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

**Program expense allocation**

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

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

- *Conservation Activities and Actions* – Expenditures related to the broad spectrum of activities and actions critical to advancing The Conservancy's mission. Expenditures related to understanding, monitoring, maintaining, restoring, and managing natural areas owned by The Conservancy and others are included, as are expenditures for developing and enhancing The Conservancy's ability to gather and share ecological information and to assess and evaluate threats to the elements of natural diversity within ecoregions in which The Conservancy

# The Nature Conservancy

## Notes to Consolidated Financial Statements

### June 30, 2011

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works. In addition, this area includes expenditures to mitigate, prevent, or slow the effects of threats to the elements of biodiversity, including investments in the institutional development of domestic and international conservation organizations. Expenditures related to improving public land management and supporting the development of sound global policies, including participating in conferences and events that help establish a common vision for conservation worldwide. Finally, this category includes expenditures relating to community outreach and education of key stakeholders and land users in areas where Conservancy conservation programs reside.

- *General and Administration* – Expenditures related to building and maintaining an efficient business infrastructure, including those related to corporate governance, to support and advance the programmatic conservation objectives of The Conservancy.
- *General Fund-Raising* – Expenditures related to fund-raising strategies that provide the revenue stream for both operations and capital needs to further the accomplishment of The Conservancy's mission and objectives.
- *Membership Development* – Expenditures related to the acquisition and retention of The Conservancy's members, primarily through the use of a direct-mail program.

## 5. COMMITMENTS AND CONTINGENCIES

### *Litigation*

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

### *Leases*

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

### *Land acquisitions and other commitments*

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

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

## 6. RETIREMENT PLANS

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

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**Notes to Consolidated Financial Statements**  
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**7. INCOME TAXES**

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

**8. SUBSEQUENT EVENTS**

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

**FOOTNOTE SCHEDULES**

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

**The Nature Conservancy**  
**Notes to Consolidated Financial Statements**  
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**9. Pledges receivable**

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

*(In thousands)*

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

**10. Deposits on land and other assets**

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

*(In thousands)*

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

**11. Property and equipment**

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

*(In thousands)*

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

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



**The Nature Conservancy**  
**Notes to Consolidated Financial Statements**  
**June 30, 2011**

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**12. Investments**

*Investments* consisted of the following at June 30, 2011:

*(In thousands)*

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

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

*(In thousands)*

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

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**13. Notes payable**

*(In thousands)*

**Unsecured Colorado Educational and Cultural Facilities Authority Revenue Bonds:**

Tax Exempt, Series 2002A issued in the original principal amount of \$25,053,000 to refund the Industrial Development Authority of Arlington County (IDA) Tax Exempt Revenue Bonds Series 1997A and portions of the IDA Revenue Bonds Taxable Series 1997B; fixed interest rate pursuant to rate swap, 3.56% as of June 30, 2011, due July, 2027. \$ 16,098

Tax Exempt, Series 2003A-TE2008 issued in the original principal amount of \$102,400,000, with a variable interest rate reset weekly, 0.08% as of June 30, 2011, due July, 2033. 96,400

Taxable, Series 2008A issued in the original principal amount of \$90,000,000, with variable interest rate reset weekly, 0.15% as of June 30, 2011, due July, 2033. 86,275 198,773

**Other Notes Payable:**

Unsecured Taxable Revenue Bonds Series 2009 in the aggregate principal amount of \$100,000,000 issued July 1, 2009 to refund the Extended Floating Rate Notes, Taxable Revenue Bonds Series EXL5 on October 5, 2009; fixed rate of 6.30% due July, 2019. 100,000

New York State Environmental Facilities Corporation private bonds issued in the aggregate amount of \$50,000,000 with a fixed interest rate of 3.90%, due June, 2024. 50,000

Loans and mortgages, some of which are collateralized by the land and by a \$122,000 restricted cash account, and payable in monthly installments, including interest ranging from 0% to 8.5%; final payments are due at various dates through 2022. 57,150

Other notes payable without interest due on demand 5,375  
Total \$ 411,298

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

**The Nature Conservancy**  
**Notes to Consolidated Financial Statements**  
**June 30, 2011**

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

*(In thousands)*

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

**14. Net assets**

*Temporarily restricted net assets* are available for the following purposes:

*(In thousands)*

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

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

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

*(In thousands)*

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

**The Nature Conservancy**  
**Notes to Consolidated Financial Statements**  
**June 30, 2011**

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

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

**15. Assets carried at fair value**

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

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

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

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

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

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

**The Nature Conservancy**  
**Notes to Consolidated Financial Statements**  
**June 30, 2011**

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

*(In thousands)*

**Interest rate contracts**

Statement of Financial Position Location:

Accounts payable and accrued liabilities	\$	36,557
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Change in fair value in Statement of Activities:

Other income	\$	5,359
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Split interest agreements where The Conservancy is not the trustee are valued at the present value of the future distributions expected to be received over the term of the agreement. There is no market for these agreements, and they are therefore classified within Level 3.

**The Nature Conservancy**  
**Notes to Consolidated Financial Statements**  
**June 30, 2011**

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*Assets categorized by input level:*

*(In thousands)*

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

Investments included in Level 3 primarily consist of The Conservancy's ownership in alternative investments (principally limited partnership interests in hedge and private equity funds) as well as public equity investments held within private arrangements. The value of certain alternative investments represents the ownership interest in the net asset value (NAV) of the respective partnership. Approximately 78% of Level 3 investments held by the partnerships consist of marketable securities and 22% are securities that do not have readily determinable fair values. The

**The Nature Conservancy**  
**Notes to Consolidated Financial Statements**  
**June 30, 2011**

fair values of the securities held by limited partnerships that do not have readily determinable fair values are determined by the general partner and are based on appraisals, or other estimates that require varying degrees of judgment. If no public market exists for the investment securities, the fair value is determined by the general partner taking into consideration, among other things, the cost of the securities, prices of recent significant placements of securities of the same issuer, and subsequent developments concerning the companies to which the securities relate. The Conservancy has performed significant due diligence around these investments to ensure NAV is an appropriate measure of fair value.

*Investments valued using NAV:*

(In thousands)

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

*Rollforward of Level 3 financial instruments:*

(In thousands)

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

Of the net realized and unrealized gains of \$134,314,000 in the table above, \$128,699,000 are reflected in the accompanying statement of activities as investment income. The remaining amounts include a net \$4,867,000 increase in pledges, of which a \$5,867,000 increase is reflected in the accompanying statement of activities as dues and contributions and a \$1,000,000 decrease is reflected as conservation activities and actions program expense. The remaining \$748,000 is an

**The Nature Conservancy**  
**Notes to Consolidated Financial Statements**  
**June 30, 2011**

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increase in split interests reflected in the accompanying statement of financial position as an increase in the split interest arrangements liability. \$91,237,000 of the \$128,699,000 change in net assets reported as investment income relates to assets still held as of June 30, 2011.

**16. Leases**

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

*(in thousands)*

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

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



**The Nature Conservancy**  
**Supplemental Schedules**  
**For the years ended June 30, 2011 and 2010**

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**SUPPLEMENTAL SCHEDULES**

**Following are supplemental schedules:**

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

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

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

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

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

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

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

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

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

*(Amounts in thousands)*

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