

# **The Nature Conservancy**

**Consolidated Financial Statements**

**As of June 30, 2007 and 2006**

**Together with report of independent auditors**

**The Nature Conservancy**  
**Consolidated Financial Statements**  
**Contents**  
**June 30, 2007 and 2006**

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**Page(s)**

<b>Report of Independent Auditors</b> .....	1
<b>Financial Statements</b>	
Consolidated Statements of Financial Position As of June 30, 2007 and 2006.....	2
Consolidated Statement of Activities For the year ended June 30, 2007 .....	4
Consolidated Statement of Activities For the year ended June 30, 2006 .....	5
Consolidated Statements of Cash Flows For the years ended June 30, 2007 and 2006 .....	6
Notes to financial statements .....	8
Schedule of functional expenses For the years ended June 30, 2007 and 2006 .....	21

**Report of Independent Auditors**

To the Board of Directors of  
The Nature Conservancy

In our opinion, the accompanying consolidated statements of financial position and the related consolidated statements of activities and of cash flows present fairly, in all material respects, the consolidated financial position of The Nature Conservancy and subsidiaries (The Conservancy) at June 30, 2007 and 2006, and the changes in their net assets and their cash flows for the years 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 audits. We conducted our audits 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 audits provide a reasonable basis for our opinion.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedule of functional expenses for the year ended June 30, 2007 with summarized totals for the year ended June 30, 2006 is presented for purposes of additional analysis and is not a required part of the basic financial statements. This information has been subjected to the auditing procedures applied in our audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*PricewaterhouseCoopers LLP*

November 16, 2007

**The Nature Conservancy**  
**Consolidated Statements of Financial Position**  
**As of June 30, 2007 and 2006**

<i>(Amounts in thousands)</i>	<b>2007</b>	<b>2006</b>
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 19,681	\$ 16,085
Investments	75,650	231,828
Notes receivable - current	6,676	1,487
Government grants receivable	23,047	16,208
Pledges receivable - current	37,365	94,490
Deposits and other current assets	23,700	19,657
Total current assets	<u>186,119</u>	<u>379,755</u>
Restricted cash	35,243	29,478
Notes receivable - long-term	8,510	17,866
Pledges receivable - long-term, net of allowance for doubtful accounts	46,095	49,514
Investments held for conservation projects	630,744	491,305
Trade lands	14,632	10,781
Property and equipment, net of accumulated depreciation and amortization	92,628	88,351
Planned giving investments	298,528	257,656
Endowment investments	1,161,229	922,044
Conservation lands	1,780,350	1,502,629
Conservation easements	1,161,434	1,079,115
Total assets	<u>\$ 5,415,512</u>	<u>\$ 4,828,494</u>

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

**The Nature Conservancy**  
**Consolidated Statements of Financial Position**  
**As of June 30, 2007 and 2006**

<i>(Amounts in thousands)</i>	<b>2007</b>	<b>2006</b>
<b>Liabilities</b>		
Current liabilities		
Accounts payable	\$ 12,156	\$ 11,788
Accrued salaries and vacation liability	16,471	14,466
Other accrued liabilities - current	54,866	39,641
Current maturities of notes payable and lines of credit	10,071	21,986
Deferred revenue - current	21,003	14,609
Total current liabilities	<u>114,567</u>	<u>102,490</u>
Notes payable - long-term	417,091	340,864
Accrued liabilities - long-term	5,421	5,734
Deferred revenue - long-term	13,573	4,095
Planned giving liability	137,492	118,736
Total liabilities	<u>688,144</u>	<u>571,919</u>
<b>Net assets</b>		
Unrestricted		
Undesignated	12,395	2,030
Board-designated		
Land, easements, and project funds	2,953,755	2,700,167
Endowment	1,061,942	850,283
	<u>4,028,092</u>	<u>3,552,480</u>
Temporarily restricted	445,864	462,190
Permanently restricted	253,412	241,905
Total net assets	<u>4,727,368</u>	<u>4,256,575</u>
Total liabilities and net assets	<u>\$ 5,415,512</u>	<u>\$ 4,828,494</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, 2007**

<i>(Amounts in thousands)</i>	Unrestricted	Temporarily restricted	Permanently restricted	Total
<b>Support and revenues</b>				
Contributions for operations	\$ 109,510	\$ 59,889	\$ -	\$ 169,399
Contributions for land, land preservation fund, and other conservation projects	120,189	32,090	4,275	156,554
Contributions to endowments and similar funds	174	29,725	7,232	37,131
Contributions of goods and services	15,213	-	-	15,213
Mitigation and contracts	25,639	-	-	25,639
Government grants	109,637	-	-	109,637
Land and easements contributed for conservation	99,333	-	-	99,333
Contributions of trade lands	9,892	5,270	-	15,162
Investment income	350,826	-	-	350,826
Change in value of planned giving investments	-	10,262	-	10,262
Royalties, fees, and other	25,341	-	-	25,341
Total support and revenues before sales of conservation land and easements and net assets released from restrictions	865,754	137,236	11,507	1,014,497
Sales of conservation land and easements to governments and others	262,944	-	-	262,944
Net assets released from restrictions	153,562	(153,562)	-	-
Total support and revenues	<u>1,282,260</u>	<u>(16,326)</u>	<u>11,507</u>	<u>1,277,441</u>
<b>Expenses</b>				
Program expenses				
Conservation activities and actions	338,293	-	-	338,293
Book value of conservation land and easements sold or donated to governments and others	301,580	-	-	301,580
Total program expenses	<u>639,873</u>	<u>-</u>	<u>-</u>	<u>639,873</u>
Support services expenses				
General and administration	101,707	-	-	101,707
Fund-raising				
General fund-raising	48,165	-	-	48,165
Membership development	16,903	-	-	16,903
Total support services expenses	<u>166,775</u>	<u>-</u>	<u>-</u>	<u>166,775</u>
Total expenses	<u>806,648</u>	<u>-</u>	<u>-</u>	<u>806,648</u>
Increase (decrease) in net assets	475,612	(16,326)	11,507	470,793
Net assets at beginning of year	3,552,480	462,190	241,905	4,256,575
Net assets at end of year	<u>\$ 4,028,092</u>	<u>\$ 445,864</u>	<u>\$ 253,412</u>	<u>\$ 4,727,368</u>

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**The Nature Conservancy**  
**Consolidated Statement of Activities**  
**For the year ended June 30, 2006**

<i>(Amounts in thousands)</i>	Unrestricted	Temporarily restricted	Permanently restricted	Total
<b>Support and revenues</b>				
Contributions for operations	\$ 110,779	\$ 64,338	\$ -	\$ 175,117
Contributions for land, land preservation fund, and other conservation projects	105,994	121,508	300	227,802
Contributions to endowments and similar funds	291	9,877	2,570	12,738
Contributions of goods and services	9,028	-	-	9,028
Mitigation and contracts	19,747	-	-	19,747
Government grants	101,232	-	-	101,232
Land and easements contributed for conservation	103,839	-	-	103,839
Contributions of trade lands	6,044	-	-	6,044
Investment income	218,978	-	-	218,978
Change in value of planned giving investments	-	9,481	-	9,481
Royalties, fees, and other	25,612	-	-	25,612
Total support and revenues before sales of conservation land and easements and net assets released from restrictions	701,544	205,204	2,870	909,618
Sales of conservation land and easements to governments and others	176,051	-	-	176,051
Net assets released from restrictions	138,596	(138,596)	-	-
Total support and revenues	<u>1,016,191</u>	<u>66,608</u>	<u>2,870</u>	<u>1,085,669</u>
<b>Expenses</b>				
Program expenses				
Conservation activities and actions	298,474	-	-	298,474
Book value of conservation land and easements sold or donated to governments and others	233,562	-	-	233,562
Total program expenses	<u>532,036</u>	<u>-</u>	<u>-</u>	<u>532,036</u>
Support services expenses				
General and administration	86,311	-	-	86,311
Fund-raising				
General fund-raising	46,664	-	-	46,664
Membership development	16,276	-	-	16,276
Total support services expenses	<u>149,251</u>	<u>-</u>	<u>-</u>	<u>149,251</u>
Total expenses	<u>681,287</u>	<u>-</u>	<u>-</u>	<u>681,287</u>
Increase in net assets	334,904	66,608	2,870	404,382
Net assets at beginning of year	3,217,576	395,582	239,035	3,852,193
Net assets at end of year	<u>\$ 3,552,480</u>	<u>\$ 462,190</u>	<u>\$ 241,905</u>	<u>\$ 4,256,575</u>

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

**The Nature Conservancy**  
**Consolidated Statements of Cash Flows**  
**For the years ended June 30, 2007 and 2006**

<i>(Amounts in thousands)</i>	<b>2007</b>	<b>2006</b>
<b>Cash flows from operating activities</b>		
Increase in net assets	\$ 470,793	\$ 404,382
Adjustments to reconcile the increase in net assets to net cash provided by operating activities:		
Contributions restricted for:		
Investment in endowment	(7,232)	(2,570)
Investment in land preservation fund and other capital projects	(4,275)	(300)
Contributions of trade lands	(15,162)	(6,044)
Land and easements contributed for conservation	(99,333)	(103,839)
Gain on trade land sales/valuations	(2,186)	(2,662)
Loss on sales of conservation land and easements	41,947	56,804
Depreciation and amortization	4,775	4,797
Net realized and unrealized investment gains	(325,274)	(187,179)
Change in value of planned giving investments	(10,262)	(9,481)
Changes in assets and liabilities:		
Government grant receivables	(6,839)	(29)
Deposits and other current assets	(4,043)	(6,730)
Pledges receivable	60,544	(26,371)
Accounts payable	368	2,049
Accrued salaries and vacation liability	2,005	6,664
Other accrued liabilities	14,912	9,893
Deferred revenue	15,872	1,963
Planned giving liability	18,756	9,151
Additional cash provided by (used in) land activities:		
Proceeds from sales of conservation land and easements	262,944	176,051
Purchases of conservation land and easements	(566,472)	(243,994)
Proceeds from sales of trade lands	14,415	10,719
Net cash provided by (used in) operating activities	<u>(133,747)</u>	<u>93,274</u>

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

**The Nature Conservancy**  
**Consolidated Statements of Cash Flows**  
**For the years ended June 30, 2007 and 2006**

<i>(Amounts in thousands)</i>	<b>2007</b>	<b>2006</b>
<b>Cash flows from investing activities</b>		
Increase in restricted cash	\$ (5,765)	\$ (8,778)
Proceeds from sale of investments	1,369,078	932,389
Purchases of investments	(1,266,250)	(991,151)
Issuance of notes receivable	(2,610)	(5,472)
Proceeds received from notes receivable	6,777	7,433
Increase in planned giving investments	(30,610)	(22,808)
Purchases of property and equipment	(9,096)	(9,518)
Net cash provided by (used in) investing activities	<u>61,524</u>	<u>(97,905)</u>
<b>Cash flows from financing activities</b>		
Proceeds from contributions restricted for:		
Investment in endowment	7,232	2,570
Investment in land preservation fund and other capital projects	4,275	300
Principal payments on debt, including lines of credit and notes payable	(21,638)	(34,631)
Proceeds received from notes payable and advances against lines of credit	85,950	14,297
Net cash provided by (used in) financing activities	<u>75,819</u>	<u>(17,464)</u>
Net change in cash and cash equivalents	3,596	(22,095)
Cash and cash equivalents, beginning of year	16,085	38,180
Cash and cash equivalents, end of year	<u>\$ 19,681</u>	<u>\$ 16,085</u>
<b>Supplemental data</b>		
Interest paid	\$ 16,952	\$ 14,136
Seller debt-financed land acquisitions	3,639	2,351
Income taxes paid	391	382

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

# The Nature Conservancy

## Notes to Consolidated Financial Statements

### June 30, 2007 and 2006

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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, and in 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. Through this portfolio approach, The Conservancy works with partners to conserve a full array of ecological systems and viable native species.

#### 2. Summary of significant accounting policies

##### **Principles of consolidation**

The consolidated financial statements 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.

##### **Basis of financial statement presentation**

The consolidated financial statements are presented on the accrual basis of accounting.

##### **Classification of net assets**

The Conservancy's net assets have been grouped into the following three classes:

- **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.
- **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.
- **Unrestricted net assets** – Revenues derived from dues, unrestricted contributions, government grants and contracts, 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, land preservation funds (for the purchase of conservation land), other conservation project funds, and endowment funds.

# The Nature Conservancy

## Notes to Consolidated Financial Statements

### June 30, 2007 and 2006

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#### **Cash and restricted cash**

Highly liquid investments purchased with an original maturity of three months or fewer are considered to be cash equivalents. Restricted cash represents monies held in trust related to requirements of specific conservation project agreements.

#### **Concentration of credit risk**

The Conservancy's financial instruments that are exposed to concentrations of credit risk consist primarily of its cash and cash equivalents balances. The Conservancy invests its excess cash and cash equivalents in a repurchase agreement account with a high quality financial institution. The repurchase agreements are collateralized by U.S. Government securities, and bear minimal risk.

#### **Investments**

Investments are carried at estimated fair market value on the consolidated statements of financial position. Fair values of investments are estimated based on quoted market prices where available. Fair values for certain private equity and real estate investments held through limited partnerships or commingled fund shares or planned giving investments held in trust by third party trustees are estimated by the respective external investment managers if market values are not readily ascertainable. These valuations necessarily involve assumptions and estimation methods that are reviewed by The Conservancy, and actual valuations could differ from those estimates. Investments may include some short term investments which consist primarily of money market funds and other short term investments temporarily held by investment managers or held for a specific purpose. The Conservancy's investments consist of the following:

- **Investments** – Short- and medium-term investments of working capital.
- **Investments held for conservation projects** – Funds for the acquisition of conservation land, easements, and for funding other conservation projects.
- **Planned giving investments** – Planned giving investments are donations that are held in trust by The Conservancy or third party trustees, representing beneficial interests in trusts. Planned giving investments are recorded at current fair value or at an estimated fair value based on the latest available information. 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 Conservancy utilizes an IRS-approved annuity table to actuarially calculate the liability associated with the estimated lead payments where The Conservancy is the trustee. The Conservancy determines the discount rate to be used in the month the planned giving arrangements are entered into with the donor and these rates have ranged from 3.6 to 9.5 percent. The present value of the actuarially determined liability resulting from these gifts is recorded at the date of gift. The remaining portion of the gift is recorded as temporarily restricted revenue.
- **Endowment investments** – Funds held as long-term capital to generate income for The Conservancy's operations.

**The Nature Conservancy**  
**Notes to Consolidated Financial Statements**  
**June 30, 2007 and 2006**

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**Land and Land Interests**

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 independent appraisal. These assets fall into three primary categories:

- **Conservation lands** – 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.
- **Trade lands** – real property with minimal ecological value. These properties are sold to provide funds for The Conservancy to carry out its conservation work.
- **Conservation easements** – intangible assets 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 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.

With the exception of trade lands, which are carried at the lower of cost or fair market value, land and land interests are reported at the original book value. Upon sale or gift, the book value of the land or land interest is removed as an asset from the consolidated statement of financial position and reported as a program expense. The related proceeds, if any, are reported as revenue in the consolidated statement of activities. The majority of land sales and gifts relate to transfers of real property. Conservation easements, by their very nature, do not generate material amounts of cash inflow annually.

**Property and equipment**

Property and equipment are carried at cost. The Conservancy's minimum capitalization threshold is \$50,000. Expenditures for maintenance and repairs that do not improve or extend the lives of the respective assets are expensed as incurred. When assets are retired or sold, the related cost and accumulated depreciation are removed from the accounts, and any gain or loss on retirement or disposal of the individual assets is recorded as revenue or expense.

Depreciation 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	3 – 5 years
Furniture, fixtures, and other	4 – 10 years

**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 gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that sufficiently limit the use of the donated assets.

**The Nature Conservancy**  
**Notes to Consolidated Financial Statements**  
**June 30, 2007 and 2006**

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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.

**Grants and contracts**

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

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.

**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 and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**3. Notes receivable**

Notes receivable relate primarily to sales of land by The Conservancy. Notes receivable are recorded annually at their net realizable value. Maturities range from 1 to 22 years with varying interest rates from 0 to 10.0 percent. Default interest rates may be higher.

**The Nature Conservancy**  
**Notes to Consolidated Financial Statements**  
**June 30, 2007 and 2006**

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**4. Pledges receivable**

As of June 30, 2007 and 2006, unconditional promises to give were as follows:

<i>(In thousands)</i>	2007	2006
Amounts due in		
Less than one year	\$ 37,365	\$ 94,490
One to five years	50,441	53,614
More than five years	<u>2,241</u>	<u>4,062</u>
Subtotal	90,047	152,166
Less:		
Discount to present value	4,587	5,662
Allowance for uncollectible pledges	<u>2,000</u>	<u>2,500</u>
	<u>\$ 83,460</u>	<u>\$ 144,004</u>

Pledges receivable greater than one year in time are discounted at a risk-free rate of return. Amortization of the discount is recorded as additional contribution revenue and is used in accordance with donor-imposed restrictions, if any, on the contributions. An allowance is made for uncollectible pledges based upon management's judgment and analysis of the creditworthiness of the donors, past collection experience, and other relevant factors.

As of June 30, 2007 and 2006, The Conservancy had received promises to give totaling approximately \$40,300,000 and \$38,777,000, respectively, 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.

**The Nature Conservancy**  
**Notes to Consolidated Financial Statements**  
**June 30, 2007 and 2006**

**5. Investments**

Investments consisted of the following at June 30, 2007 and 2006:

*(In thousands)*

	<b>2007</b>				<b>Total</b>
	<b>Current investments</b>	<b>Investments held for conservation projects</b>	<b>Planned giving investments</b>	<b>Endowment investments</b>	
Short term investments	\$ 72,787	\$ 65,293	\$ 6,996	\$ 22,345	\$ 167,421
Fixed income - bonds	-	62,607	85,177	86,076	233,860
Equities	696	316,886	167,024	680,809	1,165,415
Real estate trusts	-	-	4,864	-	4,864
Hedge funds	-	170,599	-	334,037	504,636
Private equity investments	2,167	18,306	-	35,015	55,488
Receivables from trusts	-	-	34,467	-	34,467
Interfund loans	-	(2,947)	-	2,947	-
<b>Total investments</b>	<b>\$ 75,650</b>	<b>\$ 630,744</b>	<b>\$ 298,528</b>	<b>\$ 1,161,229</b>	<b>\$ 2,166,151</b>

*(In thousands)*

	<b>2006</b>				<b>Total</b>
	<b>Current investments</b>	<b>Investments held for conservation projects</b>	<b>Planned giving investments</b>	<b>Endowment investments</b>	
Short term investments	\$ 230,132	\$ 52,543	\$ 4,059	\$ 2,086	\$ 288,820
Fixed income - bonds	-	100,001	76,952	75,281	252,234
Equities	395	241,456	140,303	594,702	976,856
Real estate trusts	-	-	1,714	-	1,714
Hedge funds	-	82,933	-	235,473	318,406
Private equity investments	1,301	15,485	-	13,389	30,175
Receivables from trusts	-	-	34,628	-	34,628
Interfund loans	-	(1,113)	-	1,113	-
<b>Total investments</b>	<b>\$ 231,828</b>	<b>\$ 491,305</b>	<b>\$ 257,656</b>	<b>\$ 922,044</b>	<b>\$ 1,902,833</b>

See Note 2 for a description of the classification of The Conservancy's investments.

Planned Giving Investments include gift annuities with a fair market value of \$125,203,000 and \$105,198,000 as of June 30, 2007 and 2006, respectively. The corresponding liability for these annuities was \$67,644,000 and \$63,587,000 as of June 30, 2007 and 2006, respectively, with an increase in net assets for gift annuities in the amount of \$15,948,000 and \$6,526,000 for the years ended June 30, 2007 and 2006, respectively.

**The Nature Conservancy**  
**Notes to Consolidated Financial Statements**  
**June 30, 2007 and 2006**

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Planned Giving Investments include recognition of contribution revenue which is classified as temporarily restricted contributions to endowments and similar funds. The amount of planned giving contribution revenue recognized was \$9,405,000 and \$9,688,000 for the years ended June 30, 2007 and 2006, respectively.

Certain investment managers of The Conservancy utilize derivative instruments for hedging purposes in their portfolios. These investments are intended to hedge currency exposures and interest rate risks.

The Conservancy has remaining commitments to private equity and hedge fund investments of \$142,873,000 at June 30, 2007.

Investment income consisted of the following for the years ended June 30, 2007 and 2006:

	2007	2006
<i>(In thousands)</i>		
Dividends and interest income	\$ 33,054	\$ 40,487
Realized gains (net of expenses of 7,502 and 8,688, respectively)	68,491	122,579
Unrealized gains	249,281	55,912
Investment income	<u>\$ 350,826</u>	<u>\$ 218,978</u>

**6. Restricted net assets**

Temporarily restricted net assets are available for the following purposes:

	2007	2006
<i>(In thousands)</i>		
Land acquisition and other conservation projects	\$ 208,312	\$ 183,760
Time restricted for periods after June 30	237,552	278,430
Total	<u>\$ 445,864</u>	<u>\$ 462,190</u>

Permanently restricted net assets are restricted in perpetuity; the income derived from these investments is expendable to support the operations of The Conservancy. For the years ended June 30, 2007 and 2006, such income totaled \$47,409,000 and \$31,915,000, respectively.

**The Nature Conservancy**  
**Notes to Consolidated Financial Statements**  
**June 30, 2007 and 2006**

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**7. Property and equipment**

Property and equipment consisted of the following at June 30, 2007 and 2006:

	2007	2006
<i>(In thousands)</i>		
Land	\$ 5,074	\$ 4,984
Buildings and improvements	93,504	92,931
Construction in progress	12,150	6,016
Computer equipment and software	2,317	2,015
Furniture, fixtures, and other	7,579	6,512
	<u>120,624</u>	<u>112,458</u>
Less - Accumulated depreciation and amortization	(27,996)	(24,107)
Total	<u>\$ 92,628</u>	<u>\$ 88,351</u>

Depreciation expense was \$4,775,000 and \$4,797,000 during the years ended June 30, 2007 and 2006, respectively. Of the total assets listed above, \$4,005,000 and \$2,170,000 were fully depreciated at June 30, 2007 and 2006, respectively.

**The Nature Conservancy**  
**Notes to Consolidated Financial Statements**  
**June 30, 2007 and 2006**

**8. Notes payable and lines of credit**

Notes payable and lines of credit consisted of the following at June 30, 2007 and 2006:

<i>(In thousands)</i>	2007	2006
Unsecured borrowings due at various dates through 2012. Interest is payable at various rates based on LIBOR plus 0.50%, depending on repayment terms, 5.82% and 5.85% at June 30, 2007 and 2006, respectively.	\$ 688	\$ 837
Unsecured Colorado Educational and Cultural Facilities Authority Tax Exempt Revenue Bonds, 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, 2007 and 2006, due July, 2027.	23,719	24,496
Unsecured Colorado Educational and Cultural Facilities Authority Taxable Revenue Bonds, Series 2002B-1 through Series 2002B-2 issued in the original principal amount of \$100,000,000 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; pay bond issuance costs, and finance and refinance acquisition of conservation land and easements; fixed interest rate pursuant to rate swap, 4.37% as of June 30, 2007 and variable interest rates 5.15% for Series 2002B-1 and 5.09% for Series 2002B-2 as of June 30, 2006, due July, 2032.	93,750	95,375
Unsecured Colorado Educational and Cultural Facilities Authority Taxable Revenue Bonds, Series 2003A-1 through Series 2003A-4 issued in the original principal amount of \$200,000,000 to finance acquisition of conservation land and easements; fixed interest rate pursuant to rate swap, 2.96% for Series 2003A-2 through Series 2003A-4 as of June 30, 2007, and variable interest rates, 5.16% for Series 2003A-2, 5.20% for Series 2003A-3 and A-4 as of June 30, 2006, and 5.19% for Series 2003A-1 at June 30, 2006, due July, 2033.	134,100	167,700
Unsecured Colorado Educational and Cultural Facilities Authority Tax Exempt Revenue Bonds, Series 2003A-1TE issued in the original principal amount of \$22,300,000, converted from the Unsecured Colorado Educational and Cultural Facilities Authority Taxable Revenue Bonds, Series 2003A-1; fixed interest rate pursuant to rate swap, 2.96% as of June 30, 2007 and variable interest rate 3.95% as of June 30, 2006, due July 2033.	22,300	22,300
Unsecured Colorado Educational and Cultural Facilities Authority Tax Exempt Revenue Bonds, Series 2003A-1TE and A-2TE issued in the original principal amount of \$30,900,000, converted from the Unsecured Colorado Educational and Cultural Facilities Authority Taxable Revenue Bonds, Series 2003A-1 and A-2; fixed interest rate pursuant to rate swap, 2.96% as of June 30, 2007, due July, 2033.	30,000	-
Loans and mortgages on land, some of which are collateralized by the land and by a \$240,000 certificate of deposit and payable in monthly installments, including interest ranging from 0% to 9%; final payments are due at various dates through 2022.	122,230	51,772
Other notes payable without interest due on demand	375	370
	<u>427,162</u>	<u>362,850</u>
Less - current maturities	(10,071)	(21,986)
Total notes payable - long term	<u>\$ 417,091</u>	<u>\$ 340,864</u>

**The Nature Conservancy**  
**Notes to Consolidated Financial Statements**  
**June 30, 2007 and 2006**

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The future maturities of notes payable and lines of credit are as follows:

<b>Year ended June 30</b>	<b>(in thousands)</b>
2008	\$ 10,071
2009	27,322
2010	90,803
2011	9,215
2012	12,605
Thereafter	277,146
	<u>\$ 427,162</u>

Interest expense incurred on notes payable and on lines of credit for 2007 and 2006 was \$17,300,000 and \$13,769,000, respectively.

The Conservancy has an unsecured line of credit providing total borrowings up to \$15,000,000. Interest is payable at various rates based on LIBOR plus 0.35%, depending on repayment terms. As of June 30, 2007 and 2006 the balance on the \$15,000,000 line of credit was \$0.

**9. Contributed goods and services**

The Conservancy periodically receives contributed professional services from third parties and recognizes revenue at the fair value of those services. During 2007 and 2006, these services totaled \$6,228,000 and \$6,772,000, respectively. In addition, The Conservancy received contributed goods that totaled \$8,985,000 and \$2,256,000 for the years ended June 30, 2007 and 2006, respectively. Contributed goods are recorded at fair value on the date of donation. Contributed goods with a fair value of \$50,000 or more are capitalized in accordance with The Conservancy's capitalization policy. Of the \$8,985,000 in contributed goods, \$280,000 was capitalized.

**10. Fair value of financial instruments**

The carrying amounts of cash, receivables, accrued liabilities, and payables on the consolidated statements of financial position approximate fair value due to the short-term nature of these items.

The carrying amounts of long-term debt and notes receivable on the consolidated statements of financial position approximate fair value, which is estimated based on current market rates offered to or by The Conservancy for similar instruments.

**11. Commitments and contingencies**

**Leases**

The Conservancy has entered into noncancelable operating leases for office space, which expire at various dates through 2016. Certain of these leases contain rent escalation clauses based on the consumer price index.

**The Nature Conservancy**  
**Notes to Consolidated Financial Statements**  
**June 30, 2007 and 2006**

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The following is a schedule of future minimum lease payments for all operating leases:

Year ended June 30	(in thousands)
2008	\$ 3,506
2009	2,724
2010	2,342
2011	2,045
2012	1,521
Thereafter	<u>3,364</u>
Total minimum lease payments	<u>\$ 15,502</u>

Rent expense was \$10,043,000 and \$8,910,000 for the years ended June 30, 2007 and 2006, respectively.

**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, 2007, in the amount of \$144,913,000.

Since 1999, the Conservancy has had an agreement to provide financial and other support to another not-for-profit organization which provides biodiversity conservation data and information. The agreement expired on June 30, 2006. Effective July 1, 2006, the Conservancy entered into a new agreement with the same organization, which extended a \$9,000,000 endowment matching commitment from the original agreement until December 31, 2006; and which provides for up to \$1,200,000 of additional financial support over a three-year period provided certain conditions are met. The Conservancy has provided \$33,157,000 in direct financial support to the organization under the original and the new agreements combined.

The Conservancy is a party to an agreement whereby under certain circumstances, the Conservancy may be required to establish a special purpose entity and accept a loan from the other party to the agreement. The Conservancy would, in turn, secure the loan with a qualified existing asset, and guarantee repayment of the loan should the special purpose entity fail to perform under the terms of the loan. The Conservancy believes the likelihood of any significant loss related to this guarantee to be remote.

**12. 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. As of August 2005 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 \$9,610,000 and \$8,443,000 for the years ended June 30, 2007 and 2006, respectively.

**The Nature Conservancy**  
**Notes to Consolidated Financial Statements**  
**June 30, 2007 and 2006**

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**13. 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 ecoregion-based approach to conservation. 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 works. In addition, this area includes expenditures necessary for developing and implementing ecoregion-based plans and strategies 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. 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 members, primarily through the use of a direct-mail program.

**14. 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 Nature Conservancy**  
**Notes to Consolidated Financial Statements**  
**June 30, 2007 and 2006**

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**15. Subsequent events**

On July 12, 2007, the Conservancy converted \$50,100,000 of unsecured Colorado Educational and Cultural Facilities Authority taxable revenue bonds to tax exempt revenue bonds. As a result of this conversion the related interest expense will decrease significantly over the next 25 years.

The Nature Conservancy  
Schedules of Functional Expenses  
For the year ended June 30, 2007 with summarized totals for the year ended June 30, 2006

(Amounts in thousands)

	Program expenses	Support services expenses					Totals	
		Conservation activities and actions	General and administration	Fund-raising		Support services expenses	2007 Total expenses	2006 Total expenses
				General fund-raising	Membership development			
Personnel	\$ 137,564	\$ 55,674	\$ 37,188	\$ 1,990	\$ 94,852	\$ 232,416	\$ 220,736	
Contract, professional fees	53,791	9,615	2,922	778	13,315	67,106	57,803	
Grants and allocations	47,955	583	20	-	603	48,558	38,769	
Supplies	9,667	3,200	883	1,615	5,698	15,365	15,019	
Telecommunications	3,009	2,274	512	11	2,797	5,806	5,468	
Postage and mailing service	1,683	477	503	5,975	6,955	8,638	9,366	
Occupancy	2,602	7,246	195	-	7,441	10,043	8,910	
Equipment rental and maintenance	3,916	872	187	36	1,095	5,011	4,874	
Printing and publication	5,500	295	924	6,392	7,611	13,111	10,431	
Travel	14,316	3,594	2,527	50	6,171	20,487	18,407	
Conferences and meetings	5,814	1,574	852	37	2,463	8,277	6,704	
Interest	17,302	-	-	-	-	17,302	13,772	
Depreciation and amortization	4,465	304	6	-	310	4,775	4,797	
Equipment	3,282	305	55	-	360	3,642	2,766	
Taxes and licenses	1,775	811	99	4	914	2,689	1,006	
Utilities, repairs, maintenance, and construction	9,925	1,829	181	-	2,010	11,935	4,648	
Insurance	1,905	1,189	35	-	1,224	3,129	3,302	
Real estate taxes	3,635	559	17	-	576	4,211	6,793	
Closing costs	3,186	1,249	-	-	1,249	4,435	2,684	
Contributed goods and services non-cash expense	4,768	9,360	805	-	10,165	14,933	9,028	
All other	2,233	697	254	15	966	3,199	2,442	
Subtotal	338,293	101,707	48,165	16,903	166,775	505,068	447,725	
Book value of conservation land and easements sold or donated to government and others	301,580	-	-	-	-	301,580	233,562	
Total	\$ 639,873	\$ 101,707	\$ 48,165	\$ 16,903	\$ 166,775	\$ 806,648	\$ 681,287	