The Nature Conservancy

Consolidated Financial Statements
For the years ended June 30, 2010 and 2009
And report thereon

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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 financial position of The Nature Conservancy (The Conservancy) at June 30, 2010 and 2009, and the changes in its net assets and its 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 conducted 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, 2010 with summarized totals for the year ended June 30, 2009 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 the 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

December 6, 2010

The Nature Conservancy
Consolidated Statements of Financial Position
As of June 30, 2010 and 2009

(Amounts in thousands)	**2010**	**2009**
Assets		
Current assets		
Cash and cash equivalents	$ 31,339	$ 14,120
Restricted cash	36,603	39,200
Investments	1,861	8,578
Notes receivable - current	501	525
Government grants receivable	31,427	27,923
Pledges receivable - current	80,739	59,889
Deposits on land	57,250	56,964
Other deposits and other current assets	29,298	17,239
Total current assets	269,018	224,438
Notes receivable - long-term	10,502	10,093
Pledges receivable - long-term, net	60,438	59,233
Investments held for conservation projects	537,204	466,277
Trade lands	16,625	16,618
Property and equipment, net of accumulated depreciation and amortization	101,111	95,970
Planned giving investments	246,571	230,824
Endowment investments	891,326	837,302
Conservation lands	1,892,328	2,157,385
Conservation easements	1,639,636	1,539,065
Total assets	$ 5,664,759	$ 5,637,205

Continued

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

The Nature Conservancy
Consolidated Statements of Financial Position
As of June 30, 2010 and 2009

(Amounts in thousands)	**2010**	**2009**
Liabilities		
Current liabilities		
Accounts payable	$ 13,121	$ 9,446
Accrued salaries and vacation liability	20,408	20,437
Refundable advances	51,340	51,483
Other accrued liabilities - current	18,190	17,285
Current maturities of long-term debt	104,156	248,000
Deferred revenue - current	24,961	21,640
Total current liabilities	232,176	368,291
Long-term debt, less current maturities	346,292	216,828
Accrued liabilities - long-term	46,397	287,358
Deferred revenue - long-term	12,466	12,996
Planned giving liability	133,237	128,081
Total liabilities	770,568	1,013,554
Net assets		
Unrestricted		
Undesignated	(28,825)	(41,091)
Board-designated		
Land, easements, and project funds	3,441,919	3,269,676
Quasi endowment and similar funds	687,951	655,522
	4,101,045	3,884,107
Temporarily restricted	504,529	458,145
Permanently restricted	288,617	281,399
Total net assets	4,894,191	4,623,651
Total liabilities and net assets	$ 5,664,759	$ 5,637,205

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, 2010

(Amounts in thousands)	Unrestricted	Temporarily restricted	Permanently restricted	Total
Support and revenues				
Contributions for operations	$ 107,720	$ 59,758	$ -	$ 167,478
Contributions for land, land preservation fund, and other conservation projects	76,731	121,675	559	198,965
Contributions to endowments and similar funds	95	8,667	6,659	15,421
Contributions of goods and services	11,758	-	-	11,758
Mitigation and contracts	24,886	-	-	24,886
Government grants	138,135	-	-	138,135
Land and easements contributed for conservation	83,726	-	-	83,726
Contributions of trade lands	3,366	723	-	4,089
Investment returns	145,806	24,133	-	169,939
Change in value of planned giving investments	-	1,950	-	1,950
Royalties, fees, and other	25,063	-	-	25,063
Total support and revenues before sales of conservation land and easements and net assets released from restrictions	617,286	216,906	7,218	841,410
Sales of conservation land and easements to governments and others	148,783	-	-	148,783
Net assets released from restrictions	170,522	(170,522)	-	-
Total support and revenues	936,591	46,384	7,218	990,193
Expenses				
Program expenses				
Conservation activities and actions	349,101	-	-	349,101
Book value of conservation land and easements sold or donated to governments and others	200,476	-	-	200,476
Total program expenses	549,577	-	-	549,577
Support services expenses				
General and administration	98,683	-	-	98,683
Fund-raising				
General fund-raising	53,880	-	-	53,880
Membership development	17,513	-	-	17,513
Total support services expenses	170,076	-	-	170,076
Total expenses	719,653	-	-	719,653
Increase in net assets	216,938	46,384	7,218	270,540
Net assets at beginning of year	3,884,107	458,145	281,399	4,623,651
Net assets at end of year	$ 4,101,045	$ 504,529	$ 288,617	$ 4,894,191

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, 2009

(Amounts in thousands)	Unrestricted	Temporarily restricted	Permanently restricted	Total
Support and revenues				
Contributions for operations	$ 99,687	$ 60,557	$ -	$ 160,244
Contributions for land, land preservation fund, and other conservation projects	93,482	131,848	840	226,170
Contributions to endowments and similar funds	803	5,830	11,213	17,846
Contributions of goods and services	12,538	-	-	12,538
Mitigation and contracts	36,733	-	-	36,733
Government grants	126,915	-	-	126,915
Land and easements contributed for conservation	115,655	-	-	115,655
Contributions of trade lands	7,007	389	-	7,396
Investment returns	(283,725)	(36,934)	-	(320,659)
Change in value of planned giving investments	-	(47,813)	-	(47,813)
Royalties, fees, and other	25,655	-	-	25,655
Total support and revenues before sales of conservation land and easements and net assets released from restrictions	234,750	113,877	12,053	360,680
Sales of conservation land and easements to governments and others	186,543	-	-	186,543
Net assets released from restrictions	195,580	(195,580)	-	-
Total support and revenues	616,873	(81,703)	12,053	547,223
Expenses				
Program expenses				
Conservation activities and actions	386,690	-	-	386,690
Book value of conservation land and easements sold or donated to governments and others	257,785	-	-	257,785
Total program expenses	644,475	-	-	644,475
Support services expenses				
General and administration	103,869	-	-	103,869
Fund-raising				
General fund-raising	58,293	-	-	58,293
Membership development	17,784	-	-	17,784
Total support services expenses	179,946	-	-	179,946
Total expenses	824,421	-	-	824,421
Increase (decrease) in net assets	(207,548)	(81,703)	12,053	(277,198)
Reclassifications	(3,665)	-	3,665	-
Increase in net assets	(211,213)	(81,703)	15,718	(277,198)
Net assets at beginning of year	4,095,320	539,848	265,681	4,900,849
Net assets at end of year	$ 3,884,107	$ 458,145	$ 281,399	$ 4,623,651

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, 2010 and 2009

(Amounts in thousands)	2010	2009
Cash flows from operating activities		
Increase (decrease) in net assets	$ 270,540	$ (277,198)
Adjustments to reconcile the increase (decrease) in net assets to net cash provided by (used in) operating activities:		
Contributions restricted for:		
Investment in endowment	(6,659)	(11,213)
Investment in land preservation fund and other capital projects	(559)	(840)
Contributions of trade lands	(4,089)	(7,396)
Land and easements contributed for conservation	(83,726)	(115,655)
Loss on trade land sales/valuations	2,290	1,130
Loss on sales of conservation land and easements	51,693	71,242
Depreciation and amortization	5,656	5,177
Realized/Unrealized investment (gains) losses	(149,950)	320,659
Change in value of planned giving investments	(1,950)	47,813
Changes in:		
Restricted cash	2,597	-
Government grants receivable	(3,504)	(3,574)
Pledges receivable	(22,055)	(5,735)
Deposits on land	(286)	(49,579)
Other deposits and other current assets	(12,059)	(7,141)
Accounts payable	3,675	(4,464)
Accrued salaries and vacation liability	(29)	(114)
Refundable advances	(143)	10,956
Other accrued liabilities	9,944	249,342
Deferred revenue	2,791	(293)
Planned giving liability	5,156	(12,948)
Additional cash provided by (used in) land activities:		
Proceeds from sales of conservation land and easements	148,783	186,543
Purchases of conservation land and easements	(204,488)	(628,012)
Proceeds from sales of trade lands	5,462	3,255
Purchases of of trade lands	-	(193)
Net cash provided by (used in) operating activities	$ 19,090	$ (228,238)

Continued

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, 2010 and 2009

(Amounts in thousands)	**2010**	**2009**
Cash flows from investing activities		
Proceeds from sale of investments	$ 1,330,537	$ 1,238,058
Purchases of investments	(1,307,311)	(1,038,771)
Issuance of notes receivable	(2,194)	(2,593)
Proceeds from notes receivable	1,809	5,158
Increase in planned giving investments	(5,307)	(2,376)
Purchases of property and equipment	(11,417)	(1,433)
Net cash provided by investing activities	6,117	198,043
Cash flows from financing activities		
Decrease in restricted cash	-	561
Proceeds from contributions restricted for:		
Investment in endowment	6,659	11,213
Investment in land preservation fund and other capital projects	559	840
Principal payments on debt	(250,156)	(96,183)
Proceeds from issuance of debt	235,776	118,963
Payments of financing costs	(826)	-
Net cash (used in) provided by financing activities	(7,988)	35,394
Net change in cash and cash equivalents	17,219	5,199
Cash and cash equivalents, beginning of year	14,120	8,921
Cash and cash equivalents, end of year	$ 31,339	$ 14,120
Supplemental data		
Interest paid	$ 17,876	$ 16,120
Seller debt-financed land acquisitions	153	963
Income taxes paid	283	244
Decrease in accrued liabilities for land acquired on behalf of, and transferred to, the U.S. Federal Government	(250,000)	-

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

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. 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, including certain overhead and indirect costs, or for spending from true endowment investment income.

- **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, land preservation funds (for the purchase of conservation land), other conservation project funds, and quasi endowment funds.

Cash and cash equivalents and restricted cash
Highly liquid investments purchased with a maturity of three months or fewer when purchased 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
Cash and cash equivalents include cash in banks held in accounts in the United States of America and 29 foreign countries. The cash in foreign accounts is uninsured, but is limited per country to amounts deemed immaterial by management.

The Conservancy invests its excess cash with high quality financial institutions, the largest concentrations of which are invested in U.S. Agencies (85.7%) and corporate repurchase agreements (14.1%) backed by U.S. Treasury securities. 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, 2010, the single largest non-U.S. Government issuer exposure was 0.5% of the total portfolio.

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-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 2.0 to 9.5%. 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.

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 appraisal. These assets fall into three primary categories:

- **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 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.

- **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 assets held for sale and are carried at the lower of cost or fair market value less costs to sell, 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 loss on retirement or gain or loss on disposal of the individual assets is recorded as revenue or expense.

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

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.

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.

Reclassifications
Certain prior year amounts have been reclassified to conform to the current year presentation. Specifically, \$56,964,000 in deposits on land and \$51,483,000 in refundable advances have been reclassified from deposits and other current assets and from other accrued liabilities – current, respectively, and \$39,200,000 in restricted cash has been reclassified from long-term to current in the accompanying statements of financial position.

New Accounting Pronouncements
For the year ended June 30, 2010, The Conservancy adopted Financial Accounting Standards Board (FASB) Accounting Standards codification (ASC) 105-10, *FASB Codification* ("the Codification"). The codification is the single source of authoritative accounting principles generally accepted in the United States of America ("GAAP"). Accordingly, references to GAAP have been updated.

Effective July 1, 2009, The Conservancy adopted the FASB's guidance regarding Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent) as described in the note on fair value of financial instruments.

Effective July 1, 2009, The Conservancy adopted the FASB's guidance regarding Disclosures about Derivative Instruments and Hedging Activities as described in the note on long-term debt and derivatives.

3. Fair value of financial instruments

Effective July 1, 2008, The Conservancy adopted the Financial Accounting Standards Board's (FASB) guidance regarding Fair Value Measurements, which addresses aspects of the expanding application of fair value accounting. The guidance defines fair value, establishes a consistent framework for measuring fair value and expands disclosure requirements about fair value measurements. The guidance, among other things, requires The Conservancy to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The guidance requires disclosure of the level within the fair value hierarchy in which fair value measurements in their entirety fall, segregating fair value measurements using quoted prices in active markets for identical assets or liabilities (Level 1), significant other observable inputs (Level 2), and significant unobservable inputs (Level 3). A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

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The following tables present the financial instruments carried at fair value as of June 30, 2010 and 2009, by caption on the statement of financial position by the valuation hierarchy defined above:

(In thousands)			**2010**	
	Level 1	**Level 2**	**Level 3**	**Total**
Investments:				
Short-term investments	$ 25,777	$ 2,139	$ -	$ 27,916
Fixed income:				
U.S. treasuries	18,044	-	-	18,044
Asset-backed securities	-	13,527	-	13,527
Corporate debt	-	63,530	-	63,530
Mortgage-backed securities	-	11,323	-	11,323
U.S. agency bonds	-	161,346	-	161,346
Convertible securities	-	3,787	-	3,787
Public equity:				
Retail and wholesale	64,952	-	-	64,952
Financial services	56,628	-	-	56,628
Technology	61,713	-	-	61,713
Health care	23,428	-	-	23,428
Energy	27,849	-	-	27,849
Transportation and utilities	6,982	-	-	6,982
Other services	25,651	-	-	25,651
Other industries	39,182	-	-	39,182
Commingled equity funds	-	-	330,402	330,402
Mutual funds	92,350	-	-	92,350
Closed end mutual funds	48,263	-	-	48,263
Hedge funds	-	-	208,823	208,823
Private equity	-	-	142,986	142,986
Split interests, trusteed	78,790	120,832	12,584	212,206
Split interests, non-trusteed	-	-	36,074	36,074
Total investments	$ 569,609	$ 376,484	$ 730,869	$ 1,676,962
Pledges receivable			$ 141,177	$ 141,177
Liabilities:				
Interest rate swaps payable		$ 41,916		$ 41,916

(In thousands)	2009			
	Level 1	**Level 2**	**Level 3**	**Total**
Investments:				
Short-term investments	$ 500	$ 40,891	$ -	$ 41,391
Fixed income:				
U.S. treasuries	57,961	-	-	57,961
Commercial paper	-	6,197	-	6,197
Asset-backed securities	-	-	6,081	6,081
Corporate debt	-	32,388	-	32,388
Mortgage-backed securities	-	-	7,089	7,089
U.S. agency bonds	-	66,157	-	66,157
Convertible securities	-	593	-	593
Public equity:				
Retail and wholesale	58,178	-	-	58,178
Financial services	51,514	-	-	51,514
Technology	43,859	-	-	43,859
Health care	29,877	-	-	29,877
Energy	21,128	-	-	21,128
Transportation and utilities	9,826	-	-	9,826
Other services	54,554	-	-	54,554
Other industries	15,463	-	-	15,463
Commingled equity funds	-	-	239,453	239,453
Mutual funds	134,137	-	4,412	138,549
Closed end mutual funds	34,985	-	-	34,985
Hedge funds	-	-	264,799	264,799
Private equity	-	-	121,916	121,916
Split interests, trusteed	81,685	115,173	9,944	206,802
Split interests, non-trusteed	-	-	34,221	34,221
Total investments	$ 593,667	$ 261,399	$ 687,915	$ 1,542,981
Pledges receivable			$ 119,122	$ 119,122
Liabilities:				
Interest rate swaps payable		$ 32,564		$ 32,564

Following is a description of The Conservancy's valuation methodologies for assets and liabilities measured at fair value.

Fair value for Level 1 is based upon quoted prices in active markets that The Conservancy has the ability to access for identical assets and liabilities. Market price data is generally obtained from exchange or dealer markets. The Conservancy does not adjust the quoted price for such assets and liabilities.

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

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

Investments included in Level 3 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 79% of Level 3 investments held by the partnerships consist of marketable securities and 21% are securities that do not have readily determinable fair values. The 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 as of June 30, 2010.

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.

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 methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while The Conservancy believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

Effective July 1, 2009, The Conservancy adopted the FASB's guidance regarding Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent), which amended the FASB's guidance on Fair Value Measurements and Disclosures - Overall, to provide a practical expedient in estimating the fair value of certain alternative investments. Under the practical expedient, entities are permitted to use NAV without adjustment for investments within the scope of the guidance.

Investments in certain entities that calculate net asset value at June 30, 2010 are as follows:

(In thousands)	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Global equity funds	$ 138,453	$ -	Weekly, monthly, quarterly	Same day, 10 or 30 business days
International equity funds	191,949	-	Monthly	6 business days, on 15th of prior month
Hedge funds	208,823	-	Monthly, quarterly, rolling 2,3 & 5 years	45 - 90 days, 3 - 4 months
Private equity funds	141,737	92,980	N/A	N/A
Total	$ 680,962	$ 92,980		

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The following are rollforwards of the statement of financial position amounts for financial instruments classified by The Conservancy within Level 3 of the fair value hierarchy defined above as of June 30, 2010 and 2009:

(In thousands)	2010				
	Fair value as of July 1, 2009	**Net realized and unrealized gains (losses)**	**Net purchases and (sales)**	**Net transfers into (out of) Level 3**	**Fair value as of June 30, 2010**
Asset and mortgage-backed securities	$ 13,170	$ -	$ -	$ (13,170)	$ -
Commingled equity funds	239,453	42,111	23,838	25,000	330,402
Mutual funds	4,412	(13)	(4,399)	-	-
Hedge funds	264,799	29,235	(85,211)	-	208,823
Private equity	121,916	6,255	14,815	-	142,986
Split interests	44,165	(2,939)	7,432	-	48,658
Pledges	119,122	22,055	-	-	141,177
Total investments and pledges	$ 807,037	$ 96,704	$ (43,525)	$ 11,830	$ 872,046

(In thousands)	2009				
	Fair value as of July 1, 2008	**Net realized and unrealized gains (losses)**	**Net purchases and (sales)**	**Net transfers into Level 3**	**Fair value as of June 30, 2009**
Asset and mortgage-backed securities	$ 7,639	$ (6,482)	$ 12,013	$ -	$ 13,170
Commingled equity funds	303,400	(61,562)	(2,385)	-	239,453
Mutual funds	-	-	-	4,412	4,412
Hedge funds	403,760	(96,215)	(54,428)	11,682	264,799
Private equity	115,270	(18,516)	25,162	-	121,916
Split interests	45,375	(1,210)	-	-	44,165
Pledges	113,387	5,735	-	-	119,122
Total investments and pledges	$ 988,831	$ (178,250)	$ (19,638)	$ 16,094	$ 807,037

All net realized and unrealized gains (losses) in the tables above are reflected in the accompanying statement of activities and are reported in revenues as follows for the years ended June 30, 2010 and 2009, with the exceptions of a $3,500,000 decrease in pledges reported in conservation activities and actions program expense for the year ended June 30, 2010 and a $621,000 decrease in split interests reflected in the accompanying statement of financial position as a decrease in the planned giving liability as of June 30, 2010:

(In thousands)	2010		
	Contributions for land, land preservation fund, and other conservation projects	**Investment returns**	**Change in value of planned giving investments**
Total gains (losses) included in changes in net assets	$ 25,555	$ 77,588	$ (2,318)
Unrealized gains (losses) included in changes in net assets relating to assets still held	$ 25,555	$ 42,600	$ (2,318)

(In thousands)	2009		
	Contributions for land, land preservation fund, and other conservation projects	**Investment returns**	**Change in value of planned giving investments**
Total gains (losses) included in changes in net assets	$ 5,735	$ (182,775)	$ (1,210)
Unrealized gains (losses) included in changes in net assets relating to assets still held	$ 5,735	$ (181,602)	$ (1,210)

4. 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 19 years with varying interest rates from 0 to 10.0%. Default interest rates may be higher.

5. Pledges receivable

As of June 30, 2010 and 2009, unconditional promises to give were as follows:

(In thousands)	2010	2009
Amounts due in		
Less than one year	$ 80,739	$ 59,889
One to five years	66,425	61,520
More than five years	907	1,349
Subtotal	148,071	122,758
Less fair value adjustments:		
Discount to present value	3,394	3,636
Allowance for doubtful accounts	3,500	-
	$ 141,177	$ 119,122

Pledges receivable greater than one year in time are discounted at the prime interest rate, 3.25% at June 30, 2010 and 2009. As a result of adopting the FASB's Fair Value Measurements guidance, including the Fair Value Option for Financial Assets and Financial Liabilities, the discount rate used in the present value technique to determine fair value of pledges receivable is revised at each measurement date to reflect current market conditions and the creditworthiness of donors. In addition, management evaluates payment history and market conditions to estimate allowances for doubtful pledges. Changes in the fair value of pledges receivable are reported in the 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 is immaterial.

As of June 30, 2010 and 2009, The Conservancy received promises to give totaling approximately $51,604,000 and $56,887,000, 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.

6. Investments

Investments consisted of the following at June 30, 2010 and 2009:

(In thousands)	2010				
	Current investments	**Investments held for conservation projects**	**Planned giving investments**	**Endowment investments**	**Total**
Short term investments	$ 972	$ 83,752	$ 4,811	$ 72,915	$ 162,450
Fixed income - bonds	-	184,430	70,279	29,899	284,608
Equities	26	223,186	124,532	481,693	829,437
Real estate trusts	-	-	12,584	-	12,584
Hedge funds	-	44,188	-	164,635	208,823
Private equity investments	863	386	-	141,737	142,986
Receivables from trusts	-	-	36,074	-	36,074
Interfund loans	-	1,262	(1,709)	447	-
Total investments	$ 1,861	$ 537,204	$ 246,571	$ 891,326	$ 1,676,962

(In thousands)	2009				
	Current investments	**Investments held for conservation projects**	**Planned giving investments**	**Endowment investments**	**Total**
Short term investments	$ 7,260	$ 160,343	$ 14,108	$ 3,820	$ 185,531
Fixed income - bonds	-	58,925	65,841	38,877	163,643
Equities	304	172,189	116,909	473,525	762,927
Real estate trusts	-	-	9,944	-	9,944
Hedge funds	-	66,522	-	198,277	264,799
Private equity investments	1,014	199	-	120,703	121,916
Receivables from trusts	-	-	34,221	-	34,221
Interfund loans	-	8,099	(10,199)	2,100	-
Total investments	$ 8,578	$ 466,277	$ 230,824	$ 837,302	$ 1,542,981

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

Planned giving investments include charitable gift annuities, which must meet certain reserve level requirements. Due to the volatility in the financial markets, those reserves were required to be increased with other sources of funds. The amount of additional funds invested in the short term planned giving investments were $1,710,000 and $10,200,000 as of June 30, 2010 and 2009, respectively.

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 $8,355,000 and $5,399,000 for the years ended June 30, 2010 and 2009, respectively.

Certain investment managers of The Conservancy use derivatives and currency hedging in order to manage risks and exposures related to interest rates, security positions, and foreign currency.

Investment returns consisted of the following for the years ended June 30, 2010 and 2009:

(In thousands)	**2010**	**2009**
Dividends and interest income	$ 19,989	$ 18,479
Realized gains (losses) (net of expenses of $6,639 and $7,202, respectively)	36,513	(78,102)
Unrealized gains (losses)	113,437	(261,036)
Investment returns	$ 169,939	$ (320,659)

7. Restricted net assets

Temporarily restricted net assets are available for the following purposes:

(In thousands)	**2010**	**2009**
Land acquisition and other conservation projects	$ 187,924	$ 189,748
Time restricted for periods after June 30	147,768	135,471
Time and purpose restricted for periods after June 30	96,662	75,977
True endowment gains subject to future Board of Directors appropriation	72,175	56,949
Total	$ 504,529	$ 458,145

Permanently restricted net assets are restricted in perpetuity; the income derived from these investments is expendable to support the operations of The Conservancy.

Effective July 1, 2008, The Conservancy adopted the FASB's guidance regarding Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA), and Enhanced Disclosures for all Endowment Funds. UPMIFA, as enacted by the Council of the District of Columbia, under which laws The Conservancy is incorporated, and as interpreted by The Conservancy, requires the preservation of the fair value of the original gift as of the gift date of donor-restricted endowment funds absent explicit donor stipulations to the contrary. In addition, net appreciation on donor-restricted endowment funds is required to be classified and reported as temporarily restricted net assets.

The Conservancy's Endowment (Endowment) provides stable financial support to a wide variety of programs and activities in perpetuity, playing a critical role in enabling The Conservancy to achieve its mission. Programs supported by the Endowment include restoring, monitoring, and managing natural areas owned by The Conservancy and others, as well as many other activities and actions vital to the preservation of natural diversity. The Endowment includes both donor-restricted endowment funds and funds designated by the Board of Directors (Board) to function as endowments. Net assets associated with endowment funds, including Board-designated endowment funds, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Conservancy classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, and (b) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by The Conservancy in a manner consistent with the standard of prudence prescribed by UPMIFA.

In accordance with UPMIFA, The Conservancy considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

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

Endowment funds are categorized in the following net asset classes as of June 30, 2010 and 2009:

(In thousands)	2010			
	Unrestricted	**Temporarily Restricted**	**Permanently Restricted**	**Total**
Donor-restricted endowment funds	$ (7,096)	$ 72,175	$ 132,667	$ 197,746
Board-designated endowment funds	690,828	-	-	690,828
Total endowment funds	$ 683,732	$ 72,175	$ 132,667	$ 888,574

(In thousands)	2009			
	Unrestricted	**Temporarily Restricted**	**Permanently Restricted**	**Total**
Donor-restricted endowment funds	$ (9,879)	$ 56,949	$ 126,008	$ 173,078
Board-designated endowment funds	660,998	-	-	660,998
Total endowment funds	$ 651,119	$ 56,949	$ 126,008	$ 834,076

Changes in endowment funds by net asset classification for the years ended June 30, 2010 and 2009 are summarized as follows:

(In thousands)	2010			
	Unrestricted	**Temporarily Restricted**	**Permanently Restricted**	**Total**
Endowment net assets, beginning of year	$ 651,119	$ 56,949	$ 126,008	$ 834,076
Investment returns	93,654	24,133	-	117,787
Contributions	95	313	6,659	7,067
Interfund transfers	5,534	1,213	-	6,747
Other revenue	234	-	-	234
Appropriation of assets for expenditure	(77,337)	-	-	(77,337)
Net assets released from restrictions	10,433	(10,433)	-	-
Total endowment funds	$ 683,732	$ 72,175	$ 132,667	$ 888,574

(In thousands)	2009			
	Unrestricted	**Temporarily Restricted**	**Permanently Restricted**	**Total**
Endowment net assets, beginning of year	$ 866,045	$ 96,635	$ 111,130	$ 1,073,810
Investment returns	(161,040)	(36,934)	-	(197,974)
Contributions	803	430	11,213	12,446
Interfund transfers	2,851	1,312	-	4,163
Other revenue	204	-	-	204
Appropriation of assets for expenditure	(58,573)	-	-	(58,573)
Net assets released from restrictions	4,494	(4,494)	-	-
Other reclassifications	(3,665)	-	3,665	-
Total endowment funds	$ 651,119	$ 56,949	$ 126,008	$ 834,076

The total amount of permanently restricted net assets on the consolidated statements of financial position includes the donor-restricted endowment funds displayed in the above tables, 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 in the land preservation fund were $155,614,000 and $155,355,000 as of June 30, 2010 and 2009, respectively.

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 UPMIFA requires The Conservancy to retain as a fund of perpetual duration. In accordance with the FASB guidance, deficiencies of this nature that are reported in unrestricted net assets were $7,096,000 and $9,879,000 as of June 30, 2010 and 2009, respectively. These deficits resulted from unfavorable market fluctuations that occurred shortly after the investment of newly established endowments and authorized appropriation that was deemed prudent.

Endowment Investment and Spending Policies

The amount of endowment funds 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, 2010 was 5.5% of the average fair market value over the 36 months of calendar years 2008, 2007 and 2006.

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% 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 has determined asset allocation targets and ranges across a variety of asset classes which The Conservancy feels acceptable for inclusion in its portfolio. The Conservancy has chosen not to manage its underlying assets directly, but to utilize independent investment managers. To maintain prudent diversification and to avoid undue risk, the Conservancy's portfolio is divided among 40 to 50 separate managers.

The Conservancy recognizes the difficulty of achieving its potential investment objectives in light of the uncertainties and complexities of contemporary investment markets. The Conservancy also recognizes that significant risk must be assumed to achieve long-term investment objectives. In establishing its investment objectives in light of its risk tolerances, 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.

8. Property and equipment

Property and equipment consisted of the following at June 30, 2010 and 2009:

(In thousands)	**2010**	**2009**
Land	$ 6,580	$ 6,670
Buildings and improvements	105,523	99,323
Construction in progress	16,130	14,726
Computer equipment and software	1,156	2,521
Furniture, fixtures, and other	12,528	10,346
	141,917	133,586
Less - Accumulated depreciation and amortization	(40,806)	(37,616)
Total	$ 101,111	$ 95,970

Depreciation and amortization expense was $5,656,000 and $5,177,000 during the years ended June 30, 2010 and 2009, respectively. Of the total assets listed above, $8,356,000 and $5,493,000 were fully depreciated at June 30, 2010 and 2009, respectively.

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9. Long-term debt and derivatives

Long-term debt consisted of the following at June 30, 2010 and 2009:

(In thousands)	2010	2009
Unsecured borrowings due at various dates through 2012. Interest is payable at various rates based on LIBOR plus 0.50%, depending on repayment terms; 0.85% and 0.82% at June 30, 2010 and 2009, respectively.	$ 237	$ 8,387
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, 2010 and 2009, due July, 2027.	22,071	22,910
Unsecured Extendable Floating Rate Notes, Taxable Revenue Bonds Series EXL5 issued in the original principal amount of $100,000,000, with a variable interest rate reset quarterly, originally due October 5, 2009. See interest rate note below.	-	100,000
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	-
Unsecured Colorado Educational and Cultural Facilities Authority Taxable Revenue Bonds, Series 2008A issued in the original principal amount of $90,000,000, with a variable interest rate reset weekly, due July, 2033. See interest rate note below.	88,180	90,000
Unsecured Colorado Educational and Cultural Facilities Authority Tax Exempt Revenue Bonds, Series 2003A-TE2008 issued in the original principal amount of $102,400,000, with a variable interest rate reset weekly, due July, 2033. See interest rate note below.	98,500	100,500
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 on land, some of which are collateralized by the land and by a $202,000 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.	85,835	137,656
Other notes payable without interest due on demand	5,625	5,375
	450,448	464,828
Less - current maturities	(104,156)	(248,000)
Total Long-term Debt	$ 346,292	$ 216,828

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 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 these swaps beginning on July 1, 2010 and thereafter.

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

Year ended June 30	*(in thousands)*
2011	$ 104,156
2012	112,310
2013	71,258
2014	3,733
2015	6,123
Thereafter	152,868
	$ 450,448

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 using current market rates as of June 30, 2010 the fair value of long-term debt is approximately $449,585,000.

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. As a result, The Conservancy has classified an additional $58,222,000 as current maturities of long-term debt on the consolidated statements of financial position to reflect the potential accelerated payment schedule.

Interest expense incurred on total debt for 2010 and 2009 was $22,499,000 and $16,467,000, respectively.

The Conservancy has an unsecured line of credit providing total borrowings as of June 30, 2010 and 2009 of up to $30,000,000 and $50,000,000, respectively. As of June 30, 2010 and 2009 the balance on the line of credit was $0 and $8,000,000, respectively. Interest is payable at various rates based on LIBOR plus 0.50%, depending on repayment terms, as of June 30, 2010 and 2009.

Effective July 1, 2009, The Conservancy adopted the Financial Accounting Standards Board's (FASB) guidance regarding Disclosures about Derivative Instruments and Hedging Activities, which was an amendment to enhance the disclosure framework in the FASB's guidance regarding Accounting for Derivative Instruments and Hedging Activities. The guidance addresses constituent concerns about the impact derivative instruments can have on an entity's financial position, results of operations, and cash flows.

Fair Value of derivatives consisted of the following at June 30, 2010 and 2009:

(In thousands)		**2010**		**2009**
Derivatives not designated as hedging instruments:				
Interest rate contracts - swap agreements				
Statement of Financial Position Location:				
Accrued liabilities - long-term	$	41,916	$	32,564
Statement of Activities Location:				
Investment returns	$	(9,352)	$	(17,513)

10. 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 2010 and 2009, these services totaled \$7,887,000 and \$8,042,000, respectively. In addition, The Conservancy received contributed goods that totaled \$3,871,000 and \$4,496,000 for the years ended June 30, 2010 and 2009, respectively. Contributed goods are recorded at fair value on the date of donation. Contributed goods and services with a fair value of \$50,000 or more are capitalized in accordance with The Conservancy's capitalization policy. Of the \$7,887,000 and \$8,042,000 in contributed services, \$57,000 and \$74,000 was capitalized for the years ended June 30, 2010 and 2009, respectively. Of the \$3,871,000 and \$4,496,000 in contributed goods, \$107,000 and \$0 was capitalized for the years ended June 30, 2010 and 2009, respectively.

11. Commitments and contingencies

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 based on the consumer price index.

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

Year ended June 30	*(in thousands)*
2011	$ 3,898
2012	3,377
2013	2,967
2014	2,469
2015	1,922
Thereafter	2,995
Total minimum lease payments	$ 17,628

Rent expense was $11,086,000 and $10,719,000 for the years ended June 30, 2010 and 2009, 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, 2010, in the amount of $181,651,000.

The Conservancy has remaining funding commitments to private equity and hedge fund investments of $92,980,000 at June 30, 2010.

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 $10,855,000 and $11,574,000 for the years ended June 30, 2010 and 2009, respectively.

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 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 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.

Effective January 1, 2007, The Conservancy adopted the FASB's guidance related to Accounting for Income Taxes and Accounting for Uncertainty in Income Taxes. The adoption continues to have no effect on the consolidated financial statements.

15. Subsequent events

All subsequent events were evaluated through December 6, 2010.

The Nature Conservancy
Schedules of Functional Expenses
For the year ended June 30, 2010 with summarized totals for the year ended June 30, 2009

(Amounts in thousands)

	Program expenses	Support services expenses				Totals	
			Fund-raising				
	Conservation activities and actions	General and administration	General fund-raising	Membership development	Support services expenses	2010 Total expenses	2009 Total expenses
Personnel	$ 157,304	$ 61,199	$ 43,036	$ 1,737	$ 105,972	$ 263,276	$ 281,385
Contract, professional fees	49,105	7,019	3,013	3,347	13,379	62,484	73,193
Grants and allocations	49,901	490	14	-	504	50,405	63,623
Supplies	6,902	2,766	668	1,452	4,886	11,788	14,157
Telecommunications	2,635	2,096	446	12	2,554	5,189	5,902
Postage and mailing service	1,410	367	505	6,521	7,393	8,803	9,677
Occupancy	1,931	8,968	187	-	9,155	11,086	10,719
Equipment rental and maintenance	4,047	1,113	212	-	1,325	5,372	6,182
Printing and publication	3,302	189	810	4,393	5,392	8,694	9,751
Travel	11,148	1,847	1,842	34	3,723	14,871	17,886
Conferences and meetings	4,625	779	989	6	1,774	6,399	8,963
Interest	22,608	24	-	-	24	22,632	16,498
Depreciation and amortization	5,345	305	6	-	311	5,656	5,177
Equipment	2,759	262	32	-	294	3,053	2,958
Taxes and licenses	1,007	430	63	7	500	1,507	1,745
Utilities, repairs, maintenance, and construction	6,446	1,740	186	-	1,926	8,372	12,315
Insurance	1,966	1,366	56	-	1,422	3,388	3,401
Real estate taxes	4,776	692	22	-	714	5,490	6,164
Closing costs	1,617	432	-	-	432	2,049	1,922
Contributed goods and services non-cash expense	4,780	5,103	1,711	-	6,814	11,594	12,464
All other	5,487	1,496	82	4	1,582	7,069	2,554
Subtotal	349,101	98,683	53,880	17,513	170,076	519,177	566,636
Book value of conservation land and easements sold or donated to government and others	200,476	-	-	-	-	200,476	257,785
Total	$ 549,577	$ 98,683	$ 53,880	$ 17,513	$ 170,076	$ 719,653	$ 824,421