APPENDIX I

INFORMATION RE: FUNDRAISING AND CHARITABLE CONTRIBUTIONS

QUESTION 3: Trade Land

JUL 25 2003

"TNC has a program called 'Trade Lands' that targets donations or below market sales of land by corporations and individuals for resale by TNC. Please describe in detail this program, including the number and value of gifts from corporations and individuals."

Under certain circumstances, The Nature Conservancy accepts gifts of real estate with limited or no ecological significance. The Conservancy calls such properties "trade lands" because they are donated with explicit understanding that they may be sold, sometimes with restrictions on their use, and the proceeds invested in priority conservation work. Since its inception in 1981 the trade lands gift program has generated more than $180 million for conservation.

The Conservancy receives many types of property through the trade lands program, including single-family homes, apartment buildings, farms, office buildings and building lots. Due to the costs involved in evaluating a potential gift and maintaining property until it is sold, the Conservancy has established a minimum gift of $50,000.

In below-market sales to TNC (bargain purchases) the Conservancy buys a trade land at less than fair market value. Such transactions have been rare in the Conservancy's history, and policy dictates that the Board of Governors approve any bargain purchases of $100,000 or more. Between July 1, 1997 and June 30, 2002 one of 287 trade land transactions was a bargain sale. In this instance the donation of property to TNC was contingent upon the Conservancy paying back taxes of $70,000 for a property valued at $750,000. The Conservancy sold the property for $1.3 million.

AUG 2 1 2003

QUESTION 3: Trade Land

TNC sometimes receives trade land gifts through bequests. With these gifts, Form 8283 is not required since the donor died prior to the gift being made. Similarly, Form 8282 is not required. We have included sale information on these types of gifts. Moreover, Form 8283 is not required unless the donor is taking a charitable deduction on income taxes.

October 27, 2004
Senate Finance Committee Letter

Question 17: Narrative Re: Trade Lands

Please provide an aggregate trade lands account reconciliation from 6/30/97 to 6/30/2003 (beginning account balance, book value of trade lands acquired, gains on trade lands, losses on trade lands, etc., ending balance). Confirm whether any writedowns in value to reflect lower of cost or value were made for trade land holdings during this period.

A summary trade lands chart for FY 98 through FY 02, along with an explanation of the headings of the summary chart, is enclosed.

During this five year period both writeups and writedowns occurred with respect to trade lands held by The Nature Conservancy. The aggregate of these writeups and writedowns is reflected in the "Valuation Adj Up or Down" column. Writeups or writedowns occur for a variety of reasons. With respect to retained life estate trade lands, The Nature Conservancy adjusts the book value of all retained life estates to reflect its increasing interest in the assets with passing time. The adjustments are based on the life tenant's year of birth and the fair market value of the property (usually at the time of the gift). These figures are entered into a software program which calculates the actuarial book value of the retained life estates based on an IRS formula. While book values for retained life estates typically increase each year, in 2000 the IRS changed the formula for making this calculation, resulting in a significant decrease (writedown) in book values for FY 2000. The Nature Conservancy also reevaluates the fair market value of trade lands that have been on its books for a period of three years. If there is a substantial decrease in value, an adjustment is made and the book value is written down.

Summary of Trade Lands
Heading Explanations

Fiscal Year begins July 1 of the previous calendar year and ends June 30 of the year stated.

Beginning Book Value represents the total book value of all trade land assets on the General Ledger as of the first day of the fiscal year.

Land In represents any additions to the total book value of trade land assets by virtue of the acquisition of new trade land assets or reacquisition of disposed trade land assets due to foreclosures on financed sales during the fiscal year. The value of each trade land is added to the General Ledger when each acquisition or reacquisition occurs.

Land Out represents the total book value of all trade land assets that have been disposed of during the fiscal year. The value of each trade land is removed from the General Ledger as each disposition occurs.

Land Recl represents the net of total book value of trade land assets that are reclassified to conservation land assets and the total book value of conservation land assets that are reclassified to trade land assets during the fiscal year.

Valuation Adj Up or (Down) represents the total book value adjustments that were made during the fiscal year. These adjustments include the annual book value adjustments to Retained Life Estate trade lands based on changing actuarial valuations, any book value write-downs on trade lands that have lost substantial value, and any corrections to original book values and updates to original book values that were estimated at the time of acquisition but were later substantiated with 8283s or appraisals. It is The Nature Conservancy's practice to re-evaluate the fair market value of trade lands that have been on its books for a period of three years.

Ending Book Value represents the total book value of all trade lands assets as of the last day of the fiscal year after all book value adjustments were made.

Regular (Gain) or Loss on Sale represents the difference between the book values of all trade lands sold during the fiscal year and their sales prices, excluding those sold with conservation restrictions. A trade land sold for more than the book value is represented as a gain and a trade land sold for less than the book value is represented as a loss. Any sale made within two years of the gift is reported to the IRS on Form 8282.

Subtotal (Gain) Loss for 990 represents the sum of the valuation adjustments and the regular gains and losses on sales, as reported on Form 990.

Consv Loss on Sale represents the losses attributed to selling trade lands at a reduced sales price due to deed restrictions and/or a conservation easement placed on the property. It is a portion or all of the difference between the sales price and book value of the trade land.

April 21, 2005
Senate Finance Committee Letter

Question 11

Please describe the activities used by TNC to solicit contributions of trade land properties, as well as the activities TNC conducts (directly or through its agents) to develop or sell such properties. Please provide a breakdown (based on approximate dollar amounts of sales or number of sales transactions) of commercial office buildings, personal residences, and other types of trade land properties. Please provide a list of trade land properties currently held by TNC with an appraised value exceeding $100,000 and information regarding the date of acquisition by TNC, the type of property, and current asking price by TNC, with respect to such properties.

Please note that the Conservancy defines trade lands as properties that do not qualify for preservation under Conservancy preserve criteria and which have little or no ecological significance. The Conservancy acquires these areas, usually by gift, to be resold with the net sale proceeds used to protect unique natural lands. Before the Conservancy disposes of trade land properties, an ecological evaluation is performed to determine whether the property warrants protection for conservation purposes.

The Conservancy expends minimal effort to solicit trade land gifts, and such efforts are largely confined to the Conservancy's membership. The three methods of trade land solicitation employed by the Conservancy are: 1) occasional advertisements in the Conservancy's quarterly magazine; 2) personal discussions between TNC staff and potential donors; and 3) as a funding option in general planned giving materials, including information on the internet. The Conservancy does not use agents to solicit or develop trade land gifts, nor do we actively pursue the purchase of trade lands.

Once clear title is obtained to a given trade land gift, staff arrange for its sale, which is usually handled by third-party real estate agents in the area where the trade land is located. The Conservancy takes no steps to develop or enhance the value of the property prior to sale, although general maintenance of the property (payment of taxes, arranging for upkeep, etc.) is allowed.

The Conservancy trade land sales records are not maintained by property type, so we are unable to provide a breakdown of the dollar amount and number of sales by property type. However, we can state with some confidence that the vast majority of trade lands received and sold by the Conservancy are unimproved or improved residential real estate. To the best of our knowledge the Conservancy has never received a commercial office building as a trade land gift.

A list of trade lands currently held by the Conservancy with an appraised value in excess of $100,000 is attached. Where the Conservancy is currently marketing the property for sale a current asking price is indicated. Since many of these gifts are subject to retained life estates (indicated by RLE on the schedule) and may not be sold until the resident with the right to occupy the property vacates, no current asking price is noted.

MAY 12 2005

Owned Trade Lands Exceeding $100,000

Trade Land	Date of Acquisition	Type	Current Asking Price	
[redacted] (RLE)	12/16/1996	Improved Residential	N/A	
[redacted] (RLE)	1/8/2004	Improved Residential	N/A	
[redacted] (RLE)	10/15/2004	Improved Residential	N/A	
[redacted] (RLE)	7/25/1984	Unimproved	N/A	
[redacted] (RLE)	12/27/1994	Improved Residential	N/A	
[redacted] (RLE)	1/23/1993	Improved Residential	N/A	
[redacted] (RLE)	11/19/1997	Improved Residential	N/A	
[redacted] (RLE)	7/13/1987	Improved Residential	N/A	
[redacted] (RLE)	2/5/2003	Improved Residential	$	129,000.00
[redacted] (RLE)	6/29/1998	Improved Residential	N/A	
[redacted] (RLE)	10/13/1999	Improved Residential	N/A	
[redacted] (RLE)	3/12/1996	Improved Residential	N/A	
[redacted] (RLE)	6/10/1999	Improved Residential	N/A	
[redacted]	12/30/1997	Unimproved	N/A	
[redacted]	12/29/1994	Unimproved	N/A	
[redacted][1]	12/28/1994	Improved Residential	N/A	
[redacted][3]	3/17/1982	Unimproved	N/A	
[redacted]	12/18/2002	Unimproved	$	165,000.00
[redacted]	5/18/2004	Improved Residential	$	324,900.00
[redacted]	7/9/2004	Unimproved	$	199,000.00
[redacted] (Unitrust)[2]	10/28/2004	Improved Residential	$	3,600,000.00
[redacted]	11/24/2004	Improved Residential	$	239,000.00
[redacted]	12/28/2004	Improved Residential	$	389,000.00
[redacted] (Unitrust)	12/27/2004	Unimproved	$	144,000.00
[redacted]	3/15/1989	Unimproved	$	600,000.00

1 [redacted] The Nature Conservancy owns a 20% undivided interest.

2 [redacted] Unitrust: The unitrust receives 50% of the net proceeds.

3 [redacted]: The Conservancy owns a 40% interest in certain mineral rights.

April 21, 2005
Senate Finance Committee Letter

Question 8

Please provide a list of the donor advised funds that TNC has established over the past three years, including the name of the donor, the dates and amounts of the contributions to the fund, the type of property contributed, the relationship (if any) the donor has with TNC, the type of investment the fund has entered into, and the present account balance of the fund overall and for each individual. Also describe whether any of the individual fund balances have been used for expenditures relating to donor review of the grants from the fund or investment of the fund balances. Please provide an estimate of the current aggregate donor advised fund balances that have been established by TNC. Please provide all policies of TNC in managing the donor advised fund.

A list of Donor Advised Funds established since April 1, 2002 is provided in the attached excel document, TNC Donor Advised Fund - Participants since April 1, 2002. (Please note, only two participants set up donor advised funds with The Nature Conservancy prior to this date.) The list includes the name of the donor, dates and amounts of contributions, type of property contributed, relationship between the donor and the Conservancy, and the 3/31/05 account balances of each fund. The total balance of The Nature Conservancy's Donor Advised Fund as of 3/31/2005 was $4,436,198.

The Donor Advised Fund is invested in a segregated account within the The Nature Conservancy's investment portfolio. This account is managed to the standards established in The Nature Conservancy's Investment Policy (attached). As of April 22, 2005, the Donor Advised Fund was invested as follows:

Domestic Equity: 30.7%
Fixed Income: 35.9%
Cash 4.8%
International Equity: 8.8%
Hedge Funds: 8.4%
Private Equity: 0.2%
Global Equity 11.2%

None of the individual fund balances have been used for expenditures relating to donor review of the grants from the fund or investment of the fund balances.

When The Nature Conservancy Donor Advised Fund was established in 2000, the parameters of the fund and the procedures developed for administering the Fund were set up in accordance with the regulations proposed at that time by the Internal Revenue Service for Donor Advised Funds. The attached *Donor Advised Fund Procedures, Protocol for Distributions,* *Distribution to Charity Cover Letter, and Memorandum of Understanding (with Exhibit A)* provides further information and details regarding the Conservancy's procedures for managing the Donor Advised Fund.

TNC Donor Advised Fund - Participants since April 1, 2002

Name of Fund	Name of Donor	Related Party*	Initial Contribution	Manner of Funding	Date	Add'l Contributions	Manner of Funding	Date	3/31/2005 Value
[redacted]	[redacted]	None	1,000,000	Check	12/26/2003	1,000,000	Check	12/27/2004	1,800,525
		None	100,000	Check	12/11/2003				82,025
		None	113,201	Stock	5/4/2004	17,990	Stock	3/22/2005	72,297
		Florida Board of Trustees	598,884	Stock/Mutual Fund/Bond/Cash	6/30/2004				551,309
		None	100,000	Check	3/11/2003				46,407
		None	1,407,848	Electronic Funds Transfer	4/30/2004				1,341,086
		[redacted] TNC employee	105,000	Check	12/22/2004				100,264
		None	339,998	Stock	10/14/2004				324,231

*Related Party: all employees, Board members, Chapter Trustees, close relatives of the foregoing, and related organizations

THE NATURE CONSERVANCY

INVESTMENT POLICY

INTRODUCTION

This policy is designed to provide a framework within which to manage the investments of The Nature Conservancy (the "Conservancy").

The Board of Governors of the Conservancy (the "Board") recognizes that it is the "named fiduciary" with respect to control or management of the investment assets of the Conservancy. Among its other duties, the Board directs the management and control of the investment assets in accordance with prudent standards of care. The Board may appoint an investment manager or managers to manage any investment assets. The investment assets addressed in this policy are distinguished from short-term cash managed by the Assistant Treasurer. Management of short-term cash accounts falls under the Centralized Banking and Signature Authority policy that has been established by the Board.

Decisions relating to the implementation of this policy reside with the Finance Committee of the Board of Governors. The Finance Committee is authorized to take any and all actions consistent with this policy and may further delegate authority to act within the guidance provided by this policy to Conservancy management and, specifically, the Director of Finance & Investments. The Finance Committee may also designate and appoint a fiduciary advisor to make recommendations to the Conservancy.

This Investment Policy provides a structure consistent with a standard of care necessary for the Board of Governors' to exercise its fiduciary responsibility in managing the funds of the organization. To that end, this policy includes separate sections on: investment objectives; assets, including strategic asset allocation; investment management; performance standards; and miscellaneous matters, including endowment spending rates, investments of other funds (i.e. planned giving and retirement plan assets), and certain trustee responsibilities.

In developing this policy, the Conservancy considered liquidity requirements, the need to diversify assets, and the financial impact (including the possibility of a significant loss) of a wide range of possible policies. It is anticipated that a new strategic asset allocation will be created whenever there is a significant change in cash requirements or capital market expectations, and at least every five years. This policy will be updated to reflect the results of each such study.

INVESTMENT OBJECTIVES

The primary purpose of the investment program is to invest assets in a manner that ensures sufficient resources will be available to meet immediate and long-term requirements. The Funds of the Conservancy should be invested in institutional assets that are prudently managed and well diversified. The overall investment objective is to provide adequate cash flows to meet requirements of the Conservancy, while preserving principal and maximizing returns, given appropriate risk constraints.

A. Investment Objectives of the Funds

The investment of these funds should provide current investment income to be used for operations, while maintaining and enhancing the purchasing power of the original principal in perpetuity.

B. Performance Objectives

It is expected that the returns achieved will be accompanied by capital market risk, but that the returns, adjusted for this risk, will compare favorably to the return of the applicable markets and similar endowments. Over complete market cycles, the Conservancy's assets should generate a return, net of fees, greater than the benchmark index, consisting of a combination of appropriate capital market indexes weighted in the same proportions as the Conservancy's strategic asset allocation (as defined in Exhibit I) net of fees associated with passively investing in the benchmark.

ASSETS

A. Acceptable Asset Classes

The following asset classes are considered acceptable for inclusion in the strategic asset allocation outlined in Exhibit I. Investment in these asset classes is subject to the restrictions on asset allocation, credit, and diversification as outlined in this policy.

1. Equity Securities:

    a. Domestic Equities—United States equities, including only publicly traded common, preferred, and convertible securities.

    b. International Equities—including only publicly traded common, preferred, and convertible securities, and American Depository Receipts.

2. Fixed Income Securities:

    a. Domestic and international debt, including both public and privately traded.

    b. Government, government agency, and corporate debt.

    c. Asset backed securities, including mortgages.

3. Cash, including:

    a. Money market instruments such as commercial paper, certificates of deposit, time deposits, bankers' acceptances, repurchase agreements, and short-term fixed income securities.

    b. Collective short-term investment funds such as money market funds.

4. Real Estate:

    a. Equity real estate and other real property.

    b. Real Estate Investment Trusts (REITs).

5. Alternative Investments:

    Alternative investments, generally assets that are not publicly or freely traded, including such assets or strategies as venture capital funds, mezzanine financing and hedge funds.

Derivatives, which include options, futures, swaps, and similar derivatives of securities; or options, futures, swaps, and similar derivatives of indexes of securities; or options, futures, swaps, and similar derivatives of currencies, are an acceptable alternative to investing in the types of securities permitted in A. 1. through A. 5., above. Derivatives are subject to the restrictions detailed in B. 4. below.

B. Restrictions

1. The entire portfolio shall have no more than 10% of its assets (at market value) invested in the securities of any one issuer, with the exception of the U.S. government and its agencies.

2. Initial purchases of fixed income securities are restricted to obligations with a minimum rating of B by Standard & Poor's or B by Moody's. The weighted average quality of the overall fixed income portfolio must be rated at least A as rated by Standard & Poor's and A by Moody's. In addition, no more than 15% of the securities in the overall fixed income allocation may be rated below investment grade. Investment grade securities are defined as those with a minimum rating of BBB by Standard & Poor's or Baa by Moody's. Further, no more than 15% of the overall fixed income securities may be in 144A securities, and no more than 10% may be non-U.S. securities.

3. Initial purchases of money market securities are restricted to obligations with a minimum rating of A-2 by Standard & Poor's, P-2 by Moody's, or their equivalent.

4. Derivatives, for the purpose of these restrictions, include (i) derivatives as defined in A. above, (ii) notes whose interest rate is tied to the movement of an index or another security or otherwise contain embedded options, and (iii) pass-through securities and traunches of pass-through securities. Derivatives are subject to the following additional restrictions:

   a. Derivatives may be used only for the purpose of reducing or controlling known risks (hedging), reducing transaction costs, shifting a portfolio's asset allocation, establishing positions in securities or indexes as an alternative to establishing positions in the cash markets, modifying the duration or convexity of a portfolio, or changing its yield.

   b. Derivatives may not be used to leverage the portfolio beyond what would otherwise have been experienced by investing in underlying cash market obligations.

   c. A derivative's fundamental risk/reward profile as well as the market(s) or security(ies) from which the derivatives financial character flows must be consistent in both letter and spirit with this policy.

   d. Derivative positions shall not be taken if payments are linked to indices or assets inconsistent with this investment policy.

   e. Potential downside risks (e.g., financial performance and market liquidity), assuming a severely stressed financial environment, must be considered before undertaking any positions in derivative instruments.

   f. For non-exchange traded derivatives, counterparties must maintain a minimum credit rating of A by Standard & Poor's or Moody's. Counterparty credit ratings must be continuously monitored. If the credit rating of a counterparty falls below A, the manager must advise the Conservancy immediately and the Conservancy will determine if the positions with that counterparty will be unwound or transferred to an acceptable counterparty.

   g. Except for exchange traded derivatives, the total notional (underlying) value of the position with any one counterparty which are not subject to two-way collateral agreements are limited to 10% of the entire portfolio.

   h. For transactions which are the equivalent of being short the cash market, cash, readily marketable and deliverable securities, or an offsetting exposure must be maintained to cover the entire contingent delivery obligation represented by such contracts.

5. The fund may invest in commingled funds maintained by third parties that invest in securities authorized by this policy. Investment guidelines for commingled funds should be consistent with the intent of this policy, but need not comply with this policy in its entirety.

C. Strategic Asset Allocation

The Board has delegated the authority to establish the acceptable asset class allocations to the Finance Committee. The Board will confirm the asset allocation on an annual basis. The Director of Finance and Investments, as advised by an appointed fiduciary advisor, if any, has discretion with respect to implementation of asset allocation decisions within these acceptable ranges and may employ an overlay manager to implement allocation changes.

INVESTMENT MANAGEMENT

A. Structure

1. It is not anticipated that the Conservancy will manage assets directly, but that the assets will be managed by independent investment managers. It is expected that the Conservancy will employ a Director of Finance and Investments and may appoint a trading advisor to assist in portfolio liquidations and restructurings.

2. To maintain prudent diversification and to avoid undue risk, the assets will be divided among a group of managers. The number of managers used will be determined by such factors as the total funds committed to an investment asset category; diversification, monitoring and cost considerations; and the investment style of the selected managers (e.g. value vs. growth).

3. Emphasis will be placed on seeking high quality investment managers. A proven style of investment that offers the best opportunity for meeting the investment objectives of the Conservancy is a basic requirement. Characteristics of selected firms will include a clear investment strategy, proven investment record and a disciplined decision-making process. In all cases, careful analysis will be conducted to evaluate the likelihood of the organization's prior track record being maintained (or in the case of a new organization, the prior track records of its principals).

B. Manager Guidelines

1. Except in case of the alternative asset class allocation, each manager must be either an investment adviser registered as an investment adviser under the Investment Advisers Act of 1940 and qualified to act as an investment manager for the Funds under Section 3(38) or a bank as defined in that Act, and must execute an "Investment Manager Agreement" which will include fee structure, investment guidelines and restrictions contained in this policy, and any additional guidelines or restrictions specific to the manager.

2. Assets are to remain in the custody of the Trustee unless (1) specifically assigned to a trusteed pooled account maintained by the investment manager, in which case the investment manager will furnish the Trustee with evidence of ownership of the units of the pooled account, or (2) as required to support margin requirements related to investments in derivatives.

3. Assets are to be managed in such a way that they are subject to prudent standard of care and any other applicable governmental or legal requirements. The manager may rely on information furnished from time to time by the Conservancy. If there is any doubt or concern as to the

prudence of any investment or as to interpretation of this paragraph, the investment manager must notify the Conservancy of such doubt or concern before making the investment.

4. Managers are to seek " best execution" on all trades as measured by market impact and commissions.

STANDARDS OF PERFORMANCE

A. Total Fund Performance

To evaluate the overall performance of the Endowment, Capital, and Operating Funds, a special performance index will be maintained. This will serve as the minimum performance objective and is based on the strategic asset allocation of each Fund. The index is calculated by multiplying monthly benchmark returns for each asset class associated with passively investing in the benchmark, by the respective portfolio weighting in each asset class.

B. Manager Performance

1. Over full market cycles (typically 3-5 years) each active manager's performance, net of fees and custody costs, is expected to be greater than an appropriate benchmark. It is expected that the excess return will be greater for higher risk asset classes than for lower risk asset classes.

2. Over interim periods (less than full market cycles), the Conservancy will compare each active manager's performance to its peer group in an appropriate investment manager database. Recognizing that peer group comparisons are imprecise, these comparisons will only be used to help evaluate the manager's progress towards achieving its goal to exceed its benchmark over a full market cycle.

3. Investment managers are expected to comply with the prudent standard of care and all applicable laws, rules and regulations of appropriate regulatory bodies.

C. Performance Measurement Periods

1. The measurement period for complete evaluation of the individual investment managers will be trailing 12 quarter periods in comparison with historic returns and complete market cycles. A market cycle is defined as a period containing one sub-period each of positive security returns and of negative security returns. Market cycles usually last for periods of 3-5 years.

2. Quarterly performance will be evaluated to test progress toward attainment of longer-term targets and reported to the Finance Committee in the Conservancy's regular quarterly financial report. It is understood that there are likely to be short-term periods during which performance deviates from market indices. During such times, manager performance relative to an appropriate peer group can be used to help evaluate the manager's progress towards achieving longer-term objectives.
3. Investment managers will meet at least annually with the Director of Finance and Investments or with the appointed fiduciary advisor, if any, to report performance and with the Finance Committee as requested.

4. The Director of Finance and Investments will review the investment performance of the Funds, and the individual investment managers, with the Finance Committee at each Board meeting.

MISCELLANEOUS

A. Contract Authorization

The Finance Committee approves and authorizes staff to execute any documents in form and substance satisfactory to him or her to facilitate implementation of this policy, including but not limited to, contracts with consultants, trustees, and investment managers for providing services.

B. Proxy Voting

It is recognized that the proxy vote attached to a security has a value and is therefore an asset of the Endowment and Capital Funds. All proxies are to be voted solely in the interest of the Conservancy and for the exclusive purpose of providing benefits and with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character. Proxies should be voted for issues which enhance shareholder economic value, maintain or improve shareholder rights, are not dilutive and provide reasonable accountability for management.

To the extent the Conservancy invests in pooled or commingled funds, the Conservancy assents to the proxy voting guidelines adopted by the managers of these funds.

C. Securities Lending

Securities held by the Trustee may be loaned to others, only if continuously secured by cash or government securities with a market value equal to the minimums prescribed by regulation or at least 102% of the market value plus accrued interest for domestic securities or 105% of the market value plus accrued interest for international securities loaned if no regulations apply. Collateral shall be invested in a diversified, non-leveraged, portfolio of cash and fixed income securities with a maximum average effective portfolio duration of 120 days. Individual securities must qualify as a Tier I security for securities with a maturity of 13 months or less, or be rated A or better for securities with a maturity in excess of 13 months and a maximum remaining effective maturity of 5 years.

D. Brokerage

It is recognized that brokerage commissions have value and are to be used to the exclusive benefit of the Endowment, Capital, and Operating Funds. Commissions can be incurred for execution, clearance and settlement of securities transactions, research or to defray reasonable expenses of administering the Endowment and Capital Funds. Consistent with obtaining "best execution" transactions are to be directed to brokers who provide discounted commissions or will rebate a portion of the commission to the Conservancy. Proceeds from these commission recapture programs are to be deposited in the Conservancy and used to defray expenses otherwise payable by the Conservancy.

E. Endowment Funds Spending Rate

Annually, the Board determines the rate at which the income generated from the investment of Endowment Funds can be spent. The endowment "spending rate" is expressed as a percentage of the fair market value of the Endowment Funds for a period to be determined by the Board (the spending rate "base"). The endowment spending rate, when applied to the approved spending rate base, determines the maximum amount which may be allocated from a given endowment annually in accordance with the restrictions, if any, which may have been specified by the donor. This maximum, per endowment, is communicated to each management unit as a part of the annual budgeting process.

F. <u>Investment of Other Funds</u>

The Conservancy also has a central investment function pertaining to the assets of its 401K Savings and Retirement Plan, and of its Gift and Legacy Planning Program. The Board is responsible for the selection, retention and oversight of the Savings and Retirement Plan fund manager(s), and all trustees and investment managers employed to maintain and manage the assets of the Gift and Legacy Planning Program. The Board may also be responsible for other funds for which the Conservancy serves as Trustee or otherwise has a fiduciary responsibility.

G. <u>Amendments</u>

The Conservancy reserves the right to change this policy at its discretion. Any authority not delegated by this policy remains with the Conservancy including, but not limited to, changing acceptable asset classes and investments and changing the allocation ranges. Managers are not obligated to changes in this policy until communicated and accepted by them.

ORIGIN:

Approved by the Board of Governors in March 1996. Revised July 1997, February 2000, and September 2004 to reflect Board-approved established procedure.

Donor Advised Fund Procedures

[GPA = Gift Planning Administration, PPT =Philanthropy Planning Team]

Prior to Donation (PPT and development staff)

Potential donors and their legal and/or financial advisors, as well as TNC staff, must thoroughly understand the contents of the Memorandum of Understanding (MOU) and must be aware of the structure of the DAF.
Critical points:

- A donation is an outright contribution to The Nature Conservancy.
- Donors may advise on, but do not control distributions from the fund
- Suggested distributions can not represent the payment of any pledge or other financial obligation of the donor and donors may not accept any benefits offered them in connection with suggested distributions.

Donation Processing

- Donors will transfer cash or stocks to TNC under the same procedures as an outright gift with date of gift established under the same procedures as an outright gift. GPA processes the asset as usual.
- PPT sends MOU and Schedule A (two copies) with cover along with blank distributions forms and protocol sheet. Cover will include thank you and and language required by IRS in support of the donor's deduction.
- Donor signs both MOUs and keeps one copy of the signed MOU and Schedule A and forwards the other to Senior Philanthropic Advisor at WO
- PPT notifies GPA to submit a Center/Sub-Center Opening Request. The DAF budget center number is 298 032 0001. If stock gift, stock team handles processing. If cash, PPT completes a Miscellaneous Cash Receipts form and sends it with the check to Treasury. The Revenue Code is 4001.
- FMS interaction entry is made by PPT

Note: additional donations do not require MOU and schedule

Acknowledgment (handled by PPT)

- PPT orders Presidential Acknowledgement which serves as thank you for tax purposes
- See MOU inclusion of IRS language above

Distributions (handled by GPA)

- Distributions are made quarterly and request deadlines are the 15th of September, December, March and June

- Donor requests distributions using the distribution letter (delivered to TNC in hard copy, fax okay)
- Request is reviewed and, if appropriate, approved
- For non-TNC distributions, a check request is ordered and check is sent with explanatory letter to recipient organization (*confirm with donor whether or not the distribution should be anonymous)*. Funds are taken from the DAF budget center and corresponding sub-center, account number 5750
- For TNC distributions, a JERF is processed
- TNC, moves manager, PPT and finance officer for the project are informed
- Form letter confirmation of the distribution is sent to donor
- FMS entry is made to record distribution

Required distributions (GPA tracks)

- The minimum distribution required each year is 5% of the January 1 fund value for existing funds and 5% of initial value for new funds established prior to June 30. Funds established after June 30 will not be required to distribute in the year of creation.
- If minimum distributions are not made by November 1, ST notifies moves manager with cc to PPT.
- If no action by December 1, PPT calls donor to remind and suggest possible distributions.
- If no request is made, amount to meet required minimum is transferred to TNC fund at year-end.

Quarterly Report (GPA)

- A report including beginning and ending balance of the fund, distributions, any changes to value and the minimum distribution requirement for the year (if not met) is sent to donor approximately 30 days after the end of each quarter.
- Two copies of the Distribution Request Letter are sent with the annual report.

Protocol for Distributions from The Nature Conservancy's Donor Advised Fund

In return for making an irrevocable charitable gift into The Nature Conservancy's Donor Advised Fund, donors retain the right to advise The Nature Conservancy as to the distribution of those funds. The Nature Conservancy will also provide donors with information about a variety of funding opportunities in the communities it serves. These distribution recommendations shall be communicated on a regular basis as an informational service to Donor Advised Fund donors by The Nature Conservancy.

Although the Nature Conservancy is not required to follow any donor advisory request, it shall give each such request full consideration. In approving donor requests, The Nature Conservancy will consider several criteria, including recommendations by The Nature Conservancy's Board of Directors and independent investigation by The Nature Conservancy staff. Annual distributions must be at least 5% of the Fund's assets; and at least 20% of the distributions must be designated to The Nature Conservancy.

Upon receiving a donor distribution request, The Nature Conservancy will determine whether the organization has been previously approved by The Nature Conservancy for funding. If it has, if it continues to be listed in the current Internal Revenue Service Publication 78 (which lists organizations with 501(c)(3) status), and if The Nature Conservancy is not aware of any significant changes in the organization's standing since the distribution was made, no further investigation is necessary. If the organization has not been previously approved, The Nature Conservancy will research the organization, including its charitable purpose and activities, legal and financial status, and compliance with community ethical and fund raising standards (based upon information provided by oversight groups such as the National Charities Information Bureau, the American Institute of Philanthropy, and the Council of Better Business Bureaus Philanthropy Advisory Service).

Distribution requests to bona fide charitable organizations and purposes will generally be approved, unless those requests are in conflict with the mission and the values of The Nature Conservancy. The Nature Conservancy's mission 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 Nature Conservancy's core values include:

- maintaining the highest ethical standards,
- working through non-confrontational means toward tangible and lasting results,
- operating as a single, unified organization working locally to achieve Conservancy-wide objectives,
- forging strong productive partnerships with all sectors of society,
- encouraging the pursuit of innovation and excellence,
- initiating a commitment to men and women from a broad spectrum of ethnic and cultural backgrounds, ages and abilities, lifestyles and beliefs, and

- demonstrating a commitment to the future.

Examples of charitable organizations and activities that The Nature Conservancy would consider contrary to its mission and core values include: (a) organizations that do not adhere to legal and ethical standards regarding fund raising operations and practices; (b) organizations that do not practice responsible stewardship of resources; (c) organizations that undermine the mission of The Nature Conservancy; and (d) organizations whose activities would engender undue controversy and divisiveness within The Nature Conservancy's donor community.

If there is a question as to whether the organization meets The Nature Conservancy's guidelines for funding, a Donor Advised Fund Review Committee composed of senior Nature Conservancy management from the Legal, Finance, and Development Department will review the request. The Committee will consider both the donor's advice as well as recommendations by appropriate Nature Conservancy personnel. Following this review, the Committee will make a final determination regarding funding approval.

If a donor advisory request is approved, The Nature Conservancy will make a distribution to the charity designated by the donor, either in the name of the donor's fund or anonymously according to the donor's wishes. Donors will receive periodic reports detailing distributions from the funds that they have contributed to The Nature Conservancy as well as the current balance and overall investment performance of these funds.

Date

Organization
Address
City, State

Dear:

I am very pleased to enclose a check in the amount of ______ which represents a distribution to your organization from the __________ Donor Advised Fund at The Nature Conservancy.

By endorsing the check, your organization acknowledges that the disbursement does not represent the payment of any personal pledge or other financial obligation of ________ or members of his family and that no benefits or privileges will be offered them in connection with the distributions.

Should you have any further questions about this distribution , please do not hesitate to contact me at 703-841-4539.

Sincerely,

Susan Gutchess
Director, Planned Giving Administration

Enclosures

Cc: Donor
Address

MEMORANDUM OF UNDERSTANDING
FUND

MEMORANDUM OF UNDERSTANDING, made effective the day of , 200_ between , currently residing at and THE NATURE CONSERVANCY, INC. ("The Nature Conservancy"), a non-profit corporation organized under the laws of the District of Columbia with its principal office currently at 4245 North Fairfax Drive, Suite 100, Arlington, Virginia, 22203.

1. ***Irrevocable Gift.*** The Donor has made a complete and irrevocable charitable gift of property described on the attached "Exhibit A" to The Nature Conservancy, which is accepted by The Nature Conservancy to be administered and distributed under the following terms and conditions.

2. ***Creation of Fund.*** A fund will be established on the books of The Nature Conservancy to be known as FUND (the "Fund"). The Fund will include the original gift to the Fund, such other property as may be transferred to The Nature Conservancy by the Donor and accepted by The Nature Conservancy for inclusion in the Fund, such property as from time to time may be received by The Nature Conservancy from any other source and accepted by it for inclusion in the Fund, and income credited and other net proceeds of the Fund. If the property transferred to the Fund is securities, the Fund will receive the proceeds from the sale of the securities reduced by the fees associated with the sale. If the property transferred to the Fund is real property, the Fund will receive the proceeds from the sale of the property, with a reduction for any holding costs incurred by the Fund, such as, but not limited to, property taxes, insurance, home owner association fees, and utilities as well as costs incurred from the sale of the property such as but not limited to sales commissions, title insurance, settlement costs and transfer taxes.

3. ***Use of Fund.*** The Fund may be used only for educational, scientific and charitable purposes (or any combination of such purposes). The parties intend that the Fund not violate the restrictions on uses of funds in section 4945 of the Internal Revenue Code of 1986, as amended (the "Code").

4. ***Control of Fund.*** The Fund will be the property of The Nature Conservancy and held by it in its corporate capacity; it will not be deemed a trust fund held by The Nature Conservancy in a fiduciary capacity; and it may be commingled with other funds held by The Nature Conservancy. The Nature Conservancy in its corporate capacity will have ultimate authority and control over all property in the Fund, including any income earned by the Fund.

5. ***Investment of Fund.*** All property in the Fund is invested at the sole discretion of The Nature Conservancy. The Nature Conservancy will, from time to time, credit income and other proceeds as provided by its investment policies in force to the Fund.

6. ***Term of Fund.*** The term of the Fund shall begin upon the initial contribution of property to the Fund and shall end upon the death of the survivor of the Donor. If, however, the Donor has designated a successor advisor (as provided in Paragraph 9) and if the account value of the Fund shall exceed $5,000.00 on the date of death of the survivor of the Donor, then the

Fund shall terminate upon the earlier of (i) the death of the designated successor advisor or (ii) 20 years after the death of the Donor.

7. ***Distributions from Fund during its Term.*** The Nature Conservancy shall designate distributions from the Fund of income and principal and will consider several criteria in determining the amount and timing of such distributions, with special weight given to donor advisory requests. Other criteria include recommendations from the Board of Governors of The Nature Conservancy. The minimum annual amount The Nature Conservancy shall distribute from the Fund must equal at least five percent (5%) of the net fair market value of the Fund's net assets. Twenty percent (20%) of distributions from the Fund shall be used directly by The Nature Conservancy in its own programs and up to eighty percent (80%) may be used for the support of other public charities and private operating foundations, provided that all such funds shall be used exclusively for charitable purposes within the meaning of Section 170(c)(2)(B) of the Code and provided further that the purposes of other public charities and private operating foundations are not inconsistent with those of The Nature Conservancy, as determined by The Nature Conservancy in its sole and absolute discretion. The parties intend that distributions from the Fund comply with the minimum requirements for distributions by private foundations in section 4942 of the Code.

8. ***Donor Advisory Requests.*** The Nature Conservancy staff will independently investigate and evaluate the donor advisory requests to ensure that they are consistent with the needs and programs most deserving of support by The Nature Conservancy. The Nature Conservancy is not bound to follow the advice of the Donor and under no circumstances shall the Donor be permitted to mandate the distribution of funds. Distributions shall not represent the payment of any personal pledge or other financial obligation of the Donor. The Donor shall not accept any benefits or privileges offered them in connection with distributions from the Fund. The Nature Conservancy will investigate allegations of improper use of donor advisory requests for the private benefit of the Donor. If the Donor fail to request distributions which total the minimum distribution from the Fund which may be used for the support of other public charities and private operating foundations in any given year, the remaining portion of the minimum annual amount required to be distributed will be distributed to The Nature Conservancy.

9. ***Successor Advisor.*** The Donor may designate a successor advisor (a) by an instrument in writing delivered to The Nature Conservancy prior to the death of the Donor or (b) in a last will and testament duly accepted for probate in the jurisdiction of a Donor's death within one hundred eighty (180) days of that Donor's death. Provided that the account value of the Fund shall exceed $5,000.00 on the date of death of the Donor, at that time, and not before, the latest or first irrevocably designated successor advisor shall have the same powers and restrictions and be subject to the same rules as the Donor for the balance of the term of the Fund. The power to appoint a successor advisor is personal to the Donor and may not be exercised by any successor advisor.

10. ***Minimum Fund Balance.*** To establish a Fund, the Donor must contribute a minimum of $100,000.00. If the balance of the Fund declines below $5,000.00, The Nature Conservancy shall, at its option, terminate the Fund and distribute the proceeds as provided in Paragraph 11.

11. ***Distribution of Fund upon its Termination.*** All assets remaining in the Fund upon its termination shall be withdrawn and used by The Nature Conservancy for its general purposes.

12. ***Intentions of Parties.*** Nothing in this Memorandum of Understanding is intended to affect nor in fact shall affect the status of The Nature Conservancy as an organization described in Section 501(c)(3) of the Code. It is the express intention of The Nature Conservancy that the Fund be organized and operated to comply with Treasury Department requirements for donor advised funds operated by public charities. This Memorandum shall be interpreted accordingly and so as to conform to the requirements of federal tax law and any regulations issued pursuant thereto. The Nature Conservancy is authorized to amend this Memorandum to conform to the provisions of any applicable law or government regulation in order to carry out the foregoing intention by an instrument in writing delivered to the Donor or to the designated successor advisor if the Donor is no longer living.

IN WITNESS WHEREOF, the Donor and The Nature Conservancy have made this Memorandum effective the date first written above.

DONOR:

____
Name

THE NATURE CONSERVANCY, INC.:

By: ______________________________
Name: ____________________________
Title: ____________________________

EXHIBIT A

Fund

Memorandum of Understanding dated , 200_ between and and The Nature Conservancy, Inc.

Schedule of Assets

Item No.	Property Description

Receipt of the above-described assets is hereby acknowledged this day of , 200 .

The Nature Conservancy, Inc.

By: ______________________________

Question 7 - Estimated Contributions Breakdown
(in $millions)

Fiscal Year	Conservation (total)	Conservation Land	Conservation Easement	Trade Lands	Securities	Other In-kind
2000	$86.1	$44.3	$41.8	$4.9	$40.9	1.8
2001	$72.3	$36.0	$36.3	$7.1	$88.2	4.5
2002	$259.0	$57.5	$201.5	$4.9	$36.3	1.7
2003	$134.3	$41.3	$93.0	$5.1	$24.5	1.5
2004	$81.3	$26.0	$55.3	$5.1	$28.1	10.7

April 21, 2005
Senate Finance Committee Letter

Question 3

Please provide estimates of the amounts or values of cash or inkind contributions that have been made to TNC's conservation buyer fund since it was established, and state when it was established.

The Nature Conservancy has been attempting to establish a national conservation buyer fund via our web site since 2002. We have received five gifts totaling $870. Beginning in 1998, three state programs (Wyoming, Missouri, and Kentucky) also established conservation buyer funds at the state level. Total contributions to these three states for their conservation buyer funds are approximately $13,000,000. These funds are invested in conservation buyer properties; when properties are sold the proceeds are returned to the fund for use in other conservation buyer projects. Expenditures from these funds are governed by the Conservancy's corporate policies and procedures.

QUESTION 11: Valuation

JUL 25 2003

"The Washington Post quotes a TNC state trustee regarding charitable deductions:

'Generally, the buyer puts too much value on it [for tax purposes]. Land donators almost always try to value their land at more than the [true] value. This is a business. We sort of wince and look away at some of the values buyers put on these transactions. We're not the IRS.' (Emphasis added).

Please provide TNC's viewpoint on this statement."

While donors of land often try to maximize the tax benefits of a gift, it has not been TNC's experience that land donors "almost always over value their lands." Although we do not track donor controversies with the IRS, we have rarely been contacted by donors or the IRS because of such controversies. Because an accurate and responsible appraisal process has been critical to the Conservancy's success, there are instances where TNC has given the donor notification in writing as part of the Form 8283 that there are serious concerns with the donor's valuation. Poor appraisals are bad for our business and will not be encouraged or ignored.

APR 2 3 2004

XVIII. Cash Donations Greater than $50,000: Individual donors from whom TNC has purchased land or interests in land, from FY 98 through FY 2002

Has TNC ever entered into agreements with donors that provided TNC will indemnify or reimburse the donor for lost tax benefits from the loss or reduction of the charitable contribution deduction claimed by the donor? If so, please provide a copy of each such agreement.

To the best of our knowledge, there are no such agreements. See also, p.8 of the Conservancy's "Responses to Questions on Conservation Buyer Program" dated April 15, 2004.

;FC II RESPONSE
(I. Valuation

'lease provide copies of documentation to support TNC's statement that "TNC has given the donor notification in writing as part o| he Form 8283 that there are serious concerns with the donor's valuation." Please provide copies of all such letters sent within the ast 5 years.

Donor Contact	Address	Subject	Attachment
		Santa Catalina (Weiss) AZ	Letter dated 8.17.01 to [redacted] from [redacted]; memo dated 10.30.00 to Santa Catalina [redacted] File from [redacted] re: documentation of value
		Red Barn Development Corporation Tract	Letter dated 3.3.98 to [redacted] from [redacted]
		Donation of a fully paid-up life insurance Policy	Letter dated 3.6.02 to [redacted] from [redacted]
		Mihall Tract Fayette County, Iowa	Letter dated 5.18.01 to [redacted] from [redacted]
		Kankakee Sands (DeYoung 2 Tract)	Letter dated 7.3.01 to [redacted] and [redacted] from [redacted]
		Mackinaw River (Rynerson Tract)	Letter dated 8.1.01 to [redacted] and [redacted] from [redacted]
		Senachwine Lake 9Trust 118177-07) Putnam County, Illinois IRS Form 8283	Memorandum dated 1.6.95 to "the file" from [redacted]
		Indian Boundary Prairies (Heritage Trust Company Tract)	Letter dated 3.10.97 to [redacted] from [redacted]
		Indian Boundary Prairies (Heritage Trust Company Tract)	Letter dated 3.7.97 to [redacted] from [redacted]

The Nature Conservancy®

August 17, 2001

BY CERTIFIED MAIL
RETURN RECEIPT REQUESTED
#7000 1670 0003 8738 0930

[redacted]

Re: Santa Catalinz (Weiss) AZ

Dear [redacted]:

As you requested, I am returning on behalf of The Nature Conservancy the signed IRS form 8283 with regard to the transfer of approximately 2.6 acres in Pima County, Arizona to The Nature Conservancy.

The Nature Conservancy's delivery of IRS form 8283 is merely to indicate the Conservancy's receipt of the property and not to agree with the value of the property as stated in that form. The documentation of value used by the Conservancy indicates the value of the property to be approximately $150,000, and that is the value shown on the books of the Conservancy. Two real estate agents who specialize in land in northeast Tucson were contacted to determine a range of values. Factors taken into account in valuing this property were the location and lack of water or utilities on the property. In addition it was noted that this property had been listed for sale in early 2000 at $197,500 and that no offers were made at that price.

In the event the IRS audits this transaction and contacts us, The Nature Conservancy will be required to disclose the information which is summarized here.

Sincerely,

[redacted]

[redacted]
Division Counsel

Enclosure
cc: [redacted] (via fax)

Western Regional Office • 2060 Broadway • Suite 230 • Boulder, Colorado 80302 • tel 303 444-1060 • fax 303 449-4328
Alaska • Arizona • Colorado • Idaho • Montana • Nevada • New Mexico • Oregon • Utah • Washington • Wyoming
International Headquarters •

TNC ARIZONA CHAPTER INTEROFFICE MEMORANDUM

TO: SANTA CATALINA (WEISS) FILE

FROM: [redacted]

SUBJECT: DOCUMENTATION OF VALUE

DATE: OCTOBER 30, 2000

CC: [redacted]

The [redacted] tract is a 2.6 acre parcel on the north side of Catalina Highway adjacent to Coronado National Forest. The tract consists of high Sonoran Desert scrub: palo verde, ocotillo, prickly pear. It is within a curve of the highway, not easily accessible, shows no sign of human use, and has no improvements. There is no water or other utilities to the property, but such services do exist across the highway and a couple of hundred yards down the slope. The property is basically on a rocky outcropping above the highway, but a small drainage could provide access to a building lot in the center of the property. It would be one of the highest building lots in the Tucson area and has stunning views of the valley.

Valuing the [redacted] parcel is difficult. One the one hand, it is a "trophy" lot, perhaps the highest elevation in the Tucson valley, unique location on north side of Catalina Highway, with spectacular views, no neighbors, and thousands of acres of national forest as the "backyard." On the other hand, building would be an engineering challenge, accessing water and power would be very expensive, traffic noise from the highway would be an issue, and vandalism might be a problem.

I spoke with two real estate agents who specialize in land in northeast Tucson.

1. [redacted] Century 21 Realty listed the property briefly in early 2000 at $197,500. He had numerous inquiries, but no offers. After a short time, the listing was cancelled. [redacted] thinks the "right" person would be willing to pay close to $200,000 for such a unique, trophy lot. He compared the lot to ones at nearly the same elevation and topography in Ventana that are selling at close to $500,000. The Ventana lots are in a gated community, with water and power, and far from any noisy roads, justifying the higher price.

2. [redacted] Coldwell Banker estimated the value at $125,000 to $160,000. Lots across the highway in Milagrosa Hills subdivision are selling for $125,000 to $170,000, with water and power close at hand.

I think [redacted] estimate is too optimistic, and the fact that he received no offers at a list price of $197,500 suggests that the lot was over-priced. The lot's exposure to the Catalina Highway makes it far less attractive than lots in Ventana. Milagrosa Hills provides better comparables. On the plus side, the [redacted] is slightly higher in elevation, has unrestricted views, and has no neighbors. On the minus side, accessing utilities and developing the lot would be very expensive, the highway can be noisy at times, the highway right-of-way easement impacts a significant portion of the property, and vandalism could be a significant problem. Based upon the above, I estimate the value of the [redacted] tract at $150,000.

The Nature Conservancy
NEW YORK REGIONAL OFFICE

415 River Street, 4th Floor
Troy, New York 12180
TEL 518 273-9408
MAIN FAX 518 273-5022
LOCAL FAX 518 273-5178

570 Seventh Avenue, Suite 601
New York, New York 10018
TEL 212 997-1880
FAX 212 997-8451

International Headquarters
Arlington, Virginia
TEL 703 841-5300

To: [redacted]

March 3, 1998

5-6 [redacted]

[redacted]

Re: Red Barn Development Corporation Tract

Dear [redacted]

Enclosed please find two (2) signed copies of IRS Form 8283 with regard to the donation to The Nature Conservancy of the 83 acre Red Barn Development Corporation Tract in the Town of Claverack, Columbia County, New York.

As I am sure you are aware, The Nature Conservancy's signing of Form 8283 is merely an indication of the Conservancy's receipt of donated property; the Conservancy takes no position as to the donor's appraised value for donated property as stated on Form 8283.

I know that [redacted] of our Eastern New York Chapter Office has discussed with you the fact that the appraised value stated on the Form 8283 being returned to you is substantially different from the informal market values the Conservancy has obtained for the Red Barn Development Corporation property. According to the two Columbia County realtors with whom we have consulted, if the property were sold as one parcel its current market value would be approximately $80,000-100,000. If it were subdivided into eight lots and the lots were sold separately, the total market value of the lots would be approximately $280,000.

In the event the IRS audits this transaction and contacts us The Nature Conservancy will be required to disclose this information.

Sincerely,

[redacted]
Regional Counsel

MAR 5 1998

Enclosures

cc: Michael Dennis, Esq., [redacted], Eastern New York Chapter Office

ick Nature Conservancy/Adirondack Land Trust - Eastern NY Chap...

The Nature Conservancy

March 6, 2002

VIA FEDERAL EXPRESS

[redacted]

Dear Mr. and Mrs. [redacted]

I have received the IRS Form 8283 for the donation of a fully paid-up life insurance policy that you sent to this office for my signature. However, since the amount you are claiming as a tax deduction is greater than $5,000.00, the IRS requires you to have an independent appraisal of the policy value. Therefore, I am returning the form to you so that you may obtain an appraisal. Once an appraiser has completed Part III, please return the completed form to [redacted] Legal Assistant, The Nature Conservancy, 2060 Broadway, Suite 230, Boulder, CO 80302. She will forward the form to me for signature on behalf of the Conservancy and return it to you.

I have noted that the amount you are claiming as a deduction is greater than your cost. Although I cannot provide you with tax advice, generally your deduction is equal to the lesser of the cost basis or the interpolated terminal reserve value on the date of the gift. You may want to check with a tax counselor or accountant to make sure that you are claiming the lawful deduction.

If you have any questions, do not hesitate to contact Betsy Baur, Associate State Director for Development & Marketing, at (406) 443-0303.

Sincerely,

[redacted]

Rocky Mountain Divisional Attorney

Enclosure

cc: [redacted] (w/o enclosure)
[redacted] (w/o enclosure)

The Nature Conservancy®

Midwestern Resource Office
1313 Fifth Street Southeast, Suite 314
Minneapolis, Minnesota 55414-1588
TEL 612 331-0700
FAX 612 331-0770

International Headquarters
Arlington, Virginia
TEL 703 841-5300

May 18, 2001

[redacted]

Re: [redacted]
Fayette County, Iowa

Dear [redacted]:

Since you are claiming a deduction of exactly $5,000, it is not necessary for me to sign the IRS Form 8283. When I sent it to you, I mistakenly assumed that you would be completing Section B of Form 8283 (for deductions in excess of $5,000). Only Section B must be signed on behalf of The Nature Conservancy. You will note that Part IV which includes the acknowledgement of the donee includes a statement that the donee "received the donated property as described in Section B, Part I above." I apologize that you sent the form to me unnecessarily based on my letter.

However, I noted that you indicated that your gift is a gift of five acres of property. Although you should receive advice from your own attorney when he returns, I believe that your Form 8283 should reflect the fact that you conveyed 14.5 acres of property to the Conservancy and received payment of a purchase price of $12,755 that your appraiser has concluded is worth $17,755 (resulting in a $5,000 deduction).

I am returning the IRS Form 8283 that you completed and I am also enclosing an additional copy should you choose to revise the way that you described your gift.

Sincerely,

[redacted]

Division Counsel

LG:kk
enclosures - also sent clean copy of IRS 8283

recycled paper

The Nature Conservancy®

Midwestern Resource Office
1313 Fifth Street Southeast, Suite 314
Minneapolis, Minnesota 55414-1588
TEL 612 331-0700
FAX 612 331-0770

International Headquarters
Arlington, Virginia
TEL 703 841-5300

July 3, 2001

[redacted]

Re: Kankakee Sands ([redacted]2 Tract)

Gentlemen:

I recently received a copy of IRS Form 8283 that you completed and provided to [redacted] in February 2000. At this point, I assume that you have filed your income tax returns and attached Form 8283 to your return or returns. The purpose of this letter is to advise you that, as completed, Form 8283 appears to contain certain inaccuracies that may cause confusion by the IRS and that may have resulted in your claiming a greater tax deduction than may be warranted.

I would like to call your attention to the following items in Form 8283 as completed by you and submitted to [redacted]:

1. The form was completed for [redacted] with a taxpayer identification number of 36 217 1361. The title to the property was held by you individually and the conservation easement was also granted to the Conservancy by you individually. As a result, my letter of August 16, 2000 was addressed to you and described a gift from you individually rather than a gift from [redacted]. If [redacted] is a partnership and the benefits of the deduction would pass out from the partnership to you, this discrepancy may not affect the actual tax benefits to you. However, the easement, the Conservancy's acknowledgement of the gift and Form 8283 are not fully consistent and these discrepancies might create some confusion should you be audited.

2. In Section B, Part I, you described the gift as "18.36 acres of wooded real estate" with an appraised fair market value of $1,429 per acre and $26,236 total. The actual gift to The Nature Conservancy was of a conservation easement. I understand that $1,429 per acre is the price that was paid for fee title to adjacent property that you sold to the Conservancy. A conservation easement generally has a value which is substantially less than the value of the fee title. It is, therefore, likely that the deduction that was claimed exceeds the actual value of the conservation easement that was donated.

3. In Section B, Part III, an appraiser has signed the declaration of appraiser. However, given the description of the property in Section B, Part I, I assume that the appraisal was for the fair market value of fee title rather than of the conservation easement itself.

4. When [redacted] signed Section B, Part IV, he did not insert the taxpayer identification number of The Nature Conservancy. In addition, he did not indicate whether the Conservancy intended to use the property for an unrelated use. The absence of this information might have an adverse effect on your deduction should you be audited.

Before signing Form 8283, [redacted] did note on Section A, Part I that the donated property was a conservation easement. With this notation, The Nature Conservancy did acknowledge receipt of the conservation easement on August 3, 2000. However, Section B was not modified in the same manner, and issues concerning valuation of the donation easement were not called to your attention.

I apologize that Form 8283 was returned to you without advising you of these issues before your income tax returns for 2000 were due. However, I think it is important that you have this information so you can evaluate it with your tax adviser to determine whether you would like to prepare an amended Form 8283 and send it to me for signature on behalf of The Nature Conservancy.

Sincerely,

[redacted]

Division Counsel

LG:kk

[redacted]

The Nature Conservancy®
Saving the Last Great Places

Midwestern Resource Office
1313 Fifth Street Southeast, Suite 314
Minneapolis, Minnesota 55414-1588
TEL 612 331-0700
FAX 612 331-0770

International Headquarters
4245 North Fairfax Drive
Suite 100
Arlington, Virginia 22203-1606
TEL 703 841-5300

Sent via Priority Mail

August 1, 2001

[redacted]

Re: Mackinaw River ([redacted] Tract)

Dear [redacted]:

As we discussed, I am sending you IRS form 8283 which I have signed on behalf of The Nature Conservancy to indicate receipt of a donation on October 30, 2000.

Because The Nature Conservancy has an appraisal of the property that is significantly less than the appraised fair market value stated in the enclosed form 8283 and because it is my understanding that the declaration of appraisal must be for an effective date no more than 60 days prior to the date of the gift, you may wish to investigate the appraised value stated on the 8283. The Nature Conservancy, of course, is signing this form only to indicate receipt of the property and not to concur in the value of the property as stated on the form.

Sincerely,

[redacted]

Division Counsel

LG:kk
enclosure
cc: [redacted]
[redacted], sent via FAX - 847-564-3087

MEMORANDUM

To: The file

From: [redacted] MRO

Date: January 6, 1995

Re: Senachwine Lake [redacted]
Putnam County, Illinois
IRS Form 8283

We received copies of IRS Forms 8283 fro[redacted] for the individuals who donated property to the Conservancy. The contribution was made on December 15, 1994 and the date of the appraisal which was stated in the IRS forms was April 21, 1994. I left a message on [redacted] voice mail letting him know that the date of the appraisal can be no earlier than 60 days prior to the contribution and that if he wanted to submit new 8283's, we would sign them.

The Nature Conservancy®

Sent via Certified Mail

March 10, 1997

[redacted]

Re: Indian Boundary Prairies
(Heritage Trust Company Tract)

Dear [redacted]

At the direction of the general counsel for The Nature Conservancy, I am sending you a duplicate copy of my letter of March 7, 1997 concerning IRS form 8283. Because of the extremely wide discrepancy between the value stated on the IRS form and the value provided to The Nature Conservancy by its appraiser, our general counsel has required that we have proof of delivery of the enclosed letter.

Sincerely,

[redacted]

IL-INDIAN BOUNDARY PRAIRIES (HERITAGE TRUST)

Is your RETURN ADDRESS completed on the reverse side?

SENDER:
- Complete items 1 and/or 2 for additional services.
- Complete items 3, and 4a & b.
- Print your name and address on the reverse of this form so that we can return this card to you.
- Attach this form to the front of the mailpiece, or on the back if space does not permit.
- Write "Return Receipt Requested" on the mailpiece below the article number.
- The Return Receipt will show to whom the article was delivered and the date delivered.

I also wish to receive the following services (for an extra fee):

1. ☐ Addressee's Address
2. ☐ Restricted Delivery

Consult postmaster for fee.

3. Article Addressed to:
[redacted] 20 Ave [redacted]

4a. Article Number
P384 720 999

4b. Service Type
☐ Registered ☐ Insured
☒ Certified ☐ COD
☐ Express Mail ☐ Return Receipt for Merchandise

5. Signature (Addressee)

6. Signature (Agent)

7. Date of Delivery
3-13-97

8. Addressee's Address (Only if requested and fee is paid)

Thank you for using Return Receipt Service.

The Nature Conservancy®

Sent via Federal Express

MRO LEGAL DEPT
MAR 14 1997
RECEIVED

March 7, 1997

[redacted]

Re: Indian Boundary Prairies
(Heritage Trust Company Tract)

Dear [redacted]

As you requested, I am returning three signed copies of IRS form 8283 with regard to the transfer of 11.433 acres in Cook County to The Nature Conservancy.

After receiving the forms, I called [redacted] to clarify with him the name of the taxpayer appearing on form 8283 since the deed to The Nature Conservancy was from [redacted] Trust Company rather than from Orland Inc. [redacted] advised me that it would be acceptable to him to change the taxpayer to read "[redacted] Inc. as beneficiary of [redacted] Trust Company Trust Number 92-4512." I believe that this change should be acceptable to [redacted] Inc.

As I have discussed with [redacted] The Nature Conservancy's delivery of IRS form 8283 is merely to indicate the Conservancy's receipt of the property and not to agree with the value of the property as stated in that form. The appraisal that was provided to The Nature Conservancy for this property is substantially different from that stated on the enclosed form 8283 in that our appraiser indicated that the property has a value of about $1,000 per acre. The Conservancy's appraiser assumed, based on the nature of the

MIDWEST REGIONAL OFFICE
1313 Fifth Street SE, Suite 314, Minneapolis, MN 55414-1588 • (612) 331-0700 • Fax (612) 331-0770
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wetland, surrounding embankments, and probable limitations on development from environmental regulations, that the best use of the property was not an economic use but was that of conserving natural wetlands. I would also like to note that the property conveyed to The Nature Conservancy was subject to a previously recorded deed restriction/covenant which was executed as a condition of a U.S. Army Corps of Engineers permit. The deed restriction prohibits dredging or filling the property, any structures, any removal or destruction of flora or fauna, and operation of any motorized vehicles on the property without prior written consent of the Corps of Engineers. It does not appear that [redacted] Inc.'s appraiser has taken these restrictions into account in valuing the property when it was conveyed to the Conservancy.

In the event the IRS audits this transaction and contacts us, The Nature Conservancy will be required to disclose the information which is summarized here.

Finally, you may wish to ask your appraiser to update the appraisal which your form 8283 indicates was completed in May 1996. The instructions for form 8283 indicate that appraisals "must be made not earlier than 60 days before the date you contribute the property."

As you requested, I am returning the enclosed forms by Federal Express and appreciate your offer to reimburse the Conservancy the $7.97 cost of doing so.

Sincerely,

[redacted]

[redacted]
Regional Counsel

LG/kk
enclosures
cc: Illinois Field Office [redacted] – enclosed is reimbursement for Federal Express
[redacted]
Mike Dennis

April 21, 2005
Senate Finance Committee Letter

Question 9

Please provide an estimate of the aggregate dollar value and number of transactions, for which TNC has received conservation easements or other conservation restrictions for which donors expected or intended to claim a charitable deduction as a qualified conservation contribution under Code section 170(h), for each of the last three years, including a breakdown for each year based on the predominant conservation purpose: outdoor recreation by or education of the general public, protection of natural habitat, or preservation of open space.

The Nature Conservancy received approximately 165 conservation easement transactions during Fiscal Year 2003 and Fiscal Year 2004 (as per agreement with the Committee this question has been modified to cover FY 2003 and FY 2004). The aggregate value of the conservation easements acquired during this period totaled approximately $150 million dollars. These easements were acquired at a cost of approximately $25 million dollars (some easements were acquired as outright gifts and some easements were acquired by purchase at a price below the appraised fair market value with the difference being eligible for treatment as a bargain-sale under Code section 1011(b)). Please note that these figures do not include the value or number of easement transactions in which the Conservancy purchased a conservation easement for its full fair market value.

In virtually every case, the predominant conservation purpose served by the conservation easement is for "the protection of a relatively natural habitat" and the properties over which the Conservancy has accepted such easements are in furtherance of a systematic, ecoregional assessment identifying the conservation significance of such properties. Although it is difficult to determine with accuracy whether donors "expected or intended" to claim a charitable deduction for the conveyance of these easements without verifying such facts with individual donors and because documents indicating evidence of such intentions are located in numerous Conservancy offices throughout the country, it is the Conservancy's assumption that the majority, if not all, of these transactions involved a claim for a charitable contribution deduction. Also, please note that in March, 2004, the Conservancy adopted new standard operating procedures with regard to the substantiation of the value of conservation easement gifts using Form 8283 that has been described previously to the Committee.

Internal Revenue Service IRS.gov
DEPARTMENT OF THE TREASURY

Internal Revenue Bulletin: 2004-28
July 12, 2004

Notice 2004-41

Charitable Contributions and Conservation Easements

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The Internal Revenue Service is aware that taxpayers who (1) transfer an easement on real property to a charitable organization, or (2) make payments to a charitable organization in connection with a purchase of real property from the charitable organization, may be improperly claiming charitable contribution deductions under § 170 of the Internal Revenue Code. The purpose of this notice is to advise participants in these transactions that, in appropriate cases, the Service intends to disallow such deductions and may impose penalties and excise taxes. Furthermore, the Service may, in appropriate cases, challenge the tax-exempt status of a charitable organization that participates in these transactions. In addition, this notice advises promoters and appraisers that the Service intends to review promotions of transactions involving these improper deductions, and that the promoters and appraisers may be subject to penalties.

Contributions of Conservation Easements

Section 170(a)(1) allows as a deduction, subject to certain limitations and restrictions, any charitable contribution (as defined in § 170(c)) that is made within the taxable year. Generally, to be deductible as a charitable contribution under § 170, a transfer to a charitable organization must be a gift of money or property without receipt or expectation of receipt of adequate consideration, made with charitable intent. *See U.S. v. American Bar Endowment*, 477 U.S. 105, 117-18 (1986); *Hernandez v. Commissioner*, 490 U.S. 680, 690 (1989); *see also* § 1.170A-1(h)(1) and (2) of the Income Tax Regulations.

Section 170(f)(3) provides generally that no charitable contribution deduction is allowed for a transfer to a charitable organization of less than the taxpayer's entire interest in property. Section 170(f)(3)(B)(iii) provides an exception to this rule in the case of a qualified conservation contribution.

A qualified conservation contribution is a contribution of a qualified real property interest to a qualified organization exclusively for certain conservation purposes. Section 170(h)(1), (2), (3), and (4); § 1.170A-14(a). A qualified real property interest includes a restriction (granted in perpetuity) on the use that may be made of the real property. Section 170(h)(2)(C); *see also* § 1.170A-14(b)(2). For purposes of this notice, qualified real property interests described in § 170(h)(2)(C) are referred to as conservation easements.

One of the permitted conservation purposes listed in § 170(h)(4) is the protection of a relatively natural habitat of fish, wildlife, or plants, or similar ecosystem. Section 170 (h)(4)(A)(ii); *see also* § 1.170A-14(d)(1)(ii) and (3). Another of the permitted conservation purposes is the preservation of open space ("open space easement"), including farmland and forest land, for the scenic enjoyment of the general public or pursuant to a clearly delineated governmental conservation policy. However, if the public benefit of an open space easement is not significant, the charitable contribution deduction will be disallowed. *See* § 170(h)(4)(A)(iii); *see also* § 1.170A-14(d)(1)(iii) and (4)(iv), (v), and (vi). Section 170(h) and § 1.170A-14 contain many other requirements that must be satisfied for a contribution of a conservation easement to be allowed as a deduction.

A charitable contribution is allowed as a deduction only if substantiated in accordance with regulations prescribed by the Secretary. Section 170(a)(1) and (f)(8). Under § 170(f)(8), a taxpayer must substantiate its contributions of $250 or more by obtaining from the charitable organization a statement that includes (1) a description of any return benefit provided by the charitable organization, and (2) a good faith estimate of the benefit's fair market value. *See* § 1.170A-13 for additional substantiation requirements. In appropriate cases, the Service will disallow deductions for conservation easement transfers if the taxpayer fails to comply with the substantiation requirements. The Service is considering changes to forms to facilitate compliance with and enforcement of the substantiation requirements.

If all requirements of § 170 are satisfied and a deduction is allowed, the amount of the deduction may not exceed the fair market value of the contributed property (in this case, the contributed easement) on the date of the contribution (reduced by the fair market value of any consideration received by the taxpayer). *See* § 1.170A-1(c) (1), (h)(1) and (2). Fair market value is the price at which the contributed property would change hands between a willing buyer and a willing seller, neither being under any compulsion to buy or sell, and each having reasonable knowledge of relevant facts. Section 1.170A-1(c)(2). *See* § 1.170A-14(h)(3) and (4) for a discussion of valuation.

If the donor (or a related person) reasonably can expect to receive financial or economic benefits greater than those that will inure to the general public as a result of the donation of a conservation easement, no deduction is allowable. Section 1.170A-14(h)(3)(i). If the donation of a conservation easement has no material effect on the value of real property, or enhances rather than reduces the value of real property, no deduction is allowable. Section 1.170A-14(h)(3)(ii).

Purchases of Real Property from Charitable Organizations

Some taxpayers are claiming inappropriate charitable contribution deductions under § 170 for cash payments or easement transfers to charitable organizations in connection with the taxpayers' purchases of real property.

In some of these questionable cases, the charitable organization purchases the property and places a conservation easement on the property. Then, the charitable organization sells the property subject to the easement to a buyer for a price that is substantially less than the price paid by the charitable organization for the property. As part of the sale, the buyer makes a second payment, designated as a "charitable contribution," to the charitable organization. The total of the payments from the buyer to the charitable organization fully reimburses the charitable organization for the cost of the property.

In appropriate cases, the Service will treat these transactions in accordance with their substance, rather than their form. Thus, the Service may treat the total of the buyer's payments to the charitable organization as the purchase price paid by the buyer for the property.

Penalties, Excise Taxes, and Tax-Exempt Status

Taxpayers are advised that the Service intends to disallow all or part of any improper deductions and may impose penalties under § 6662.

The Service intends to assess excise taxes under § 4958 against any disqualified person who receives an excess benefit from a conservation easement transaction, and against any organization manager who knowingly participates in the transaction. In appropriate cases, the Service may challenge the tax-exempt status of the organization, based on the organization's operation for a substantial nonexempt purpose or impermissible private benefit.

In addition, the Service intends to review promotions of transactions involving improper deductions for conservation easements. Promoters, appraisers, and other persons involved in these transactions may be subject to penalties under §§ 6700, 6701, and 6694.

DRAFTING INFORMATION

The principal author of this notice is Patricia M. Zweibel of the Office of Associate Chief Counsel (Income Tax & Accounting). For further information regarding this notice, contact Ms. Zweibel at (202) 622-5020 (not a toll-free call).

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