

Overview of Reforms at The Nature Conservancy

Based on recommendations from an internal top-to-bottom review, a Board of Directors' Audit Committee review of the Sarbanes-Oxley Act, and the recommendations of a Board-chartered panel of outside experts, The Nature Conservancy initiated a series of organization-wide changes to strengthen its governance practices and oversight; improve risk assessment and management; increase transparency and accountability; clarify potential conflicts of interest; enhance the roles of trustees; and implement key Sarbanes-Oxley principles. Below is a brief overview of the extent and nature of these organizational changes.

May 11, 2005

	Previous Practice	Current Practice/Changes
Governance & Oversight	<ul style="list-style-type: none"> ▪ <i>Composition:</i> A Board of Directors was chartered for 41 members that met at least three times each year. ▪ <i>Committees:</i> Six committees each led by two co-chairs; members served on multiple committees. ▪ <i>Executive Committee:</i> Executive Committee chartered but was not active. 	<ul style="list-style-type: none"> ▪ <i>Composition:</i> The Board of Director's size has been reduced by nearly half from 41 to 21 members. The board now meets in person four times a year instead of three. ▪ <i>Committees:</i> Reduced the number of standing committees to three based on comprehensive and formal charters to provide strategic guidance; conduct active oversight, including executive compensation; and define and manage relationships with chapters. Board members serve on only one committee so that they can focus their time and be more deeply involved in oversight and management. ▪ <i>Executive Committee:</i> The Executive Committee has the authority to act on behalf of the Board in between meetings. The Executive Committee is comprised of the Chairman, the President of the Conservancy, up to three Vice Chairs, the Treasurer who is also the Chair of the Finance Committee, the Secretary, the Chairs of the other two Committees of the Board of Directors.
Assessing & Managing Risk	<ul style="list-style-type: none"> ▪ <i>Risk Assessment:</i> The Board of Directors reviewed only land acquisition transactions in excess of \$2 million. ▪ <i>Managing Risk:</i> The Board focused on financial risks posed by the Conservancy's land acquisition work. 	<ul style="list-style-type: none"> ▪ <i>Risk Assessment and Management:</i> The Projects and Activities Review Committee of the Board assesses a wide variety of projects, transactions, and issues that meet its criteria for review (e.g. transactions that are new, novel or particularly complex, or involve potentially substantial financial, ethical or reputational risks to the Conservancy). ▪ The Board created a staff Risk Assessment Committee to supplement the Board's review process. The staff committee reports directly and regularly to the Projects and Activities Review Committee. ▪ All land acquisition transactions in excess of \$2 million still require review by the Board of Directors.

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Conflicts of Interest	<ul style="list-style-type: none"> ▪ <i>Policy:</i> A formal conflicts of interest policy intended to ensure any transaction involving a related party was handled appropriately, including ensuring advance review of transactions involving employees, members of the Board, and state chapter trustees. ▪ <i>Review:</i> Potential conflicts reviewed by General Counsel. ▪ No mandatory prohibitions on transactions with related parties. 	<ul style="list-style-type: none"> ▪ <i>Policy:</i> Expanded definition of “related parties” to include major donors and the immediate families of Board of Directors members, trustees, and staff. ▪ <i>Review:</i> Formation of a multi-disciplinary Staff Conflicts of Interest Committee. ▪ Sales and purchases of land and interests in land to or from Board of Directors members, trustees, staff, and the immediate families of these groups are expressly prohibited. ▪ Land and other transactions involving major donors are subject to advance review and approval under conflicts procedure. ▪ All conflicts involving Board of Director members, major donors or other insiders are referred to the Audit Committee of the Board. ▪ A Board member or his/her company may not claim a tax deduction for a gift of land unless the transaction is independently reviewed, scrutinized, and approved by Board of Directors. ▪ Board of Directors members and their companies cannot engage in cause related marketing agreements with the Conservancy. ▪ Training programs have been initiated to enable staff to identify and address cases that involve even the appearance of a conflict.
Roles of Trustees	<ul style="list-style-type: none"> ▪ <i>Role of Trustees:</i> A document outlining the role of trustees was developed, but it was not well understood. ▪ <i>Responsibilities:</i> Each of the more than 50 chapter boards had its own by-laws and standards of governance. 	<ul style="list-style-type: none"> ▪ <i>Role of Trustees:</i> Four consistent roles have been identified for chapter board of trustee members: Ambassador, Conservationist, Fundraiser, and Advisor. ▪ <i>Responsibilities:</i> Developed an effective system of minimum standards for chapter boards and individual trustees as well as a set of best practices to be administered consistently across the organization. ▪ <i>Trustee Advisory Council:</i> Provides input to Board of Directors on major policy decisions and organizational initiatives.

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Sarbanes-Oxley Reforms	<ul style="list-style-type: none"> ▪ The Sarbanes-Oxley law does not pertain to charities and was only enacted a few years ago. ▪ In 2002, the Audit Committee commissioned a Sarbanes-Oxley review to determine applicability of the principles to charitable organizations. 	<ul style="list-style-type: none"> ▪ Several Sarbanes-Oxley-related enhancements were implemented, including a “whistleblower” policy; adoption of new policies concerning related parties; prohibiting any loans to directors, officers or staff; increased transparency about the organization and its activities; and a new approach to identifying and assessing potential business risk. ▪ Details on the implementation of these and other policies are listed below: <ul style="list-style-type: none"> ▪ <i>External Audits:</i> The Conservancy’s external auditor is approved annually by the Board, and the Audit Committee reviews the Conservancy’s contract with its external auditor every five years, the lead audit partner is rotated every five years. ▪ <i>Internal Audits:</i> Under the supervision of the Audit Committee of the Board, the scope of internal audits was expanded and internal auditors are authorized to perform internal investigatory functions similar to those performed by Inspectors General in federal governmental agencies. There are procedures to ensure internal audit findings are acted upon. Procedures, including focused training for senior managers, have been implemented to identify and take appropriate remedial actions with respect to internal audit findings that have system-wide implications. ▪ <i>Compliance Documentation:</i> Requirement that all key managers attend training and execute an annual certification that they and their staff have complied with the Conservancy’s policies and procedures and certifying that any conflicts of interest have been disclosed. ▪ <i>Whistleblower policy:</i> Adoption of a “whistleblower” policy and procedure to ensure that any employee who wishes to report a potential violation of law, policy or procedure may do so without fear of retaliation. ▪ <i>Chief Compliance Officer:</i> Creation of a new senior-level position responsible for establishing systems to promote training and compliance with all applicable laws, the Conservancy’s policy and procedures, and the highest ethical standards.

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<p>Promoting Tax Compliance</p>	<ul style="list-style-type: none"> ▪ In compliance with IRS regulations, the Conservancy would certify that it received a gift by signing an IRS Form 8283. In signing the form, the Conservancy was only acknowledging receipt of the gift, not agreeing with or having knowledge of the donor's valuation of the gift or the deduction claimed. 	<ul style="list-style-type: none"> ▪ 8283 Review: Created stricter policies above and beyond IRS requirements for executing Form 8283, including a requirement that all required information be filled out, that the Conservancy receive a copy of the appraisal to be used by the donor to substantiate the value of a donation, and a written certification by the appraiser that the IRS "qualified appraisal" standards have been followed. ▪ The Conservancy will not participate in transactions in which the appearance of the transaction is suspect or unreasonable, or where the transaction does not conform to the 8283 policy. ▪ If the donor is a Board member, trustee, staff or immediate family of those groups, or a major donor, the certification must include a statement that the appraiser is aware of the donor's relationship to the Conservancy and that the relationship did not influence the appraisal. ▪ More comprehensive procedure limits the type of conservation transactions in which the Conservancy will participate to ensure that the Conservancy does not facilitate or participate in tax shelters or other improper transactions.

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Conservation Easements	<ul style="list-style-type: none"> ▪ Conservancy had specific procedures governing when conservation easements will be accepted or purchased; requiring preparation of a detailed “baseline” report at the time of acquisition to facilitate future monitoring and enforcement; and mandating the establishment of stewardship funds to finance monitoring and enforcement. ▪ In 2001, following consultations with the IRS, the Conservancy established comprehensive procedures governing proposed modifications to easements. 	<ul style="list-style-type: none"> ▪ Donations by related parties including major donors are still permitted, subject to advance review and approval under strengthened conflicts of interest procedures. ▪ The Conservancy adopted new policies and procedures for the way the Conservancy acquires, documents, monitors, and enforces conservation easements, including: <ul style="list-style-type: none"> ▪ Standardized decision-making on location, terms and conditions of easements. ▪ Stricter set of standards for approving easement modifications involving related parties. ▪ Consistent monitoring and enforcement of the terms of Conservancy easements to ensure that conservation goals are met and easement terms are enforced. Now as part of routine audits, the Conservancy’s internal audit staff checks to see if easements are being monitored and that monitoring site reports are being filed. ▪ Particularly large, risky or potentially controversial easement donations will be referred to the Risk Committee. ▪ The Conservancy will inform prospective donors of the terms and conditions for acceptance of easements to ensure a clear understanding of mutual expectations and obligations. ▪ The Conservancy ensured that the organization was prepared to implement new procedures by taking actions such as establishing a new centralized database that, among other things, will list all easements, notify Conservancy field staff when a specific easement should be monitored, and provide a standardized monitoring checklist.
Conservation Buyer Transactions	<ul style="list-style-type: none"> ▪ Less than 2% of land transactions in the last 10 years were conservation buyer transactions (169 of 10,000). ▪ All transactions served important conservation goals and complied with all applicable laws. 	<ul style="list-style-type: none"> ▪ In addition to the prohibition of land purchases from or sales to Board of Directors members, trustees, staff and their families, the Conservancy created five new procedures providing that: <ul style="list-style-type: none"> ▪ Land must be in a priority site as identified by Conservancy scientists; ▪ Property must be publicly marketed; ▪ Conservancy must obtain independent appraisal for property before and after easement; ▪ Specific rules are implemented to make transactions more transparent to ensure appropriate tax treatment; and ▪ Conservancy will obtain community input about future uses of land.

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Conservation Land Sales to Governments	<ul style="list-style-type: none"> ▪ Long standing “no net profit” policy. 	<ul style="list-style-type: none"> ▪ Although the Conservancy has a long standing (1995) policy of recovering only its costs when transferring real estate to a government agency, additional procedures were implemented to better define allowable costs and to ensure that the value of land gifts, any prior government funding related to that property, and any other significant net income derived from the property are passed on to the government entity.
Compatible Human Uses		<ul style="list-style-type: none"> ▪ Prohibition on any new oil, gas or hard rock mineral activities on Conservancy preserves, except where required by law. ▪ Board determined that human-use can occur on Conservancy preserves in four circumstances. Untested, innovative or large-scale human uses must be reviewed by Risk Assessment Committee. ▪ Conservancy initiated review of scientific literature and survey of scientists about human use on conservation land.
Cause Related Marketing	<ul style="list-style-type: none"> ▪ The Conservancy followed the cause-related guidelines recommended by the Better Business Bureau's Wise Giving Alliance in its "Standards for Charitable Accountability." ▪ Cause related marketing agreements approved by the Vice-President of Marketing and Philanthropy. 	<ul style="list-style-type: none"> ▪ All new uses of the Conservancy’s name and logo by third parties must be approved by the Conservancy's President. ▪ The Board of Directors reviews cause related marketing agreements annually and must approve all agreements with companies whose businesses, products or services may appear in conflict with the Conservancy’s mission. ▪ The Conservancy will not enter into a cause related marketing agreement with a Board of Director member or his/her company.
Related Organizations	<ul style="list-style-type: none"> ▪ General Counsel and Director of Finance could approve the formation of a related entity if the financial commitment for the entity was under \$2 million. ▪ Board of Directors approval was required for the formation and operation of any related organizations which would exceed a financial commitment of \$2 million. 	<ul style="list-style-type: none"> ▪ The Conservancy adopted a policy requiring Board approval for the formation and operation of any related organizations to ensure that the related entities are consistent with the Conservancy’s goals and objectives and that related risks are identified and appropriately managed.