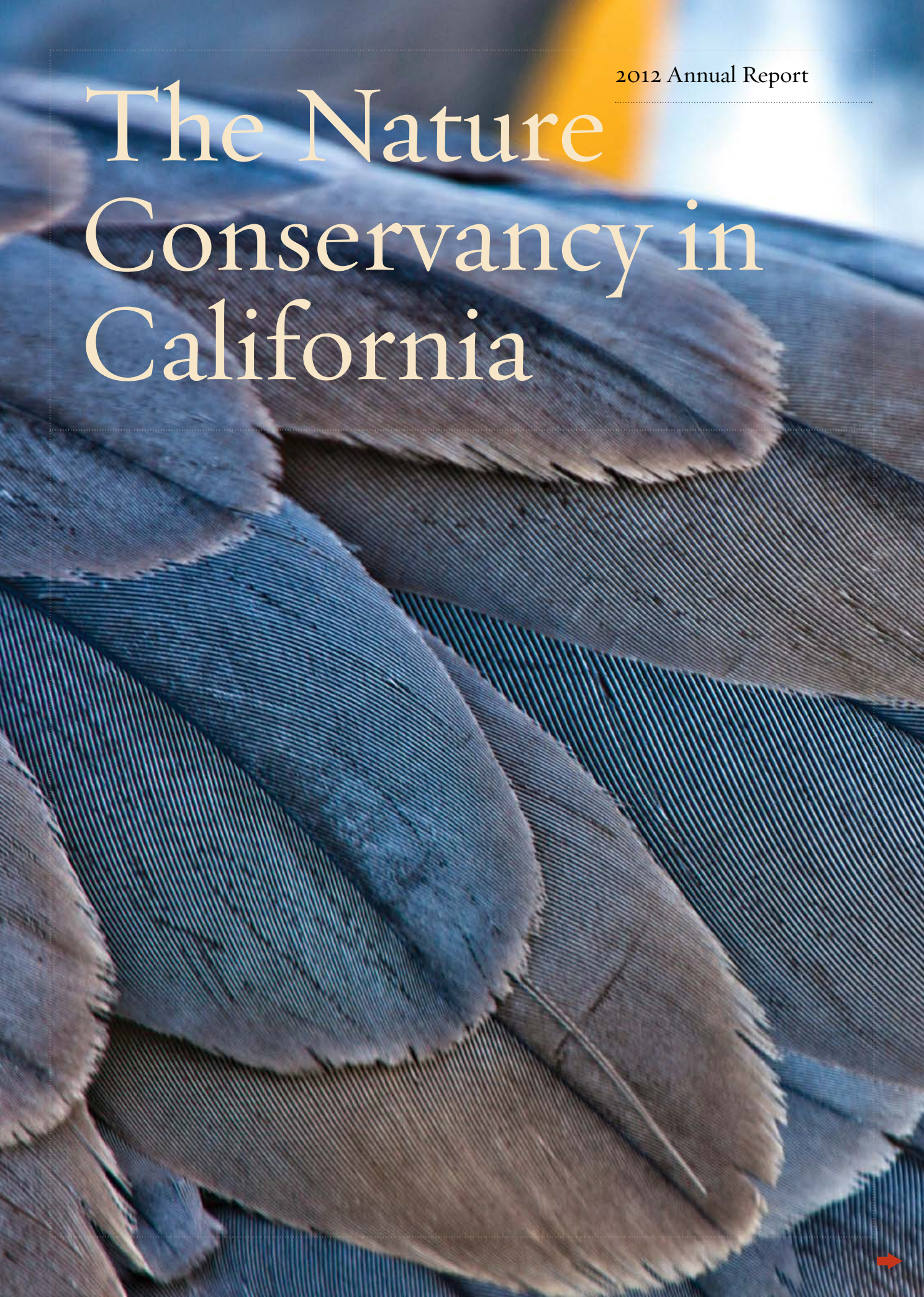
2012 Annual Report

The Nature Conservancy in California



It's not just about saving beautiful places where people can go hiking, or saving unique species. Nature provides what we need to thrive today and in the future.

A Letter From

Gene T. Sykes

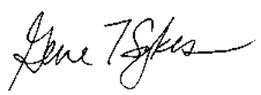
Chair of the California Board of Trustees

We are all familiar with the time-honored measures of successful conservation—acres protected, habitats restored, species saved from the brink of extinction and sprawling developments averted. But now there is a growing recognition that the protection of natural resources also plays an important role in the economic stability of communities and businesses.

At The Nature Conservancy in California the value of nature is forefront in our work. Our efforts to restore declining fish populations has resulted in more valuable catches for central coast fishermen and hope for the future of this traditional occupation. Through improved forest management, timber companies are helping us to restore north coast streams for coho salmon decimated by historic logging practices, while ensuring that there will be jobs and a way of life available to their local communities for generations to come.

As champions of The Nature Conservancy, you are investing in the planet's future—both environmentally and economically—and for that we are deeply grateful. Thank you for your generosity and commitment.

Sincerely,



Gene T. Sykes

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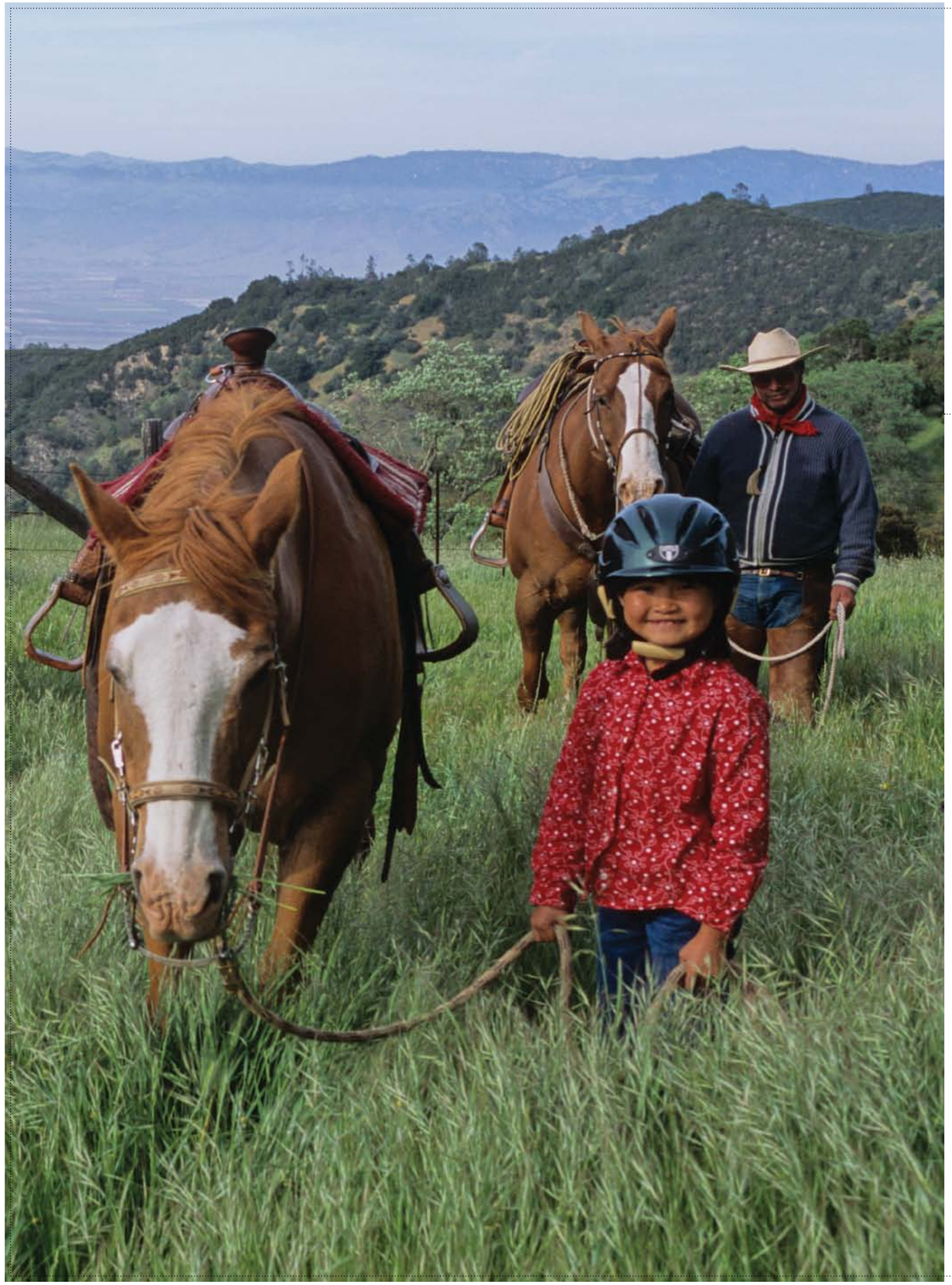


From Mike Sweeney, Executive Director

Looking Ahead

Many of the lands and waters that support life are found where people live and make their livelihoods.

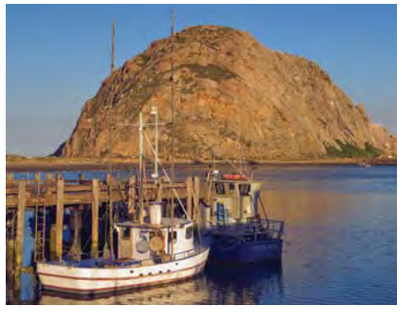
The last century's conservation tradition is rooted in the notion of the wild and pristine. Over the last 60 years, our work was shaped by this notion that we must protect nature's last great places. However, the challenges posed by a world profoundly altered by and for people demand additional solutions.

Today, more than three quarters of the planet has been directly changed by human activity. Many of the lands and waters that support life are found where people live and make their livelihoods. The challenge of this century is to protect those places along with the last great natural places that continue to inspire us and serve as a stronghold for life on Earth.

This report outlines some examples of our success in creating new ways for people and nature to thrive together. I hope as you read through it you feel a strong sense of pride in what you have helped us to accomplish over the past year. Thank you.

Solutions for the 21st Century

Thanks to the help of our supporters, The Nature Conservancy has protected almost 1.5 million acres of the most important lands and waters in California and 3.8 million acres of sea floor. These protected places are now serving as proving grounds for solutions to some of the biggest challenges we face. Big problems—extinction due to habitat loss, producing food for nine billion people, dwindling supplies of fresh water—require big solutions. The Nature Conservancy in California is focused on six initiatives, demonstrating solutions on the ground and working with partners to replicate these solutions at a pace and scale we could never achieve on our own. The following pages illustrate some examples of the recent successes you have helped us to achieve.



Photos, top to bottom, left to right: Bill Blue hauls in a fish aboard his boat, the *MV Morning Light*; blue rockfish swim in kelp canopy off Monterey, California; fishing boats in the harbor in Morro Bay; fishermen unload their catch at the Morro Bay Fish Company

[Marine Fisheries Initiative]:

Fishermen Rebuild California's Fisheries

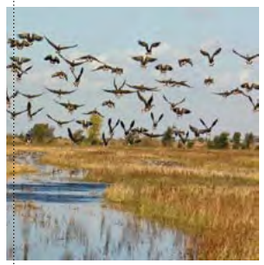
Empowering fishermen to conserve the resources they rely on for their livelihood, we've protected nearly four million acres of essential ocean habitat for fish and marine life, pioneered a new model for fisheries management and spread sustainable fishing across 15 million acres of California's coastal waters.

When regulations failed to protect our marine environment and put fishermen out of work, The Nature Conservancy stepped in and worked from within the industry to pioneer a new model for fishery management on California's central coast.

The fishermen we work with are now using smarter fishing practices, sharing information and risk to avoid catching overfished species and pooling their resources to market their catch more profitably. Last year our partners caught only 2 percent of their quota for overfished species, compared to 35 percent in the broader fleet. They made more money and helped revitalize fishing communities and the fishing industry.

We are now adapting the model we built on California's central coast to help fish stocks and marine environments recover in other globally important fisheries in the Pacific.

Empowering fishermen to conserve the resources they rely on, we developed more sustainable fishing plans that cover 15 million acres of ocean between Point Conception and Point Mendocino.



Photos, top to bottom, left to right: Sandhill cranes in flight at the Cosumnes River Preserve; a flock of ducks takes off above the Cosumnes River Preserve; farmer walks through his crops at the Staten Island farm

[Migratory Birds Initiative]:

Farmers Save the Heart of the Pacific Flyway

Farmers are our best hope for saving one of the greatest migratory routes on Earth. Millions of ducks, swans, cranes and other birds migrate along the Pacific Flyway on the west coast of North America each year. More than half come through California's Central Valley to fatten up and stay warm in the winter. However, the vast wetlands that once provided the food and habitat birds need are nearly gone. Instead, these animals rely on bird-friendly farmlands that mimic their natural environment.

The Central Valley is a pillar for the flyway and one of the world's most productive agricultural regions. The Nature Conservancy is helping farmers create bird-friendly farmland while growing the food we need to feed a growing population. At the Cosumnes River Preserve and our farm on Staten Island we developed bird-friendly practices—like leaving waste grain in the field and flooding fallow land—that are inexpensive and easy to implement. They also keep the birds and the land healthy.

With our colleagues in the Migratory Bird Conservation Partnership, we have enrolled 63,000 acres of rice fields in bird-friendly farming. In addition to the thousands of acres that will now support migrating birds, we are making sure that the scant remaining wetlands stay intact with enough water for plants and wildlife.

By creating a proven model for migratory bird conservation on farms, we can implement restoration on a much larger scale to save the Pacific Flyway while growing the crops we need to feed our communities.

We have enrolled 63,000 acres of rice fields in bird-friendly farming.

Photos, top to bottom, left to right: Mt. Shasta rises above the Shasta River; sprinklers irrigate agricultural crops in the Central Valley; kids play in water in city streets; a wood duck swims on the Cosumnes River

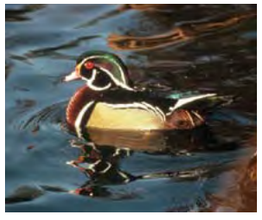
[Water Initiative]:

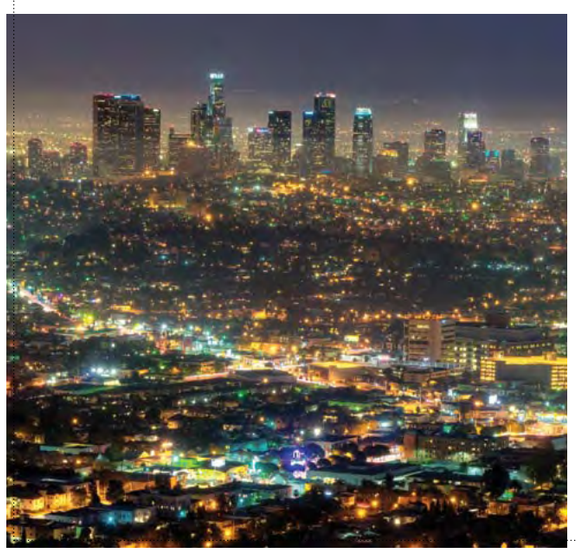
A Water System that Works for Nature and People

To protect our natural environment and provide a reliable water supply for nearly 40 million people and seven million acres of the most productive agricultural land in the world, The Nature Conservancy is reimagining how we manage our water in California.

Our current system of reservoirs and canals was built piecemeal over the last 150 years and has dramatically altered the way that our streams, rivers, wetlands and groundwater function. Bringing together farmers, cities and businesses, we are demonstrating new solutions to deliver water to all those who need it, including our extraordinary wildlife.

In places like the Shasta River watershed, Central Valley, Northern Sierra and Mojave Desert, we are changing agricultural practices, modeling new ways to operate reservoirs, restoring floodplains, creating funding mechanisms and demonstrating the interaction between groundwater and rivers to create a new paradigm for how we manage our fragile water supply for people and nature. By providing solutions that benefit all those who rely on this precious resource, we are paving the way for a sustainable water future in California.





Photos, top to bottom, left to right: Solar panels in the Mojave Desert; California desert tortoise; Los Angeles at night; Indian paintbrush blooms in the Mojave Desert

[Renewable Energy Initiative]:

Energy Companies Help Protect the Deserts

Building the energy infrastructure of the future and protecting our most precious lands and waters can go hand in hand. By providing energy companies and regulators with the tools they need to make good decisions, The Nature Conservancy is empowering the energy industry to make this vision a reality.

Our assessment of the Mojave Desert is changing how solar energy is being developed across our deserts in the southwest. In particular, the assessment has influenced the Department of the Interior's plan for solar energy development across Arizona, California, Colorado, New Mexico, Nevada and Utah, which we expect to become official policy this fall.

The first ecological analysis for smart energy siting, the Mojave Assessment pinpoints the areas that must be protected and those that are already degraded and better for development. Using this tool and our status as a trusted advisor, we built consensus among planning agencies, developers, conservationists and utility companies on the use of science-based planning.

Our work in the Mojave Desert has received national attention, including an invitation to share what we have learned before the National Academy of Sciences. We are now building on this success to ensure that we have the clean energy and healthy lands and waters we all need to thrive.

The director of the renewable energy initiative, Laura Crane, received a prestigious invitation to testify before the National Academy of Sciences to talk about our work in the Mojave Desert.

Photos, top to bottom, left to right: Coho salmon swim in the Salmon River, California; juvenile coho salmon; a school of coho salmon; timber worker stacks redwood lumber

[Salmon Initiative]:

Timber Companies Bring Wild Salmon Back from the Brink

Timber companies are committed to recovering wild salmon, and we are helping them succeed. Salmon are the foundation of healthy ecosystems, but over the last few decades their numbers have fallen dramatically. Working with private landowners is the key to their recovery.

On California's north coast, decades of logging have removed much of the fallen wood that creates the deep pools of water and shelter salmon need to raise their young and hide from predators and strong currents. Forest landowners are the best partners to help put fallen logs back in streams. They manage much of the best remaining habitat; have the equipment, crews and expertise; and need healthy lands and waters to sustain their businesses. By demonstrating an effective method at the Garcia River Forest we have inspired additional restoration by forest managers to help save salmon.

We also co-sponsored new legislation to simplify the permitting process so forest managers can restore streams more easily. We are optimistic that it will soon be signed into law and pave the way for restoring salmon habitat on many of the 1,700 miles of salmon streams on California's coast that need restoration.

There are 1,700 miles of salmon streams in coastal California that need wood restoration. Catalyzing action among private landowners is the best way to recreate a stronghold for salmon on California's north coast.

Photos, top to bottom, left to right: Lost Slough wetland at the Cosumnes River Preserve; waves crash upon the seawall in Pacifica, California; a view of the Yolo Bypass near Sacramento, California; least terns in flight at the Ventura River estuary

[Climate Change Initiative]:

Nature's Solutions for a Changing Climate

Nature can make our communities more resilient to climate change, now and in the future. We're already feeling the effects of a warming climate with more erratic weather patterns and more frequent wildfires, drought, flooding and coastal storm surge. Restoring natural resources, like floodplains and even oyster reefs, can help reduce the risks associated with natural disasters in the future.

Coastal communities are particularly vulnerable to sea-level rise, storm surges and flooding caused by a warming climate. In Ventura, about 60 miles outside of Los Angeles, we're restoring natural floodplains to buffer the community from catastrophic flooding and create habitat for wildlife. A model prepared by the county showed that if 80 percent of the existing floodplain is lost to development, downstream flooding damage could increase by $1 billion. Protecting floodplains in the area saves taxpayers millions of dollars in potential damage and eliminates the cost of maintaining levees to control flooding while preserving the ecologically important estuary.

The community is embracing less expensive, natural alternatives like this one to reduce the risks of climate change. Our climate is changing, but nature is resilient and can be our greatest ally in adapting.

Impact

From the pristine Northern Sierra to the vast Mojave Desert to our coastal waters, The Nature Conservancy in California is working to protect and improve natural landscapes and local communities for a prosperous future. We are proud to share the following accomplishments from across the state, which are only possible with your help.

California's food, forests and oceans define our history, culture and future.

❷ Protecting Drinking Water, Redwoods and Recreation Areas

With our partners we acquired 8,532 acres of redwood forest in the Santa Cruz Mountains linking approximately 40 square miles of protected lands, not only conserving old-growth redwoods and increasingly rare plants and animals, but also preserving the quality of local drinking water and ensuring future public access for recreation.

❶ Growing Healthy Food on Healthy Farms

The Conservancy is partnering with farmers and food retailers in the Salinas Valley to develop smart agricultural practices that allow farmers to grow healthy food while being good stewards of their lands. The Salinas Valley produces 50 percent of our fresh market vegetables and 70 percent of our salad greens at certain times of the year, so developments here can impact farms throughout the nation.

❸ Conservancy Scientists Help Pioneer Ocean Protection

California completed the country's first statewide network of Marine Protected Areas, putting the state in a leading role globally. For seven years, Conservancy scientists participated in creating planning practices that will be exported internationally, developed a breakthrough web-based mapping tool and monitored habitats in newly protected areas with a remotely operated vehicle.

From San Diego County to the Northern Sierra, we are protecting California's remarkable diversity of life.

4 Palo Corona Regional Park, a Biodiversity Paradise

The Conservancy completed its seven-year phased transfer of 4,300 acres to create Palo Corona Regional Park, the gateway to Big Sur. Boasting an extraordinary mix of ecosystems and native species, the site links 13 adjacent protected areas in a wildlife corridor extending from the Carmel River to San Simeon.

5 Expanding the San Diego National Wildlife Refuge

Working with numerous collaborators, we added almost 2,000 acres of increasingly rare coastal sage and chaparral to the San Diego National Wildlife Refuge, linking to adjacent landscapes protected by the Multiple Species Conservation Program, which preserves native habitats and species while allowing appropriate economic development.

6 Jewel of the Sierra Protected and Enjoyed

Since acquiring wilderness lands surrounding Independence Lake with our Nevada state program, we've made important improvements to the area working with the Northern Sierra Partnership. We're increasing the threatened Lahontan cutthroat trout population, preventing the introduction of aquatic invasive species and welcoming a growing number of visitors to this idyllic alpine lake.

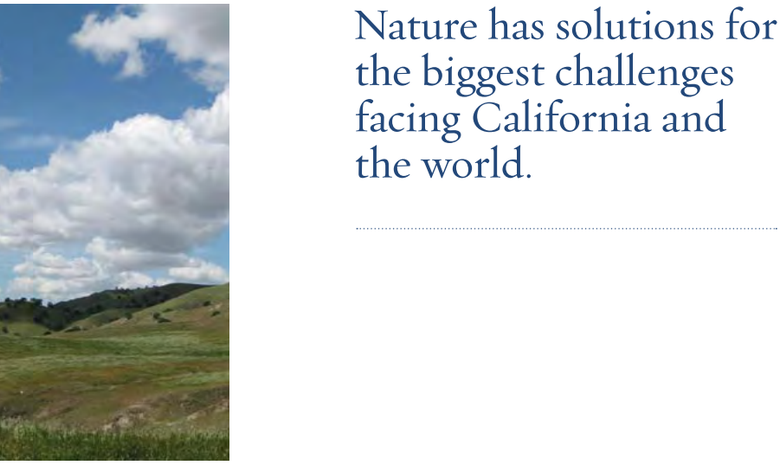
7 Wild Chinook Salmon Habitat Protected

With the acquisition of a conservation easement on the 8,455-acre Gaumer Ranch, we extended our 15-mile corridor of private protected lands stretching from the Sacramento River to the Lassen National Forest. Nearly two miles of Deer Creek, a vital tributary supporting three runs of wild Chinook, winds through the ranch.

8 Corridors and Climate Change: Linking the Coast Range to the Sierra Nevada

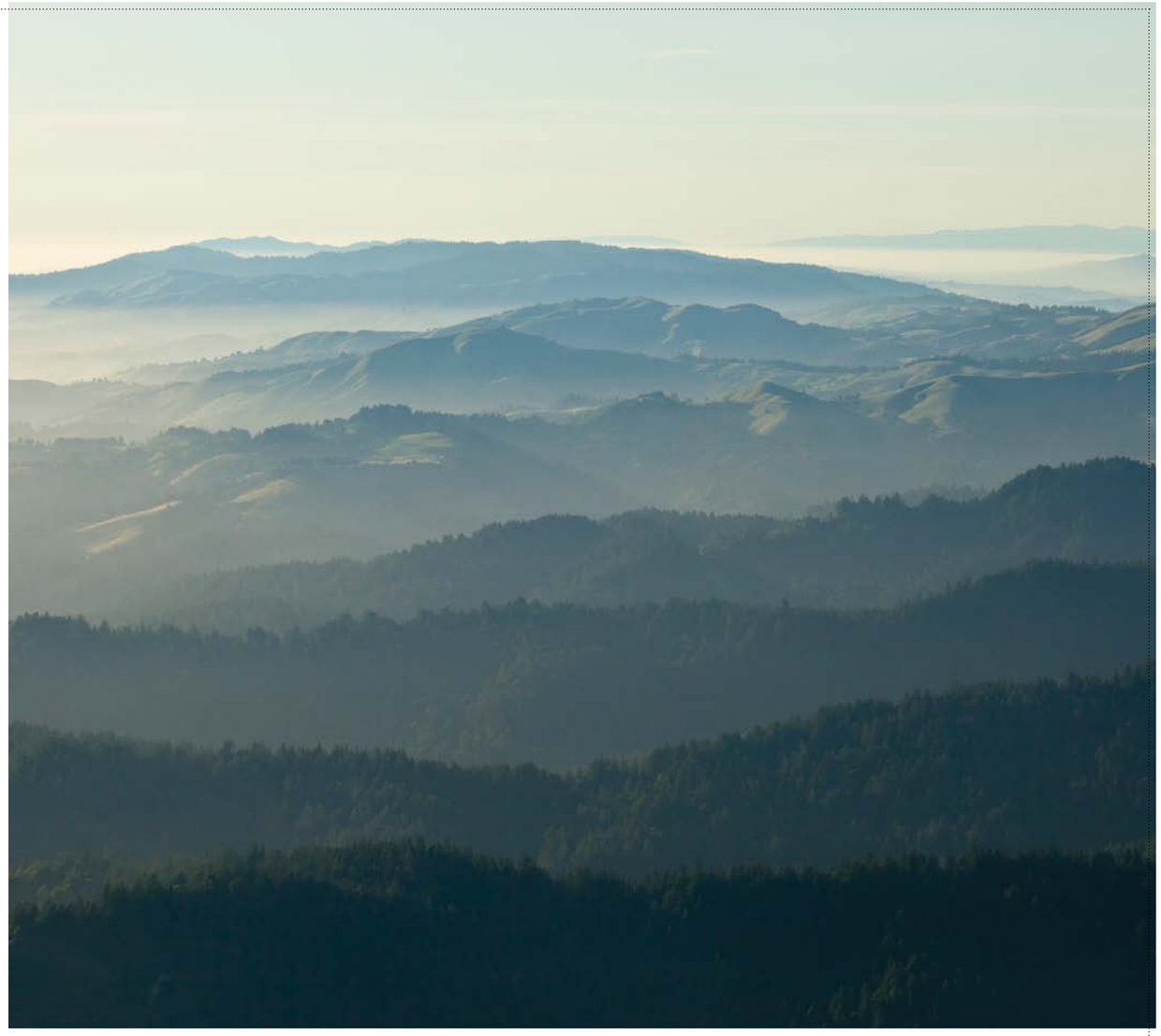
Working on an unprecedented scale, the Conservancy acquired the 15,000-acre Tollhouse Ranch in Kern County as part of its region-wide plan not only to ensure the connectivity of wildlife corridors between the Sierra Nevada and the Coast Ranges but to provide habitat as nature adapts to our changing climate.

Nature has solutions for the biggest challenges facing California and the world.



9 The Largest Area of Vernal Pool Grasslands and Flood Protection

Creating one of the largest areas of protected vernal pool grassland habitats in California, we acquired an easement on the 4,500-acre Dry Creek Ranch at the Cosumnes River Preserve. The property also includes a 1,000-acre floodplain that will be restored to help alleviate flooding in the nearby town of Galt.



10 Creating a Role for Forest Carbon Credits

We worked closely with the California Air Resources Board and colleagues as the board unanimously adopted Cap and Trade regulations for AB 32, the Global Warming Solutions Act, a significant milestone in our 10-year effort to establish a forest carbon market for conservation in California, which can serve as a global model.

Financial Summary

Financial Summary

For the fiscal year ending June 30, 2012	2012	2011
Operating Sources		
Contributions	18,593,316	18,350,634
Government	2,724,432	2,194,577
Endowment & Investment	5,236,529	5,215,881
Lease, Bequest & Reserve	10,493,746	7,053,093
Total Operating Sources	37,048,023	32,814,185
Operating Uses		
Personnel	23,078,661	20,671,328
Contracts	8,253,463	6,794,649
Other Expenses	5,715,900	5,348,208
Total Operating Uses	37,048,023	32,814,185
Other Income		
Land Sales & Gifts	45,178,913	15,186,991
Government Grants for Land	8,642,443	16,303,671
Other Income (Loss)	(1,932,180)	23,499,545
Total Other Income	51,889,176	54,990,207
Other Expenses		
Land Transaction Expenses	28,114,037	16,557,126

Asset, Liability & Net Asset Summary

For the fiscal year ending June 30, 2012	2012	2011
Assets		
Conservation Land & Easement	476,279,505	448,484,918
Endowment & Reserve Investments	197,920,457	199,563,218
Property & Equipment (Net of Depreciation)	4,466,891	4,675,280
Other Assets	1,386,373	1,249,753
Total Assets	680,053,225	653,973,169
Liabilities & Net Assets		
Deferred Revenue	5,271,433	3,818,211
Other Liabilities	4,489,176	3,637,479
Total Net Assets	670,292,617	646,517,478
Total Liabilities & Net Assets	680,053,225	653,973,169

The Nature Conservancy in California is one operating unit within The Nature Conservancy's global organization. To view audited financial information, please go to nature.org/about-us/our-accountability/annual-report/index.htm.

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Protecting nature. Preserving life.®

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