KPMG

DUCKS UNLIMITED, INC. AND AFFILIATE

Combined Financial Statements

June 30, 2011 and 2010

(With Independent Auditors' Report Thereon)

DUCKS UNLIMITED, INC. AND AFFILIATE

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Independent Auditors' Report

The Board of Directors
Ducks Unlimited, Inc. and Affiliate:

We have audited the accompanying combined balance sheets of Ducks Unlimited, Inc. and Affiliate (the Organization) as of June 30, 2011 and 2010, and the related combined statements of activities, unrestricted support and revenues and expenses, and cash flows for the years then ended. These combined financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these combined financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of Ducks Unlimited, Inc. and Affiliate as of June 30, 2011 and 2010, and the changes in their net assets and their cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

KPMG LLP

November 7, 2011

DUCKS UNLIMITED, INC. AND AFFILIATE

Combined Balance Sheets

June 30, 2011 and 2010

Assets		**2011**	**2010**
Cash and cash equivalents	$	18,241,996	19,509,014
Events receivable, net		555,506	802,572
Pledges receivable, net		21,552,434	19,671,704
Habitat conservation and other receivables		21,853,560	23,468,797
Event merchandise inventory		3,163,585	3,802,579
Investments		31,805,048	25,101,921
Land held for conservation purposes		17,133,151	12,664,652
Land, buildings, and equipment, net		8,950,925	9,325,870
Other assets		2,758,214	2,795,563
Total assets	$	126,014,419	117,142,672
Liabilities and Net Assets			
Accounts payable and accrued expenses	$	11,652,241	13,579,929
Compensation and related accruals		5,521,369	5,142,170
Pension and deferred compensation accruals		9,130,585	15,661,816
Accrued postretirement benefits		3,301,330	3,676,955
Other liabilities		572,988	598,686
Total liabilities		30,178,513	38,659,556
Net assets:			
Unrestricted		16,665,615	3,240,620
Temporarily restricted		68,341,450	65,034,938
Permanently restricted		10,828,841	10,207,558
Total net assets		95,835,906	78,483,116
Total liabilities and net assets	$	126,014,419	117,142,672

See accompanying notes to combined financial statements.

DUCKS UNLIMITED, INC. AND AFFILIATE

Combined Statements of Activities

Years ended June 30, 2011 and 2010

	Unrestricted	Temporarily restricted	Permanently restricted	Total net assets
Net assets at June 30, 2009	$ (1,567,513)	60,058,693	6,745,429	65,236,609
Support and revenues:				
Unrestricted support and revenues	126,825,632	—	—	126,825,632
Restricted support and revenues:				
Major conservation gifts	—	37,738,661	3,462,129	41,200,790
Investment return on permanent endowments, net	—	597,103	—	597,103
Habitat reimbursements	—	8,867,218	—	8,867,218
Other revenues	—	1,098,366	—	1,098,366
Net assets released from restrictions and other reclassifications:				
Program restrictions satisfied	37,696,274	(37,696,274)	—	—
Expiration of time restrictions	2,180,562	(2,180,562)	—	—
Total support and revenues	166,702,468	8,424,512	3,462,129	178,589,109
Total expenses	159,363,256	—	—	159,363,256
Excess of support and revenues over expenses	7,339,212	8,424,512	3,462,129	19,225,853
Other changes in net assets:				
Loss on uncollectible pledges	—	(3,448,267)	—	(3,448,267)
Pension and postretirement benefit liability adjustments other than net periodic costs	(2,531,079)	—	—	(2,531,079)
Total change in net assets	4,808,133	4,976,245	3,462,129	13,246,507
Net assets at June 30, 2010	$ 3,240,620	65,034,938	10,207,558	78,483,116
Support and revenues:				
Unrestricted support and revenues	120,932,740	—	—	120,932,740
Restricted support and revenues:				
Major conservation gifts	—	32,006,159	621,283	32,627,442
Investment return on permanent endowments, net	—	1,908,011	—	1,908,011
Habitat reimbursements	—	15,599,145	—	15,599,145
Other revenues	—	988,828	—	988,828
Net assets released from restrictions and other reclassifications:				
Program restrictions satisfied	45,310,613	(45,310,613)	—	—
Expiration of time restrictions	1,084,894	(1,084,894)	—	—
Total support and revenues	167,328,247	4,106,636	621,283	172,056,166
Total expenses	155,701,461	—	—	155,701,461
Excess of support and revenues over expenses	11,626,786	4,106,636	621,283	16,354,705
Other changes in net assets:				
Loss on uncollectible pledges	—	(800,124)	—	(800,124)
Pension and postretirement benefit liability	—	—	—	
adjustments other than net periodic costs	1,798,209	—	—	1,798,209
Total change in net assets	13,424,995	3,306,512	621,283	17,352,790
Net assets at June 30, 2011	$ 16,665,615	68,341,450	10,828,841	95,835,906

See accompanying notes to combined financial statements.

DUCKS UNLIMITED, INC. AND AFFILIATE

Combined Statements of Unrestricted Support and Revenues and Expenses

Years ended June 30, 2011 and 2010

	2011	2010
Operational revenue:		
Philanthropic sources:		
Net proceeds from committee events	$ 31,782,498	29,186,432
Direct response membership	10,933,668	11,491,007
Major gifts	31,160,318	31,846,854
Planned gift maturities	774,312	697,890
Royalties	3,732,532	4,045,846
Total philanthropic revenue	78,383,328	77,268,029
Other operational support and revenue:		
Federal and state habitat reimbursements	52,334,550	50,473,331
Nongovernmental partnerships	15,209,880	8,835,781
State grants	2,774,269	2,457,315
Donated conservation easements	8,040,457	20,998,730
Advertising revenue	2,388,756	2,003,570
Investment return	86,112	37,176
Other revenues	324,671	386,569
Total operational support and revenue	159,542,023	162,460,501
Operational expense:		
Program service expense:		
Waterfowl conservation:		
U.S. habitat delivery	88,310,376	76,245,882
Conservation easements	8,040,457	20,998,730
Government relations	801,259	793,838
Ducks Unlimited Canada	12,764,225	15,536,287
Ducks Unlimited de Mexico	608,198	509,874
Conservation education:		
Magazine	3,307,804	3,236,961
Communications and conferences	3,030,362	3,266,013
Education delivery	6,150,767	6,200,191
Membership services	3,164,680	2,804,787
Total program service expenses	126,178,128	129,592,563
Fund-raising:		
Field operations	9,226,150	9,300,287
Direct response membership development	9,558,982	10,142,974
Major gift development and advertising	6,363,346	6,258,490
Total fund-raising expense	25,148,478	25,701,751
Administration	4,374,855	4,068,942
Total operational expense	155,701,461	159,363,256
Operational surplus	3,840,562	3,097,245
Nonoperational:		
Revolving land contributions	2,502,402	620,000
Gains on land sales	635,084	753,650
Planned gift maturities	774,311	697,890
Other quasi-endowment contributions	352,871	544,603
Net endowment investment income	3,521,556	1,625,824
Nonoperating surplus	7,786,224	4,241,967
Excess of unrestricted support and revenues over expenses	$ 11,626,786	7,339,212

See accompanying notes to combined financial statements.

DUCKS UNLIMITED, INC. AND AFFILIATE

Combined Statements of Cash Flows

Years ended June 30, 2011 and 2010

		2011	2010
Cash flows from operating activities:			
Change in net assets	$	17,352,790	13,246,507
Adjustments to reconcile change in net assets to net cash provided by operating activities:			
Noncash contributions		(15,050)	(507,040)
Contributions restricted for investment in endowment		(621,283)	(3,462,129)
Depreciation		1,336,521	1,549,214
Gain on disposition of conservation lands		(623,581)	(753,650)
Loss on disposition of equipment		480	77,044
Net realized and unrealized gains on investments		(4,953,127)	(1,906,302)
Pension and postretirement benefit liability adjustments		(1,798,209)	2,531,079
Changes in operating assets and liabilities:			
Events receivable		247,066	104,233
Pledges receivable		(1,880,730)	4,371,133
Habitat conservation and other receivables		1,615,237	(6,282,057)
Event merchandise inventory		638,994	1,815,231
Other assets		52,399	670,979
Accounts payable and accrued expenses		(1,927,688)	4,089,865
Compensation and related accruals		379,199	1,305,877
Pension and deferred compensation accruals		(3,388,672)	(3,731,282)
Accrued postretirement benefits		(1,719,975)	(1,451,484)
Other liabilities		(25,698)	(24,729)
Net cash provided by operating activities		4,668,673	11,642,489
Cash flows from investing activities:			
Purchases of investments		(20,029,558)	(7,718,810)
Proceeds from sale of investments		18,279,558	929,069
Building and equipment purchases		(962,056)	(898,439)
Investments in conservation lands		(6,079,719)	(2,870,049)
Proceeds from sales of conservation lands		2,234,801	3,412,499
Net cash used in investing activities		(6,556,974)	(7,145,730)
Cash flows from financing activities:			
Proceeds from contributions restricted for endowment		621,283	3,462,129
Repayments of borrowings on operating line of credit		(3,000,000)	(16,000,000)
Proceeds from borrowings on operating line of credit		3,000,000	16,000,000
Repayments of mortgage payable		—	(172,000)
Net cash provided by financing activities		621,283	3,290,129
Net increase (decrease) in cash and cash equivalents		(1,267,018)	7,786,888
Cash and cash equivalents at beginning of year		19,509,014	11,722,126
Cash and cash equivalents at end of year	$	18,241,996	19,509,014
Supplemental disclosure of cash flow information:			
Cash paid for interest	$	6,221	132,120

See accompanying notes to combined financial statements.

(1) Nature of Activities

Ducks Unlimited, Inc. (DUI) is an internationally supported, nonprofit conservation organization incorporated under the laws of the District of Columbia in 1937. DUI conserves, restores, and manages wetlands and associated habitats for North America's waterfowl. These habitats also benefit other wildlife and people.

Wetlands America Trust, Inc. (WAT) is a nonprofit organization formed in 1985 to support the mission of DUI in providing leadership in the protection of the natural balance of wetland ecosystems, ensuring the future viability of waterfowl and other wetland wildlife in the United States. WAT operates exclusively for the benefit of DUI and complements DUI's domestic habitat programs in harmony with DUI's conservation priorities. WAT is also a fiduciary for DUI and manages endowments and revolving funds. DUI is the sole member of WAT.

DUI and WAT's primary sources of revenue are contributions from the public, including gifts of land, investment income, and government grants. These resources are used to conserve portfolios of functional conservation areas across North America.

DUI and WAT are recognized as organizations exempt from federal income tax under 509(a)(1) as entities described in Section 501(c)(3) of the U.S. Internal Revenue Code, except for taxes on income from activities unrelated to its exempt purposes. Donations to DUI and WAT are deductible by the donor as charitable contributions for federal income tax purposes. Management is not aware of any course of action or series of events that have occurred that might adversely affect this tax-exempt status.

(2) Significant Accounting Policies

(a) Principles of Combination

The combined financial statements include the accounts of DUI and WAT, hereinafter referred to collectively as DU or the Organization. Significant accounts and transactions between DUI and WAT have been eliminated in combination.

(b) Cash Equivalents

Cash equivalents are highly liquid investments with a maturity of three months or less when purchased.

(c) Pledges Receivable

Pledges receivable represent promises from DU supporters to make contributions to DU in future periods under various major donor programs, which generally provide for payments over four to seven years. Pledges are reported at the net present value of the estimated future cash flows.

(d) Inventory

Event merchandise inventory is valued at the lower of cost or market, using the first-in, first-out method. Slow moving or potentially obsolete inventory items are written down to net realizable value.

(e) Investments

Investments with readily determinable market values are reported based on the last reported sales price at the end of the fiscal year or, in the absence of a reported sale, on the average of the bid and ask price. Investments in private equity and hedge funds are reported at the proportionate share of the estimated fair values of the underlying investments. Those fair values, which are estimated by the general partners or investment managers, are evaluated for reasonableness by the Organization's management, and may differ from the values that would have been used had a ready market existed for those investments. Investment income from permanently restricted endowment funds is recognized as temporarily restricted net assets until appropriated for use. Investment income on all other investments is credited directly to unrestricted net assets unless otherwise restricted by the donor.

DU values its financial assets and liabilities based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A fair value hierarchy that prioritizes the inputs to valuation techniques is used to measure fair value. The hierarchy maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. The hierarchy is broken down into the following three levels, based on the reliability of inputs:

Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities that are observable at the measurement date;

Level 2: Significant observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data; and

Level 3: Significant unobservable inputs for the asset or liability that reflect the reporting entity's own estimates about the assumptions that market participants would use in pricing the asset or liability.

(f) Land Held for Conservation Purposes

Land held for conservation purposes includes purchased or donated properties to be sold or transferred to governmental agencies or other conservation-minded individuals and organizations for conservation purposes. Purchased land and easements are stated at the lesser of cost or fair market value at date of acquisition. Donated properties are recorded at their appraised values at the date of contribution.

(g) Land, Buildings, and Equipment

Land, buildings, and equipment are stated at cost. Expenditures for maintenance and repairs that do not improve or extend the lives of the respective assets are expensed as incurred. When assets are retired or sold, the related cost and accumulated depreciation are removed from the accounts, and any gain or loss on retirement or disposal of the individual assets is recorded as revenue or expense.

(Continued)

Depreciation is computed using the straight-line method over the estimated useful lives of the related assets as follows:

Buildings	10 – 40 years
Building improvements	5 – 15 years
Computer equipment	3 – 5 years
Furnishings and equipment	5 – 10 years

DU periodically reviews the recoverability of long-lived assets. If facts or circumstances indicate the possibility of impairment, DU will prepare a projection of the undiscounted future cash flows of the specific assets and determine if the recorded value is recoverable or if an adjustment to the carrying value of the assets is necessary. DU does not believe that there were any facts or circumstances that indicated an impairment of recorded land, buildings, or equipment as of June 30, 2011 or 2010.

(h) Charitable Gift Annuities

DU has received several gifts that, pursuant to the gift agreements, require DU to pay a fixed amount for a specified period of time to the donor or to individuals or organizations designated by the donor. The amount recorded as a contribution at the time the gift is made is the difference between the amount of the gift and the present value of the donor stipulated payments to be made by DU as of the date of the gift. DU's liability under these arrangements, which is recorded as a component of other liabilities in the accompanying combined balance sheets, is recorded at the net present value of the remaining donor stipulated payments and is adjusted annually.

(i) Net Assets

DU reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit their use. When a donor restriction is satisfied, that is, when a stipulated time restriction expires or program restriction is accomplished, temporarily restricted net assets are transferred to unrestricted net assets and reported in the combined statements of activities as net assets released from restrictions.

DU classifies donor-restricted contributions as unrestricted support if those restrictions are satisfied in the same reporting period. DU recognizes contributions of collectibles (for example, works of art or similar assets that are held for public exhibition or education) as unrestricted support, unless restricted by the donor.

Temporarily restricted net assets represent pledges receivable that are restricted by time and/or purpose restrictions, habitat conservation gifts that are restricted by donor stipulation, and unappropriated appreciation on donor-restricted endowment funds.

Permanently restricted net assets represent endowments restricted by donors, the income from which is expendable for conservation efforts specific to donor stipulations.

(Continued)

(j) Conservation Easements

Conservation easements represent rights to restrict the use, access, and development of certain properties. Unrestricted support and expenses are recognized in equal amounts based upon the appraised value of the easement. DU is obligated to monitor easements to ensure that the restrictions are maintained. DU monitors these easements in the normal course of its operations and associated costs are expensed as incurred.

The estimated value of easements is not included in the combined balance sheets because the easements do not represent a future economic benefit to the Organization.

(k) Pension and Postretirement Benefit Plans

DU records the overfunded or underfunded status of benefit plans on its combined balance sheets. Changes in funded status other than net periodic cost are recognized as other changes in net assets in the year in which the change occurs. DU engages a third-party actuary to perform computations necessary to record its pension and postretirement plan-related balances.

(l) Functional Allocation of Expenses

The costs of providing the various programs and activities have been summarized on a functional basis in the combined statements of unrestricted support and revenues and expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

(m) Grants and Cooperative Agreements

DU receives grants and contracts from federal and state agencies, as well as from private organizations, to be used for specific programs or land purchases. Any excess of reimbursable expenditures over cash receipts is included in habitat conservation receivables. For grants and contracts in which cash is received prior to the incurrence of related costs, such amounts are generally reflected in temporarily restricted net assets until the related costs are incurred.

DU’s costs incurred under its government grants and contracts are subject to audit by government agencies. Management believes that disallowed costs, if any, would not be material to the accompanying combined balance sheets or combined statements of activities of DU.

(n) Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts in the financial statements and accompanying notes. Actual results could differ from those estimates. Estimates are used primarily in the recording of the allowance for uncollectible pledges receivable, the discounting of pledges receivable, determining the fair value of certain investments, estimates relating to the pension and other postretirement plans, and reserves for self-insurance.

(o) Donor-Restricted Endowment Funds

Effective July 1, 2007, the State of Tennessee enacted its version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA), the provisions of which apply to funds existing on or established after that date. Under the provisions of UPMIFA, organizations are required to maintain and report endowment funds based upon donor intent, whether explicit or implied. Based on its interpretation of the provisions of UPMIFA and a review of underlying endowment agreements, management has determined that reporting the historic dollar value of donor-restricted endowments as permanently restricted net assets is appropriate and consistent with the intent of DU's donors.

(p) Subsequent Events

DU has evaluated events and transactions for potential recognition or disclosure through November 7, 2011, which is the date these combined financial statements were available to be issued.

(q) Combined Financial Statement Presentation and Reclassification

The presentation of the prior year Combined Statements of Unrestricted Support and Revenues and Expenses has been changed to conform with the current year presentation. Expenditures totaling approximately $7,700,000 reported in the prior year as U.S. habitat delivery have been reclassified to the Ducks Unlimited Canada line item within the Combined Statements of Unrestricted Support and Revenues.

(3) Fund-Raising Events

DU raises funds to support its conservation mission through fund-raising events in communities throughout the United States. During the years ended June 30, 2011 and 2010, DU volunteers hosted approximately 4,400 and 4,500, respectively, grassroots fund-raising events, such as member and sponsor banquets, shooting and fishing tournaments, and golf outings. Chapters are chartered by DU and operate as unincorporated associations to support DU in the local community. Local chapters remit proceeds of these events (net of direct expenses incurred by the chapter in sponsoring and conducting the event) to DU, and provide reports of receipts and direct expenses. Because the financial transactions of local committees are controlled by the volunteers, net amounts to be remitted to DU are recorded as event receivables in the combined balance sheets and net proceeds from committee events in the accompanying combined statements of unrestricted support and revenues and expenses.

The following unaudited gross proceeds and unaudited direct expenses incurred by DU chapters in conducting these events are based on reports provided by the host chapters for each event.

	For the year ended June 30, 2011	2010
Gross proceeds reported by DU chapters (unaudited)	$ 72,760,520	73,814,779
Expenses incurred by DU chapters (unaudited)	(26,722,169)	(26,324,836)
Proceeds of events remitted to DU	46,038,351	47,489,943
Less cost of event merchandise	(13,549,795)	(17,706,741)
Less state operation allowances	(706,058)	(596,770)
Net proceeds from committee events	$ 31,782,498	29,186,432

(4) Investments and Fair Value Measurements

The following tables set forth DU's investments by level within the fair value hierarchy, as of June 30, 2011 and 2010:

	2011			
	Fair value measurements using			
	Level 1	Level 2	Level 3	Total
Equities:				
Large-cap value	$ 5,665,663	—	—	5,665,663
Large-cap growth	6,650,084	—	—	6,650,084
Small and mid-cap value	3,142,323	—	—	3,142,323
Small and mid-cap growth	3,239,470	—	—	3,239,470
International	3,331,439	—	—	3,331,439
Real estate	656,926	—	—	656,926
Fixed income	6,950,775	266,333	—	7,217,108
Private equity	—	—	180,381	180,381
Hedge funds	—	—	1,721,654	1,721,654
Total investments at fair value	$ 29,636,680	266,333	1,902,035	31,805,048

	2010			
	Fair value measurements using			
	Level 1	Level 2	Level 3	Total
Equities:				
Large-cap value	$ 5,700,767	—	—	5,700,767
Large-cap growth	5,575,343	—	—	5,575,343
Small and mid-cap value	2,170,730	—	—	2,170,730
Small and mid-cap growth	2,189,237	—	—	2,189,237
International	2,516,218	—	—	2,516,218
Real estate	163,943	—	—	163,943
Fixed income	5,573,308	265,541	—	5,838,849
Commodities	555,387	—	—	555,387
Private equity	—	—	144,517	144,517
Hedge funds	—	—	246,930	246,930
Total investments at fair value	$ 24,444,933	265,541	391,447	25,101,921

At June 30, 2011 and 2010, DU was committed to fund additional amounts to a private equity fund totaling up to approximately $136,000 and $176,000, respectively.

The composition of investment return is as follows for the years ended June 30:

	2011	2010
Net realized and unrealized investment gains:		
Unrestricted	$ 3,239,717	1,402,936
Temporarily restricted	1,713,410	503,366
	$ 4,953,127	1,906,302
Interest and dividend income:		
Unrestricted	$ 367,951	260,064
Temporarily restricted	194,601	93,737
	$ 562,552	353,801
Total activity:		
Unrestricted	$ 3,607,668	1,663,000
Temporarily restricted	1,908,011	597,103
	$ 5,515,679	2,260,103

The following table sets forth a summary of changes in the fair value of DU's Level 3 assets for the year ended June 30, 2011:

		Private equity	Hedge funds
Beginning balance at June 30, 2009	$	132,947	241,209
Total net gains (losses) (realized and unrealized)		(8,890)	36,140
Net purchases (distributions)		20,460	(30,419)
Ending balance at June 30, 2010	$	144,517	246,930
Beginning balance at June 30, 2010	$	144,517	246,930
Total net gains (realized and unrealized)		25,454	62,504
Net purchases (distributions)		10,410	1,412,220
Ending balance at June 30, 2011	$	180,381	1,721,654

(5) Pledges Receivable

Pledges receivable are summarized as follows at June 30:

		2011	2010
Amounts due:			
Less than 1 year	$	14,982,389	14,470,654
1 to 5 years		12,220,180	11,551,909
Greater than 5 years		1,135,865	1,359,881
		28,338,434	27,382,444
Less allowance for uncollectible pledges		(5,974,896)	(6,754,775)
Less unamortized present value discount		(811,104)	(955,965)
	$	21,552,434	19,671,704

Pledges receivable are discounted using rates ranging from 0.5% to 6.0% for 2011 and 0.7% to 6.0% for 2010. Amortization of the discount is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions. An allowance is recorded for uncollectible pledges based upon management's judgment and analysis of the creditworthiness of the donors, past collection experience, and other relevant factors.

(6) Land Held for Conservation Purposes

Land held for conservation purposes is as follows at June 30, 2011:

Property	Acres protected	Location		Carrying value
Cosumnes River Preserve	242	California	$	534,691
Davey Complex	160	Colorado		105,767
Goebel Ranch	9,455	South Dakota		2,076,884
Haerter/Heckenliable Complex	240	South Dakota		84,526
Ipswich Grasslands Complex	390	South Dakota		37,590
Long Lake Complex	2,957	South Dakota		1,374,365
Minden SW Complex	319	Nebraska		—
Prairie Marsh Complex	200	Nebraska		344,304
Ritterbush Complex	162	Nebraska		—
Union Ditch Complex (Water rights)	—	Colorado		145,489
Verona Complex	1,285	Nebraska		193,710
Kirkpatrick Basin South	95	Nebraska		244,436
Weil Tract	70	South Carolina		63,000
Bowdle Complex	985	South Dakota		867,888
Coteau Ranch (Peacock) Complex	3,120	North Dakota		1,649,076
Straightwater Complex	155	Nebraska		114,955
Julesberg Complex	850	Colorado		654,030
Martin Complex	952	North Dakota		500,012
Little Sandy Complex	160	Nebraska		216,366
Lower Sangamon Complex	232	Illinois		250,782
Farnham Complex	49	Minnesota		70,581
North Bend Complex	168	Nebraska		570,000
Butler Complex	80	Nebraska		184,160
Phelps Complex	232	Nebraska		305,793
Cochran Complex	20	Minnesota		13,000
North Platt River Complex	705	Nebraska		1,627,090
Huron Complex	161	South Dakota		204,676
Cory Lake Complex	4	Minnesota		14,181
Eureka Complex	481	South Dakota		404,102
LSOHC	172	Minnesota		1,597,377
NE WPA Roundouts	279	Nebraska		1,459,335
Kandiyohi County	40	Minnesota		167,953
Michigan Complex	18	Michigan		38,000
Indiana Complex	32	Indiana		140,377
Illinois Complex	241	Illinois		878,655
	24,711		$	17,133,151

(7) Land, Buildings, and Equipment

Land, buildings, and equipment consist of the following at June 30:

		2011	2010
Land	$	1,405,264	1,405,264
Buildings and improvements:			
Memphis Headquarters		9,047,762	8,976,373
Western Regional Office		964,140	936,680
Great Plains Regional Office		2,175,422	2,175,422
Furnishings and equipment		17,310,167	16,831,136
		30,902,755	30,324,875
Less allowances for depreciation		(21,951,830)	(20,999,005)
	$	8,950,925	9,325,870

(8) Line of Credit

DU has an operating line of credit agreement (the Credit Agreement), which expires on December 31, 2011 and provides for seasonal borrowing needs, subject to borrowing base availability, up to the following maximum amounts:

Amount	Time frame
$ 12,000,000	July 1, 2010 to November 30, 2010
15,000,000	December 1, 2010 to March 31, 2011
12,000,000	April 1, 2011 to November 30, 2011
15,000,000	December 1, 2011 to December 31, 2011

The borrowing rate on the Credit Agreement is the lesser of the lender's maximum variable rate of interest or a rate equal to the base commercial rate of interest. As of June 30, 2011, the borrowing rate was 2.69%. The Credit Agreement contains certain restrictions limiting DU's ability to incur additional indebtedness, enter into merger, consolidation, sale, or acquisition activities other than in the normal course of business. The Credit Agreement also prohibits DU from granting any security interest in its inventory, pledges, other receivables, investments, and fixed assets. There were no amounts outstanding under the Credit Agreement as of June 30, 2011 and 2010.

(9) Concentration of Credit Risk

DU had deposits with financial institutions that exceeded federal depository insurance limits by approximately $6,384,000 and $6,808,000 at June 30, 2011 and 2010, respectively. DU has not experienced any losses on cash deposits and management considers the risk of loss to be minimal. Additionally, DU's investment consultant monitors the credit rating of each of its financial institutions.

(10) Benefit Plans

DU has a defined benefit pension plan (the Pension Plan), which covers all full-time and certain eligible part-time employees. For employees hired prior to January 1, 1998, monthly retirement benefits are calculated as 2% of each employee's average monthly compensation for the highest consecutive 36 months of compensation out of the last 120 months of employment multiplied by their years of service, offset by a percentage of their primary social security benefits. For employees hired on January 1, 1998 through September 30, 2002, monthly retirement benefits are calculated as 1% of each employee's average monthly compensation for the highest consecutive 36 months of compensation out of the last 120 months of employment multiplied by their years of service up to a maximum of 25 years. Additionally, for employees hired on January 1, 1998 through September 30, 2002 the sum of their calculated retirement benefit and primary social security benefit cannot exceed 75% of their average monthly compensation. Employees hired on or subsequent to October 1, 2002, receive a cash balance benefit equal to 2% of their annual compensation plus interest based on the 10-year treasury yield. Employees are vested 100% in the plan after five years of service. DU contributes such amounts as are necessary to maintain the plan as a qualified pension plan under the Employee Retirement Income Security Act of 1974, as amended.

DU also sponsors unfunded defined benefit healthcare and life insurance plans (the Postretirement Medical and Life Plans) that provide postretirement benefits to full-time employees who have worked at least 10 years for DU. To qualify for benefits under the health and life insurance plans, employees must have attained ages of at least 62 and 55, respectively, while in service with DU. In April 2009, DU amended the Postretirement Medical and Life Plans to eliminate life insurance benefits provided to retirees; to eliminate retiree health coverage for all current, former, and future employees of DU, except for participants over the age of 58 as of May 1, 2009, or certain senior level management positions held as of May 1, 2009; and to require that retirees pay a portion of the monthly premium cost.

(Continued)

Information with respect to the plans was as follows at June 30:

	Pension		Postretirement medical and life	
	2011	**2010**	**2011**	**2010**
Change in benefit obligation:				
Benefit obligation at beginning of the year	$ 53,518,769	48,572,886	3,676,955	3,983,085
Service cost	2,330,190	2,593,709	59,320	75,756
Interest cost	2,642,577	2,673,784	110,540	156,104
Actuarial (gain) loss	2,538,689	3,304,319	(13,449)	(105,166)
Benefits paid	(3,515,179)	(3,625,929)	(532,036)	(432,824)
Benefit obligation at end of the year	57,515,046	53,518,769	3,301,330	3,676,955
Change in plan assets:				
Plan assets at fair value at beginning of the year	39,755,601	33,055,894	—	—
Actual return on plan assets	7,946,449	4,325,636	—	—
Employer contributions	6,000,000	6,000,000	532,036	432,824
Benefits paid	(3,515,179)	(3,625,929)	(532,036)	(432,824)
Plan assets at fair value at end of the year	50,186,871	39,755,601	—	—
Funded status:				
Benefit obligation in excess of plan assets	$ (7,328,175)	(13,763,168)	(3,301,330)	(3,676,955)

Assumptions used in the actuarial determination of the projected benefit obligation were as follows at June 30:

	Pension		Postretirement medical and life	
	2011	**2010**	**2011**	**2010**
Discount rate	5.25%	5.13%	2.88%	3.25%
Expected long-term rate of return on plan assets	7.50	7.50	—	—
Rate of compensation increase	4.00	4.00	—	—
Healthcare cost trend rate	—	—	9.50	10.00

The expected long-term rate of return on plan assets reflects DU’s expectations of long-term average rates of return on funds invested to provide benefits included in the projected benefit obligation. In developing the expected long-term rate of return assumption, DU evaluated input from its third-party actuarial and investment firms and considered other factors, including inflation, interest rates, peer data, and historical returns.

(Continued)

The weighted average annual assumed rate of increase in the per capita cost of covered benefits (healthcare cost trend rate) is assumed to decrease gradually to 5.50% for 2019 and remain level thereafter.

The Pension Plan's actual and target asset allocations were as follows:

	Actual asset allocation		
	June 30, 2011	June 30, 2010	Target allocation
Equities:			
Large-cap value	15%	14%	10% – 30%
Large-cap growth	17	14	10% – 30%
Small and mid-cap value	12	8	5% – 15%
Small and mid-cap growth	7	8	5% – 15%
International	13	13	5% – 20%
Real estate	3	1	0% – 5%
Fixed income	20	34	15% – 40%
Commodities	—	3	0% – 10%
Private equity and hedge funds	5	2	0% – 10%
Cash and cash equivalents	8	3	0% – 10%
Total	100%	100%	

DU invests in a diversified portfolio of equity and fixed income securities designed to maximize returns while minimizing risk associated with return volatility. Risk tolerance is established through careful consideration of plan liabilities, plan funded status, and in consultation with both DU's investment consultant and Finance Committee. Investment risk is measured and monitored on an ongoing basis through quarterly investment portfolio reviews, annual liability measurements, and periodic asset/liability studies. In addition, the target asset allocation is periodically reviewed and adjusted by the Finance Committee as appropriate. DU makes annual contributions to the plan, which are allocated to the asset categories based on the target allocations over a period of time. Accordingly, the actual asset allocation between equity and fixed income securities may vary from the target allocation.

The fair values of DU's pension plan assets at June 30, 2011 and 2010 and by asset category are as follows:

	2011			
	Fair value measurements using			
	Level 1	Level 2	Level 3	Total
Equities:				
Large-cap value	$ 7,590,170	—	—	7,590,170
Large-cap growth	8,499,890	—	—	8,499,890
Small and mid-cap value	5,846,820	—	—	5,846,820
Small and mid-cap growth	3,375,976	—	—	3,375,976
International	6,301,560	—	—	6,301,560
Real estate	1,835,657	—	—	1,835,657
Fixed income	10,284,863	—	—	10,284,863
Private equity	—	—	144,318	144,318
Hedge funds	—	—	2,137,902	2,137,902
Cash and cash equivalents	2,874,262	1,295,453	—	4,169,715
	$ 46,609,198	1,295,453	2,282,220	50,186,871

	2010			
	Fair value measurements using			
	Level 1	Level 2	Level 3	Total
Equities:				
Large-cap value	$ 5,663,407	—	—	5,663,407
Large-cap growth	5,616,668	—	—	5,616,668
Small and mid-cap value	3,179,340	—	—	3,179,340
Small and mid-cap growth	3,342,134	—	—	3,342,134
International	5,282,370	—	—	5,282,370
Real estate	378,429	—	—	378,429
Fixed income	13,136,181	—	—	13,136,181
Commodities	1,198,932	—	—	1,198,932
Private equity	—	—	106,656	106,656
Hedge funds	—	—	569,523	569,523
Cash and cash equivalents	1,281,961	—	—	1,281,961
	$ 39,079,422	—	676,179	39,755,601

The following table sets forth a summary of changes in the fair value of DU's Level 3 assets for the year ended June 30, 2011:

		Private equity	Hedge funds
Beginning balance at June 30, 2010	$	106,656	569,523
Total net gains (realized and unrealized)		16,151	705,610
Net contributions		21,511	862,769
Ending balance at June 30, 2011	$	144,318	2,137,902

Net periodic pension and postretirement benefit cost, based on actuarial evaluations, comprised the following components for the years ended June 30:

		Pension		Postretirement medical and life	
		2011	2010	2011	2010
Service cost	$	2,330,190	2,593,709	59,320	75,756
Interest cost		2,642,577	2,673,784	110,540	156,104
Expected return on plan assets		(3,647,227)	(3,357,228)	—	—
Amortization of prior service cost (credit)		125,515	125,531	(1,870,690)	(1,870,724)
Amortization of net actuarial loss		1,256,511	824,655	512,891	620,204
	$	2,707,566	2,860,451	(1,187,939)	(1,018,660)

At June 30, 2011, the items not yet recognized as a component of net periodic expense, but which have been recognized in the accompanying combined financial statements as a reduction to net assets, were as follows:

		Pension	Postretirement medical and life
Prior service cost (credit)	$	584,102	(2,458,291)
Net actuarial loss		22,981,296	1,739,052
	$	23,565,398	(719,239)

The June 30, 2011 balance of net prior service credit and net actuarial loss expected to be amortized in fiscal 2012 is approximately $1,745,000 and $2,245,000, respectively.

Estimated future benefit payments, which have been adjusted to reflect the effect of future service costs, were as follows as of June 30, 2011:

		Pension	Postretirement medical and life
Year ending June 30:			
2012	$	4,252,497	622,000
2013		4,020,288	651,000
2014		3,832,598	609,000
2015		3,585,867	515,000
2016		3,920,845	271,000
2017 – 2021		23,657,085	590,000

DU anticipates contributing $3,000,000 to the Pension Plan and $622,000 to the Postretirement Medical and Life Plans during the fiscal year ending June 30, 2012.

Other Plans

On January 1, 2000, DU offered a defined contribution retirement plan (the 401(k) Plan) that covers all employees. Employer matching contributions to the 401(k) Plan, which were temporarily suspended beginning in February 2009 through January 2010, were approximately $1,079,000 and $516,000 for the years ended June 30, 2011 and 2010, respectively.

In addition to the retirement plans discussed above, DU has entered into other nonqualified retirement agreements that provide for increased benefits for certain individuals. DU accrues the expense for these agreements over the estimated service period based on the net present value of future benefits.

The components of the pension and deferred compensation accrual balance were as follows as of June 30, 2010:

		2011	2010
Nonqualified retirement obligations	$	1,802,410	1,898,648
Unfunded Pension Plan liabilities		7,328,175	13,763,168
	$	9,130,585	15,661,816

(11) Commitments and Contingencies

(a) Leases

DU leases office space under various operating leases. Rent expense for all operating leases was approximately $688,000 and $737,000 for the years ended June 30, 2011 and 2010, respectively.

Future minimum payments, by year and in the aggregate, under noncancelable operating leases with terms of one year or more at June 30, 2011, approximate:

Year ending June 30:		
2012	$	606,000
2013		484,000
2014		293,000
2015		51,000
Thereafter		—
	$	1,434,000

The land upon which DU's headquarters building in Memphis, Tennessee is constructed is leased under a long-term agreement. Lease payments are $1 per year and the agreement has been extended another 10 years with a maturity date of August 14, 2021. DU has the right to extend this agreement for up to two additional 10-year terms.

(b) Litigation

DU is a party to certain litigation and claims in the normal course of conducting its business, some of which involve amounts that are significant. Management believes, based in part on consultation with legal counsel, that the ultimate resolution of these matters will not have a material effect on the accompanying combined financial statements.

(12) Allocation of Joint Costs

DU conducted events that included conservation education and appeals for contributions that incurred joint costs of approximately $15,377,000 and $15,500,000 for the years ended June 30, 2011 and 2010, respectively, which were allocated as follows:

		2011	2010
Fund-raising	$	9,226,000	9,300,000
Conservation education		6,151,000	6,200,000
Total	$	15,377,000	15,500,000

(13) Conservation Easements

In addition to holding land for conservation purposes, DU (through its affiliate WAT) also secures conservation easements, deed restrictions, and management agreements on properties. Easement values represent the difference in the appraised value of the property immediately before and after the conservation easements are imposed on the property.

Easement values have been determined by independent third-party appraisals at the time the easement is secured. As discussed in note 2, DU recognizes equal amounts of unrestricted revenues and program expense at the time the easement is secured.

Conservation easement activity during the years ended June 30, 2011 and 2010 was as follows:

	2011			2010		
	Acres		Value at date of easement	Acres		Value at date of easement
Conservation easements secured during the year ended June 30	6,839	$	8,040,457	8,017	$	20,998,730
Total conservation easements held as of June 30	346,082		553,670,012	339,243		545,629,555

(14) Restricted Nets Assets

The components of restricted net assets were as follows at June 30:

		2011		2010	
		Temporarily restricted	Permanently restricted	Temporarily restricted	Permanently restricted
Pledges receivable, net	$	21,552,434	—	19,671,704	—
Net assets restricted for conservation purposes		44,427,315	—	44,688,707	—
Unappropriated net endowment earnings		2,361,701	—	674,527	—
Endowments		—	10,828,841	—	10,207,558
	$	68,341,450	10,828,841	65,034,938	10,207,558

Pledge receivables are subject to time and purpose restrictions. Net assets restricted for conservation purposes represent funds received for specific conservation projects for which the related conservation work has not yet been performed. Endowment corpus represents contributions subject to permanent purpose restrictions, the earnings from which are primarily to be used for a variety of conservation-related purposes.

(15) Endowment Funds

DU's endowment consists of numerous individual donor gifts, which are grouped into nine funds based on the donor restriction, and does not include any funds designated by the Board of Directors to function as endowments.

Based on the interpretation of UPMIFA by the Board of Directors of DU, and absent explicit donor stipulations to the contrary, DU classifies the original value of gifts donated to the permanent endowment, as well as accumulations to the permanent endowment made at the direction of the donor, as permanently restricted net assets.

The remaining portion of donor-restricted endowment funds not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by DU's Board of Directors in a manner consistent with the standard of prudence prescribed by UPMIFA.

DU has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. DU's current policy is to appropriate for distribution each year 3% of its endowment funds' fair value as of the calendar year-end preceding the fiscal year in which the distribution is planned. Accordingly, endowment assets are invested in a manner that is intended to produce long-term growth sufficient to fund current targeted spending appropriation levels and to maintain the purchasing power of the endowment while assuming a moderate level of investment risk.

To satisfy its long-term rate-of-return objectives for endowments, DU relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). DU targets a diversified asset allocation that places emphasis on investments in equities (approximately 75% weighting) and bond strategies (approximately 25% weighting) to achieve its long-term return objectives within prudent risk constraints.

From time to time, the fair value of assets associated with an individual donor-restricted endowment fund may fall below the fund's original value. Deficiencies of this nature are reported in unrestricted net assets and totaled $0 and $342,013 as of June 30, 2011 and 2010, respectively. These deficiencies resulted principally from unfavorable market fluctuations. Subsequent gains that restore the fair value of the assets of the endowment fund to the required level are classified as an increase in unrestricted net assets.

(Continued)

Endowment net assets and changes therein as of and for the years ended June 30, 2011 and 2010 are as follows:

		Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets, June 30, 2009	$	(672,310)	256,877	6,745,429	6,329,996
Investment return:					
Interest and dividends		51,852	93,737	—	145,589
Net appreciation		278,445	503,366	—	781,811
Contributions		—	—	3,462,129	3,462,129
Appropriation for expenditure		—	(179,453)	—	(179,453)
Endowment net assets, June 30, 2010		(342,013)	674,527	10,207,558	10,540,072
Investment return:					
Interest and dividends		34,882	194,601	—	229,483
Net appreciation		307,131	1,713,410		2,020,541
Contributions		—	—	621,283	621,283
Appropriation for expenditure		—	(220,837)	—	(220,837)
Endowment net assets, June 30, 2011	$	—	2,361,701	10,828,841	13,190,542