

CONSERVATION STRATEGY FUND

**FINANCIAL STATEMENTS
WITH SUPPLEMENTARY INFORMATION**

December 31, 2014

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Conservation Strategy Fund

Report on the Financial Statements

We have audited the accompanying financial statements of Conservation Strategy Fund (a nonprofit organization), which comprise the statement of financial position as of December 31, 2014, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Conservation Strategy Fund, as of December 31, 2014, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 12, 2015, on our consideration of the Conservation Strategy Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Conservation Strategy Fund's internal control over financial reporting and compliance.

Hunter, Hunter & Hunt

November 12, 2015

**CONSERVATION STRATEGY FUND
STATEMENT OF FINANCIAL POSITION
December 31, 2014**

ASSETS:

CURRENT ASSETS:

Cash & cash equivalents	\$ 1,961,616
Grants receivable	1,250,074
Contracts receivable	1,114,368
Prepaid expenses	28,236
TOTAL CURRENT ASSETS	<u>4,354,294</u>

EQUIPMENT, NET -

OTHER ASSETS:

Grants receivable, non-current	120,000
Deposits	8,050
TOTAL ASSETS	<u><u>\$ 4,482,344</u></u>

LIABILITIES:

CURRENT LIABILITIES:

Accounts payable	\$ 8,143
Accrued expenses	89,255
Contracts payable	38,818
Deferred revenue	987,026
TOTAL CURRENT LIABILITIES	<u>1,123,242</u>

TOTAL LIABILITIES 1,123,242

NET ASSETS:

Unrestricted	1,177,479
Temporarily restricted	2,181,623
TOTAL NET ASSETS	<u>3,359,102</u>

TOTAL LIABILITIES & NET ASSETS \$ 4,482,344

See accompanying notes.

CONSERVATION STRATEGY FUND
STATEMENT OF ACTIVITIES
Year Ended December 31, 2014

	Unrestricted	Temporarily Restricted	Total
REVENUES, GAINS, & OTHER SUPPORT:			
Donations	\$ 64,222	\$ -	\$ 64,222
Grants & awards	14,979	2,436,552	2,451,531
Contracts	649,591	-	649,591
Program fees	85,209	-	85,209
Interest income	9	-	9
Net assets released from restrictions:			
Expirations of donor restrictions	1,866,219	(1,866,219)	-
TOTAL REVENUES, GAINS, & OTHER SUPPORT	2,680,229	570,333	3,250,562
 EXPENSES & LOSSES:			
Program services	2,224,179	-	2,224,179
Supporting services:			
Management & general	385,821	-	385,821
Fundraising	128,535	-	128,535
TOTAL EXPENSES & LOSSES	2,738,535	-	2,738,535
 CHANGES IN NET ASSETS	(58,306)	570,333	512,027
 BEGINNING NET ASSETS	1,235,785	1,611,290	2,847,075
 NET ASSETS AT END OF YEAR	\$ 1,177,479	\$ 2,181,623	\$ 3,359,102

See accompanying notes.

CONSERVATION STRATEGY FUND
STATEMENT OF FUNCTIONAL EXPENSES
Year Ended December 31, 2014

	<u>Program Services</u>	<u>Supporting Services</u>		<u>Total</u>
EXPENSES:	Conservation Services	Management & General	Fund- Raising	Total
Compensation	\$ 885,643	\$ 204,503	\$ 93,725	\$ 1,183,871
Payroll taxes	102,576	17,987	5,938	126,501
Employee benefits	113,774	31,032	13,587	158,393
Total personnel costs	<u>1,101,993</u>	<u>253,522</u>	<u>113,250</u>	<u>1,468,765</u>
Communications	22,634	1,557	937	25,128
Contract expenses	349,187	57,300	-	406,487
Dues & subscriptions	5,980	264	291	6,535
Expensed equipment	17,140	709	201	18,050
Foreign exchange loss	-	30,000	-	30,000
Insurance	1,560	4,170	9	5,739
Temporary employment	29,260	-	-	29,260
Miscellaneous	-	4,030	-	4,030
Occupancy	67,766	3,267	3,529	74,562
Office	19,489	4,268	1,225	24,982
Postage	1,841	1,425	185	3,451
Printing	43,460	116	101	43,677
Professional services	25,257	5,255	183	30,695
Repairs & maintenance	3,013	187	253	3,453
Supplies	41,646	1,552	585	43,783
Staff development & training	3,822	2,995	71	6,888
Training facility costs	189,621	-	-	189,621
Travel	300,510	15,204	7,715	323,429
TOTAL EXPENSES	<u>\$ 2,224,179</u>	<u>\$ 385,821</u>	<u>\$ 128,535</u>	<u>\$ 2,738,535</u>

See accompanying notes.

**CONSERVATION STRATEGY FUND
STATEMENT OF CASH FLOWS
Year Ended December 31, 2014**

CASH FLOWS FROM OPERATING ACTIVITIES:

Increase (decrease) in net assets:	\$ 512,027
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:	
(Increase) decrease in operating assets:	
Grants receivable	(550,645)
Contracts receivable	512,326
Prepays	87,599
Deposits	(2,200)
Increase (decrease) in operating liabilities:	
Accounts payable	(39,502)
Accrued expenses	23,200
Contracts payable	28,568
Deferred revenue	(442,214)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	129,159
NET INCREASE (DECREASE) IN CASH & CASH EQUIVALENTS	129,159
 BEGINNING CASH & CASH EQUIVALENTS	 1,832,457
ENDING CASH & CASH EQUIVALENTS	\$ 1,961,616

See accompanying notes.

CONSERVATION STRATEGY FUND
NOTES TO FINANCIAL STATEMENTS
December 31, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary of significant accounting policies of Conservation Strategy Fund (CSF) is presented to assist in understanding CSF's financial statements. The financial statements and notes are representations of management, who is responsible for their integrity and objectivity. These accounting policies have been consistently applied in the preparation of the financial statements.

Nature of Activities

CSF is a nonprofit public charity corporation, founded in 1998. Its mission is to teach environmental organizations around the world to use economics and strategic analysis to conserve nature. CSF has offices in Sebastopol and Arcata, California and La Paz, Bolivia and Lima, Peru. Contributions from private foundations, U.S. government agencies, individuals, and other conservation organizations primarily support CSF's activities.

Basis of Accounting

The financial statements of CSF have been prepared on the accrual basis of accounting, and accordingly reflect all significant receivables, payables, and other liabilities.

Financial Statement Presentation

CSF follows standards of accounting and financial reporting for not-for-profit organizations as prescribed by the Financial Accounting Standards Board. In accordance with accounting standards, CSF reports its financial position and operating activities in three classes of net assets as applicable: unrestricted net assets, temporarily restricted assets and permanently restricted net assets.

Cash and Cash Equivalents

For purposes of the statement of cash flows, CSF considers cash and cash equivalents to include all cash and money market accounts held in banks and other financial institutions, including certificates of deposit, with a maturity of three months or less. The carrying amounts reported in the statement of financial position approximate fair values because of the short maturities of those instruments.

Contributions

CSF accounts for contributions received and made in accordance with accounting standards for not-for-profit organizations. Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the nature of donor restrictions, if any.

Allowance for Doubtful Accounts

CSF evaluates the collectability of program fees, grants, and contracts receivable in order to determine the allowance for doubtful accounts. As of December 31, 2014, CSF determined the various receivables are fully collectible and recorded \$0 for the allowance for doubtful accounts. Based on historical experience, CSF does not expect amounts to become uncollectible, however if they are, they will be charged to operations as a bad debt expense. The impact of any bad debt expense recorded in the future is expected to be immaterial to the financial statements.

**CONSERVATION STRATEGY FUND
NOTES TO FINANCIAL STATEMENTS
December 31, 2014**

Equipment

Equipment is capitalized at its estimated fair value when donated or at cost when purchased. Equipment donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Equipment is depreciated using the straight-line method, over the asset's estimated useful life, which ranges from five to seven years. CSF's threshold for capitalizing equipment is \$5,000.

Revenue Recognition

CSF recognizes revenue on the accrual basis of accounting. Contract revenue and program fees are recognized as revenue in the period in which the service is provided. Grants and other contributions of cash and other assets are reported as temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires (either by passage of time or by use) temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Scholarships

CSF offers scholarships and discounts to attendees of the International Training Course. Program fee income reflects the net of gross fees for all attendees less the scholarship awarded or the discount provided.

Program Services

CSF has trained over 2,200 people from 90 countries and has conducted dozens of economic analyses that have shaped decision-making across the globe. CSF project partners range from local activists and indigenous tribes to large international NGOs and development banks. CSF focuses its work in regions where capacity needs are intense, and which still have tremendous conservation opportunities – particularly intact tropical forests rich in biodiversity and carbon. CSF analyses in these regions have influenced over \$20 billion in investment decisions and helped conserve over 21 million acres of natural ecosystems, with untold benefits for human communities.

Management and General

Management and general includes the functions necessary to ensure coordination and articulation of CSF's program strategy through executive management, maintaining program administration, and managing the financial responsibilities of CSF.

Fundraising

Fundraising provides the structure necessary to encourage and secure public support from U.S. government agencies and private financial support from individuals, foundations and corporations.

Indirect Cost Allocations

The costs of providing various programs and other activities have been summarized on a functional basis in the Statement of Functional Expenses. Accordingly, certain costs have been allocated to the various programs based on time charged to each activity based on employee time records.

Tax Status

CSF is exempt from federal and California income tax as a non-profit organization under Section 501(c)(3) of the Internal Revenue Code and similar state provisions.

CONSERVATION STRATEGY FUND
NOTES TO FINANCIAL STATEMENTS
December 31, 2014

The open audit periods are 2010 through 2013. CSF has analyzed the tax positions taken for filing with the Internal Revenue Service and the state of California. The organization believes that income tax filing positions will be sustained upon examination and does not anticipate any adjustments that would result in a material adverse affect on the financial statements. Accordingly, the Company has not recorded any reserves, or related accruals for interest and penalties for uncertain income tax positions at December 31, 2014.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Donated Services and Materials

The Company receives a significant amount of donated services from unpaid volunteers who assist in fundraising and special projects. No amounts have been recognized in the statement of activities because the criteria for recognition as contributed services have not been satisfied. Donated goods, when received, are reflected as in-kind contributions in the accompanying statements at their estimated fair market values at date of receipt.

Net Assets

Unrestricted net assets include those assets over which the Board of Directors has discretionary control in carrying out the operations of CSF. Temporarily restricted net assets include those subject to a donor or funding source restriction and for which the applicable restriction was not met at the end of the current reporting period. Permanently restricted net assets include those subject to non-expiring donor restrictions, such as endowments.

NOTE 2 - CONCENTRATION OF CREDIT RISK

CSF maintains a majority of its cash in accounts at Wells Fargo Bank and Edward Jones which, at times, may exceed federally insured limits. The maximum amount of loss due to this risk was \$1,727,557 as of December 31, 2014. The Company has not experienced any losses in such accounts. Management believes the Company is not exposed to any significant credit risk related to cash.

NOTE 3 - DEFINED CONTRIBUTION PENSION PLAN

CSF has a SEP IRA plan. CSF full-time employees become eligible to participate in the plan on the first day of the month subsequent to the employee's date of hire. In 2014, CSF made contributions to the plan equal to 10% of the employees' gross salary. Employer contributions totaled \$63,833 for the year ending December 31, 2014.

NOTE 4 - COMMITMENTS AND CONTINGENCIES

Conditions contained within the various contracts awarded to CSF are subject to the funding agency's criteria and regulations under which expenditures may be claimed and are subject to audit under such regulations and criteria. Occasionally, such audits may determine that certain costs

**CONSERVATION STRATEGY FUND
NOTES TO FINANCIAL STATEMENTS
December 31, 2014**

incurred against the grants may not comply with their established criteria. In such cases, CSF could be held responsible for repayments to the funding agency for any questioned costs or be subject to reductions of future funding. Management does not anticipate any questioned costs for the contracts and grants administered during the year ending December 31, 2014.

NOTE 5 - CONCENTRATIONS

During the year ended December 31, 2014, \$2,050,190, which is approximately 79% of CSF's current year funding, was awarded by five grantors, Gordon & Betty Moore Foundation, USAID, MacArthur Foundation, Good Energies Foundation and German Federal Enterprise for International Cooperation.

NOTE 6 - RESTRICTED NET ASSETS

At December 31, 2014, CSF's temporarily restricted net assets consist of the following:

	<u>Beginning</u>	<u>Additions</u>	<u>Expended</u>	<u>Ending</u>
MacArthur Foundation	\$ 282,086	\$ 257,000	(\$ 156,305)	\$ 382,781
Gordon & Betty Moore Foundation	255,464	816,885	(370,829)	701,520
Skoll Foundation	149,838	-	(149,838)	-
USAID	402,977	500,000	(478,398)	424,579
Avina Foundation	40,000	-	(27,371)	12,629
The Nature Conservancy	108,176	19,628	(119,879)	7,925
The Handsel Foundation	68,819	100,000	(68,981)	99,838
Margaret A. Cargill Foundation	100,000	-	(23,775)	76,225
German Federal Enterprise for International Cooperation	-	350,000	(150,352)	199,648
Good Energies Foundation	-	238,190	-	238,190
New Zealand Ministry of Foreign Affairs and Trade	-	15,326	(15,326)	-
Caribbean Coastal Area Management Foundation	-	49,523	(49,523)	-
Packard Foundation	183,930	50,000	(214,204)	19,726
Organization for Economic Co-operation and Development	-	40,000	(21,438)	18,562
Marcia Brady Tucker Foundation	<u>20,000</u>	<u>-</u>	<u>(20,000)</u>	<u>-</u>
Total	<u>\$ 1,611,290</u>	<u>\$ 2,436,552</u>	<u>(\$ 1,866,219)</u>	<u>\$ 2,181,623</u>

For purposes of this schedule, the additions to temporarily restricted net assets include amounts released from restrictions in 2014.

NOTE 7 - LEASES

The Company leases office space in Arcata, California, for \$975 per month. The lease expires on June 30, 2015, and is on a month-to-month basis thereafter. CSF leases office space in Sebastopol, California, for \$2,025 per month. The lease expires on January 31, 2015, and is on

**CONSERVATION STRATEGY FUND
NOTES TO FINANCIAL STATEMENTS
December 31, 2014**

a month-to-month thereafter. Total office rent expense for the year ending December 31, 2014, is \$65,538.

Future lease payments as of December 31, 2014, are as follows:

2015	\$ <u>7,875</u>
Total	\$ <u>7,875</u>

NOTE 8 - RECEIVABLES

Grants receivable at December 31, 2014, expected to be collected within one year, consist of the following:

USAID	\$ 577,096
Moore Foundation	300,000
MacArthur Foundation	195,000
German Federal Enterprise for International Cooperation	123,264
Caribbean Coastal Area Management Foundation	29,714
Cargill Foundation	<u>25,000</u>
 Total	 <u>\$ 1,250,074</u>

Grants receivable, non-current at December 31, 2014, consist of the following:

German Federal Enterprise for International Cooperation	\$ <u>120,000</u>
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Contracts receivable at December 31, 2014, consist of the following:

International Resources Group	\$ 999,852
Inter-American Development Bank	68,042
Organization for Economic Co-operation and Development	28,030
The Nature Conservancy	11,444
Other	<u>7,000</u>
 Total	 <u>\$ 1,114,368</u>

NOTE 9 - PROGRAM FEES

Program fees are as follows:

Tuition income - gross	\$ 96,000
Less: scholarships/discounts/grants	<u>(10,791)</u>
 Total	 <u>\$ 85,209</u>

CONSERVATION STRATEGY FUND
NOTES TO FINANCIAL STATEMENTS
December 31, 2014

NOTE 10 - RELATED PARTIES

CSF contracts with a conservation organization located in Brazil. The Brazilian organization was incorporated under the laws of its home country. CSF's President and board member is also a board member of the Brazilian organization. CSF has entered into service agreements with the Brazilian organization to provide conservation activities. For the year ending December 31, 2014, contract expenses with the Brazilian organization were \$172,984 and at December 31, 2014, \$15,614 was prepaid.

NOTE 11 - SUBSEQUENT EVENTS

In preparing these financial statements, CSF has evaluated events and transactions for potential recognition or disclosure through November 12, 2015, the date the financial statements were available to be issued.

SUPPLEMENTARY INFORMATION



INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Directors of
Conservation Strategy Fund

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Conservation Strategy Fund (CSF) (a nonprofit organization), which comprise the statement of financial position as of December 31, 2014, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 12, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the CSF's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the CSF's internal control. Accordingly, we do not express an opinion on the effectiveness of the CSF's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of the internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be a significant deficiency as item 2014-001.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the CSF's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items 2014-001 and 2014-002.

CSF's Response to Findings

CSF's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. CSF's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Hunter, Hunter & Hunt

November 12, 2015

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND
ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133**

To the Board of Directors of
Conservation Strategy Fund

Report on Compliance for Each Major Federal Program

We have audited Conservation Strategy Fund's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of CSF's major federal programs for the year ended December 31, 2014. CSF's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of CSF's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about CSF's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of CSF's compliance.

Opinion on Each Major Federal Program

In our opinion, CSF complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2014.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 2014-002 and 2014-003. Our opinion on each major federal program is not modified with respect to these matters.

CSF's response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. CSF's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control over Compliance

Management of CSF is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered CSF's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of CSF's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as items 2014-002 and 2014-003, that we consider to be significant deficiencies.

CSF's response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. CSF's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Hunter, Hunter & Hunt

November 12, 2015

**CONSERVATION STRATEGY FUND
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended December 31, 2014**

Federal Agency, Pass-through Agency/ Program or Cluster Title	Federal CFDA Number	Pass-through Agreement #	Federal Expenditures
United States Agency for International Development Direct Programs			
USAID Foreign Assistance for Programs Overseas	98.001		\$ 492,775
Passed-through The Nature Conservancy			
USAID Foreign Assistance for Programs Overseas	98.001	SUBAMAZ_1520 121008	71,789
Total United States Agency for International Development Direct Programs			<u>\$ 564,564</u>

NOTE 1 - BASIS OF PRESENTATION

The above schedule includes the federal award activity of the Conservation Strategy Fund for the year ended December 31, 2014. The information in this schedule is presented in accordance with OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in preparation of, the basic financial statements.

NOTE 2 - EXPENDITURES

Expenditures are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-122, Cost Principles for Non-Profit Organizations, wherein certain types of expenditures are not allowable or are limited as to reimbursement. See the accompanying schedule of findings and questioned costs for expenditures that have been questioned in regards to allowability under OMB Circular A-122.

**CONSERVATION STRATEGY FUND
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
December 31, 2014**

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified? _____ Yes X No

Significant deficiencies identified not considered to be material weakness(es)? _____ Yes X None reported

Noncompliance material to financial statements noted: _____ Yes X No

Federal Awards

Internal control over major federal programs:

Material weakness(es) identified? _____ Yes X No

Significant deficiencies identified not considered to be material weaknesses? X Yes _____ None reported

Type of auditor's report issued: Unqualified

Any audit findings disclosed that are required to be Reported in accordance with Circular A-133, Section .510(a) of OMB Circular A-133 X Yes _____ No

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
98.001	USAID Foreign Assistance for Programs Overseas

Dollar threshold used to distinguish between Types A and B programs: \$300,000

Auditee qualified as low-risk auditee? _____ Yes X No

**CONSERVATION STRATEGY FUND
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
December 31, 2014**

SECTION II - FINDINGS AND QUESTIONED COSTS - FINANCIAL STATEMENT AUDIT

No findings.

SECTION III - FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS AUDIT

Finding 2014-001

Condition: Payroll-related costs are allocated to projects using a complex, excel workbook. The allocation methodology utilized by the excel workbook appears to be appropriate. Based on our audit testing procedures, the sources for the data inputs appear to be appropriate. The excel workbook and resulting journal entry are prepared by one individual and are not reviewed. During the course of our audit testing, we did not identify any significant errors.

Criteria: Computer and program controls over complex, excel spreadsheets should include one or more of the following: data entry and access controls.

Cause: The cause is a lack of a review and adequate computer and program controls over the complex, excel workbook utilized.

Effect: There is a potential for payroll-related costs to be incorrectly allocated to the following federal program:

Federal Agency & Program

United States Agency for International Development Direct Programs

Auditor's Recommendation: On a periodic basis, the supporting excel workbook should be reviewed by someone other than the person who prepared the excel workbook and resulting journal entry. In addition, we recommend one or more of the above computer and program controls be implemented, such as password protecting the workbook.

Views of Responsible Officials and Planned Corrective Actions: As recommended by the auditor, management will have the journal entries reviewed by other finance staff.

This finding is considered a significant deficiency.

Finding 2014-002

The indirect cost methodology used in Q4 2014 was not officially approved.

Condition: Indirect costs were charged to federal contracts using an estimated indirect cost rate as a percentage of total direct costs. The first three quarters of 2014 indirect costs were required to be charged directly based on actual charges, and in the fourth quarter of 2014, upon direction from a representative of the federal oversight agency, the organization used an indirect cost rate which has not yet been officially approved by the organization's federal oversight

**CONSERVATION STRATEGY FUND
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
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agency for audit. The amount of questioned costs for the indirect costs that may not be allowed is unlikely to be the entire amount, and would likely be a portion of the total below.

o **Questioned Costs = \$30,350**

Criteria: Costs charged to federal contracts must be in accordance with the provisions of OMB Circular A-122, Cost Principles for Non-Profit Organizations, unless an exception is specifically approved by the federal agency.

Cause: The indirect cost allocation that Management used has not been officially approved by the federal oversight agency.

Effect: There is a potential for questioned costs in the amount of \$30,350.

Below is a summary of questioned costs by federal agency:

Federal Agency & Program

United States Agency for International Development Direct Programs

USAID Foreign Assistance for Programs Overseas – CFDA No. 98.001 \$ 30,350

Additionally, financial reporting to these federal agencies was potentially in error as a result of the above questioned costs.

Auditor's Recommendation: An indirect cost proposal should be approved by the organization's federal oversight agency for audit.

Views of Responsible Officials and Planned Corrective Actions: Indirect costs were charged at a rate that was reviewed and approved by a representative of the federal oversight agency. However, the NICRA (the negotiated indirect cost rate agreement) proposal submitted to the cognizant Federal agency has not been approved at this time.

This finding is considered a significant deficiency.