

**CONSERVATION STRATEGY FUND**

**FINANCIAL STATEMENTS**

**December 31, 2012**

## TABLE OF CONTENTS

	<u>Page</u>
<b>INDEPENDENT AUDITORS' REPORT</b>	1
<b>FINANCIAL STATEMENTS:</b>	
Statement of Financial Position	2
Statement of Activities	3
Statement of Functional Expenses	4
Statement of Cash Flows	5
Notes to Financial Statements	6 - 10

John B. Hunter, CPA  
James A. Hunter, CPA  
Scott E. Hunt, CPA/ABV  
Donna L. Taylor, CPA, CFE



Eileen Sacra Capaccio, CPA  
Carol Mayes, CPA, CFE  
Kim Windsor, CPA/ABV  
Jennifer J. Hillegeist, CPA  
Patrick M. Shanahan, CPA

## INDEPENDENT AUDITORS' REPORT

To the Board of Directors of  
Conservation Strategy Fund

We have audited the accompanying statement of financial statements of Conservation Strategy Fund (a nonprofit organization), which comprise the statement of financial position as of December 31, 2012, 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. 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, 2012, 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.

*Hunter, Hunter & Hunt*

May 15, 2013

**CONSERVATION STRATEGY FUND  
STATEMENT OF FINANCIAL POSITION  
December 31, 2012**

**ASSETS:**

**CURRENT ASSETS:**

Cash & cash equivalents	\$ 1,649,421
Accounts receivable	68
Grants receivable	1,228,129
Contracts receivable	2,161,257
Prepaid expenses	44,056
	5,082,931

Equipment, net	-
Deposits	6,014
	6,014
<b>TOTAL ASSETS</b>	<b>\$ 5,088,945</b>

**LIABILITIES:**

**CURRENT LIABILITIES:**

Accounts payable	\$ 46,265
Accrued expenses	101,075
Deferred revenue	1,907,551
	2,054,891

TOTAL CURRENT LIABILITIES	2,054,891
<b>TOTAL LIABILITIES</b>	<b>2,054,891</b>

**NET ASSETS:**

Unrestricted	1,139,159
Temporarily restricted	1,894,895
	3,034,054

<b>TOTAL NET ASSETS</b>	<b>3,034,054</b>
-------------------------	------------------

<b>TOTAL LIABILITIES &amp; NET ASSETS</b>	<b>\$ 5,088,945</b>
-------------------------------------------	---------------------

See accompanying notes.

**CONSERVATION STRATEGY FUND**  
**STATEMENT OF ACTIVITIES**  
Year Ended December 31, 2012

	Unrestricted	Temporarily Restricted	Total
<b>REVENUES, GAINS, &amp; OTHER SUPPORT:</b>			
Donations	\$ 47,297	\$ -	\$ 47,297
Grants & awards	60,000	953,905	1,013,905
Contracts	470,880	-	470,880
Program fees	89,600	-	89,600
Other income	3,000	-	3,000
Interest income	567	-	567
Net assets released from restrictions:			
Expirations of donor restrictions	1,115,642	(1,115,642)	-
<b>TOTAL REVENUES, GAINS, &amp; OTHER SUPPORT</b>	<b>1,786,986</b>	<b>(161,737)</b>	<b>1,625,249</b>
 <b>EXPENSES &amp; LOSSES:</b>			
Program services	1,574,320	-	1,574,320
Supporting services:			
Management & general	126,282	-	126,282
Fund-raising	21,123	-	21,123
<b>TOTAL EXPENSES &amp; LOSSES</b>	<b>1,721,725</b>	<b>-</b>	<b>1,721,725</b>
 <b>CHANGES IN NET ASSETS</b>	 65,261	 (161,737)	 (96,476)
 <b>BEGINNING NET ASSETS</b>	 1,073,898	 2,056,632	 3,130,530
 <b>NET ASSETS AT END OF YEAR</b>	 \$ 1,139,159	 \$ 1,894,895	 \$ 3,034,054

See accompanying notes.

**CONSERVATION STRATEGY FUND**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
Year Ended December 31, 2012

	<b>Program Services</b>	<b>Supporting Services</b>		<b>Total</b>
	Conservation Services	Management & General	Fund- Raising	Total
<b>EXPENSES:</b>				
Compensation	\$ 680,968	\$ 78,271	\$ 15,033	\$ 774,272
Payroll taxes	39,103	7,549	858	47,510
Employee benefits	79,092	10,187	1,841	91,120
Total personnel costs	799,163	96,007	17,732	912,902
Communications	19,324	928	199	20,451
Contract expenses	209,554	-	142	209,696
Dues & subscriptions	2,364	42	40	2,446
Expensed equipment	12,118	-	18	12,136
Insurance	1,580	3,053	-	4,633
Temporary employment	5,365	-	-	5,365
Miscellaneous	5	2,113	-	2,118
Occupancy	45,449	3,477	372	49,298
Office	10,710	2,813	60	13,583
Postage	2,279	294	28	2,601
Printing	18,224	-	1,334	19,558
Professional services	33,868	8,073	-	41,941
Repairs & maintenance	2,487	-	15	2,502
Supplies	19,906	209	29	20,144
Staff development & training	30,186	-	208	30,394
Training facility costs	197,245	1,500	-	198,745
Travel	164,493	7,600	946	173,039
Unrealized loss (gain)	-	173	-	173
<b>TOTAL EXPENSES</b>	<b>\$ 1,574,320</b>	<b>\$ 126,282</b>	<b>\$ 21,123</b>	<b>\$ 1,721,725</b>

See accompanying notes.

**CONSERVATION STRATEGY FUND  
STATEMENT OF CASH FLOWS  
Year Ended December 31, 2012**

**CASH FLOWS FROM OPERATING ACTIVITIES:**

Increase (decrease) in net assets:	\$ (96,476)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:	
(Increase) decrease in operating assets:	
Accounts receivable	(68)
Grants receivable	1,049,189
Contracts receivable	221,238
Prepays	60,852
Deposits	283
Increase (decrease) in operating liabilities:	
Accounts payable	43,251
Accrued expenses	37,521
Deferred revenue	(361,115)
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	<b>954,675</b>
<b>NET INCREASE (DECREASE) IN CASH &amp; CASH EQUIVALENTS</b>	<b>954,675</b>
<b>BEGINNING CASH &amp; CASH EQUIVALENTS</b>	<b>694,746</b>
<b>ENDING CASH &amp; CASH EQUIVALENTS</b>	<b>\$ 1,649,421</b>

See accompanying notes.

**CONSERVATION STRATEGY FUND**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2012**

**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. 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 American Institute of Certified Public Accountants. 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, 2012, 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, 2012**

**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 trains environmentalists in "Conservation Economics" and works with them in the field on key environmental issues. These post course field partnerships are called "Groundwork Projects." Independent of the training process, CSF partners with other local organizations to analyze urgent conservation issues, called "Analysis Projects." CSF has trained over 1,000 people from 70 countries and has produced over 40 influential analyses.

**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.

**Fund-Raising**

Fund-raising 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.

The open audit periods are 2009 through 2011. CSF has analyzed the tax positions taken for filing with the Internal Revenue Service and the state of California. The organization

**CONSERVATION STRATEGY FUND**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2012**

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, 2012.

**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 fund-raising 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. Management believes CSF is not exposed to any significant credit risk related to cash. The amounts in the bank accounts were fully insured as of December 31, 2012.

**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 2012, CSF made a contribution to the plan equal to 10% of the employees' gross salary. Employer contributions totaled \$34,244 for the year ending December 31, 2012.

**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 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

**CONSERVATION STRATEGY FUND  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2012**

the contracts and grants administered during the year ending December 31, 2012, other than those disclosed in Note 11.

**NOTE 5 - CONCENTRATIONS**

During the year ended December 31, 2012, \$953,905, which is approximately 83% of CSF's current year funding, was awarded by four grantors, USAID, The Nature Conservancy, Wildlife Conservation Network and Margaret A. Cargill Foundation.

**NOTE 6 - RESTRICTED NET ASSETS**

At December 31, 2012, CSF's temporary restricted net assets consist of the following:

	<u>Beginning</u>	<u>Additions</u>	<u>Expended</u>	<u>Ending</u>
MacArthur Foundation	\$ 21,542	\$ -	\$ 21,542	\$ -
Gordon & Betty Moore Foundation	1,082,473	-	575,394	507,079
Skoll Foundation	323,625	-	59,627	263,998
USAID	536,719	562,889	338,168	761,440
WCS Inambari	14,015	-	14,015	-
Charles Knowles	10,000	-	10,000	-
The Nature Conservancy	-	216,016	-	216,016
Wildlife Conservation Network	-	100,000	8,306	91,694
Margaret A. Cargill Foundation	-	75,000	20,332	54,668
Packard Foundation	68,258	-	68,258	-
Total	<u>\$ 2,056,632</u>	<u>\$ 953,905</u>	<u>\$ 1,115,642</u>	<u>\$ 1,894,895</u>

For purposes of this schedule, the additions to temporarily restricted net assets include amounts released from restrictions in 2012.

**NOTE 7 - LEASES**

The Company leased office space in Arcata, California, under a month-to-month lease agreement; rent is \$942.60 per month from January 1 through June 30 and \$975 from July 1 through December 31, 2012. CSF leased office space in Sebastopol, California, under a lease agreement which expired December 31, 2012; rent is \$2,000 per month. In 2013, the lease agreement was renewed and expires on January 31, 2014; rent is \$2,100 per month. Total office rent expense for the year ending December 31, 2012, is \$38,565.

Future lease payments as of December 31, 2012, are as follows:

2013	\$ 25,200
2014	<u>2,100</u>
Total	<u>\$ 27,300</u>

**CONSERVATION STRATEGY FUND**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2012**

**NOTE 8 - GRANTS RECEIVABLE**

All grants receivable at December 31, 2012, are expected to be collected within one year, and consist of the following:

Moore Foundation	\$ 268,849
USAID	849,607
Skoll Foundation	<u>109,673</u>
Total	<u>\$ 1,228,129</u>

**NOTE 9 - PROGRAM FEES**

Program fees are as follows:

Tuition income - Gross	\$ 124,000
Less: scholarships/discounts/grants	<u>(34,400)</u>
Total	<u>\$ 89,600</u>

**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, 2012, contract expenses with the Brazilian organization were \$131,819 and at December 31, 2012, \$35,268 was prepaid.

**NOTE 11 - SUBSEQUENT EVENTS**

In May 2013, the Bolivian government announced they will no longer accept USAID funding. At December 31, 2012, CSF had an ongoing project in Bolivia contracted by USAID for \$145,130. CSF management has determined \$47,265 of the contracted amount is not collectible and has reduced the contracts receivable and related deferred revenue as of December 31, 2012. CSF believes the Bolivian government may disallow an additional amount under this contract which may range from \$0 to \$30,000. CSF is uncertain whether this development may impact other CSF projects funded by USAID located in countries other than Bolivia where Bolivian citizens are staffed. Discussions on these matters are ongoing as of the date of the audit report and further developments could impact the recorded balances as of December 31, 2012.

In preparing these financial statements, CSF has evaluated events and transactions for potential recognition or disclosure through May 15, 2013, the date the financial statements were available to be issued.