

CONSERVATION STRATEGY FUND
FINANCIAL STATEMENTS

Years Ended December 31, 2017 and 2016



DEMELLO, MCAULEY,
MCREYNOLDS & HOLLAND, LLP

CERTIFIED PUBLIC ACCOUNTANTS

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CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Conservation Strategy Fund

We have audited the accompanying financial statements of Conservation Strategy Fund (a nonprofit organization), which comprise the statements of financial position as of December 31, 2017 and 2016, and the related statements of activities, functional expenses, and cash flows for the years 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 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 audit to obtain reasonable assurance about whether the financial statements are free of 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 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 reasonable 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, 2017 and 2016, and the changes in its net assets and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Demello, McAuley, McReynolds & Holland, LLP

Eureka, California
September 24, 2018

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CONSERVATION STRATEGY FUND
STATEMENTS OF FINANCIAL POSITION
December 31, 2017 and 2016

	2017	2016
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,948,371	\$ 1,531,153
Investments	38,364	29,073
Accounts receivable	0	4,914
Grants receivable	135,000	539,320
Contracts receivable	118,108	75,197
Prepaid expenses	72,942	177,570
TOTAL CURRENT ASSETS	2,312,785	2,357,227
EQUIPMENT, NET	0	0
OTHER ASSETS		
Grants receivable, non-current	200,000	85,000
Deposits	7,650	5,650
	207,650	90,650
TOTAL ASSETS	\$ 2,520,435	\$ 2,447,877
 LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 21,504	\$ 29,832
Accrued expenses	179,499	109,277
Contracts payable	63,623	12,320
Deferred revenue	108,689	42,855
TOTAL CURRENT LIABILITIES	373,315	194,284
 NET ASSETS		
Unrestricted	781,355	1,041,809
Temporarily restricted	1,365,765	1,211,784
TOTAL NET ASSETS	2,147,120	2,253,593
TOTAL LIABILITIES AND NET ASSETS	\$ 2,520,435	\$ 2,447,877

See accompanying notes.

CONSERVATION STRATEGY FUND
STATEMENTS OF ACTIVITIES
For the Years Ended December 31, 2017 and 2016

	2017	2016
UNRESTRICTED NET ASSETS		
REVENUES AND OTHER SUPPORT		
Donations	\$ 81,622	\$ 63,607
Grants and awards	50,500	114,938
Contracts	360,470	565,444
Program fees	223,857	177,635
Interest and dividends	578	288
Gain on disposition of assets	0	591
Net realized and unrealized gains on investments	9,291	1,254
Net assets released from restrictions -		
Expiration of donor restrictions	1,092,761	1,453,509
TOTAL REVENUES AND OTHER SUPPORT	1,819,079	2,377,266
EXPENSES		
Program	1,697,468	2,125,242
Supporting services:		
Management and general	347,834	380,510
Fundraising	34,231	9,584
TOTAL FUNCTIONAL EXPENSES	2,079,533	2,515,336
DECREASE IN UNRESTRICTED NET ASSETS	(260,454)	(138,070)
TEMPORARILY RESTRICTED NET ASSETS		
Support	1,246,742	1,173,890
Net assets released from restriction	(1,092,761)	(1,453,509)
INCREASE (DECREASE) IN TEMPORARILY RESTRICTED NET ASSETS	153,981	(279,619)
NET ASSETS AT BEGINNING OF YEAR	2,253,593	2,671,282
NET ASSETS AT END OF YEAR	\$ 2,147,120	\$ 2,253,593

See accompanying notes.

CONSERVATION STRATEGY FUND
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended December 31, 2017

	<u>Program Services</u>	<u>Supporting Services</u>		<u>Total</u>
	<u>Conservation Services</u>	<u>Management and General</u>	<u>Fund- Raising</u>	<u>Total</u>
Personnel:				
Salaries and wages	\$ 829,218	\$ 240,582	\$ 28,495	\$ 1,098,295
Payroll taxes	99,929	24,232	1,595	125,756
Employee benefits	97,164	53,818	3,526	154,508
Total personnel	1,026,311	318,632	33,616	1,378,559
Communications	11,358	1,056	23	12,437
Contract expenses	298,188	6,048	0	304,236
Dues and subscriptions	2,590	680	0	3,270
Expensed equipment	4,372	0	0	4,372
Insurance	0	4,712	0	4,712
Temporary employment	14,803	191	0	14,994
Occupancy	67,048	5,306	113	72,467
Office	4,745	2,296	324	7,365
Postage	743	151	1	895
Printing	12,824	1,039	0	13,863
Professional services	23,597	4,460	16	28,073
Repairs and maintenance	2,661	552	6	3,219
Supplies	36,265	379	8	36,652
Staff development and training	1,313	530	0	1,843
Training facility costs	50,614	0	0	50,614
Travel	140,036	1,802	124	141,962
Total functional expenses	<u>\$ 1,697,468</u>	<u>\$ 347,834</u>	<u>\$ 34,231</u>	<u>\$ 2,079,533</u>

See accompanying notes.

CONSERVATION STRATEGY FUND
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended December 31, 2016

	<u>Program Services</u>	<u>Supporting Services</u>		<u>Total</u>
	<u>Conservation Services</u>	<u>Management and General</u>	<u>Fund- Raising</u>	<u>Total</u>
Personnel:				
Salaries and wages	\$ 949,986	\$ 251,706	\$ 7,281	\$ 1,208,973
Payroll taxes	110,869	23,475	387	134,731
Employee benefits	110,582	34,989	724	146,295
Total personnel	1,171,437	310,170	8,392	1,489,999
Communications	14,200	972	42	15,214
Contract expenses	397,876	15,975	2	413,853
Dues and subscriptions	4,144	1,761	7	5,912
Expensed equipment	11,517	3,331	3	14,851
Insurance	1,444	4,432	0	5,876
Temporary employment	16,088	583	14	16,685
Occupancy	66,708	8,401	241	75,350
Office	7,978	5,285	803	14,066
Postage	1,828	0	0	1,828
Printing	18,144	836	9	18,989
Professional services	29,529	6,309	6	35,844
Repairs and maintenance	3,007	0	0	3,007
Supplies	25,388	3,174	38	28,600
Staff development and training	1,943	297	3	2,243
Training facility costs	176,680	0	0	176,680
Travel	177,331	18,984	24	196,339
Total functional expenses	<u>\$ 2,125,242</u>	<u>\$ 380,510</u>	<u>\$ 9,584</u>	<u>\$ 2,515,336</u>

See accompanying notes.

CONSERVATION STRATEGY FUND
STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2017 and 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Decrease in net assets	\$ (106,473)	\$ (417,689)
Adjustments to reconcile decrease in net assets to net cash provided (used) by operating activities:		
Net realized and unrealized (gain) loss on investments	(9,291)	(1,254)
Gain on disposition of assets	0	(591)
Net non-cash donation	0	(27,819)
(Increase) decrease in operating assets:		
Accounts receivable	4,914	(4,914)
Grants receivable	289,320	120,183
Contracts receivable	(42,911)	90,393
Prepaid expenses	102,628	(167,200)
Increase (decrease) in operating liabilities:		
Accounts payable	(8,328)	(4,498)
Accrued expenses	70,222	(50,309)
Contracts payable	51,303	(78,431)
Refundable advances	93,689	0
Deferred revenue	(27,855)	(37,220)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	417,218	(579,349)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of equipment	0	591
NET CASH PROVIDED BY INVESTING ACTIVITIES	0	591
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	417,218	(578,758)
CASH AT BEGINNING OF THE YEAR	1,531,153	2,109,911
CASH AT END OF YEAR	\$ 1,948,371	\$ 1,531,153
SUPPLEMENTAL DISCLOSURES		
Interest paid	\$ 0	\$ 0
Taxes paid	\$ 0	\$ 0

See accompanying notes.

CONSERVATION STRATEGY FUND

NOTES TO FINANCIAL STATEMENTS

NOTE A – 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 Washington DC and Arcata, California; La Paz, Bolivia, Indonesia 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 accompanying financial statements have been prepared on the accrual basis of accounting, and accordingly reflect all significant receivables, payables and other liabilities.

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.

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 net 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 market values because of the short maturities of those instruments. CSF maintains a separate bank account to comply with a funder's requirement that cash be held in a separate account. As of December 31, 2017 and 2016, included in cash and cash equivalents is \$21,223 and \$42,855, respectively, of funds subject to donor restrictions and reported as deferred revenue.

Investments

Investments in marketable equity securities with readily determinable fair values are stated at fair market value in the statement of financial position and are considered Level 1 investments. Unrealized gains and losses are included in the statement of activities.

CONSERVATION STRATEGY FUND

NOTES TO FINANCIAL STATEMENTS

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, 2017 and 2016, CSF determined the various receivables are fully collectable 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.

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 for 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 services is provided. Revenue on long-term contracts is matched with expenses each quarter and any profit or loss is recognized when the project is complete. 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 3,000 people from 90 countries and has conducted over a hundred economic analyses that have shaped decision-making across the globe. CSF project partners range from local activists and indigenous tribes to large international non-governmental organizations and development banks. CSF focuses its work in regions where capacity needs are intense, and which still have tremendous conservation opportunities – particularly in 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

CONSERVATION STRATEGY FUND

NOTES TO FINANCIAL STATEMENTS

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 activities and 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 Exempt Status

CSF is exempt from federal and state income taxes under Internal Revenue Code (IRC) Section 501(c)(3) and California Revenue and Taxation code Section 23701.

The Organization's federal and state tax returns are subject to possible examination by the taxing authorities until the expiration of the related statutes of limitations on those tax returns. In general, the federal and state income tax returns have three and four year statute of limitations, respectively. The Organization would recognize accrued interest and penalties associated with uncertain tax provisions, if any, as part of the income tax provision.

Donated Services and Materials

CSF 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.

Subsequent Events

Management has evaluated subsequent events through September 24, 2018, the date on which the financial statements were available to be issued. Management is not aware of any subsequent events that require recognition or disclosure in the financial statements.

CONSERVATION STRATEGY FUND

NOTES TO FINANCIAL STATEMENTS

NOTE B — CONCENTRATIONS OF CREDIT RISK

CSF maintains a majority of its cash in accounts at Wells Fargo Bank, JPMorgan Chase Bank and Edward Jones which, at times, may exceed federally insured limits. The maximum amount of loss due to this risk was \$1,396,145 as of December 31, 2017 and \$1,012,430 as of December 31, 2016. CSF has not experienced any losses in such accounts. Management believes CSF is not exposed to any significant credit risk related to cash.

NOTE C — 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 one-year subsequent to employee's date of hire. In 2017, CSF made contributions to the plan equal to 10% of the employee's gross salary. Employer contributions totaled \$57,485 and \$69,435 for the years ending December 31, 2017 and 2016, respectively.

NOTE D — 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 the contracts and grants administered during the years ending December 31, 2017 and 2016.

NOTE E — CONCENTRATIONS

During the years ended December 31, 2017 and 2016, \$1,254,789 and \$1,062,870, respectively, which is approximately 65% and 91% of CSF's current year funding from grants and awards, was awarded by three grantors.

NOTE F — RECEIVABLES

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

	<u>2017</u>	<u>2016</u>
Cargill Foundation	\$ 85,000	\$ 100,000
Moore Foundation	50,000	0
MacArthur Foundation	0	130,000
German Federal Enterprise for International Cooperation	0	62,140
World Wildlife Federation	0	47,180
Walton Family Foundation	0	50,000
David and Lucile Packard Foundation	0	150,000
Total	<u>\$ 135,000</u>	<u>\$ 539,320</u>

CONSERVATION STRATEGY FUND NOTES TO FINANCIAL STATEMENTS

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

	2017	2016
Cargill Foundation	\$ 0	\$ 85,000
MacArthur Foundation	200,000	0
	\$ 200,000	\$ 85,000

Contracts receivable at December 31, consist of the following:

	2017	2016
Marin Agricultural Study	\$ 0	\$ 2,000
Nature Serve	5,725	0
German Federal Enterprise for International Cooperation	0	11,306
New Venture Fund	27,403	0
DAI Bridge	48,986	0
Resources Legacy Fund	0	15,000
Sonoma County	5,120	7,579
Fundo Mexicano Mar	0	14,810
Moore Funding Study	0	24,502
USAID	13,581	0
World Wildlife Federation	17,293	0
	\$ 118,108	\$ 75,197

NOTE G — RESTRICTED NET ASSETS

At December 31, 2017, CSF's temporarily restricted net assets consist of the following:

	Beginning	Additions	Expended	Ending
MacArthur Foundation	\$ 123,833	\$ 400,000	\$ (179,653)	\$ 344,180
Gordon & Betty Moore Fnd.	33,326	290,000	(7,371)	315,955
The Handsel Foundation	20,198	0	0	20,198
German Federal Enterprise for International Cooperation	53,565	(1,105)	(14,474)	37,986
Good Energies Foundation	16,634	314,789	(287,051)	44,372
Packard Foundation	326,702	250,000	(204,389)	372,313
Cargill Foundation	324,702	0	(93,941)	230,761
New Venture Fund	24,456	0	(24,456)	0
World Wildlife Fund	63,428	(6,942)	(56,486)	0
Walton Family Foundation	224,940	0	(224,940)	0
	\$ 1,211,784	\$ 1,246,742	\$ (1,092,761)	\$ 1,365,765

For purposes of this schedule, the additions to temporarily restricted net assets include amounts released from restrictions for 2017 or contract adjustments (negative amounts).

CONSERVATION STRATEGY FUND NOTES TO FINANCIAL STATEMENTS

At December 31, 2016, CSF's temporarily restricted net assets consist of the following:

	Beginning	Additions	Expended	Ending
MacArthur Foundation	\$ 464,461	\$ 0	\$ (340,628)	\$ 123,833
Gordon & Betty Moore Fnd.	320,338	0	(287,012)	33,326
The Handsel Foundation	35,198	0	(15,000)	20,198
German Federal Enterprise for International Cooperation	132,283	0	(78,718)	53,565
Good Energies Foundation	19,123	312,870	(315,359)	16,634
Packard Foundation	510,000	0	(183,298)	326,702
Cargill Foundation	0	500,000	(175,298)	324,702
New Venture Fund	0	43,620	(19,164)	24,456
World Wildlife Fund	0	67,400	(3,972)	63,428
Walton Family Foundation	0	250,000	(25,060)	224,940
Green Foundation	10,000	0	(10,000)	0
	<u>\$ 1,491,403</u>	<u>\$ 1,173,890</u>	<u>\$ (1,453,509)</u>	<u>\$ 1,211,784</u>

For purposes of this schedule, the additions to temporarily restricted net assets include amounts released from restrictions for 2016.

NOTE H — PROGRAM FEES

Program fees are as follows:

	2017	2016
Brazil and Indonesia cost share income	\$ 85,395	\$ 93,135
Tuition income - gross	138,462	100,000
Less: scholarships/discounts/grants	0	(15,500)
	<u>\$ 223,857</u>	<u>\$ 177,635</u>

NOTE I — LEASES

CSF leases office space in Arcata, California, for \$975 per month on a month-to-month basis. CSF leases office space in Washington DC for \$2,300 per month with a 3-year lease until April 2019. CSF also leases office space in Peru and Bolivia. Total office rent expense for the year ending December 31, 2017 and 2016, is \$66,773 and \$60,728, respectively.

NOTE J — RELATED PARTIES

CSF contracts with a conservation organizations located in Brazil and Indonesia. The Brazilian and Indonesian organizations were incorporated under the laws of their home countries. CSF's President and board member is also a board member of the Brazilian and Indonesian organizations. CSF has entered into service agreements with the Brazilian and Indonesian organizations to provide conservation activities. For the years ending December 31, 2017 and 2016, contract expenses with these organizations totaled \$352,601 and \$207,069, respectively.

CONSERVATION STRATEGY FUND NOTES TO FINANCIAL STATEMENTS

NOTE K — PRIOR PERIOD ADJUSTMENT

Revenues and expenses for 2016 have been increased by \$85,938 which results in no change in net assets. The restatement is to include revenue earned from related parties (Brazil and Indonesia) and the related expenses to generate the revenue. In the prior year, these amounts were not included in the total revenue and expense.