

CONSERVATION STRATEGY FUND

FINANCIAL STATEMENTS

December 31, 2010

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Conservation Strategy Fund
Arcata, California

We have audited the accompanying statement of financial position of Conservation Strategy Fund (a nonprofit organization) as of December 31, 2010, and the related statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of Conservation Strategy Fund's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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, 2010, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Hunter, Hunter + Hunt

August 29, 2011

**CONSERVATION STRATEGY FUND
STATEMENT OF FINANCIAL POSITION
December 31, 2010**

ASSETS:

CURRENT ASSETS:

Cash & cash equivalents	\$ 785,766
Accounts receivable	3,647
Grants receivable	431,904
Contracts receivable	220,742
Prepaid expenses	101,681
TOTAL CURRENT ASSETS	<u>1,543,740</u>

Equipment, net	-
Deposits	7,455
TOTAL ASSETS	<u><u>\$ 1,551,195</u></u>

LIABILITIES:

CURRENT LIABILITIES:

Accounts payable	\$ 13,233
Accrued expenses	56,591
Deferred revenue	162,287
TOTAL LIABILITIES	<u>232,111</u>

NET ASSETS:

Unrestricted	338,276
Temporarily restricted	980,808
TOTAL NET ASSETS	<u>1,319,084</u>

TOTAL LIABILITIES & NET ASSETS	<u><u>\$ 1,551,195</u></u>
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See accompanying notes.

**CONSERVATION STRATEGY FUND
STATEMENT OF ACTIVITIES
Year Ended December 31, 2010**

	Unrestricted	Temporarily Restricted	Total
REVENUES, GAINS, & OTHER SUPPORT:			
Donations	\$ 142,510	\$ -	\$ 142,510
Grants & awards	269,500	766,844	1,036,344
Program fees	409,596	-	409,596
Interest income	3,244	-	3,244
Gains on disposal	18		18
Net assets released from restrictions:			
Expirations of donor restrictions	767,264	(767,264)	-
TOTAL REVENUES, GAINS, & OTHER SUPPORT	1,592,132	(420)	1,591,712
 EXPENSES & LOSSES:			
Program services	1,357,825	-	1,357,825
Supporting services:			
Management & general	66,898	-	66,898
Fund-raising	69,150	-	69,150
TOTAL EXPENSES & LOSSES	1,493,873	-	1,493,873
 CHANGES IN NET ASSETS	 98,259	 (420)	 97,839
 BEGINNING NET ASSETS	 240,017	 981,228	 1,221,245
 NET ASSETS AT END OF YEAR	 \$ 338,276	 \$ 980,808	 \$ 1,319,084

See accompanying notes.

**CONSERVATION STRATEGY FUND
STATEMENT OF FUNCTIONAL EXPENSES
Year Ended December 31, 2010**

FUNCTIONAL EXPENSES	Program Services	Supporting Services		Total
	Conservation Services	Management & General	Fund- Raising	Total
Salaries & wages	\$ 581,579	\$ 33,600	\$ 37,989	\$ 653,168
Payroll taxes	91,666	4,017	3,042	98,725
Employee benefits	56,746	3,486	7,410	67,642
Total salaries & benefits	729,991	41,103	48,441	819,535
Communications	19,456	1,283	1,016	21,755
Contractual	181,447	945	45	182,437
Depreciation	-	110	-	110
Dues & subscriptions	7,800	1,495	1,347	10,642
Expensed equipment	14,785	705	310	15,800
Fundraising expense	-	-	1,131	1,131
Insurance	2,687	179	149	3,015
Miscellaneous	580	52	-	632
Occupancy	30,602	3,408	4,020	38,030
Office	7,383	1,598	536	9,517
Postage	2,644	202	446	3,292
Printing	12,877	2,641	1,946	17,464
Professional services	13,935	8,817	1,205	23,957
Repairs & maintenance	4,776	490	-	5,266
Supplies	8,752	2,387	911	12,050
Staff development & training	4,432	270	3	4,705
Training facility costs	174,180	-	4,000	178,180
Travel	141,498	1,213	3,644	146,355
TOTAL FUNCTIONAL EXPENSES	\$ 1,357,825	\$ 66,898	\$ 69,150	\$ 1,493,873

See accompanying notes.

**CONSERVATION STRATEGY FUND
STATEMENT OF CASH FLOWS
Year Ended December 31, 2010**

CASH FLOWS FROM OPERATING ACTIVITIES:

Increase (decrease) in net assets:	\$	97,839
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:		
Depreciation		110
(Gain) on disposal		(18)
(Increase) decrease in operating assets:		
Accounts receivable		1,592
Grants receivable		18,898
Contracts receivable		(121,167)
Prepays		(1,146)
Deposits		(3,956)
Increase (decrease) in operating liabilities:		
Accounts payable		1,733
Accrued expenses		36,996
Deferred revenue		(2,554)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		28,327

CASH FLOWS FROM INVESTING ACTIVITIES:

Proceeds from sale of investments		532
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES		532

NET INCREASE (DECREASE) IN CASH & CASH EQUIVALENTS 28,859

BEGINNING CASH & CASH EQUIVALENTS 756,907

ENDING CASH & CASH EQUIVALENTS \$ 785,766

See accompanying notes.

CONSERVATION STRATEGY FUND
NOTES TO FINANCIAL STATEMENTS
December 31, 2010

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. 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. 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 does not maintain an allowance for doubtful accounts as bad debts anticipated on program fees, grants, and contracts are highly unlikely.

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.

**CONSERVATION STRATEGY FUND
NOTES TO FINANCIAL STATEMENTS
December 31, 2010**

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.

Income Taxes

CSF is exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code and similar state provisions. The open audit periods are 2007 through 2009.

In June 2006, the Financial Accounting Standards Board issued ASC 740-10 (formerly known as FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes), which requires that any reserves, or related accruals, be recorded in the financial statements for any uncertain tax positions that the organization has taken or expects to take on a tax return.

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.

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.

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.

Scholarships

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

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.

**CONSERVATION STRATEGY FUND
NOTES TO FINANCIAL STATEMENTS
December 31, 2010**

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.

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. Contributions received with donor-imposed restrictions that are met in the same year in which the contributions are received are classified as unrestricted contributions.

NOTE 2 - EQUIPMENT

The change in equipment for the year ended December 31, 2010, is as follows:

	<u>Balance 12/31/09</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 12/31/10</u>
Equipment	\$ 3,386	\$ -	\$ -	\$ 3,386
Accumulated depreciation	<u>(3,276)</u>	<u>(110)</u>	<u>-</u>	<u>(3,386)</u>
Property & equipment - net	<u>\$ 110</u>	<u>\$ (110)</u>	<u>\$ -</u>	<u>\$ -</u>

Total depreciation expense charged to operations for the year ended December 31, 2010, was \$110.

NOTE 3 - CONCENTRATION OF CREDIT RISK

CSF maintains a majority of its cash in accounts at Wells Fargo Bank and Edward Jones that at times may exceed federal insured limits of \$250,000. CSF has not experienced any losses in such accounts. Management believes CSF is not exposed to any significant credit risk related to cash. At December 31, 2010, the amount in excess of the FDIC and SIPC limits totaled \$124,802.

NOTE 4 - 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 2010, CSF made a contribution to the plan equal to 10% of the employees' gross salary. Employer contributions totaled \$33,908 for the year ending December 31, 2010.

**CONSERVATION STRATEGY FUND
NOTES TO FINANCIAL STATEMENTS
December 31, 2010**

NOTE 5 - CONTINGENT LIABILITIES

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 year ending December 31, 2010.

NOTE 6 - RESTRICTED NET ASSETS

At December 31, 2010, CSF's temporary restricted net assets consist of the following:

	<u>Beginning</u>	<u>Additions</u>	<u>Expended</u>	<u>Ending</u>
Richard & Rhoda Goldman Fund	\$ -	\$ 35,000	\$ -	\$ 35,000
MacArthur Foundation	283,783	-	170,837	112,946
Gordon & Betty Moore Foundation	422,077	671,662	539,630	554,109
IEB USAID – Year 3	222,594	-	222,594	-
Blue Moon Fund	21,837	-	21,837	-
Herrod Bahamas Foundation	25,000	-	25,000	-
Conservation International - Bolivia	-	42,228	31,120	11,108
Conservation International - MMAS	5,937	10,000	15,937	-
IEB USAID – Year 4	-	277,454	9,809	267,645
Total	<u>\$ 981,228</u>	<u>\$ 1,036,344</u>	<u>\$ 1,036,764</u>	<u>\$ 980,808</u>

For purposes of this schedule, the additions to temporarily restricted net assets include amounts released from restrictions in 2010.

NOTE 7 - LEASES

The company leased office space in Arcata, California, under a month-to-month lease agreement; rent is \$942.60 per month. CSF leased office space in Sebastopol, California, under a month-to-month lease agreement; rent is \$1,261 per month. Total office rent expense for the year ending December 31, 2010, is \$26,332.

NOTE 8 - CONCENTRATIONS

During the year ended December 31, 2010, \$671,662, which is over 50% of CSF's new grants, was awarded by one grantor, the Gordon & Betty Moore Foundation.

CONSERVATION STRATEGY FUND
NOTES TO FINANCIAL STATEMENTS
December 31, 2010

NOTE 9 - GRANTS RECEIVABLE

All grants receivable at December 31, 2010, are expected to be collected within one year, and consist of the following:

MacArthur Foundation	\$ 80,000
Conservation International - MMAS	33,114
IEB USAID	294,712
USAID - Bolivia	<u>24,078</u>
Total	<u>\$ 431,904</u>

NOTE 10 - PROGRAM FEES

Program fees are as follows:

Contract revenue	\$ 272,070
Tuition income - Gross	146,300
Less: scholarships/discounts/grants	<u>(8,774)</u>
Total	<u>\$ 409,596</u>

NOTE 11 - 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, 2010, contract expenses with the Brazilian organization were \$568,221 and at December 31, 2010, \$94,429 was prepaid.

In addition, CSF has entered into three contracts, for a total of \$38,568, with a board member, to provide economic valuation research and analytical support and oversight from April 2007 until completion in 2010. In 2010, these contracts were completed and paid in full, for a total of \$21,784.

NOTE 12 - SUBSEQUENT EVENTS

In preparing these financial statements, CSF has evaluated events and transactions for potential recognition or disclosure through August 29, 2011, the date the financial statements were available to be issued.