

CONSERVATION STRATEGY FUND

FINANCIAL STATEMENTS

December 31, 2011

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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, 2011, 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, 2011, 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
May 10, 2012

**CONSERVATION STRATEGY FUND
STATEMENT OF FINANCIAL POSITION
December 31, 2011**

ASSETS:

CURRENT ASSETS:

Cash & cash equivalents	\$ 694,746
Grants receivable	2,277,318
Contracts receivable	2,382,495
Prepaid expenses	104,908
TOTAL CURRENT ASSETS	5,459,467

Equipment, net	-
Deposits	6,297

TOTAL ASSETS	\$ 5,465,764
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LIABILITIES:

CURRENT LIABILITIES:

Accounts payable	\$ 3,014
Accrued expenses	63,554
Deferred revenue	2,268,666

TOTAL LIABILITIES	2,335,234
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NET ASSETS:

Unrestricted	1,073,898
Temporarily restricted	2,056,632

TOTAL NET ASSETS	3,130,530
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TOTAL LIABILITIES & NET ASSETS	\$ 5,465,764
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See accompanying notes.

CONSERVATION STRATEGY FUND
STATEMENT OF ACTIVITIES
Year Ended December 31, 2011

	Unrestricted	Temporarily Restricted	Total
REVENUES, GAINS, & OTHER SUPPORT:			
Donations	\$ 61,027	\$ -	\$ 61,027
Grants & awards	838,051	2,249,602	3,087,653
Contracts	201,459	-	201,459
Program fees	129,575	-	129,575
Interest income	1,345	-	1,345
Net assets released from restrictions:			
Expirations of donor restrictions	1,173,778	(1,173,778)	-
TOTAL REVENUES, GAINS, & OTHER SUPPORT	2,405,235	1,075,824	3,481,059
EXPENSES & LOSSES:			
Program services	1,380,484	-	1,380,484
Supporting services:			
Management & general	137,497	-	137,497
Fund-raising	151,632	-	151,632
TOTAL EXPENSES & LOSSES	1,669,613	-	1,669,613
CHANGES IN NET ASSETS	735,622	1,075,824	1,811,446
BEGINNING NET ASSETS	338,276	980,808	1,319,084
NET ASSETS AT END OF YEAR	\$ 1,073,898	\$ 2,056,632	\$ 3,130,530

See accompanying notes.

CONSERVATION STRATEGY FUND
STATEMENT OF FUNCTIONAL EXPENSES
Year Ended December 31, 2011

	Program Services	Supporting Services		Total
EXPENSES:	Conservation Services	Management & General	Fund- Raising	Total
Salaries & wages	\$ 596,008	\$ 71,282	\$ 93,268	\$ 760,558
Payroll taxes	97,193	6,897	6,986	111,076
Employee benefits	55,882	9,577	20,286	85,745
Total salaries & benefits	<u>749,083</u>	<u>87,756</u>	<u>120,540</u>	<u>957,379</u>
Communications	10,926	2,237	948	14,111
Contractual	212,891	4,562	925	218,378
Dues & subscriptions	5,297	452	62	5,811
Expensed equipment	13,710	16	786	14,512
Fundraising expense	-	-	4,736	4,736
Insurance	96	3,360	-	3,456
Temporary employment	12,743	-	-	12,743
Miscellaneous	1,235	81	-	1,316
Occupancy	31,212	12,085	2,608	45,905
Office	11,325	3,259	782	15,366
Postage	971	254	368	1,593
Printing	3,449	57	1,631	5,137
Professional services	4,627	13,867	8,385	26,879
Repairs & maintenance	1,637	27	-	1,664
Supplies	9,971	709	2,718	13,398
Staff development & training	16,870	-	-	16,870
Training facility costs	131,083	-	216	131,299
Travel	163,358	8,775	6,927	179,060
TOTAL EXPENSES	<u><u>\$ 1,380,484</u></u>	<u><u>\$ 137,497</u></u>	<u><u>\$ 151,632</u></u>	<u><u>\$ 1,669,613</u></u>

See accompanying notes.

**CONSERVATION STRATEGY FUND
STATEMENT OF CASH FLOWS
Year Ended December 31, 2011**

CASH FLOWS FROM OPERATING ACTIVITIES:

Increase (decrease) in net assets:	\$ 1,811,446
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:	
(Increase) decrease in operating assets:	
Accounts receivable	3,648
Grants receivable	(1,845,414)
Contracts receivable	(2,161,753)
Prepays	(3,227)
Deposits	1,158
Increase (decrease) in operating liabilities:	
Accounts payable	(219)
Accrued expenses	(3,037)
Deferred revenue	2,106,379
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	(91,019)
NET INCREASE (DECREASE) IN CASH & CASH EQUIVALENTS	(91,019)
 BEGINNING CASH & CASH EQUIVALENTS	 785,765
ENDING CASH & CASH EQUIVALENTS	\$ 694,746

See accompanying notes.

CONSERVATION STRATEGY FUND
NOTES TO FINANCIAL STATEMENTS
December 31, 2011

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 does not maintain an allowance for doubtful accounts as bad debts anticipated on program fees, grants, and contracts are highly unlikely. This is based on a review of accounts receivable and no history of bad debts.

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, 2011

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 2008 through 2010. 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, 2011.

**CONSERVATION STRATEGY FUND
NOTES TO FINANCIAL STATEMENTS
December 31, 2011**

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. In-kind donated goods totaled \$1,800 for the year ending December 31, 2011.

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, 2011.

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 2011, CSF made a contribution to the plan equal to 10% of the employees' gross salary. Employer contributions totaled \$38,681 for the year ending December 31, 2011.

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 the contracts and grants administered during the year ending December 31, 2011.

**CONSERVATION STRATEGY FUND
NOTES TO FINANCIAL STATEMENTS
December 31, 2011**

NOTE 5 - CONCENTRATIONS

During the year ended December 31, 2011, \$2,505,960, which is approximately 76% of CSF's new grants, was awarded by three grantors, the Gordon & Betty Moore Foundation, the MacArthur Foundation and USAID.

NOTE 6 - RESTRICTED NET ASSETS

At December 31, 2011, 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	112,946	-	91,404	21,542
Gordon & Betty Moore Foundation	554,109	1,118,849	590,485	1,082,473
IEB USAID – Year 4	267,645	-	267,645	-
Conservation International - Bolivia	11,108	-	11,108	-
Skoll Foundation	-	349,801	26,176	323,625
USAID	-	637,111	100,392	536,719
WCS Inambari	-	63,841	49,826	14,015
Charles Knowles	-	10,000	-	10,000
Packard Foundation	-	70,000	1,742	68,258
Total	<u>\$ 980,808</u>	<u>\$ 2,249,602</u>	<u>\$ 1,173,778</u>	<u>\$ 2,056,632</u>

For purposes of this schedule, the additions to temporarily restricted net assets include amounts released from restrictions in 2011.

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 lease agreement which expires December 31, 2012; rent is \$2,000 per month. Total office rent expense for the year ending December 31, 2011, is \$35,596 and prepaid rent expense as of December 31, 2011, is \$2,000.

Future lease payments for the year ending December 31, 2011, are as follows:

2012	<u>\$ 22,000</u>
Total	<u>\$ 22,000</u>

CONSERVATION STRATEGY FUND
NOTES TO FINANCIAL STATEMENTS
December 31, 2011

NOTE 8 - GRANTS RECEIVABLE

All grants receivable at December 31, 2011, are expected to be collected within one year, and consist of the following:

MacArthur Foundation	\$ 750,000
Moore Foundation	668,849
USAID	637,111
Skoll Foundation	<u>221,358</u>
Total	<u>\$ 2,277,318</u>

NOTE 9 - PROGRAM FEES

Program fees are as follows:

Tuition income - Gross	\$ 233,500
Less: scholarships/discounts/grants	<u>(103,925)</u>
Total	<u>\$ 129,575</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, 2011, contract expenses with the Brazilian organization were \$374,771 and at December 31, 2011, \$94,448 was prepaid.

NOTE 11 - SUBSEQUENT EVENTS

In preparing these financial statements, CSF has evaluated events and transactions for potential recognition or disclosure through May 10, 2012, the date the financial statements were available to be issued.