

CONSERVATION STRATEGY FUND

FINANCIAL STATEMENTS

December 31, 2013

TABLE OF CONTENTS

	<u>Page</u>
INDEPENDENT AUDITORS' REPORT	1
FINANCIAL STATEMENTS:	
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

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Conservation Strategy Fund

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, 2013, 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, 2013, 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

June 30, 2014

**CONSERVATION STRATEGY FUND
STATEMENT OF FINANCIAL POSITION
December 31, 2013**

ASSETS:

CURRENT ASSETS:

Cash & cash equivalents	\$ 1,832,457
Grants receivable	819,429
Contracts receivable	1,626,694
Prepaid expenses	115,835

TOTAL CURRENT ASSETS	4,394,415
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Equipment, net	-
Deposits	5,850

TOTAL ASSETS	\$ 4,400,265
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LIABILITIES:

CURRENT LIABILITIES:

Accounts payable	\$ 47,645
Accrued expenses	76,305
Deferred revenue	1,429,240

TOTAL CURRENT LIABILITIES	1,553,190
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TOTAL LIABILITIES	1,553,190
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NET ASSETS:

Unrestricted	1,235,785
Temporarily restricted	1,611,290

TOTAL NET ASSETS	2,847,075
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TOTAL LIABILITIES & NET ASSETS	\$ 4,400,265
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See accompanying notes.

CONSERVATION STRATEGY FUND
STATEMENT OF ACTIVITIES
Year Ended December 31, 2013

	Unrestricted	Temporarily Restricted	Total
REVENUES, GAINS, & OTHER SUPPORT:			
Donations	\$ 78,672	\$ -	\$ 78,672
Grants & awards	44,938	936,000	980,938
Contracts	670,810	-	670,810
Program fees	109,000	-	109,000
Other income	3,000	-	3,000
Interest income	1,278	-	1,278
Net assets released from restrictions:			
Expirations of donor restrictions	1,219,605	(1,219,605)	-
TOTAL REVENUES, GAINS, & OTHER SUPPORT	2,127,303	(283,605)	1,843,698
 EXPENSES & LOSSES:			
Program services	1,717,105	-	1,717,105
Supporting services:			
Management & general	238,345	-	238,345
Fund-raising	75,227	-	75,227
TOTAL EXPENSES & LOSSES	2,030,677	-	2,030,677
 CHANGES IN NET ASSETS	 96,626	 (283,605)	 (186,979)
 BEGINNING NET ASSETS	 1,139,159	 1,894,895	 3,034,054
 NET ASSETS AT END OF YEAR	 \$ 1,235,785	 \$ 1,611,290	 \$ 2,847,075

See accompanying notes.

CONSERVATION STRATEGY FUND
STATEMENT OF FUNCTIONAL EXPENSES
Year Ended December 31, 2013

	Program Services	Supporting Services		Total
	Conservation Services	Management & General	Fund- Raising	Total
EXPENSES:				
Compensation	\$ 751,872	\$ 154,712	\$ 49,418	\$ 956,002
Payroll taxes	72,562	12,662	3,605	88,829
Employee benefits	85,735	17,292	11,431	114,458
Total personnel costs	910,169	184,666	64,454	1,159,289
Communications	18,057	1,635	518	20,210
Contract expenses	209,913	-	-	209,913
Dues & subscriptions	1,706	102	80	1,888
Expensed equipment	8,039	153	32	8,224
Insurance	803	4,112	-	4,915
Temporary employment	11,207	-	-	11,207
Miscellaneous	105	6	-	111
Occupancy	51,583	4,409	1,687	57,679
Office	12,807	1,961	538	15,306
Postage	1,796	2,136	45	3,977
Printing	4,792	6,555	880	12,227
Professional services	16,831	17,045	110	33,986
Repairs & maintenance	4,232	191	63	4,486
Supplies	13,213	1,242	238	14,693
Staff development & training	49,542	9,800	3,970	63,312
Training facility costs	177,355	-	-	177,355
Travel	224,955	4,332	2,612	231,899
TOTAL EXPENSES	\$ 1,717,105	\$ 238,345	\$ 75,227	\$ 2,030,677

See accompanying notes.

**CONSERVATION STRATEGY FUND
STATEMENT OF CASH FLOWS
Year Ended December 31, 2013**

CASH FLOWS FROM OPERATING ACTIVITIES:

Increase (decrease) in net assets:	\$ (186,979)
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	408,700
Contracts receivable	534,563
Prepays	(71,779)
Deposits	164
Increase (decrease) in operating liabilities:	
Accounts payable	1,380
Accrued expenses	(24,770)
Deferred revenue	(478,311)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	183,036
NET INCREASE (DECREASE) IN CASH & CASH EQUIVALENTS	183,036
 BEGINNING CASH & CASH EQUIVALENTS	 1,649,421
ENDING CASH & CASH EQUIVALENTS	\$ 1,832,457

See accompanying notes.

CONSERVATION STRATEGY FUND
NOTES TO FINANCIAL STATEMENTS
December 31, 2013

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, 2013, 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, 2013

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 2010 through 2012. 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, 2013

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, 2013.

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. The maximum amount of loss due to this risk was \$1,612,826 as of December 31, 2013. 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 2013, CSF made a contribution to the plan equal to 10% of the employees' gross salary. Employer contributions totaled \$44,662 for the year ending December 31, 2013.

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

**CONSERVATION STRATEGY FUND
NOTES TO FINANCIAL STATEMENTS
December 31, 2013**

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, 2013.

NOTE 5 - CONCENTRATIONS

During the year ended December 31, 2013, \$856,000, which is approximately 72% of CSF's current year funding, was awarded by four grantors, Gordon & Betty Moore Foundation, MacArthur Foundation, Packard Foundation and Margaret A. Cargill Foundation.

NOTE 6 - RESTRICTED NET ASSETS

At December 31, 2013, CSF's temporarily restricted net assets consist of the following:

	<u>Beginning</u>	<u>Additions</u>	<u>Expended</u>	<u>Ending</u>
MacArthur Foundation	\$ -	\$ 300,000	(\$ 17,914)	\$ 282,086
Gordon & Betty Moore Foundation	507,079	256,000	(507,615)	255,464
Skoll Foundation	263,998	-	(114,160)	149,838
USAID	761,440	-	(358,463)	402,977
Asia Foundation	-	20,000	(20,000)	-
Avina Foundation	-	40,000	(-)	40,000
The Nature Conservancy	216,016	-	(107,840)	108,176
Wildlife Conservation Network	91,694	-	(22,875)	68,819
Margaret A. Cargill Foundation	54,668	100,000	(54,668)	100,000
Packard Foundation	-	200,000	(16,070)	183,930
Marcia Brady Tucker Foundation	-	20,000	(-)	20,000
Total	<u>\$ 1,894,895</u>	<u>\$ 936,000</u>	<u>(\$ 1,219,605)</u>	<u>\$ 1,611,290</u>

For purposes of this schedule, the additions to temporarily restricted net assets include amounts released from restrictions in 2013.

NOTE 7 - LEASES

The Company leases office space in Arcata, California, for \$975 per month. The lease expires on June 30, 2014, and will be month-to-month thereafter. CSF leases office space in Sebastopol, California, for \$2,100 per month. The lease expires on January 31, 2014, and will be month-to-month thereafter. Total office rent expense for the year ending December 31, 2013, is \$42,865.

Future lease payments as of December 31, 2013, are as follows:

2014	<u>\$ 7,950</u>
Total	<u>\$ 7,950</u>

CONSERVATION STRATEGY FUND
NOTES TO FINANCIAL STATEMENTS
December 31, 2013

NOTE 8 - RECEIVABLES

All grants receivable at December 31, 2013, are expected to be collected within one year, and consist of the following:

USAID	\$ 454,429
MacArthur Foundation	150,000
Margaret A. Cargill Foundation	100,000
David and Lucile Packard Foundation	100,000
Marcia Brady Tucker Foundation	<u>15,000</u>
Total	<u>\$ 819,429</u>

Contracts receivable at December 31, 2013, consist of the following:

International Resources Group	\$ 1,464,782
Wildlife Conservation Society	72,564
The Nature Conservancy	<u>89,348</u>
Total	<u>\$ 1,626,694</u>

NOTE 9 - PROGRAM FEES

Program fees are as follows:

Tuition income - gross	\$ 148,000
Less: scholarships/discounts/grants	<u>(39,000)</u>
Total	<u>\$ 109,000</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, 2013, contract expenses with the Brazilian organization were \$158,169 and at December 31, 2013, \$78,469 was prepaid.

NOTE 11 - SUBSEQUENT EVENTS

In preparing these financial statements, CSF has evaluated events and transactions for potential recognition or disclosure through June 30, 2014, the date the financial statements were available to be issued.