

**CONSERVATION STRATEGY FUND**

**FINANCIAL STATEMENTS**

**December 31, 2008**

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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

# Hunter, Hunter & Hunt

CERTIFIED PUBLIC ACCOUNTANTS



1315 Fourth Street  
Eureka, California 95501

Telephone 707-476-0674  
FAX 707-476-0675

admin@hhh-cpa.com

## 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, 2008, and the related statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of the 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, 2008, 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*

October 30, 2009

**CONSERVATION STRATEGY FUND  
STATEMENT OF FINANCIAL POSITION  
December 31, 2008**

**ASSETS:**

**CURRENT ASSETS:**

Cash & cash equivalents	\$ 801,135
Investments	352
Accounts receivable	1,308
Grants receivable	1,191,165
Contracts receivable	30,158
Prepaid expenses	50,631

<b>TOTAL CURRENT ASSETS</b>	<b>2,074,749</b>
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Equipment, net	334
Deposits	2,663

<b>TOTAL ASSETS</b>	<b>\$ 2,077,746</b>
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**LIABILITIES:**

**CURRENT LIABILITIES:**

Accounts payable	\$ 9,885
Accrued expenses	63,293
Deferred revenue	23,000

<b>TOTAL LIABILITIES</b>	<b>96,178</b>
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**NET ASSETS:**

Unrestricted	223,492
Temporarily restricted	1,758,076

<b>TOTAL NET ASSETS</b>	<b>1,981,568</b>
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<b>TOTAL LIABILITIES &amp; NET ASSETS</b>	<b>\$ 2,077,746</b>
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See accompanying notes and accountants' report.

**CONSERVATION STRATEGY FUND  
STATEMENT OF ACTIVITIES  
Year Ended December 31, 2008**

	Unrestricted	Temporarily Restricted	Total
<b>REVENUES, GAINS, &amp; OTHER SUPPORT:</b>			
Donations	\$ 34,070	\$ -	\$ 34,070
Grants & awards	33,501	758,177	791,678
Program fees	299,564	-	299,564
Interest income	13,485	-	13,485
Net assets released from restrictions:			
Expirations of donor restrictions	911,225	(911,225)	-
<b>TOTAL REVENUES, GAINS, &amp; OTHER SUPPORT</b>	<u>1,291,845</u>	<u>(153,048)</u>	<u>1,138,797</u>
<b>EXPENSES &amp; LOSSES:</b>			
Program services	1,113,252	-	1,113,252
Supporting services			
Management & general	40,831	-	40,831
Fund-raising	33,686	-	33,686
Total functional expenses	<u>1,187,769</u>	<u>-</u>	<u>1,187,769</u>
Unrealized gains and losses	200	-	200
Losses on disposal	245	-	245
<b>TOTAL EXPENSES &amp; LOSSES</b>	<u>1,188,214</u>	<u>-</u>	<u>1,188,214</u>
<b>CHANGES IN NET ASSETS</b>	103,631	(153,048)	(49,417)
<b>BEGINNING NET ASSETS</b>	<u>119,861</u>	<u>1,911,124</u>	<u>2,030,985</u>
<b>NET ASSETS AT END OF YEAR</b>	<u>\$ 223,492</u>	<u>\$ 1,758,076</u>	<u>\$ 1,981,568</u>

See accompanying notes and accountants' report.

**CONSERVATION STRATEGY FUND**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**Year Ended December 31, 2008**

<b>FUNCTIONAL EXPENSES</b>	<b>Program Services</b>	<b>Supporting Services</b>		<b>Total</b>
	Conservation Services	Management & General	Fund- Raising	Total
Salaries & wages	\$ 328,260	\$ 20,870	\$ 18,216	\$ 367,346
Payroll taxes	110,315	1,347	1,333	112,995
Employee benefits	34,718	2,212	2,497	39,427
Total salaries & benefits	473,293	24,429	22,046	519,768
Communications	16,055	-	-	16,055
Contractual	339,593	-	5,000	344,593
Depreciation	-	1,013	-	1,013
Dues & subscriptions	5,603	35	36	5,674
Insurance	2,136	1,155	99	3,390
Miscellaneous	11,202	617	187	12,006
Occupancy	114,682	4,458	1,705	120,845
Office	6,135	30	14	6,179
Postage	1,692	73	211	1,976
Printing	5,436	2,132	666	8,234
Professional services	11,146	3,965	234	15,345
Supplies	16,219	200	247	16,666
Training	17,850	103	-	17,953
Travel	92,210	2,621	3,241	98,072
<b>TOTAL FUNCTIONAL EXPENSES</b>	<b>\$ 1,113,252</b>	<b>\$ 40,831</b>	<b>\$ 33,686</b>	<b>\$ 1,187,769</b>

See accompanying notes and accountants' report.

**CONSERVATION STRATEGY FUND  
STATEMENT OF CASH FLOWS  
Year Ended December 31, 2008**

**CASH FLOWS FROM OPERATING ACTIVITIES:**

Increase (decrease) in net assets:	\$ (49,417)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:	
Depreciation	1,013
Unrealized (gains) and losses	200
Loss on disposal	245
(Increase) decrease in operating assets:	
Accounts receivable	(1,308)
Grants receivable	321,788
Contracts receivable	(10,229)
Prepays	(48,024)
Deposits	(279)
Increase (decrease) in operating liabilities:	
Accounts payable	4,126
Accrued expenses	36,345
Deferred revenue	(10,100)
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	<b>244,360</b>
<b>NET INCREASE (DECREASE) IN CASH &amp; CASH EQUIVALENTS</b>	<b>244,360</b>
<b>BEGINNING CASH &amp; CASH EQUIVALENTS</b>	<b>556,775</b>
<b>ENDING CASH &amp; CASH EQUIVALENTS</b>	<b>\$ 801,135</b>

See accompanying notes and accountants' report.

**CONSERVATION STRATEGY FUND  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2008**

**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 voluntary health and welfare organizations as prescribed by the American Institute of Certified Public Accountants. In accordance with Statement of Financial 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 teams up with other local organizations on analysis of urgent conservation policy issues, called "Analysis Projects". CSF has trained almost 900 people from 70 countries and has produced over 40 influential analyses.



**CONSERVATION STRATEGY FUND**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2008**

**Management and General**

Includes the functions necessary to ensure coordination and articulation of CSF's program strategy through the Executive Management, maintain program administration, and manage 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. Accordingly, income taxes are not provided for in 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.

**Investments**

The fair value of investments are based on quoted market prices for those or similar investments. Investments consist of common stocks recorded at the published market value. Total value of investments at December 31, 2008, is \$352; there was \$200 of unrealized losses on investments for the year. CSF did not incur any related investment expenses.

**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.

**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.

**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.

**CONSERVATION STRATEGY FUND  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2008**

**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 - 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, 2008, the amount in excess of the FDIC and SIPC limits totaled \$518,186.

**NOTE 3 - EQUIPMENT**

The change in equipment for the year ended December 31, 2008, is as follows:

	Balance <u>12/31/07</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>12/31/08</u>
Equipment	\$ 10,006	\$ -	\$ (6,620)	\$ 3,386
Accumulated depreciation	<u>(8,415)</u>	<u>(1,013)</u>	<u>6,376</u>	<u>(3,052)</u>
Property & equipment - net	<u>\$ 1,591</u>	<u>\$ (1,013)</u>	<u>\$ (244)</u>	<u>\$ 334</u>

Total depreciation expense charged to operations for the year ended December 31, 2008, was \$1,013.

**NOTE 4 - CONCENTRATIONS**

During the year ended December 31, 2008, \$400,000, which is over 50% of CSF's grants and awards, was awarded by one grantor, the John and Catherine MacArthur Foundation.

**CONSERVATION STRATEGY FUND  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2008**

**NOTE 5 - 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 2008, CSF made a contribution to the plan equal to 10% of the employees' gross salary. Employer contributions totaled \$24,649 for the year ending December 31, 2008.

**NOTE 6 - 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 period ending December 31, 2008.

**NOTE 7 - LEASES**

The company leased office space in Arcata, California, under a lease agreement extended through February 28, 2009. As of June 2008, the monthly rent is \$887. CSF leased office space in Sebastopol, California, under a month-to-month lease agreement. Effective August 2008, rent is \$686 per month. Total rent expense for the year ending December 31, 2008, is \$24,852.

**NOTE 8 - RESTRICTED NET ASSETS**

At December 31, 2008, 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	\$ -	\$ 50,000	\$ 23,089	\$ 26,911
MacArthur Foundation	-	400,000	-	400,000
Gordon & Betty Moore Foundation	1,346,940	-	427,279	919,661
IEB USAID - Year 3	-	255,498	59,029	196,469
Blue Moon Fund	191,000	-	111,573	79,427
Christensen Fund	46,749	-	46,749	-
Conservation International - Bolivia	-	32,450	11,694	20,756
Conservation International - MMAS	107,356	20,229	80,330	47,255
IEB USAID - Amazon Andes	219,079	-	151,482	67,597
Total	<u>\$ 1,911,124</u>	<u>\$ 758,177</u>	<u>\$ 911,225</u>	<u>\$ 1,758,076</u>

**CONSERVATION STRATEGY FUND  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2008**

**NOTE 9 - GRANTS RECEIVABLE**

Grants receivable at December 31, 2008, consist of the following:

MacArthur Foundation	\$ 400,000
Gordon & Betty Moore Foundation	417,133
CI MMAS	62,451
IEB USAID	295,356
USAID - Bolivia	<u>16,225</u>
Total	<u>\$ 1,191,165</u>

**NOTE 10 - PROGRAM FEES**

Program fees are as follows:

Contract revenue	\$ 153,507
International course - gross fees for attendees	157,500
Less: scholarships/discounts/grants	<u>(11,443)</u>
Total	<u>\$ 299,564</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 Chair is also the Board President of the Brazilian organization. CSF has entered into service agreements with the Brazilian organization to provide conservation activities. For the year ending December 31, 2008, contract expenses with the Brazilian organization were \$274,269 and at December 31, 2008, \$42,780 was prepaid.

In addition, CSF has entered into a contract, for \$10,000, with a board member, to provide economic valuation research and analytical support and oversight from April 2007 through July 2009. In 2008, payments under this contract were \$650 and there is a balance due of \$5,000 as of December 31, 2008.