

CONSERVATION STRATEGY FUND

FINANCIAL STATEMENTS

December 31, 2009

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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, 2009, 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, 2009, 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

July 30, 2010

**CONSERVATION STRATEGY FUND
STATEMENT OF FINANCIAL POSITION
December 31, 2009**

ASSETS:

CURRENT ASSETS:

Cash & cash equivalents	\$ 756,907
Investments	514
Accounts receivable	5,239
Grants receivable	450,802
Contracts receivable	99,575
Prepaid expenses	100,535
TOTAL CURRENT ASSETS	<u>1,413,572</u>

Equipment, net	110
Deposits	3,499
TOTAL ASSETS	<u><u>\$ 1,417,181</u></u>

LIABILITIES:

CURRENT LIABILITIES:

Accounts payable	\$ 11,500
Accrued expenses	19,595
Deferred revenue	164,841
TOTAL LIABILITIES	<u>195,936</u>

NET ASSETS:

Unrestricted	240,017
Temporarily restricted	981,228
TOTAL NET ASSETS	<u>1,221,245</u>

TOTAL LIABILITIES & NET ASSETS	<u><u>\$ 1,417,181</u></u>
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See accompanying notes.

CONSERVATION STRATEGY FUND
STATEMENT OF ACTIVITIES
Year Ended December 31, 2009

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
REVENUES, GAINS, & OTHER SUPPORT:			
Donations	\$ 111,706	\$ -	\$ 111,706
Grants & awards	45,546	247,594	293,140
Program fees	248,603	-	248,603
Interest income	2,066	-	2,066
Net assets released from restrictions:			
Expirations of donor restrictions	1,024,442	(1,024,442)	-
TOTAL REVENUES, GAINS, & OTHER SUPPORT	<u>1,432,363</u>	<u>(776,848)</u>	<u>655,515</u>
EXPENSES & LOSSES:			
Program services	1,275,764	-	1,275,764
Supporting services			
Management & general	76,428	-	76,428
Fund-raising	63,808	-	63,808
Total functional expenses	1,416,000	-	1,416,000
Unrealized gains & losses	(162)	-	(162)
TOTAL EXPENSES & LOSSES	<u>1,415,838</u>	<u>-</u>	<u>1,415,838</u>
CHANGES IN NET ASSETS	16,525	(776,848)	(760,323)
BEGINNING NET ASSETS	<u>223,492</u>	<u>1,758,076</u>	<u>1,981,568</u>
NET ASSETS AT END OF YEAR	<u>\$ 240,017</u>	<u>\$ 981,228</u>	<u>\$ 1,221,245</u>

See accompanying notes.

**CONSERVATION STRATEGY FUND
STATEMENT OF FUNCTIONAL EXPENSES
Year Ended December 31, 2009**

FUNCTIONAL EXPENSES	Program Services	Supporting Services		Total
	Conservation Services	Management & General	Fund- Raising	Total
Salaries & wages	\$ 392,964	\$ 41,280	\$ 35,914	\$ 470,158
Payroll taxes	98,856	3,204	2,937	104,997
Employee benefits	45,779	3,423	7,594	56,796
Total salaries & benefits	537,599	47,907	46,445	631,951
Communications	16,885	-	-	16,885
Contractual	344,161	-	5,500	349,661
Depreciation	-	224	-	224
Dues & subscriptions	4,384	47	156	4,587
Expensed equipment	11,405	201	-	11,606
Insurance	1,823	94	118	2,035
Occupancy	37,727	9,424	3,015	50,166
Office	13,495	1,335	191	15,021
Printing	16,586	3,058	2,025	21,669
Professional services	9,791	9,252	246	19,289
Repairs & maintenance	5,831	545	78	6,454
Supplies	10,137	1,832	1,519	13,488
Staff development & training	18,961	243	-	19,204
Training facility costs	106,014	-	2,551	108,565
Travel	140,965	2,266	1,964	145,195
TOTAL FUNCTIONAL EXPENSES	\$ 1,275,764	\$ 76,428	\$ 63,808	\$ 1,416,000

See accompanying notes.

**CONSERVATION STRATEGY FUND
STATEMENT OF CASH FLOWS
Year Ended December 31, 2009**

CASH FLOWS FROM OPERATING ACTIVITIES:

Increase (decrease) in net assets:	\$ (760,323)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:	
Depreciation	224
Unrealized (gains) & losses	(162)
(Increase) decrease in operating assets:	
Accounts receivable	(3,931)
Grants receivable	740,363
Contracts receivable	(69,417)
Prepays	(49,904)
Deposits	(836)
Increase (decrease) in operating liabilities:	
Accounts payable	1,615
Accrued expenses	(43,698)
Deferred revenue	141,841
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	(44,228)
NET INCREASE (DECREASE) IN CASH & CASH EQUIVALENTS	(44,228)
BEGINNING CASH & CASH EQUIVALENTS	801,135
ENDING CASH & CASH EQUIVALENTS	\$ 756,907

See accompanying notes.

CONSERVATION STRATEGY FUND
NOTES TO FINANCIAL STATEMENTS
December 31, 2009

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 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 900 people from 70 countries and has produced over 40 influential analyses.

**CONSERVATION STRATEGY FUND
NOTES TO FINANCIAL STATEMENTS
December 31, 2009**

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 2006 through 2008.

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. As of January 1, 2009, CSF has adopted ASC 740-10.

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.

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, 2009, is \$514; there was \$162 of unrealized gain 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.

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, 2009**

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.

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, 2009, is as follows:

	Balance 12/31/08	Additions	Deletions	Balance 12/31/09
Equipment	\$ 3,386	\$ -	\$ -	\$ 3,386
Accumulated depreciation	(3,052)	(224)	-	(3,276)
Property & equipment - net	<u>\$ 334</u>	<u>\$ (224)</u>	<u>\$ -</u>	<u>\$ 110</u>

Total depreciation expense charged to operations for the year ended December 31, 2009, was \$224.

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, 2009, the amount in excess of the FDIC and SIPC limits totaled \$214,516.

**CONSERVATION STRATEGY FUND
NOTES TO FINANCIAL STATEMENTS
December 31, 2009**

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 2009, CSF made a contribution to the plan equal to 10% of the employees' gross salary. Employer contributions totaled \$32,427 for the year ending December 31, 2009.

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, 2009.

NOTE 6 - RESTRICTED NET ASSETS

At December 31, 2009, 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	\$ 26,911	\$ -	\$ 26,911	\$ -
MacArthur Foundation	400,000	-	116,217	283,783
Gordon & Betty Moore Foundation	919,661	-	497,584	422,077
IEB USAID – Year 3	196,469	268,140	242,015	222,594
Blue Moon Fund	79,427	-	57,590	21,837
Herrod Bahamas Foundation	-	25,000	-	25,000
Conservation International - Bolivia	20,756	-	20,756	-
Conservation International - MMAS	47,255	-	41,318	5,937
IEB USAID - Amazon Andes	67,597	-	67,597	-
Total	<u>\$ 1,758,076</u>	<u>\$ 293,140</u>	<u>\$ 1,069,988</u>	<u>\$ 981,228</u>

For purposes of this schedule, the additions to temporarily restricted net assets include amounts released from restrictions in 2009.

NOTE 7 - LEASES

The company leased office space in Arcata, California, under a month-to-month lease agreement; rent is \$887 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, 2009, is \$25,650.

**CONSERVATION STRATEGY FUND
NOTES TO FINANCIAL STATEMENTS
December 31, 2009**

NOTE 8 - CONCENTRATIONS

During the year ended December 31, 2009, \$268,140, which is over 90% of CSF's new grants, was awarded by one grantor, the International Institute for Education of Brazil (IEB).

NOTE 9 - GRANTS RECEIVABLE

Grants receivable at December 31, 2009, consist of the following:

MacArthur Foundation	\$ 200,000
Conservation International - MMAS	23,114
IEB USAID	224,443
USAID - Bolivia	<u>3,245</u>
Total	<u>\$ 450,802</u>

NOTE 10 - PROGRAM FEES

Program fees are as follows:

Contract revenue	\$ 151,914
International course - gross fees for attendees	108,500
Less: scholarships/discounts/grants	<u>(11,811)</u>
Total	<u>\$ 248,603</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, 2009, contract expenses with the Brazilian organization were \$349,040 and at December 31, 2009, \$93,740 was prepaid.

In addition, CSF has entered into three contracts, for a total of \$35,568, with a board member, to provide economic valuation research and analytical support and oversight from April 2007 until completion in 2010. In 2009, payments under this contract were \$16,784 and there is a balance due of \$13,784, of which \$5,000 has been accrued as of December 31, 2009. In connection with these contracts, \$2,326 in expenses have been reimbursed to the board member in 2009.

NOTE 12 - SUBSEQUENT EVENTS

In preparing these financial statements, CSF has evaluated events and transactions for potential recognition or disclosure through July 30, 2010, the date the financial statements were available to be issued.