

Galapagos Conservancy

Financial Report
March 31, 2013

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Independent Auditor's Report

To the Board of Directors
Galapagos Conservancy
Fairfax, Virginia

Report on the Financial Statements

We have audited the accompanying financial statements of Galapagos Conservancy which comprise the balance sheet as of March 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 audits. We conducted our audits 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 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 reasonable 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 Galapagos Conservancy as of March 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.

McGladrey LLP

Vienna, Virginia
May 29, 2013

Galapagos Conservancy

Balance Sheet

March 31, 2013

Assets

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Current Assets	
Cash and cash equivalents	\$ 384,231
Prepaid expenses	117,079
Inventory	14,230
Total current assets	<hr/> 515,540 <hr/>
Investments	<hr/> 4,516,147 <hr/>
Property And Equipment	
Furniture	2,266
Equipment and software	78,705
	<hr/> 80,971
Less accumulated depreciation	<hr/> (36,410)
	<hr/> 44,561 <hr/>
	<hr/> \$ 5,076,248 <hr/>

Liabilities And Net Assets

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Current Liabilities	
Accounts payable and accrued expenses	\$ 34,081
Grants payable	696,538
Total current liabilities	<hr/> 730,619 <hr/>
Commitments	
Net Assets	
Unrestricted	1,577,277
Temporarily restricted	296,539
Permanently restricted	2,471,813
	<hr/> 4,345,629 <hr/>
	<hr/> \$ 5,076,248 <hr/>

See Notes To Financial Statements.

Galapagos Conservancy

Statement Of Activities Year Ended March 31, 2013

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue and support:				
Contributions	\$ 1,557,453	\$ 680,534	\$ 38,625	\$ 2,276,612
Investment income	347,639	-	-	347,639
Sales	22,355	-	-	22,355
Net assets released from restrictions	521,567	(521,567)	-	-
Total revenue and support	2,449,014	158,967	38,625	2,646,606
Expenses:				
Program services:				
Strategic Partnerships	835,979	-	-	835,979
Allocated program costs	458,396	-	-	458,396
Ecosystem Restoration	357,642	-	-	357,642
Sustainable Society	270,214	-	-	270,214
Cost of goods sold	12,155	-	-	12,155
	1,934,386	-	-	1,934,386
Support services:				
Management and general	198,217	-	-	198,217
Fundraising	530,813	-	-	530,813
Total expenses	2,663,416	-	-	2,663,416
Change in net assets	(214,402)	158,967	38,625	(16,810)
Net assets:				
Beginning	1,791,679	137,572	2,433,188	4,362,439
Ending	\$ 1,577,277	\$ 296,539	\$ 2,471,813	\$ 4,345,629

See Notes To Financial Statements.

Galapagos Conservancy

**Statement Of Functional Expenses
Year Ended March 31, 2013**

	Program Services			Support Services		
	Environmental Programs	Outreach Programs	Total Program Services	Management And General	Fundraising	Total
Grants	\$ 1,463,835	\$ -	\$ 1,463,835	\$ -	\$ -	\$ 1,463,835
Salaries, benefits and taxes	235,898	-	235,898	101,893	123,655	461,446
Consultants	65,932	-	65,932	39,542	50,287	155,761
Printing	-	21,584	21,584	-	111,498	133,082
Postage and shipping	4,704	17,880	22,584	2,821	77,835	103,240
Mail house	-	3,897	3,897	-	61,571	65,468
Professional fees	25,219	-	25,219	15,125	18,355	58,699
Rent	24,402	-	24,402	14,635	17,761	56,798
Investment and management fees	11,977	-	11,977	7,242	8,635	27,854
Travel	19,394	2,020	21,414	1,652	3,338	26,404
Telemarketing	-	-	-	-	20,158	20,158
Cost of goods sold	12,155	-	12,155	-	-	12,155
Premiums	-	-	-	-	11,476	11,476
Bank and caging fees	4,604	-	4,604	2,761	3,351	10,716
Depreciation	4,221	-	4,221	2,552	3,043	9,816
Permits	4,111	-	4,111	2,466	2,992	9,569
Dues and subscription	3,444	-	3,444	2,066	2,507	8,017
Computer and website expense	-	-	-	-	7,722	7,722
Office supplies	2,725	-	2,725	1,634	1,983	6,342
Miscellaneous	2,094	-	2,094	1,256	1,524	4,874
Telephone	1,720	-	1,720	1,031	1,252	4,003
Payroll fees	1,221	-	1,221	732	889	2,842
Insurance	993	-	993	595	722	2,310
Training	356	-	356	214	259	829
	<u>\$ 1,889,005</u>	<u>\$ 45,381</u>	<u>\$ 1,934,386</u>	<u>\$ 198,217</u>	<u>\$ 530,813</u>	<u>\$ 2,663,416</u>

See Notes To Financial Statements.

Galapagos Conservancy

Statement Of Cash Flows Year Ended March 31, 2013

Cash Flows From Operating Activities	
Change in net assets	\$ (16,810)
Adjustments to reconcile change in net assets to net cash used in operating activities:	
Depreciation	9,816
Realized and unrealized gain on investments	(187,322)
Contributions received for permanent endowment	(38,625)
Changes in assets and liabilities:	
(Increase) decrease in:	
Prepaid expenses	14,899
Inventory	(1,666)
Increase (decrease) in:	
Accounts payable and accrued expenses	14,169
Deferred revenue	(62,750)
Grants payable	180,722
Net cash used in operating activities	<u>(87,567)</u>
 Cash Flows From Investing Activities	
Proceeds from sale of investments	1,753,764
Purchase of property and equipment	(21,107)
Purchases of investments	(1,800,868)
Net cash used in investing activities	<u>(68,211)</u>
 Cash Flows From Financing Activities	
Contributions received for permanent endowment	<u>38,625</u>
Net decrease in cash and cash equivalents	(117,153)
 Cash And Cash Equivalents	
Beginning	<u>501,384</u>
Ending	<u>\$ 384,231</u>

See Notes To Financial Statements.

Galapagos Conservancy

Notes To Financial Statements

Note 1. Nature Of Activities And Significant Accounting Policies

Nature of activities: Galapagos Conservancy (the Conservancy) is a not-for-profit organization incorporated under the laws of Delaware. The objectives of the Conservancy are to promote science, conservation and environmental education in the Galapagos Islands and other island ecosystems.

A summary of the significant accounting policies of the Conservancy follows:

Basis of accounting: The financial statements are prepared on the accrual basis of accounting, whereby, revenue is recognized when earned and expenses are recognized when incurred.

Basis of presentation: The Conservancy follows the Not-for-Profit Topic of the FASB Accounting Standards Codification (the Codification). Under this topic, the Conservancy is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Cash and cash equivalents: For the purpose of reporting cash flows, the Conservancy considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

Financial risk: The Conservancy maintains its cash balances in bank deposit accounts which, at times, may exceed federally insured limits. The Conservancy has not experienced any losses in such accounts. The Conservancy believes it is not exposed to any significant credit risk on cash.

The Conservancy invests in shares of equity mutual funds (Note 2). Such investments are exposed to various risks, such as market and credit. Due to the level of risk associated with such investments and the level of uncertainty related to changes in the value of such investments, it is at least reasonably possible that changes in risks in the near term would materially affect investment balances and the amounts reported in the financial statements.

Inventory: Inventory is available for sale to members and the general public and is recorded at the lower of cost using first-in, first-out basis, or market.

Investments: Investments with readily determinable values are recorded at fair value. Unrealized gains and losses are reported in the statement of activities as part of investment income.

Property and equipment: Property and equipment purchases are recorded at cost and, if donated at fair value, depreciation is computed on the straight-line basis over their estimated useful lives. All property and equipment purchases with an estimated useful life over one year and cost greater than \$500 are capitalized.

Restricted and unrestricted revenue: Contributions received are recorded as unrestricted, temporarily restricted or permanently restricted revenue, depending on the existence and/or nature of any donor restrictions.

All donor-restricted revenue is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose of restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Unconditional promises to give are measured at fair value and reported as increases in net assets. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

Galapagos Conservancy

Notes To Financial Statements

Note 1. Nature Of Activities And Significant Accounting Policies (Continued)

Functional allocation of expenses: The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Costs which could be directly identified with a specific program were charged to that program, but items for general use or not directly identifiable were allocated to each program based on direct labor hours.

Income taxes: The Conservancy is exempt from income taxes on income derived from any sources related to its exempt purposes under Section 501(c)(3) of the Internal Revenue Code (IRC). Income which is not related to exempt purposes, less applicable deductions, is subject to federal and state corporate income taxes. The Conservancy had no unrelated business income for the year ended March 31, 2013. In addition, the Conservancy has been determined by the Internal Revenue Service not to be a private foundation as defined in IRC Section 509(a)(2).

The accounting standard on accounting for uncertainty in income taxes, which addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under this guidance, the Conservancy may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. The guidance on accounting for uncertainty in income taxes also addresses de-recognition, classification, interest and penalties on income taxes, and accounting in interim periods.

Management evaluated the Conservancy's tax positions and concluded that the Conservancy had taken no uncertain tax positions that require adjustment to the financial statements to comply with the provisions of this guidance. With few exceptions, the Conservancy is no longer subject to income tax examinations by the U.S. federal, state or local tax authorities for years before 2010.

Use of estimates: The preparation of the financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Subsequent events: The Conservancy evaluated subsequent events through May 29, 2013, which is the date the financial statements were available to be issued.

Note 2. Investments

Investments consist of the following at March 31, 2013:

Mutual funds	\$ 3,773,554
Bonds	460,563
Money market	282,030
	<hr/>
	\$ 4,516,147

Investment income consists of the following for the year ended March 31, 2013:

Interest	\$ 160,317
Unrealized gain on investments	187,322
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	\$ 347,639

Galapagos Conservancy

Notes To Financial Statements

Note 3. Line Of Credit

The Galapagos Conservancy has a \$200,000 line of credit that expires on October 5, 2013. The line of credit accrues interest at the bank's prime lending rate of 5.25% and is secured by all assets of the Conservancy. The bank also requires the Conservancy to comply with certain administrative covenants. There was no outstanding balance on the line at March 31, 2013.

Note 4. Temporarily Restricted Net Assets

Temporarily restricted net assets as of March 31, 2013, are available for the following purposes or periods.

Program	March 31, 2012	Restricted Contributions	Restriction Accomplished	March 31, 2013
Library Fund	\$ -	\$ 100,000	\$ -	\$ 100,000
Celebrity Expeditions	103,719	48,137	72,077	79,779
Education	19,380	101,500	71,015	49,865
Lonesome George	-	31,000	9,000	22,000
Web Cams	-	20,000	-	20,000
Botany	-	10,000	-	10,000
Knowledge Management – Tinker	7,098	1,000	-	8,098
Tortoise Workshop/Restoration	5,000	3,397	5,000	3,397
Galapagos Travel	2,375	2,150	2,475	2,050
Operation	-	108,350	107,000	1,350
Marine – Offfield	-	250,000	250,000	-
Peter Kramer	-	5,000	5,000	-
	<u>\$ 137,572</u>	<u>\$ 680,534</u>	<u>\$ 521,567</u>	<u>\$ 296,539</u>

Note 5. Permanently Restricted Net Assets

Permanently restricted net assets are restricted to investments in perpetuity, the income from which is expendable to support various scientific researches of the Galapagos Islands:

	March 31, 2012	Contributions	March 31, 2013
General Endowment	\$ 1,583,535	\$ -	\$ 1,583,535
USAID Endowment	500,000	-	500,000
Marine Endowment	319,653	38,625	358,278
Darwin Scholars Endowment	30,000	-	30,000
	<u>\$ 2,433,188</u>	<u>\$ 38,625</u>	<u>\$ 2,471,813</u>

Galapagos Conservancy

Notes To Financial Statements

Note 5. Permanently Restricted Net Assets (Continued)

Endowment Activity for the year ended March 31, 2013, consists of the following:

	Temporarily Restricted	Permanently Restricted
Endowment net assets, beginning of year	\$ -	\$ 2,433,188
Contributions	-	38,625
Investment income:		
Net realized and unrealized gains	106,601	-
Interest and dividends	91,233	-
Appropriated for expenditure	(197,834)	-
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ 2,471,813</u>

In August 2008, the Codification on *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Fund* was issued. The Codification addresses accounting issues related to guidelines in the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA), which was adopted by the National Conferences of Commissioners on Uniform State Laws in July 2006 and enacted in the Commonwealth of Virginia on July 1, 2008. The Management of the Conservancy has interpreted UPMIFA as requiring the preservation of the fair value of original donor-restricted endowment gifts as of the date of the gift absent explicit donor stipulations to the contrary. As a result of this interpretation, the Conservancy classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of donor-restricted endowment funds not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Conservancy in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Conservancy considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund
- The purposes of the Conservancy endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Investment policies

Return objective and risk parameters: The Conservancy's objective is to earn a respectable, long-term, risk-adjusted total rate of return to support their programs. The Conservancy is primarily invested in publicly traded mutual funds, equities, and corporate bonds.

Spending policies: The earnings from these endowments are available in support of programs of the Conservancy. The Board of Directors appropriates the entire balance of the annual earnings to be available for grants in support of the Conservancy's mission.

Galapagos Conservancy

Notes To Financial Statements

Note 6. Lease Commitments

The Conservancy has entered into a lease agreement for office space expiring May 2013. The base rental has a 3% escalation charge per year. Rent expense for the year ended March 31, 2013, was \$56,798.

On February 2013, the Conservancy entered into a lease renewal agreement to extend the lease term through June 2018. The lease does not require the payment of any rentals during the first month of the lease, and beginning the second year thereafter the rental payments increase 3% per year through the end of the lease term.

Future minimum lease payments at March 31, 2013, are as follows:

Years Ending March 31,	
2014	\$ 46,053
2015	56,110
2016	57,793
2017	59,527
2018	61,313
2019	15,441
	<u>\$ 296,237</u>

Note 7. Retirement Plan

The Conservancy has a simple IRA plan covering all employees' on their date of hire. Employees can make salary deferrals up to limits specified in the plan. The Conservancy contributes 2% of each employee's salary. Employer contributions to the plan for the year ended March 31, 2013, were \$3,368.

Note 8. Fair Value Measurements

The Fair Value Measurements and Disclosures Topic of the FASB Accounting Standards Codification establishes a fair value hierarchy that is based on the valuation inputs used in the fair value measurements. The topic requires that assets and liabilities carried at fair value will be classified and disclosed in one of the following three categories:

Level 1 – Quoted market prices in active markets for identical assets or liabilities.

Level 2 – Observable market based inputs or unobservable inputs that are corroborated by market data.

Level 3 – Unobservable inputs that are not corroborated by market data.

In determining the appropriate levels, the Conservancy performs a detailed analysis of the assets that are subject to fair value measurements. At each reporting period, all assets for which the fair value measurement is based on significant unobservable inputs are classified as Level 3. There were no Level 3 inputs for any assets held by the Conservancy at March 31, 2013.

Galapagos Conservancy

Notes To Financial Statements

Note 8. Fair Value Measurements (Continued)

The table below presents the balances of assets measured at fair value on a recurring basis by level within the hierarchy:

	Total	Level 1	Level 2	Level 3
Mutual funds:				
Large Growth	\$ 450,848	\$ 450,848	\$ -	\$ -
Large Value	444,191	444,191	-	-
Diversified Emerging Mkts	289,491	289,491	-	-
Real Estate	287,577	287,577	-	-
Foreign Large Blend	204,923	204,923	-	-
World Bond	202,494	202,494	-	-
Large Blend	197,100	197,100	-	-
High Yield Bond	184,929	184,929	-	-
Mid-Cap Blend	170,470	170,470	-	-
Commodities Broad Basket	148,626	148,626	-	-
Mid-Cap Growth	136,850	136,850	-	-
Intermediate-Term Bond	136,841	136,841	-	-
Foreign Large Value	117,603	117,603	-	-
Global Real Estate	116,240	116,240	-	-
Small Growth	114,719	114,719	-	-
Small Blend	109,384	109,384	-	-
Emerging Markets Bond	86,471	86,471	-	-
Foreign Small/Mid Value	83,694	83,694	-	-
Short-Term Bond	80,539	80,539	-	-
Multisector Bond	70,456	70,456	-	-
Long Government	39,930	39,930	-	-
Diversified Emerging Market	25,748	25,748	-	-
Ultrashort Bond	24,029	24,029	-	-
Long-Term Bond	22,421	22,421	-	-
Europe Stock	15,427	15,427	-	-
Mid-Cap Value	12,553	12,553	-	-
Bonds:				
Corporate Obligations (a)	299,824	-	299,824	-
Government Obligations	135,307	-	135,307	-
Mortgage Backed Securities	25,432	-	25,432	-
	<u>\$ 4,234,117</u>	<u>\$ 3,773,554</u>	<u>\$ 460,563</u>	<u>\$ -</u>

(a) Based on its analysis of the nature and risk of these investments, the Conservancy has determined that presenting them as a single class is appropriate.

Equity securities, exchange traded funds and index tracking stock are classified as Level 1 instruments as they are actively traded on public exchanges.

Corporate bonds, government obligations and mortgage backed securities are classified as Level 2 instruments because there are quoted market prices for similar, but not identical, assets in active markets.

Galapagos Conservancy

Notes To Financial Statements

Note 8. Fair Value Measurements (Continued)

The table below reconciles total investments.

Total investments at fair value	\$ 4,234,117
Investments at cost – money market	<u>282,030</u>
	<u><u>\$ 4,516,147</u></u>