GALAPAGOS CONSERVANCY, INC.

FINANCIAL STATEMENTS

MARCH 31, 2016

CALIBRE
CPA GROUP
Bethesda, MD

GALAPAGOS CONSERVANCY, INC.

FINANCIAL STATEMENTS

YEAR ENDED MARCH 31, 2016

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REPORT OF INDEPENDENT AUDITORS

Board of Directors
Galapagos Conservancy, Inc.

We have audited the accompanying financial statements of Galapagos Conservancy, Inc., which comprise the statement of financial position as of March 31, 2016, 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.

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Galapagos Conservancy, Inc. as of March 31, 2016, 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.

Calibre CPA Group, PLLC

Bethesda, MD
August 12, 2016

Galapagos Conservancy

Statement of Financial Position

March 31, 2016

Assets	
Current assets	
Cash and cash equivalents	$ 755,039
Grants receivable	230,000
Prepaid expenses	19,253
Inventory	5,766
Total current assets	1,010,058
Net property and equipment	26,699
Investments	4,860,896
Total assets	$ 5,897,653
Liabilities and Net Assets	
Liabilities	
Accounts payable and accrued expenses	$ 64,432
Grants payable	639,729
Deferred lease incentives	7,235
Total liabilities	711,396
Net assets	
Unrestricted	63,350
Temporarily restricted	2,628,344
Permanently restricted	2,494,563
Total net assets	5,186,257
Total liabilities and net assets	$ 5,897,653

See accompanying notes to financial statements.

Galapagos Conservancy

Statement of Activities

Year Ended March 31, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue				
Contributions	$ 2,128,839	$ 905,537	$ 20,100	$ 3,054,476
Investment income (loss)	(35,223)	(137,790)	-	(173,013)
Sales	16,104	-	-	16,104
Net assets released from restriction	512,196	(512,196)	-	-
Total revenue	2,621,916	255,551	20,100	2,897,567
Expenses				
Program services				
Environmental programs				
Ecosystem restoration	712,427	-	-	712,427
Sustainable society	779,337	-	-	779,337
Strategic partnerships	1,300,057	-	-	1,300,057
Outreach	176,357	-	-	176,357
Total program services	2,968,178	-	-	2,968,178
Supporting services				
Management and general	262,982	-	-	262,982
Fundraising	411,127	-	-	411,127
Total expenses	3,642,287	-	-	3,642,287
Change in net assets	(1,020,371)	255,551	20,100	(744,720)
Net assets				
Beginning of year, restated	1,083,721	2,372,793	2,474,463	5,930,977
End of year	$ 63,350	$ 2,628,344	$ 2,494,563	$ 5,186,257

See accompanying notes to financial statements.

Galapagos Conservancy

Statement of Functional Expenses

Year Ended March 31, 2016

	Program Services							
	Environmental Programs					Supporting Services		
	Ecosystem Restoration	Sustainable Society	Strategic Partnerships	Outreach	Total Programs	Management and General	Fundraising	Total
Grants	$ 580,886	$ 643,201	$ 1,072,961	$ -	$ 2,297,048	$ -	$ -	$ 2,297,048
Salaries, benefits and payroll taxes	71,222	78,863	131,556	-	281,641	143,815	95,011	520,467
Accounting fees	9,342	10,345	17,256	-	36,943	18,865	12,463	68,271
Consulting fees	-		-	12,000	12,000	-	84,000	96,000
Copywriting charges	4,997	5,533	9,230	-	19,760	-	4,940	24,700
Cost of goods sold	2,333	2,583	4,309	-	9,225	-	-	9,225
Depreciation expense	2,118	2,345	3,913	-	8,376	4,276	2,826	15,478
Insurance expense	566	626	1,045	-	2,237	1,142	755	4,134
Legal fees	4,116	4,557	7,602	-	16,275	8,311	5,490	30,076
List rental	-	-	-	-	-	-	7,596	7,596
Mail house	-	-	-	23,344	23,344	-	39,581	62,925
Member email program	-	-	-	17,270	17,270	-	-	17,270
Occupancy	9,178	10,162	16,952	-	36,292	18,532	12,243	67,067
Office expenses	19,337	11,896	19,843	-	51,076	25,641	14,332	91,049
Other professional fees	6,652	7,366	12,287	15,230	41,535	32,662	24,214	98,411
Permits, fees and licenses	1,680	1,860	3,103	-	6,643	3,392	2,242	12,277
Postage and shipping	-	-	-	36,326	36,326	222	45,941	82,489
Premiums on member development	-	-	-	-	-	-	6,029	6,029
Printing and design	-	-	-	53,419	53,419	-	49,255	102,674
Telemarketing	-	-	-	-	-	-	4,209	4,209
Travel and meetings	-	-	-	13,482	13,482	6,124	-	19,606
Web expense	-	-	-	5,286	5,286	-	-	5,286
Total expenses	$ 712,427	$ 779,337	$ 1,300,057	$ 176,357	$ 2,968,178	$ 262,982	$ 411,127	$ 3,642,287

See accompanying notes to financial statements.

Galapagos Conservancy

Statement of Cash Flows

Year Ended March 31, 2016

Cash flows from operating activities	
Contributions received	$ 2,753,598
Investment income received	80,335
Sales revenue received	16,104
Grants disbursed	(1,697,319)
Payment to vendors, suppliers and employees	(1,169,779)
Net cash used for operating activities	(17,061)
Cash flows from investing activities	
Purchases of equipment	(13,000)
Purchases of investments	(987,419)
Proceeds from sales of investments	1,065,138
Net cash provided by investing activities	64,719
Cash flows from financing activities	
Endowment contributions received	20,100
Net change in cash	67,758
Cash	
Beginning of year	687,281
End of year	$ 755,039
Reconciliation of change in net assets to net cash used for operating activities	
Change in net assets	$ (744,720)
Adjustments to reconcile change in net assets to net cash used for operating activities	
Depreciation expense	15,478
Endowment contributions received	(20,100)
Net depreciation in fair value of investments	253,348
Changes in assets and liabilities	
Grants receivable	(174,328)
Prepaid expenses	125,599
Inventory	289
Accounts payable and accrued expenses	26,859
Grants payable	599,729
Deferred lease incentives	(99,215)
Net cash used for operating activities	$ (17,061)

See accompanying notes to financial statements.

NOTE 1. ORGANIZATION

Galapagos Conservancy, Inc. (the Conservancy) is a not-for-profit organization originally incorporated as Darwin Scientific Foundation, Inc. under the laws of Delaware, in 1985. Shortly thereafter, the name was changed to the Charles Darwin Foundation. In 2005, the name was changed to Galapagos Conservancy, Inc. The objectives of the Conservancy are to promote science, conservation and environmental education in the Galapagos Islands and other island ecosystems. The Conservancy is a tax exempt organization under the Internal Revenue Code section 501(c)(3). The Conservancy's major sources of income are donor contributions and investment income.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting - The financial statements are prepared on the accrual basis of accounting, in accordance with U.S generally accepted accounting principles, whereby revenue is recognized when earned and expenses are recognized when incurred.

Financial Statement Presentation - The Conservancy's financial statements have been prepared in accordance with guidance which requires that the financial statements of a not-for-profit organization report the amounts for each of three distinct classes of net assets and changes therein - unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets - based on the existence or absence of donor imposed restrictions.

Net Asset Classification - The net assets are reported as follows:

Unrestricted Net Assets - Unrestricted net assets are not subject to donor-imposed stipulations. These net assets are available for the overall operations of the Conservancy, and certain amounts have been designated for use by the Board of Directors.

Temporarily Restricted Net Assets - Net assets subject to donor-imposed stipulations that will be met either by actions of the Conservancy and/or the passage of time.

Permanently Restricted Net Assets - The Conservancy reports contributions which require that the amounts be maintained in perpetuity as permanently restricted.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Use of Estimates - The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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, except for those securities held in the Conservancy's investment portfolio.

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

Investments - Investments are reported at fair value. Unrealized gains and losses are reported in the statement of activities as part of investment income.

The Conservancy invests in shares of equity mutual funds. 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.

The Conservancy has adopted the provisions of the Fair Value Measurements and Disclosure Topic of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) as its valuation methodology. Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability. A hierarchy exists to help maximize the use of observable inputs when measuring fair value. Fair value measurements are then classified by how observable or unobservable the inputs are that are used to determined fair value. The three levels of the fair value hierarchy used to determine the fair value of the Conservancy's investments are:

Level 1 - Inputs to the valuation methodology are quoted prices available in actively traded markets for identical investments as of the reporting date.

Level 2 - Inputs to valuation methodology are quoted prices outside of the active markets, which are either directly or indirectly observable as of the reporting date, and fair value can be determined through the use of models or other valuation methodologies.

Level 3 - Inputs to the valuation methodology are unobservable inputs in situations where there is little or no market activity for the asset or liability and the reporting entity makes estimates or assumptions related to the pricing of the asset or liability including assumptions regarding risk.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The following is a description of the Conservancy's valuation methodologies used for instruments measured at fair value, including the general classification of such instruments pursuant to the valuation hierarchy:

Mutual funds - These investments are valued at the closing price reported on the New York Stock Exchange Composite Listing or other active market on which these securities are traded. These securities are classified within Level 1 of the valuation hierarchy.

Corporate bonds, government obligations and mortgage backed securities - These are classified as Level 2 instruments because there are quoted market prices for similar, but not identical, assets in active markets. These are valued using a market approach using interest rate and maturity period.

Property and Equipment - Property and equipment purchases are recorded at cost if purchased and at fair value if donated; depreciation is computed on the straight-line basis over their estimated useful lives ranging from three to seven years. All property and equipment purchases with an estimated useful life over one year and cost greater than $500 are capitalized. Depreciation expense for the year ended March 31, 2016 was $15,478.

Deferred Revenue - Deferred revenue consists of deferred cruise payments that will be recognized when the cruise occurs.

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, including endowment investment income, 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 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.

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. Expenses which could be directly identified with a specific program were charged to that program, but expenses for general use or not directly identifiable were allocated to each program based on direct labor hours.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Taxes - The Conservancy is generally exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. In addition, the Conservancy qualifies for charitable contribution deductions and has been classified as an organization that is not a private foundation. Business income, which is not related to exempt purposes, less applicable deductions, is subject to federal and state corporate income taxes.

The Conservancy accounts for income taxes in accordance with the Accounting Standards Codification (ASC) Topic *Income Taxes*. These provisions provide consistent guidance for the accounting for uncertainty in income taxes recognized in an entity's financial statements and prescribe a threshold of "more likely than not" for recognition and derecognition of tax positions taken or expected to be taken in a tax return. The Conservancy performed an evaluation of uncertain tax positions for the year ended March 31, 2016, and determined that there were no matters that would require recognition in the financial statements or that may have an effect on its tax-exempt status. As of March 31, 2016, the statute of limitations for tax years 2012 through 2014 remains open with the U.S. Federal jurisdiction and the various states and local jurisdictions in which the Conservancy files returns. It is the Conservancy's policy to recognize interest and/or penalties related to uncertain tax positions, if any, in unrelated business income tax expense.

NOTE 3. GRANTS RECEIVABLE

As of March 31, 2016, grants receivable is comprised of amounts due to the Conservancy within one year or less. The Conservancy had grants receivable in the amount of $230,000 as of March 31, 2016. No allowance for uncollectible accounts has been recorded since management expects these to be collected in full.

NOTE 4. CONCENTRATION OF CASH

The Conservancy places its cash and cash equivalents on deposit with financial institutions in the United States. The Federal Deposit Insurance Corporation covers $250,000 for substantially all depository accounts. The Conservancy from time to time may have amounts on deposit in excess of insured limits. As of March 31, 2016, the Conservancy had $170,743, which exceeded these amounts.

NOTE 5. INVESTMENTS

Investments consist of the following as of March 31, 2016:

Cash and cash equivalents	$ 316,948
Fixed income securities	894,512
Equity securities	2,990,571
Real estate funds	658,865
	$ 4,860,896

The following table sets forth by level, within the fair value hierarchy, the Conservancy's investments at fair value as of March 31, 2016:

	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	$ 316,948	$ -	$ -	$ 316,948
Fixed income securities				
U.S. Government obligations	-	222,385	-	435,042
Corporate obligations	-	206,142	-	206,142
Domestic mutual funds	312,608	-	-	99,951
International mutual funds	153,377	-	-	153,377
Equity securities				
Domestic mutual funds	1,808,266	-	-	1,808,266
International mutual funds	1,182,305	-	-	1,182,305
Other				
Real estate mutual funds	658,865	-	-	658,865
	$ 4,432,369	$ 428,527	$ -	$ 4,860,896

Investment income consists of the following for the year ended March 31, 2016:

Interest	$ 80,335
Unrealized losses	(111,557)
Realized losses	(141,791)
	$ (173,013)

NOTE 6. LINE OF CREDIT

The Galapagos Conservancy has a $200,000 line of credit that expires on September 19, 2016. The line of credit accrues interest at the bank's prime lending rate of 4.25% 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, 2016.

NOTE 7. TEMPORARILY RESTRICTED NET ASSETS

Activity in temporarily restricted net assets during the year ended March 31, 2016, was as follows:

	(Restated) Balances Beginning of Year	Restricted Contributions or Endowment Earnings (Loss)	Net Assets Released from Restriction	Balances End of Year
Marine	$ -	$ 1,350	$ (1,350)	$ -
Spay & Neuter	-	1,500	(1,500)	-
Tortoise	(3,397)	101,741	(98,344)	-
CDF Operations	-	500	(500)	-
Education	9,468	166,800	(24,306)	151,962
Education-Tinker Foundation	-	300,000	(4,050)	295,950
Education-National Geographic	-	125,000	(125,000)	-
Celebrity Expeditions	103,261	93,646	(110,420)	86,487
Web Cams	1,726	-	(1,726)	-
Library Endowment	301,250	115,000	-	416,250
Ed Bass	300,000	-	(100,000)	200,000
Unexpended endowment earnings	1,660,485	(137,790)	(45,000)	1,477,695
	$ 2,372,793	$ 767,747	$ (512,196)	$ 2,628,344

NOTE 8. ENDOWMENT FUNDS

The Conservancy's endowment consists of four individual funds established for a variety of purposes, the income from which is expendable to support various scientific researches of the Galapagos Islands. As required by generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions. All contributions to donor-restricted endowments are reported as increases in permanently restricted net assets. All earnings on the underlying investments are reported as increases in temporarily restricted net assets until appropriated for expenditure by the Conservancy.

NOTE 8. PERMANENTLY RESTRICTED NET ASSETS (CONTINUED)

Interpretation of relevant law - The Uniform Prudent Management of Institutional Fund Act (UPMIFA) was adopted by the Commonwealth of Virginia in 2008. Management of the Conservancy interprets 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 durations 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 its 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 approves an annual appropriation to fund grants in support of the Conservancy's mission in amounts aimed to preserve the endowment corpus.

Endowment fund net assets by fund type and net asset class as of March 31, 2016 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
General Endowment	$ -	$ 809,036	$ 1,583,535	$ 2,392,571
USAID Endowment	-	500,105	500,000	1,000,105
Marine Endowment	-	96,386	381,028	477,414
Darwin Scholars Endowment	-	72,168	30,000	102,168
	$ -	$ 1,477,695	$ 2,494,563	$ 3,972,258

NOTE 8. PERMANENTLY RESTRICTED NET ASSETS (CONTINUED)

Changes in endowment fund net assets for the year ended March 31, 2016 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Beginning of year, restated	$ -	$ 1,660,485	$ 2,474,463	$ 4,134,948
Contributions	-	-	20,100	20,100
Investment earnings (loss)	-	(137,790)	-	(137,790)
Appropriations	-	(45,000)	-	(45,000)
End of year	$ -	$ 1,477,695	$ 2,494,563	$ 3,972,258

NOTE 9. LEASE COMMITMENTS

The Conservancy leases its office space under a noncancelable agreement that expires 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. Rent expense for the year ended March 31, 2016, was $67,067.

Future minimum lease payments at March 31, 2016, are due as follows:

Years ending March 31,	2017	$ 59,527
	2018	61,313
	2019	15,441

NOTE 10. RETIREMENT PLAN

The Conservancy has a simple Individual Retirement Account plan covering all employees beginning on their date of hire. Employees can make salary deferrals up to limits specified in the plan. The Conservancy contributes an amount equal to 2% of each employee's eligible compensation. Employer contributions to the plan for the year ended March 31, 2016, were $7,056.

NOTE 11. RESTATEMENT OF PREVIOUSLY REPORTED AMOUNTS

During the year ended March 31, 2016, management determined that previous financial statements did not report unexpended earnings on endowment fund investments as temporarily restricted net assets. Rather, such amounts were included with unrestricted net assets. As a result, amounts previously reported as of March 31, 2015, have been restated as follows: unrestricted net assets were reduced by $1,477,695, and temporarily restricted net assets were increased by the same amount.

NOTE 12. SUBSEQUENT EVENTS REVIEW

Subsequent events have been evaluated through August 12, 2016, which is the date the financial statements were available to be issued. This review and evaluation revealed no new material event or transaction which would require an additional adjustment to, or disclosure in, the accompanying financial statements.