Galapagos Conservancy

Financial Report
December 31, 2008

McGladrey & Pullen
Certified Public Accountants

Contents

McGladrey & Pullen
Certified Public Accountants

Independent Auditor's Report

To the Board of Directors
Galapagos Conservancy
Fairfax, Virginia

We have audited the accompanying balance sheet of Galapagos Conservancy (the Conservancy) 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 Conservancy's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year's summarized comparative information has been derived from the 2007 financial statements. The financial statements of the Conservancy for the year ended December 31, 2007, were audited by other auditors whose report, dated April 14, 2008, expressed an unqualified opinion on those statements.

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 2008 financial statements referred to above present fairly, in all material respects, the financial position of the Conservancy 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.

McGladrey & Pullen, LLP

Vienna, Virginia
February 20, 2009

Galapagos Conservancy

Balance Sheet
December 31, 2008
(With Comparative Totals For 2007)

Assets		**2008**		2007
Current Assets				
Cash and cash equivalents	$	**1,398,042**	$	886,829
Prepaid expenses		**44,876**		24,034
Inventory		**2,028**		6,318
Total current assets		**1,444,946**		917,181
Investments		**2,174,015**		5,456,037
Property And Equipment				
Furniture		**2,266**		1,575
Equipment and software		**92,158**		83,829
		94,424		85,404
Less accumulated depreciation		**(82,853)**		(76,750)
		11,571		8,654
	$	**3,630,532**	$	6,381,872

Liabilities And Net Assets				
Current Liabilities				
Accounts payable and accrued expenses	$	**28,397**	$	37,436
Total current liabilities		**28,397**		37,436
Commitments				
Net Assets				
Unrestricted		**1,001,309**		2,667,031
Temporarily restricted		**171,438**		1,268,228
Permanently restricted		**2,429,388**		2,409,177
		3,602,135		6,344,436
	$	**3,630,532**	$	6,381,872

See Notes To Financial Statements.

Galapagos Conservancy

Statement Of Activities
Year Ended December 31, 2008
(With Comparative Totals For 2007)

	2008				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	2007 Total
Revenue and support:					
Contributions	$ 1,667,208	$ 608,054	$ 20,211	$ 2,295,473	$ 2,818,745
Investment income (loss)	(1,597,532)	-	-	(1,597,532)	616,593
Sales	18,974	-	-	18,974	11,273
Net assets released from restrictions	1,704,844	(1,704,844)	-	-	-
Total revenue and support	1,793,494	(1,096,790)	20,211	716,915	3,446,611
Expenses:					
Program services:					
Restoring Native Ecosystems	981,986	-	-	981,986	25,850
Local Capacity Building	539,045	-	-	539,045	184,714
Core Funding CDF	325,460	-	-	325,460	772,006
Allocated program costs	314,317	-	-	314,317	283,809
Public Policy	305,000	-	-	305,000	53,125
Galapagos National Park	194,871	-	-	194,871	130,000
Key Species	85,749	-	-	85,749	472,303
Marine Policy	81,214	-	-	81,214	61,059
Cost of goods sold	8,580	-	-	8,580	8,279
	2,836,222	-	-	2,836,222	1,991,145
Support services:					
Management and general	217,879	-	-	217,879	245,969
Membership development and fundraising	405,115	-	-	405,115	417,985
Total expenses	3,459,216	-	-	3,459,216	2,655,099
Change in net assets	(1,665,722)	(1,096,790)	20,211	(2,742,301)	791,512
Net assets:					
Beginning	2,667,031	1,268,228	2,409,177	6,344,436	5,552,924
Ending	$ 1,001,309	$ 171,438	$ 2,429,388	$ 3,602,135	$ 6,344,436

See Notes To Financial Statements.

Galapagos Conservancy

Statement Of Functional Expenses
Year Ended December 31, 2008
(With Comparative Totals For 2007)

	2008						
	Program Services			Support Services			
	Environmental Programs	Outreach Programs	Total Program Services	Management And General	Membership Development And Fundraising	Total	2007 Total
Grants	$ 2,544,089	$ -	$ 2,544,089	$ -	$ -	$ 2,544,089	$ 1,698,957
Salaries, benefits and taxes	134,141	-	134,141	119,746	73,287	327,174	375,186
Consultants	18,720	-	18,720	16,711	92,738	128,169	136,034
Printing	439	26,967	27,406	392	68,799	96,597	84,611
Mail house	-	3,422	3,422	-	64,080	67,502	52,543
Postage and shipping	2,317	7,831	10,148	2,069	51,706	63,923	51,937
Professional fees	22,199	-	22,199	19,817	12,129	54,145	50,632
Rent	18,907	-	18,907	16,878	10,330	46,115	72,090
Investment and management fees	11,960	-	11,960	10,676	6,534	29,170	36,106
Miscellaneous	7,496	155	7,651	6,692	4,096	18,439	7,976
Computer and website expense	7,387	-	7,387	6,595	4,036	18,018	6,784
Bank and caging fees	4,994	-	4,994	4,458	2,728	12,180	11,941
Permits	4,932	-	4,932	4,402	2,734	12,068	5,822
Cost of goods sold	-	8,580	8,580	-	-	8,580	4,438
Office supplies	2,486	-	2,486	2,219	1,358	6,063	4,226
Depreciation	2,482	-	2,482	2,216	1,356	6,054	4,709
Travel	2,132	807	2,939	1,635	1,388	5,962	11,225
Premiums	-	-	-	-	5,751	5,751	9,689
Telephone	1,900	-	1,900	1,696	1,038	4,634	6,285
Payroll fees	988	-	988	882	540	2,410	2,485
Insurance	848	-	848	757	463	2,068	1,925
Foreign item adjustment	43	-	43	38	24	105	835
Training	-	-	-	-	-	-	4,504
Telemarketing	-	-	-	-	-	-	14,159
	$ 2,788,460	$ 47,762	$ 2,836,222	$ 217,879	$ 405,115	$ 3,459,216	$ 2,655,099

See Notes To Financial Statements.

Galapagos Conservancy

Statement Of Cash Flows
Year Ended December 31, 2008
(With Comparative Totals For 2007)

	2008	2007
Cash Flows from Operating Activities		
Change in net assets	$ (2,742,301)	$ 791,512
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	6,054	4,709
Realized and unrealized (gain)/loss on investments	1,721,870	(454,396)
Contributions received for permanent emdowment	(20,211)	-
Changes in assets and liabilities:		
(Increase) decrease in:		
Prepaid expenses	(20,842)	(983)
Inventory	4,290	17
Increase (decrease) in:		
Accounts payable and accrued expenses	(9,039)	13,650
Net cash provided by operating activities	(1,060,179)	354,509
Cash Flows from Investing Activities		
Proceeds from sale of investments	1,881,530	2,815,577
Purchase of property and equipment	(8,971)	(2,146)
Purchases of investments	(321,378)	(2,763,865)
Net cash provided by (used in) investing activities	1,551,181	49,566
Cash Flows from Financing Activities		
Contributions received for permanent endowment	20,211	-
Net increase in cash and cash equivalents	511,213	404,075
Cash and Cash Equivalents		
Beginning	886,829	482,754
Ending	$ 1,398,042	$ 886,829

See 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 financial statement presentation follows the recommendation of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations*. Under SFAS No. 117, 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. 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.

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

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.

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 at December 31, 2008. 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).

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.

Prior period information: The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Conservancy's financial statements for the year ended December 31, 2007, from which the summarized information was derived.

Recent and upcoming accounting pronouncements: In June 2006, the Financial Accounting Standards Board (FASB) issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (FIN 48). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with Statement No. 109, *Accounting for Income Taxes*. FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition of tax benefits, classification on the balance sheet, interest and penalties, accounting in interim periods, disclosures and transition.

In December 2008, the FASB provided for a deferral of the effective date of FIN 48 for certain nonpublic enterprises to annual financial statements for fiscal years beginning after December 15, 2008. The Foundation has elected this deferral and accordingly will be required to adopt FIN 48 in its 2009 annual financial statements. Prior to adoption of FIN 48, the Association will continue to evaluate its uncertain tax positions and related tax positions and related income tax contingencies under Statement No. 5, *Accounting for Contingencies*. SFAS No. 5 requires the Foundation to accrue for losses it believes are probably and can be reasonably estimated. Management is currently assessing the impact of FIN 48 on its balance sheet and statement of activities and has not yet determined if the adoption of FIN 48 will have a material effect on its financial statements.

Note 2. Investments

Investments consist of the following at December 31, 2008:

Equity mutual funds	$	1,420,586
U.S. Treasury notes		753,429
	$	2,174,015

Investment income for the year ended December 31, 2008, consists of:

Interest	$	124,338
Unrealized gain (loss) on investments		(1,721,870)
	$	(1,597,532)

Note 3. Temporarily Restricted Net Assets

Temporarily restricted net assets as of December 31, 2008, are available for the following purposes or periods.

Program	December 31, 2007	Restricted Contributions	Restriction Accomplished	**December 31, 2008**
Marine Reserve Endowment	$ 125,694	$ -	$ (125,694)	$ -
Isabela/Panaphil	-	100,000	-	**100,000**
Celebrity Expeditions	155,117	102,115	(214,084)	**43,148**
Spay and Neuter	11,000	22,000	(11,000)	**22,000**
Marine	14,199	40,865	(55,064)	-
Darwin Scholars Fund	7,194	-	(7,194)	-
Galapagos Travel	-	12,290	(7,050)	**5,240**
Governance	27,064	-	(27,064)	-
Botany	1,000	18,000	(18,000)	**1,000**
Education and Oil Spill	50	-	-	**50**
Invasive Species	762,648	-	(762,648)	-
Frankfurt Zoological Society	30,223	-	(30,223)	-
Protection	122,489	291,442	(413,931)	-
IGTOA Volunteers	-	10,460	(10,460)	-
Global Center	1,525	10,882	(12,407)	-
Marine Federal	10,025	-	(10,025)	-
	$ 1,268,228	$ 608,054	$ (1,704,844)	$ **171,438**

Note 4. Permanently Restricted Net Assets

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

	December 31, 2007	Contributions	**December 31, 2008**
General Endowment	$ 1,583,535	$ -	**$ 1,583,535**
USAID Endowment	500,000	-	**500,000**
Marine Endowment	295,642	20,211	**315,853**
Darwin Scholars Endowment	30,000	-	**30,000**
	$ 2,409,177	$ 20,211	**$ 2,429,388**

Note 5. 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.

Future minimum lease payments at December 31, 2008 are as follows:

Years ending December 31,	
2009	$ 51,368
2010	52,910
2011-2013	134,305
	$ 238,583

Note 6. 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 December 31, 2008, were $4,495.

Note 7. Fair Value Measurement

During the year ended December 31, 2008, the Conservancy adopted Statement of Financial Accounting Standards No. 157, *Fair Value Measurements*. This Statement establishes a single authoritative definition of fair value, sets out a framework for measuring fair value, and requires additional disclosures about fair value measurements. SFAS No. 157 applies to all assets and liabilities that are being measured and reported on a fair value basis. Statement No. 157 requires new disclosure that establishes a framework for measuring fair value in GAAP, and expands disclosure about fair value measurements. This statement enables the reader of the financial statements to assess the inputs used to develop those measurements by establishing a hierarchy for ranking the quality and reliability of the information used to determine fair values. The statement 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.

Note 7. Fair Value Measurement (Continued)

In determining the appropriate levels, the Conservancy performs a detailed analysis of the assets and liabilities that are subject to Statement No. 157. At each reporting period, all assets and liabilities 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 December 31, 2008.

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

	Total	Level 1
Equity Mutual Funds	$ 1,420,586	$ 1,420,586
U.S. Treasury Notes	$ 753,429	$ 753,429