Galapagos Conservancy

Financial Report
December 31, 2009

McGladrey & Pullen
Certified Public Accountants

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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, 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 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 Conservancy's 2008 financial statements, and in our report dated February 20, 2009, we 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 2009 financial statements referred to above present fairly, in all material respects, the financial position of the Conservancy 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.

McGladrey & Pullen, LLP

Vienna, Virginia
March 17, 2010

Galapagos Conservancy

Balance Sheet
December 31, 2009
(With Comparative Totals For 2008)

Assets	**2009**	2008
Current Assets		
Cash and cash equivalents	**$ 1,361,087**	$ 779,831
Prepaid expenses	**9,718**	44,876
Inventory	**9,705**	2,028
Total current assets	**1,380,510**	826,735
Investments	**2,816,290**	2,792,226
Property And Equipment		
Furniture	**2,266**	2,266
Equipment and software	**92,674**	92,158
	94,940	94,424
Less accumulated depreciation	**(88,279)**	(82,853)
	6,661	11,571
	$ 4,203,461	$ 3,630,532

Liabilities And Net Assets		
Current Liabilities		
Accounts payable and accrued expenses	**$ 19,240**	$ 28,397
Total current liabilities	**19,240**	28,397
Commitments		
Net Assets		
Unrestricted	**1,574,478**	1,001,309
Temporarily restricted	**177,055**	171,438
Permanently restricted	**2,432,688**	2,429,388
	4,184,221	3,602,135
	$ 4,203,461	$ 3,630,532

See Notes To Financial Statements.

Galapagos Conservancy

Statement Of Activities
Year Ended December 31, 2009
(With Comparative Totals For 2008)

	2009				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	2008 Total
Revenue and support:					
Contributions	$ 1,636,470	$ 275,586	$ 3,300	$ 1,915,356	$ 2,295,473
Investment income (loss)	835,616	-	-	835,616	(1,597,532)
Sales	15,781	-	-	15,781	18,974
Net assets released from restrictions	269,969	(269,969)	-	-	-
Total revenue and support	2,757,836	5,617	3,300	2,766,753	716,915
Expenses:					
Program services:					
Restoring Native Ecosystems	160,000	-	-	160,000	981,986
Local Capacity Building	21,260	-	-	21,260	539,045
Core Funding CDF	535,940	-	-	535,940	325,460
Allocated program costs	521,700	-	-	521,700	314,317
Public Policy	198,122	-	-	198,122	305,000
Galapagos National Park	135,000	-	-	135,000	194,871
Key Species	90,709	-	-	90,709	85,749
Marine Policy	52,306	-	-	52,306	81,214
Cost of goods sold	4,827	-	-	4,827	8,580
	1,719,864	-	-	1,719,864	2,836,222
Support services:					
Management and general	165,563	-	-	165,563	217,879
Fundraising	299,240	-	-	299,240	405,115
Total expenses	2,184,667	-	-	2,184,667	3,459,216
Change in net assets	573,169	5,617	3,300	582,086	(2,742,301)
Net assets:					
Beginning	1,001,309	171,438	2,429,388	3,602,135	6,344,436
Ending	$ 1,574,478	$ 177,055	$ 2,432,688	$ 4,184,221	$ 3,602,135

See Notes To Financial Statements.

Galapagos Conservancy

Statement Of Functional Expenses
Year Ended December 31, 2009
(With Comparative Totals For 2008)

	2009						
	Program Services			Support Services			
	Environmental Programs	Outreach Programs	Total Program Services	Management And General	Fundraising	Total	2008 Total
Grants	$ 1,323,504	$ -	$ 1,323,504	$ -	$ -	$ 1,323,504	$ 2,544,089
Salaries, benefits and taxes	177,056	-	177,056	85,385	68,506	330,947	327,174
Consultants	62,847	-	62,847	30,307	28,640	121,794	128,169
Printing	670	26,826	27,496	322	49,207	77,025	96,597
Postage and shipping	943	10,233	11,176	455	41,558	53,189	63,923
Rent	27,319	-	27,319	13,174	10,570	51,063	46,115
Professional fees	26,330	-	26,330	12,698	10,188	49,216	54,145
Mail house	-	977	977	-	45,631	46,608	67,502
Telemarketing	-	-	-	-	26,186	26,186	-
Investment and management fees	10,631	-	10,631	5,127	4,113	19,871	29,170
Bank and caging fees	9,616	-	9,616	4,635	3,721	17,972	12,180
Computer and website expense	3,376	6,575	9,951	1,627	1,306	12,884	18,018
Permits	5,316	-	5,316	2,564	2,097	9,977	12,068
Travel	2,378	3,591	5,969	1,147	999	8,115	5,962
Miscellaneous	3,697	-	3,697	1,782	1,430	6,909	18,439
Telephone	2,944	-	2,944	1,419	1,139	5,502	4,634
Depreciation	2,903	-	2,903	1,400	1,123	5,426	6,054
Cost of goods sold	-	4,827	4,827	-	-	4,827	8,580
Premiums	2,560	-	2,560	1,234	990	4,784	5,751
Office supplies	2,198	-	2,198	1,060	850	4,108	6,063
Insurance	1,302	-	1,302	627	504	2,433	2,068
Payroll fees	1,189	-	1,189	573	460	2,222	2,410
Foreign item adjustment	56	-	56	27	22	105	105
	$ 1,666,835	$ 53,029	$ 1,719,864	$ 165,563	$ 299,240	$ 2,184,667	$ 3,459,216

See Notes To Financial Statements.

Galapagos Conservancy

Statement Of Cash Flows
Year Ended December 31, 2009
(With Comparative Totals For 2008)

	2009	2008
Cash Flows from Operating Activities		
Change in net assets	$ 582,086	$ (2,742,301)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	5,426	6,054
Realized and unrealized (gain) loss on investments	(697,897)	1,721,870
Contributions received for permanent endowment	(3,300)	(20,211)
Changes in assets and liabilities:		
(Increase) decrease in:		
Prepaid expenses	35,158	(20,842)
Inventory	(7,677)	4,290
Increase (decrease) in:		
Accounts payable and accrued expenses	(9,157)	(9,039)
Net cash (used in) operating activities	(95,361)	(1,060,179)
Cash Flows from Investing Activities		
Proceeds from sale of investments	1,323,324	1,263,319
Purchase of property and equipment	(516)	(8,971)
Purchases of investments	(649,491)	(321,378)
Net cash provided by investing activities	673,317	932,970
Cash Flows from Financing Activities		
Contributions received for permanent endowment	3,300	20,211
Net increase(decrease) in cash and cash equivalents	581,256	(106,998)
Cash and Cash Equivalents		
Beginning	779,831	886,829
Ending	$ 1,361,087	$ 779,831

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 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. 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.

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 December 31, 2009. 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).

On January 1, 2009, the Conservancy adopted 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 2006.

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.

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, 2008, from which the summarized information was derived.

Reclassifications: Certain items in the December 31, 2008 financial statements have been reclassified to conform to the December 31, 2009 financial statement presentation. These reclassifications had no effect on the previously reported change in net assets.

Subsequent events: The Conservancy evaluated subsequent events for potential required disclosures through March 17, 2010, which is the date the financial statements were available to be issued.

Galapagos Conservancy

Notes To Financial Statements

Note 2. Investments

Investments consist of the following at December 31, 2009:

Equities	$	1,531,291
Corporate bonds		856,030
Limited partnership		428,969
	$	2,816,290

Investment income consists of the following for the year ended December 31, 2009:

Interest	$	137,719
Unrealized gain on investments		697,897
	$	835,616

Note 3. Temporarily Restricted Net Assets

Temporarily restricted net assets as of December 31, 2009, are available for the following purposes or periods.

Program	December 31, 2008	Restricted Contributions	Restriction Accomplished	**December 31, 2009**
Celebrity Expeditions	$ 43,148	$ 51,491	$ -	**$ 94,639**
Isabela/Panaphil	100,000	50,000	(72,709)	**77,291**
Galapagos Travel	5,240	7,095	(7,260)	**5,075**
Education and Oil Spill	50	-	-	**50**
Botany	1,000	107,000	(108,000)	**-**
Vertebrates	-	60,000	(60,000)	**-**
Spay and Neuter	22,000	-	(22,000)	**-**
	$ 171,438	$ 275,586	$ (269,969)	**$ 177,055**

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, 2008	Contributions	**December 31, 2009**
General Endowment	$ 1,583,535	$ -	**$ 1,583,535**
USAID Endowment	500,000	-	**500,000**
Marine Endowment	315,853	3,300	**319,153**
Darwin Scholars Endowment	30,000	-	**30,000**
	$ 2,429,388	$ 3,300	**$ 2,432,688**

Note 4. Permanently Restricted Net Assets (Continued)

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

As a grant making organization, the income earned is immediately appropriated for expenditure, so income earned on the permanently restricted fund is unrestricted.

<u>Return objective and risk parameters</u>: 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.

<u>Spending policies:</u> 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.

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, 2009, are as follows:

Years Ending December 31,		
2010	$	52,910
2011		54,497
2012		56,132
2013		26,499
	$	190,038

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, 2009, were $4,943.

Note 7. Fair Value Measurement

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 and liabilities that are subject to fair value measurements. 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, 2009.

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

	Level 1	Level 2	Level 3	Total
Equities	$ 1,531,291	$ -	$ -	$ 1,531,291
Corporate bonds	-	856,030	-	856,030
Limited partnership	428,969	-	-	428,969
	$ 1,960,260	$ 856,030	$ -	$ 2,816,290