Galapagos Conservancy

Financial Report
March 31, 2012

Contents

McGladrey

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 March 31, 2012, and the related statements of activities, functional expenses and cash flows for the fifteen month period 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.

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 the Conservancy as of March 31, 2012, and the changes in its net assets and its cash flows for the fifteen month period then ended in conformity with accounting principles generally accepted in the United States of America.

McGladrey LLP

Vienna, Virginia
May 24, 2012

Galapagos Conservancy

Balance Sheet
March 31, 2012

Assets	
Current Assets	
Cash and cash equivalents	$ 501,384
Prepaid expenses	131,978
Inventory	12,564
Total current assets	645,926
Investments	4,281,721
Property And Equipment	
Furniture	2,266
Equipment and software	57,598
	59,864
Less accumulated depreciation	(26,594)
	33,270
	$ 4,960,917

Liabilities And Net Assets	
Current Liabilities	
Accounts payable and accrued expenses	$ 19,912
Deferred revenue	62,750
Grants payable	515,816
Total current liabilities	598,478
Commitments	
Net Assets	
Unrestricted	1,791,679
Temporarily restricted	137,572
Permanently restricted	2,433,188
	4,362,439
	$ 4,960,917

See Notes To Financial Statements.

Galapagos Conservancy

Statement Of Activities
Fifteen Month Period Ended March 31, 2012

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue and support:				
Contributions	$ 1,782,982	$ 254,971	$ -	$ 2,037,953
Investment income	352,135	-	-	352,135
Sales	18,754	-	-	18,754
Net assets released from restrictions	339,853	(339,853)	-	-
Total revenue and support	2,493,724	(84,882)	-	2,408,842
Expenses:				
Program services:				
Allocated program costs	803,179	-	-	803,179
Ecosystem Restoration	304,003	-	-	304,003
Sustainable Society	226,289	-	-	226,289
Strategic Partnerships	470,576	-	-	470,576
Cost of goods sold	9,468	-	-	9,468
	1,813,515	-	-	1,813,515
Support services:				
Management and general	263,438	-	-	263,438
Fundraising	359,253	-	-	359,253
Total expenses	2,436,206	-	-	2,436,206
Change in net assets	57,518	(84,882)	-	(27,364)
Net assets:				
Beginning	1,734,161	222,454	2,433,188	4,389,803
Ending	$ 1,791,679	$ 137,572	$ 2,433,188	$ 4,362,439

See Notes To Financial Statements.

Galapagos Conservancy

Statement Of Functional Expenses
Fifteen Month Period Ended March 31, 2012

	Program Services			Support Services		
	Environmental Programs	Outreach Programs	Total Program Services	Management And General	Fundraising	Total
Grants	$ 1,150,867	$ -	$ 1,150,867	$ -	$ -	$ 1,150,867
Salaries, benefits and taxes	308,594	-	308,594	144,705	94,826	548,125
Consultants	82,232	-	82,232	38,560	29,906	150,698
Printing	-	30,550	30,550	-	83,787	114,337
Mail house	-	17,287	17,287	-	54,626	71,913
Postage and shipping	5,637	17,357	22,994	2,643	45,272	70,909
Rent	39,188	-	39,188	18,376	12,042	69,606
Professional fees	34,667	-	34,667	16,256	10,652	61,575
Telemarketing	26,215	-	26,215	12,293	8,055	46,563
Investment and management fees	23,648	-	23,648	11,089	7,266	42,003
Travel	453	20,321	20,774	212	173	21,159
Bank and caging fees	11,324	-	11,324	5,310	3,479	20,113
Permits	6,244	-	6,244	2,928	1,917	11,089
Miscellaneous	5,733	-	5,733	2,688	1,762	10,183
Cost of goods sold	-	9,468	9,468	-	-	9,468
Computer and website expense	4,764	-	4,764	2,234	1,464	8,462
Telephone	4,047	-	4,047	1,898	1,244	7,189
Premiums	-	5,863	5,863	-	-	5,863
Office supplies	3,056	-	3,056	1,433	939	5,428
Payroll fees	1,989	-	1,989	932	611	3,532
Training	1,640	-	1,640	769	504	2,913
Insurance	1,593	-	1,593	747	489	2,829
Depreciation	778	-	778	365	239	1,382
	$ 1,712,669	$ 100,846	$ 1,813,515	$ 263,438	$ 359,253	$ 2,436,206

See Notes To Financial Statements.

Galapagos Conservancy

Statement Of Cash Flows
Fifteen Month Period Ended March 31, 2012

Cash Flows From Operating Activities		
Change in net assets	$	(27,364)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation		1,382
Realized and unrealized (gain) on investments		(155,216)
Changes in assets and liabilities:		
(Increase) decrease in:		
Prepaid expenses		(118,403)
Inventory		(6,766)
Increase (decrease) in:		
Accounts payable and accrued expenses		(17,810)
Deferred revenue		62,750
Grants payable		58,477
Net cash used in operating activities		(202,950)
Cash Flows From Investing Activities		
Proceeds from sale of investments		13,734
Purchase of property and equipment		(32,750)
Purchases of investments		(431,767)
Net cash used in investing activities		(450,783)
Net decrease in cash and cash equivalents		(653,733)
Cash And Cash Equivalents		
Beginning		1,155,117
Ending	$	501,384

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 (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.

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 fifteen month period ended March 31, 2012. 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 2009.

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 24, 2012, which is the date the financial statements were available to be issued.

Note 2. Investments

Investments consist of the following at March 31, 2012:

Mutual funds	$ 3,407,893
Bonds	555,113
Money market	313,878
Common stock	4,837
	$ 4,281,721

Investment income consists of the following for the fifteen month period ended March 31, 2012:

Interest	$ 196,919
Unrealized gain on investments	155,216
	$ 352,135

Note 3. Line Of Credit

The Galapagos Conservancy has a $200,000 line of credit that expires on October 5, 2012. The line of credit accrues interest at the bank's prime lending rate of 5.75% 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, 2012.

Note 4. Temporarily Restricted Net Assets

Temporarily restricted net assets as of March 31, 2012, are available for the following purposes or periods.

Program	December 31, 2010	Restricted Contributions	Restriction Accomplished	**March 31, 2012**
Marine – Offield	$ 98,090	$ -	$ 98,090	**$ -**
Celebrity Expeditions	67,249	82,836	46,366	**103,719**
Tsunami	-	131,835	131,835	**-**
Knowledge Management – Tinker	42,000	-	34,902	**7,098**
Education	12,965	20,000	13,585	**19,380**
Botany	1,000	10,000	11,000	**-**
Galapagos Travel	1,150	5,300	4,075	**2,375**
Tortoise Restoration	-	5,000	-	**5,000**
	$ 222,454	$ 254,971	$ 339,853	**$ 137,572**

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 research of the Galapagos Islands:

	December 31, 2010	Contributions	**March 31, 2012**
General Endowment	$ 1,583,535	$ -	**$ 1,583,535**
USAID Endowment	500,000	-	**500,000**
Marine Endowment	319,653	-	**319,653**
Darwin Scholars Endowment	30,000	-	**30,000**
	$ 2,433,188	$ -	**$ 2,433,188**

Endowment Activity for the fifteen month period ended March 31, 2012, consists of the following:

	Temporarily Restricted	Permanently Restricted
Endowment net assets, beginning of year	$ -	$ 2,433,188
Contributions	-	-
Investment income:		
Net realized and unrealized gains	98,585	-
Interest and dividends	125,073	-
Appropriated for expenditure	(223,658)	-
Endowment net assets, end of year	$ -	$ 2,433,188

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

Note 5. Permanently Restricted Net Assets (Continued)

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.

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 fifteen month period ended March 31, 2012, was $69,606.

Future minimum lease payments at March 31, 2012, are as follows:

Years Ending March 31,		
2013	$	56,546
2014		9,470
	$	66,016

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 fifteen month period ended March 31, 2012, were $6,622.

Note 8. 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 March 31, 2012.

Note 8. Fair Value Measurement (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 Value	$ 408,323	$ 408,323	$ -	$ -
Large Growth	365,933	365,933	-	-
Foreign Large Blend	300,891	300,891	-	-
Diversified Emerging Markets	263,626	263,626	-	-
Mid-Cap Growth	242,942	242,942	-	-
World Bond	236,580	236,580	-	-
Real Estate	178,890	178,890	-	-
Large Blend	168,310	168,310	-	-
Emerging Markets Bond	164,696	164,696	-	-
Commodities Broad Basket	150,330	150,330	-	-
Mid-Cap Blend	150,065	150,065	-	-
Short-Term Bond	145,819	145,819	-	-
Small Growth	131,760	131,760	-	-
High Yield Bond	111,742	111,742	-	-
Intermediate-Term Bond	109,407	109,407	-	-
Global Real Estate	99,102	99,102	-	-
Foreign Small/Mid Value	80,990	80,990	-	-
Long Government	38,420	38,420	-	-
Ultrashort Bond	23,972	23,972	-	-
Long-Term Bond	21,623	21,623	-	-
Europe Stock	14,472	14,472	-	-
Bonds:				
Corporate Obligations (a)	511,744	-	511,744	-
Government Obligations	23,666	-	23,666	-
Mortgage Backed Securities	19,703	-	19,703	-
Common Stock	4,837	4,837	-	-
	$ 3,967,843	$ 3,412,730	$ 555,113	$ -

(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.

The table below reconciles total investments.

Total investments at fair value	$ 3,967,843
Investments at cost – money market	313,878
	$ 4,281,721