Galapagos Conservancy

Financial Report
December 31, 2010

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 December 31, 2010, 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 2009 financial statements, and in our report dated March 17, 2010, 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 2010 financial statements referred to above present fairly, in all material respects, the financial position of the Conservancy as of December 31, 2010, 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 16, 2011

Galapagos Conservancy

Balance Sheet
December 31, 2010
(With Comparative Totals For 2009)

Assets	**2010**	2009
Current Assets		
Cash and cash equivalents	**$ 1,155,117**	$ 1,361,087
Prepaid expenses	**13,575**	9,718
Inventory	**5,798**	9,705
Total current assets	**1,174,490**	1,380,510
Investments	**3,708,472**	2,816,290
Property And Equipment		
Furniture	**2,266**	2,266
Equipment and software	**24,848**	92,674
	27,114	94,940
Less accumulated depreciation	**(25,212)**	(88,279)
	1,902	6,661
	$ 4,884,864	$ 4,203,461

Liabilities And Net Assets		
Current Liabilities		
Accounts payable and accrued expenses	**$ 37,722**	$ 19,240
Grants payable	**457,339**	-
Total current liabilities	**495,061**	19,240
Commitments		
Net Assets		
Unrestricted	**1,734,161**	1,574,478
Temporarily restricted	**222,454**	177,055
Permanently restricted	**2,433,188**	2,432,688
	4,389,803	4,184,221
	$ 4,884,864	$ 4,203,461

See Notes To Financial Statements.

Galapagos Conservancy

Statement Of Activities
Year Ended December 31, 2010
(With Comparative Totals For 2009)

	2010				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	2009 Total
Revenue and support:					
Contributions	$ 1,814,556	$ 310,477	$ 500	$ 2,125,533	$ 1,915,356
Investment income	463,855	-	-	463,855	835,616
Sales	12,865	-	-	12,865	15,781
Net assets released from restrictions	265,078	(265,078)	-	-	-
Total revenue and support	2,556,354	45,399	500	2,602,253	2,766,753
Expenses:					
Program services:					
Allocated program costs	653,987	-	-	653,987	521,700
Core Funding CDF	617,305	-	-	617,305	535,940
Local Capacity Building	166,824	-	-	166,824	21,260
Marine Policy	162,730	-	-	162,730	52,306
Galapagos National Park	100,933	-	-	100,933	135,000
Key Species	70,825	-	-	70,825	90,709
Restoring Native Ecosystems	63,508	-	-	63,508	160,000
Cost of goods sold	7,774	-	-	7,774	4,827
Public Policy	-	-	-	-	198,122
	1,843,886	-	-	1,843,886	1,719,864
Support services:					
Management and general	192,078	-	-	192,078	165,563
Fundraising	360,707	-	-	360,707	299,240
Total expenses	2,396,671	-	-	2,396,671	2,184,667
Change in net assets	159,683	45,399	500	205,582	582,086
Net assets:					
Beginning	1,574,478	177,055	2,432,688	4,184,221	3,602,135
Ending	$ 1,734,161	$ 222,454	$ 2,433,188	$ 4,389,803	$ 4,184,221

See Notes To Financial Statements.

Galapagos Conservancy

Statement Of Functional Expenses
Year Ended December 31, 2010
(With Comparative Totals For 2009)

	2010						
	Program Services			Support Services			
	Environmental Programs	Outreach Programs	Total Program Services	Management And General	Fundraising	Total	2009 Total
Grants	$ 1,448,542	$ -	$ 1,448,542	$ -	$ -	$ 1,448,542	$ 1,323,504
Salaries, benefits and taxes	178,642	-	178,642	115,720	67,262	361,624	330,947
Consultants	51,985	-	51,985	14,897	86,959	153,841	121,794
Printing	-	19,006	19,006	-	62,769	81,775	77,025
Mail house	-	3,367	3,367	-	55,278	58,645	46,608
Rent	27,561	-	27,561	17,854	10,378	55,793	51,063
Postage and shipping	857	22,390	23,247	555	26,416	50,218	53,189
Professional fees	24,799	-	24,799	16,064	9,337	50,200	49,216
Travel	6,813	12,864	19,677	1,567	3,229	24,473	8,115
Telemarketing	-	-	-	-	20,769	20,769	26,186
Bank and caging fees	9,133	-	9,133	5,916	3,439	18,488	17,972
Investment and management fees	7,733	-	7,733	5,002	2,908	15,643	19,871
Permits	5,035	40	5,075	3,262	1,896	10,233	9,977
Cost of goods sold	-	7,774	7,774	-	-	7,774	4,827
Miscellaneous	3,724	-	3,724	2,419	1,405	7,548	6,909
Computer and website expense	3,587	-	3,587	2,323	1,350	7,260	12,884
Depreciation	2,886	-	2,886	1,869	1,087	5,842	5,426
Telephone	2,176	-	2,176	1,409	819	4,404	5,502
Premiums	-	-	-	-	3,534	3,534	4,784
Office supplies	1,690	-	1,690	1,095	636	3,421	4,108
Payroll fees	1,225	-	1,225	794	461	2,480	2,222
Insurance	1,020	-	1,020	660	384	2,064	2,433
Training	741	-	741	480	279	1,500	-
Attorney's fees – Mgmt/Gen	296	-	296	192	112	600	-
Foreign item adjustment	-	-	-	-	-	-	105
	$ 1,778,445	$ 65,441	$ 1,843,886	$ 192,078	$ 360,707	$ 2,396,671	$ 2,184,667

See Notes To Financial Statements.

Galapagos Conservancy

Statement Of Cash Flows
Year Ended December 31, 2010
(With Comparative Totals For 2009)

		2010		2009
Cash Flows From Operating Activities				
Change in net assets	**$**	**205,582**	$	582,086
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:				
Depreciation		**5,842**		5,426
Realized and unrealized loss (gain) on investments		**(377,318)**		(697,897)
Contributions received for permanent endowment		**(500)**		(3,300)
Changes in assets and liabilities:				
(Increase) decrease in:				
Prepaid expenses		**(3,857)**		35,158
Inventory		**3,907**		(7,677)
Increase (decrease) in:				
Accounts payable and accrued expenses		**18,482**		(9,157)
Grants payable		**457,339**		-
Net cash provided by (used in) operating activities		**309,477**		(95,361)
Cash Flows From Investing Activities				
Proceeds from sale of investments		**153,926**		1,323,324
Purchase of property and equipment		**(1,083)**		(516)
Purchases of investments		**(668,790)**		(649,491)
Net cash (used in) provided by investing activities		**(515,947)**		673,317
Cash Flows From Financing Activities				
Contributions received for permanent endowment		**500**		3,300
Net (decrease) increase in cash and cash equivalents		**(205,970)**		581,256
Cash And Cash Equivalents				
Beginning		**1,361,087**		779,831
Ending	**$**	**1,155,117**	$	1,361,087

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.

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, 2010. 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 percent 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 2007.

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, 2009, from which the summarized information was derived.

Subsequent events: The Conservancy evaluated subsequent events through March 16, 2011, which is the date the financial statements were available to be issued.

Recently adopted standards: In January 2010, the Financial Accounting Standards Board (FASB) released Accounting Standards Update No. 2010-06 (ASU 2010-06), which provided accounting guidance that requires new fair value measurement classification disclosures and clarifies existing disclosures. The guidance requires: (i) separate disclosures of significant transfers between Level 1 and 2 and reasons for transfers; (ii) disclosure, on a gross basis, of purchases, sales, issuances and net settlements within Level 3 measurements; (iii) disclosures by class of assets and liabilities; and (iv) a description of the evaluation techniques and inputs used to measure fair value for both recurring and nonrecurring fair value measurements. The guidance is effective for interim and annual reporting periods beginning after December 15, 2009, except for the disaggregation of the Level 3 activity, which is effective for interim and annual periods beginning after December 15, 2010. Galapagos Conservancy adopted ASU 2010-06 during the year ended December 31, 2010.

Note 2. Investments

Investments consist of the following at December 31, 2010:

Equities	$	1,922,780
Index Tracking Stock		197,865
ETF's - Other		641,514
Asset Backed and CMO		56,661
Corporate bonds		889,652
	$	3,708,472

Investment income consists of the following for the year ended December 31, 2010:

Interest	$	86,537
Unrealized gain on investments		377,318
	$	463,855

Note 3. Line Of Credit

The Galapagos Conservancy has a $200,000 line of credit that expires on October 5, 2011. The line of credit accrues interest at the bank's prime lending rate of 6.25% and is secured by all assets of the Conservancy. The bank also requires that the Conservancy to comply with certain administrative covenants. There was no outstanding balance on the line.

Note 4. Temporarily Restricted Net Assets

Temporarily restricted net assets as of December 31, 2010, are available for the following purposes or periods.

Program	December 31, 2009	Restricted Contributions	Restriction Accomplished	**December 31, 2010**
Marine – Offield	$ -	$ 160,230	$ 62,140	**$ 98,090**
Celebrity Expeditions	94,639	40,635	68,025	**67,249**
Knowledge Management – Tinker	-	42,000	-	**42,000**
Education	-	20,000	7,035	**12,965**
Galapagos Travel	5,075	2,585	6,510	**1,150**
Botany	-	1,000	-	**1,000**
Isabela/Panaphil	77,291	-	77,291	**-**
Education and Oil Spill	50	-	50	**-**
Marine – Kilgore	-	2,500	2,500	**-**
Espanola	-	9,097	9,097	**-**
IGTOA	-	16,930	16,930	**-**
Biological Assessment	-	10,000	10,000	**-**
Peter Kramer	-	5,500	5,500	**-**
	$ 177,055	$ 310,477	$ 265,078	**$ 222,454**

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, 2009	Contributions	**December 31, 2010**
General Endowment	$ 1,583,535	$ -	**$ 1,583,535**
USAID Endowment	500,000	-	**500,000**
Marine Endowment	319,153	500	**319,653**
Darwin Scholars Endowment	30,000	-	**30,000**
	$ 2,432,688	$ 500	**$ 2,433,188**

Endowment Activity for the year ended September 30, 2010, consists of the following:

	Temporarily Restricted	Permanently Restricted
Endowment net assets, beginning of year	$ -	$ 2,432,688
Contributions		500
Investment Income:		
Net realized and unrealized gains	245,750	-
Interest and dividends	56,362	-
Appropriated for expenditure	(302,112)	
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 percent escalation charge per year. Rent expense for the year ended December 31, 2010, was $52,910.

Future minimum lease payments at December 31, 2010, are as follows:

Years Ending December 31,		
2011	$	54,497
2012		56,132
2013		23,636
	$	134,265

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 percent of each employee's salary. Employer contributions to the plan for the year ended December 31, 2010, were $4,900.

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 December 31, 2010.

Galapagos Conservancy

Notes To Financial Statements

Note 8. Fair Value Measurement (Continued)

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

	As of December 31, 2010			
	Total	Level One	Level Two	Level Three
Equities				
Consumer Staples	$ 292,537	$ 292,537	$ -	$ -
Information Technology	273,033	273,033	-	-
Health Care	264,798	264,798	-	-
Consumer Discretionary	198,299	198,299	-	-
Financials	197,228	197,228	-	-
Industrials	194,878	194,878	-	-
Energy	175,193	175,193	-	-
Telecommunications Services	142,834	142,834	-	-
Materials	104,089	104,089	-	-
Utilities	64,487	64,487	-	-
Other	15,404	15,404	-	-
Total Equity Securities	1,922,780	1,922,780	-	-
Corporate Bonds[a]	889,652	-	889,652	-
Asset Backed and CMO	56,661	-	56,661	-
Index Tracking Stock	197,865	197,865	-	-
ETF USD Invst Grade Taxable	109,610	109,610	-	-
ETF Non-US Emerging Equity	81,359	81,359	-	-
ETF Other	77,062	77,062	-	-
ETF Non-Us Developed Equity	70,689	70,689	-	-
ETF US SMID Cap Equity	69,557	69,557	-	-
ETF Cash Equivalents Taxable	53,184	53,184	-	-
ETF US Credit	49,099	49,099	-	-
ETF Non US Dev Equity Europe	47,659	47,659	-	-
ETF Commodity	47,221	47,221	-	-
ETF US Equity Income	36,074	36,074	-	-
Total Investments	$ 3,708,472	$ 2,762,159	$ 946,313	$ -

(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 and asset backed securities are classified as Level 2 instruments because there are quoted market prices for similar, but not identical, assets in active markets.