GALAPAGOS CONSERVANCY, INC.

FINANCIAL STATEMENTS

DECEMBER 31, 2017

CALIBRE
CPA GROUP
Bethesda, MD

GALAPAGOS CONSERVANCY, INC.

FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017

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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. (the Conservancy), which comprise the statement of financial position as of December 31, 2017, 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.

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 December 31, 2017, 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
May 2, 2018

Galapagos Conservancy, Inc.

Statement of Financial Position

December 31, 2017

Assets	
Current assets	
Cash and cash equivalents	$ 2,008,601
Grants and contributions receivable	553,662
Prepaid expenses	13,188
Inventory	7,041
Total current assets	2,582,492
Net property and equipment	9,297
Investments	5,315,090
Total assets	$ 7,906,879
Liabilities and Net Assets	
Liabilities	
Accounts payable and accrued expenses	$ 75,494
Grants payable	1,114,114
Deferred lease incentives	2,205
Total liabilities	1,191,813
Net assets	
Without donor restrictions	2,186,904
With donor restrictions	4,528,162
Total net assets	6,715,066
Total liabilities and net assets	$ 7,906,879

See accompanying notes to financial statements.

Galapagos Conservancy, Inc.

Statement of Activities

Year Ended December 31, 2017

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue			
Grants and contributions	$ 3,075,950	$ 1,978,756	$ 5,054,706
Investment income	431,596	188,561	620,157
Sales	17,140	-	17,140
Net assets released from restrictio	1,691,242	(1,691,242)	-
Total revenue	5,215,928	476,075	5,692,003
Expenses			
Program services	3,631,566	-	3,631,566
Supporting services			
Management and general	348,341	-	348,341
Fundraising	575,640	-	575,640
Total expenses	4,555,547	-	4,555,547
Change in net assets	660,381	476,075	1,136,456
Net assets			
Beginning of year	1,526,523	4,052,087	5,578,610
End of year	$ 2,186,904	$ 4,528,162	$ 6,715,066

See accompanying notes to financial statements.

Galapagos Conservancy, Inc.

Statement of Functional Expenses

Year Ended December 31, 2017

	Program Services				Supporting Services		
	Education for Sustainability	GTRI	Science for Conservation	Total Programs	Management and General	Fundraising	Total
Grants	$ 616,461	$ 18,415	$ 1,854,297	$ 2,489,173	$ -	$ -	$ 2,489,173
Salaries, benefits and payroll taxes	63,511	86,198	240,002	389,711	233,201	148,709	771,621
Accounting fees	10,001	2,027	45,727	57,755	34,561	22,039	114,355
Consulting fees	113,798	-	25,814	139,612	-	78,400	218,012
Copywriting charges	-	-	6,720	6,720	-	26,880	33,600
Cost of goods sold	-	-	5,790	5,790	-	-	5,790
Depreciation expense	2,096	425	5,526	8,047	4,815	3,071	15,933
Insurance expense	322	65	1,503	1,890	1,131	721	3,742
Legal fees	-	-	75,864	75,864	2,010	-	77,874
List rental	-	-	-	-	-	23,870	23,870
Mail house	-	-	13,445	13,445	-	60,500	73,945
Member email program	-	-	10,376	10,376	-	-	10,376
Occupancy	5,706	1,157	26,775	33,638	20,129	12,836	66,603
Office expenses	13,466	40,360	33,326	87,152	18,516	9,350	115,018
Other professional fees	7,613	12,043	67,189	86,845	17,488	27,239	131,572
Permits, fees and licenses	1,494	303	4,498	6,295	3,767	2,402	12,464
Postage and shipping	140	-	31,239	31,379	1,714	61,409	94,502
Premiums on member development	-	-	408	408	2,606	1,960	4,974
Printing and design	-	-	52,213	52,213	1,710	82,400	136,323
Travel and meetings	81,865	24,726	21,568	128,159	6,693	13,854	148,706
Web expense	-	-	7,094	7,094	-	-	7,094
Total expenses	$ 916,473	$ 185,719	$ 2,529,374	$ 3,631,566	$ 348,341	$ 575,640	$ 4,555,547

See accompanying notes to financial statements.

Galapagos Conservancy, Inc.

Statement of Cash Flows

Year Ended December 31, 2017

Cash flows from operating activities	
Grants and contributions received	$ 4,679,724
Investment income received	145,812
Sales revenue received	17,140
Grants disbursed	(1,902,535)
Payment to vendors, suppliers and employees	(2,092,353)
Net cash provided by operating activities	847,788
Cash flows from investing activities	
Purchases of investments	(3,587,854)
Proceeds from sales of investments	3,558,896
Net cash used for investing activities	(28,958)
Cash flows from financing activities	
Endowment contributions received	2,100
Net change in cash and cash equivalents	820,930
Cash and cash equivalents	
Beginning of year	1,187,671
End of year	$ 2,008,601

See accompanying notes to financial statements.

GALAPAGOS CONSERVANCY, INC.

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017

NOTE 1. ORGANIZATION

Galapagos Conservancy, Inc. (the Conservancy) is a not-for-profit organization incorporated under the laws of Delaware in 1985. The scientific purposes of the Conservancy include the advancement of scientific research and conservation, principally in the Galapagos Islands. The Conservancy is a tax-exempt organization under 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.

New Accounting Pronouncements - In 2016, Accounting Standards Update (ASU) 2016-14 was issued by the Financial Accounting Standards Board. ASU 2016-14 changes the net asset classification scheme and requires additional information regarding board designated net assets and underwater endowments, requires expenses be reported by both function and nature, requires netting of investment expenses with investment income, requires qualitative and quantitative disclosures about liquidity, and eliminates the reconciliation of the indirect cash flow presentation. ASU 2016-14 becomes effective for fiscal years beginning after December 15, 2017. However, the Conservancy has elected early implementation of these standards and they were adopted for calendar year 2017.

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 two distinct classes of net assets and changes therein – net assets without donor restrictions and net assets with donor restrictions.

Net Asset Classification - Net assets are reported as either with or without donor restrictions. Donor restrictions may be temporary or perpetual, and so are disclosed as follows:

> ***Net Assets Without Donor Restrictions*** - Represents net assets 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.
>
> ***Net Assets with Temporary Donor Restrictions***- Net assets subject to donor-imposed stipulations that will be met either by actions of the Conservancy and/or the passage of time.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net Assets with Perpetual Donor Restrictions - The Conservancy reports contributions which require that the amounts be maintained in perpetuity as net assets with perpetual donor restrictions.

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 amounts immediately available for withdrawal from bank accounts and all highly liquid debt instruments purchased with a maturity of three months or less to be cash and 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 method.

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 various mutual funds. Such investments are exposed to various risks, such as market and credit risk. 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 could 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 determine 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 the valuation methodology are quoted prices outside of 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 financial 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.

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 December 31, 2017 was $15,933.

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

Restricted and Unrestricted Revenue - Contributions received are reported as increases in net assets not subject to donor restrictions unless received with donor stipulations that require the assets be used for specific purposes or in specific time periods.

All donor-restricted revenue, including endowment investment income, is reported as an increase in net assets with donor restrictions, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with temporary donor restrictions are reclassified to net assets without donor restrictions 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 time and effort studies for all staff.

Income Taxes - The Conservancy is generally exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. 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"

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 December 31, 2017, 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 December 31, 2017, the statute of limitations for tax years 2014 through 2016 remains open with the U.S. Federal jurisdiction and the various states and local jurisdictions in which the Conservancy files returns.

NOTE 3. LIQUIDITY AND AVAILABILITY OF RESOURCES

The following table represents the Conservancy's financial assets available to meet cash needs for general expenditures within one year as of December 31, 2017.

Total assets at end of year		$ 7,906,879
Less nonfinancial assets		
Prepaid expenses	$ 13,188	
Inventory	7,041	
Net property and equipment	9,297	29,526
Total financial assets at end of year		7,877,353
Less amounts unavailable for general expenditures within one year		
Restricted by donor with time or purpose restrictions	1,278,349	
Endowment funds and unexpended earnings thereon	5,336,795	6,615,144
Total financial assets available for general expenditures within one year		$ 1,262,209

The Conservancy has a goal to maintain sufficient financial assets in the form of cash and cash equivalents on hand to meet 60 days of normal operating expenses, which are, on average, approximately $400,000. The Conservancy has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In the event of unforeseen obligations, the Conservancy may be granted access to Board-designated endowment assets of approximately $2.1 million, and also has access to a line of credit in the amount of $200,000.

NOTE 4. GRANTS AND CONTRIBUTIONS RECEIVABLE

As of December 31, 2017, grants and contributions receivable is comprised of amounts due to the Conservancy within one year or less. The Conservancy had grants and contributions receivable in the amount of $553,662 as of December 31, 2017. No allowance for uncollectible accounts has been reported since management expects these to be collected in full.

NOTE 5. 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 (FDIC) 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 December 31, 2017, the Conservancy had approximately $1,384,000 on deposit in excess of the FDIC insurance limits.

NOTE 6. INVESTMENTS

Investments consist of the following as of December 31, 2017:

Cash and cash equivalents	$ 348,136
Fixed income securities	1,288,810
Mutual funds	101,500
Equity securities	3,310,009
Comodities	53,972
Real estate funds	203,507
	5,305,934
Accrued interest	9,156
	$ 5,315,090

The following table sets forth by level, within the fair value hierarchy, the Conservancy's investments at fair value as of December 31, 2017:

	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	$ 348,136	$ -	$ -	$ 348,136
Fixed income securities	1,288,810	-	-	1,288,810
Mutual funds	101,500	-	-	101,500
Equity securities				
Domestic mutual funds	1,988,472	-	-	1,988,472
International mutual funds	1,321,537	-	-	1,321,537
Other				
Comodity funds	53,972			53,972
Real estate mutual funds	203,507	-	-	203,507
	$ 5,305,934	$ -	$ -	$ 5,305,934

NOTE 6. INVESTMENTS (CONTINUED)

Investment income for the year ended December 31, 2017 consists of the following as of:

Interest	$ 190,195
Unrealized gains	197,545
Realized gains	267,644
Investment fees	(35,227)
	$ 620,157

NOTE 7. LINE OF CREDIT

The Galapagos Conservancy has a $200,000 line of credit that expires on May 15, 2019. The line of credit accrues interest at the Wall Street Journal Prime Rate plus 1.00%, 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 December 31, 2017.

NOTE 8. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions includes net assets subject to both temporary as well as perpetual donor restrictions. Total net assets with donor restrictions as of December 31, 2017 were as follows.

Temporary restrictions	$ 1,998,144
Perpetual restrictions	2,530,018
	$ 4,528,162

NOTE 9. NET ASSETS WITH TEMPORARY DONOR RESTRICTIONS

Activity in net assets with temporary donor restrictions during the year ended December 31, 2017 was as follows:

	Balances Beginning of Year	Restricted Contributions or Endowment Earnings	Net Assets Released from Restriction	Balances End of Year
Marine	$ -	$ 20,000	$ -	$ 20,000
Tortoise	-	111,695	(6,595)	105,100
Lonesome George Foundation	-	749,980	(749,980)	-
CDF Operations	500	-	(500)	-
Education	104,476	382,832	(454,261)	33,047
Education-Tinker Foundation	134,761	600,000	(134,761)	600,000
Celebrity Expeditions	175,409	112,149	(155,145)	132,413
Saladin Funds	477,789	-	(90,000)	387,789
Ed Bass	100,000	-	(100,000)	-
Unexpended endowment earnings	531,234	188,561	-	719,795
	$ 1,524,169	$ 2,165,217	$ (1,691,242)	$ 1,998,144

NOTE 10. ENDOWMENT FUNDS AND NET ASSETS WITH PERPETUAL DONOR RESTRICTIONS

The Conservancy's endowment consists of five 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 net assets with perpetual donor restrictions. All earnings on the underlying investments are reported as increases in net assets with temporary donor restrictions until appropriated for expenditure by the Conservancy.

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 net assets with perpetual donor restrictions (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.

NOTE 10. ENDOWMENT FUNDS AND NET ASSETS WITH PERPETUAL DONOR RESTRICTIONS (CONTINUED)

The remaining portion of donor-restricted endowment funds not classified in net assets with perpetual donor restrictions is classified as net assets with temporary donor restrictions 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 December 31, 2017 are as follows:

	Without Donor Restrictions	With Temporary Donor Restrictions	With Perpetual Donor Restrictions	Total
General Endowment	$ 2,086,982	$ -	$ 1,583,535	$ 3,670,517
USAID Endowment	-	463,380	500,000	963,380
Marine Endowment	-	143,763	240,318	384,081
Hickman Marine Endowment	-	44,239	176,165	220,404
Darwin Scholars Endowment	-	68,413	30,000	98,413
	$ 2,086,982	$ 719,795	$ 2,530,018	$ 5,336,795

NOTE 10. ENDOWMENT FUNDS AND NET ASSETS WITH PERPETUAL DONOR RESTRICTIONS (CONTINUED)

Changes in endowment fund net assets for the year ended December 31, 2017 are as follows:

	Without Donor Restrictions	With Temporary Donor Restrictions	With Perpetual Donor Restrictions	Total
Beginning of year	$ 1,772,239	$ 531,234	$ 2,527,918	$ 4,831,391
Contributions	-	-	2,100	2,100
Investment earnings	428,818	188,561	-	617,379
Appropriations	(114,075)	-	-	(114,075)
End of year	$ 2,086,982	$ 719,795	$ 2,530,018	$ 5,336,795

NOTE 11. LEASE COMMITMENTS

The Conservancy leases its office space under a noncancelable agreement that was extended during 2017 and now expires December 31, 2022. The lease extension provides for abatement of rent due for January 2018, with annual escalations in the base rent of 3%. The Conservancy is also responsible for its pro-rata share of any increases in operating expenses and real estate taxes on the building, beginning in 2019. The total rent due is recognized in expense on a straight-line basis, and total rent expense for the year ended December 31, 2017 was $66,603.

Future minimum lease payments at December 31, 2017 are due as follows:

Years ending December 31,	2018	$ 50,302
	2019	56,521
	2020	58,217
	2021	59,963
	2022	61,762
		$ 286,765

NOTE 12. 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 December 31, 2017 were $7,681.

NOTE 13. SUBSEQUENT EVENTS REVIEW

Subsequent events have been evaluated through May 2, 2018, 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.