SUSTAINABLE CONSERVATION

REPORT ON AUDIT OF FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2011
AND DECEMBER 31, 2010

Ghaffari Zaragoza LLP
CERTIFIED PUBLIC ACCOUNTANTS

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Ghaffari Zaragoza LLP
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Sustainable Conservation
San Francisco, California

We have audited the accompanying statements of financial position of Sustainable Conservation as of December 31, 2011 and 2010, and the related statements of activities, functional expenses and cash flows for the years then ended. These financial statements are the responsibility of the organization's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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 basic 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 audits provide 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 Sustainable Conservation as of December 31, 2011 and 2010, and the changes in net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Ghaffari Zaragoza LLP

May 2, 2012
Oakland, California

SUSTAINABLE CONSERVATION

Statements of Financial Position
At December 31, 2011 and 2010

	2011	2010
Assets		
Current assets		
Cash and cash equivalents (Note 3)	$1,050,631	$1,524,730
Certificates of deposit	348,567	247,463
Contracts receivable (Note 3)	221,921	141,680
Grants receivable, net of $0 for uncollectable promises	200,000	-
Other receivables	25,284	18,564
Prepaid expenses	29,776	60,254
Total Current Assets	1,876,179	1,992,691
Investments restricted for long-term purposes (Note 4)	993,839	957,244
Deposits	12,055	12,055
Property and equipment, net (Note 5)	14,909	8,535
Total Assets	$2,896,982	$2,970,525
Liabilities		
Current liabilities		
Accounts payable and accrued expenses	$ 115,562	$ 102,551
Accrued compensated absences	65,131	66,141
Deferred support (Note 6)	141,809	143,409
Total Current Liabilities and Total Liabilities	322,502	312,101
Net Assets		
Unrestricted	897,046	883,664
Temporarily restricted (Note 7)	961,052	1,061,578
Permanently restricted (Note 8)	716,382	713,182
Total Net Assets	2,574,480	2,658,424
Total Liabilities and Net Assets	$2,896,982	$2,970,525

See notes to financial statements

SUSTAINABLE CONSERVATION

Statements of Activities
Years Ended December 31, 2011 and 2010

	Year Ended December 31, 2011				Year Ended December 31, 2010			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support and Revenue								
Government grants and contracts	$ 126,937	$ -	$ -	$ 126,937	$ 290,572	$ -	$ -	$ 290,572
Foundation and community grants	73,925	1,585,930	-	1,659,855	25,000	1,417,751	-	1,442,751
Contributions	773,255	36,273	3,200	812,728	716,324	-	152,200	868,524
In-kind contributions (Note 9)	13,360	-	-	13,360	32,440	-	-	32,440
Client services	61,837	-	-	61,837	37,325	-	-	37,325
Interest	1,182	-	-	1,182	2,612	-	-	2,612
Other income	28,032	-	-	28,032	5,563	-	-	5,563
Net assets released from restriction:								
Purpose accomplished and time restriction expired	1,734,086	(1,734,086)	-	-	1,711,377	(1,711,377)	-	-
Total Support and Revenue	2,812,614	(111,883)	3,200	2,703,931	2,821,213	(293,626)	152,200	2,679,787
Expenses								
Program services	2,139,413	-	-	2,139,413	2,140,151	-	-	2,140,151
Supporting services:								
Management and general	317,559	-	-	317,559	325,977	-	-	325,977
Fundraising	342,260	-	-	342,260	297,774	-	-	297,774
Total Expenses	2,799,232	-	-	2,799,232	2,763,902	-	-	2,763,902
Change in net assets before income from long-term investments	13,382	(111,883)	3,200	(95,301)	57,311	(293,626)	152,200	(84,115)
Net income from long-term investments	-	11,357	-	11,357	-	89,887	-	89,887
Change in net assets	13,382	(100,526)	3,200	(83,944)	57,311	(203,739)	152,200	5,772
Net Assets at beginning of year	883,664	1,061,578	713,182	2,658,424	826,353	1,265,317	560,982	2,652,652
Net Assets at end of year	$ 897,046	$ 961,052	$ 716,382	$ 2,574,480	$ 883,664	$ 1,061,578	$ 713,182	$ 2,658,424

See notes to financial statements

SUSTAINABLE CONSERVATION

Statements of Cash Flows
Years Ended December 31, 2011 and 2010

	2011	2010
Cash flows from operating activities:		
Change in net assets	$ (83,944)	$ 5,772
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation	3,089	6,991
Net (gain) loss from investments	9,464	(66,811)
Contributions restricted for long-term purposes	(1,600)	(76,100)
(Increase) decrease in operating assets:		
Receivables	(286,961)	123,002
Prepaids	30,478	57,694
Deposits	-	1,377
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	12,001	(35,401)
Deferred revenue	(1,600)	(76,100)
Net cash used by operating activities	(319,073)	(59,576)
Cash flows from investing activities:		
Purchases of securities	(187,909)	(389,909)
Net change in certificates of deposit	(101,104)	(2,463)
Sales and maturities of investments	141,850	288,712
Purchase of equipment	(9,463)	(6,226)
Net cash used by investing activities	(156,626)	(109,886)
Cash flows from financing activities:		
Contributions restricted for long term purposes	1,600	76,100
Net cash provided by financing activities	1,600	76,100
Net decrease in cash and cash equivalents	(474,099)	(93,362)
Cash and cash equivalents at beginning of the year	1,524,730	1,618,092
Cash and cash equivalents at end of the year	$ 1,050,631	$ 1,524,730

See notes to financial statements

SUSTAINABLE CONSERVATION

Statement of Functional Expenses
Year Ended December 31, 2011

	Program Services	Supporting Services: Management and General	Supporting Services: Fundraising	Common Costs	Total
Salaries	$ 1,099,605	$ 181,184	$ 196,832	$ -	$ 1,477,621
Payroll taxes	86,329	13,999	15,508	-	115,836
Employee benefits (Note 10)	163,928	26,626	29,505	-	220,059
Professional fees	472,195	40,960	33,491	-	546,646
Occupancy	6,635	-	-	122,184	128,819
Travel	48,141	504	5,985	-	54,630
Supplies	2,177	617	1,379	39,350	43,523
Equipment rental & maintenance	418	-	-	41,111	41,529
Printing & reproduction	15,563	7,944	10,219	7,770	41,496
Legal Fees	35,229	-	-	-	35,229
Conference & meetings	20,796	4,042	9,333	-	34,171
Telephone & internet	6,533	94	563	9,110	16,300
Recruitment & staff development	8,835	3,629	276	-	12,740
Insurance	-	3,570	-	5,100	8,670
Postage & delivery	2,883	1,270	2,160	568	6,881
Dues, subscriptions & publications	3,347	142	2,671	649	6,809
Bank charges	-	2,235	1,413	-	3,648
Depreciation	-	-	-	3,089	3,089
Temporary staff	-	1,026	-	-	1,026
Licenses, fees & miscellaneous	510	-	-	-	510
Common cost allocation	166,289	29,717	32,925	(228,931)	-
Total	$ 2,139,413	$ 317,559	$ 342,260	$ -	$ 2,799,232

See Notes to Financial Statements

SUSTAINABLE CONSERVATION

Statement of Functional Expenses
Year Ended December 31, 2010

	Program Services	Supporting Services: Management and General	Supporting Services: Fundraising	Common Costs	Total
Salaries	$ 1,089,053	$ 183,648	$ 192,454	$ -	$ 1,465,155
Payroll taxes	79,569	14,173	13,904	-	107,646
Employee benefits (Note 10)	136,501	24,029	24,648	-	185,178
Professional fees	510,616	49,114	5,051	-	564,781
Legal fees	35,953	1,497	-	-	37,450
Occupancy	6,635	-	-	124,969	131,604
Travel	58,946	488	1,687	-	61,121
Printing & reproduction	18,032	6,849	6,782	6,207	37,870
Equipment rental & maintenance	300	-	-	31,389	31,689
Conference & meetings	27,920	5,186	13,990	-	47,096
Telephone & internet	11,040	-	507	10,202	21,749
Supplies	8,418	1,273	1,001	8,987	19,679
Recruitment & staff development	8,279	3,500	4,185	-	15,964
Insurance	-	3,612	-	5,285	8,897
Depreciation	-	-	-	6,991	6,991
Postage & delivery	3,183	1,571	2,369	652	7,775
Dues, subscriptions & publications	4,584	177	2,306	688	7,755
Temporary staff	-	1,339	-	-	1,339
Licenses, fees & miscellaneous	679	-	-	-	679
Bank charges	-	2,378	1,106	-	3,484
Common cost allocation	140,443	27,143	27,784	(195,370)	-
Total	$ 2,140,151	$ 325,977	$ 297,774	$ -	$ 2,763,902

See Notes to Financial Statements

Note 1 – Organization

Sustainable Conservation (the Organization), founded in 1992, partners with business, agriculture and government leaders to find solutions to major environmental problems that make economic sense. These practical solutions can transform entire industries and provide long-term benefits for the environment – all through voluntary actions. The *Sustainable Agriculture* program area promotes the adoption of innovative farming practices so farmers can protect the environment, boost their bottom lines and keep their land. *Sustainable Business* stops pollution at the source by working proactively with business and regulatory agencies to solve problems through cooperation, rather than litigation. *Restoration on Private Lands* helps landowners be good stewards of the environment by facilitating restoration projects and species protection.

The Organization has offices in San Francisco and Modesto, California and supports its activities primarily through public and private grants and contributions.

Note 2 – Summary of Significant Accounting Policies

Significant accounting policies are described below to enhance the usefulness of the financial statements to the reader.

a. **Method of Accounting** – The financial statements of the Organization have been prepared using the accrual method of accounting, which involves the recognition of revenues and gains when earned and expenses and losses when incurred.

b. **Cash and Cash Equivalents** – For purposes of the statement of cash flows, the Organization considers all unrestricted highly liquid investments with an initial maturity of three months or less to be cash equivalents.

c. **Grants and Pledges Receivable** – Grants and pledges receivable include unconditional commitments from foundations and individuals that are recorded at the net realizable value of the amount expected to be collected by Management if they are expected to be received within a year . Grants and pledges receivable expected to be received beyond one year and discounted and recorded as the present value of the expected future cash flows. Pledges receivable that are restricted for investment in perpetuity are recorded as non-current assets.

d. **Investments** – The Organization carries investments in marketable securities with readily determinable fair values and all investments in debt securities at their fair values based on quoted prices in active markets in the Statement of Financial Position. Investment advisory fees are netted against the realized and unrealized gains and losses and are included in the change in the appropriate net asset class in the accompanying Statement of Activities.

e. **Fixed Assets and Depreciation** – The Organization records acquisitions of items with a cost of $5,000 or more as fixed assets. Fixed assets are recorded at cost when purchased and fair value when received as a donation. Depreciation is provided over the estimated useful lives of respective assets, primarily three to five years, using the straight- line method of depreciation.

f. **Deferred Support** – Deferred support includes conditional contributed support received with unmet conditions.

g. **Income Tax Status** – The Organization is recognized as a public charity exempt from Federal income tax under Section 501(c)(3) of the Internal Revenue Code and Section 23701(d) of the California Revenue and Taxation Code, whereby only unrelated business income, as defined by Section 512(a)(1) of the Internal Revenue Code and similar code sections of the California Revenue and Taxation Code, is subject to income tax. Management believes that all of the Organization's activities were directly related to its exempt purpose, thus the accompanying financial statements do not include any provision for income taxes.

h. **Basis of Presentation** – Net assets, revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

Unrestricted net assets represent net assets that are not subject to donor-imposed stipulations.

Temporarily restricted net assets represent net assets subject to donor-imposed stipulations that may or will be met either by actions of the Program and/or the passage of time.

Permanently restricted net assets are restricted by the donor for investment in perpetuity. The income from the invested assets is available to support the operations of the Organization. The Organization reports such income as temporarily restricted net assets until the Board of Directors appropriates amounts for use in the operations of the Organization.

i. **Restricted Resources** – Contributions are recognized when the donor makes a promise to the Organization that is, in substance, unconditional. The Organization reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose 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.

Gifts of fixed assets are recorded as unrestricted support unless explicit donor stipulations specify how the donated asset must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Organization reports expirations of donor restrictions when donated or acquired long-lived assets are placed in service.

j. **In-Kind Support** – The Organization records contributed professional services at the fair value of the services received, if the services received require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not received through donation.

k. **Allocation of Common Expenses** – Common costs are allocated to supporting and program activities based on employee effort as reported by employees.

l. **Use of Estimates** – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Significant accounting estimates reflected in the Organization's financial statements include collectability and valuation of receivables, valuation of investments and the functional allocation expenses. Actual results may differ from those estimates.

Note 3 – Concentration of Credit Risk

Financial instruments that are exposed to concentrations of credit risk consist of cash and receivables. The Organization places its cash and cash equivalents in high-quality financial institutions where cash deposits are insured by the Federal Deposit Insurance Corporation (FDIC) up to a certain level. The uninsured cash and cash equivalent balance was $743,179 and $991,747 as of December 31, 2011 and December 31, 2010, respectively. Receivables principally consist of receivables from various government agencies, and one private foundation. Realization of these items is dependent on the economic conditions of those entities. The Organization believes it is not exposed to any significant credit risk on these balances.

Note 4 – Investments

The investments of the Organization consist of:

Level 1 – Unadjusted quoted prices for identical assets in active markets

	12/31/11	12/31/10
Fixed income funds	$ 322,968	$297,390
Equity funds	670,869	659,853
Money market funds	2	1
Total investments	$ 993,839	$ 957,244

The components of total investment return by net assets classification are reflected below:

December 31, 2011	Unrestricted	Temporarily Restricted	Total
Interest	$0	$23,830	$23,830
Net gain	0	(9,466)	(9,466)
Investment fees	0	(3,007)	(3,007)
Net investment income	$ 0	$ 11,357	$11,357
December 31, 2010			
Interest	$0	$25,675	$ 25,675
Net gain	0	66,811	66,811
Investment fees	0	(2,599)	(2,599)
Net investment income	$0	$89,887	$89,887

Note 5 – Property and equipment

Property and equipment is summarized as follows:

	12/31/11	12/31/10
Office equipment	$26,240	$ 22,839
Leasehold improvements	18,080	18,080
Computer equipment	0	21,038
	44,320	61,957
Accumulated depreciation	(29,411)	(53,422)
Property and equipment, net	$14,909	$ 8,535

Note 6 – Deferred Support

During 2007, the Organization received conditional contributions totaling $500,000 that required matching funds. A portion of these funds was received from the donors in 2008 in advance of the conditions being met. The unmet balance of funds received totaling $141,809 and $143,409 at December 31, 2011 and 2010, respectively, is recorded as deferred support and will be recognized as income as the Organization continues to raise matching funds.

Note 7 – Temporarily Restricted Net

Temporarily restricted net assets were available for the following purposes:

	12/31/11	12/31/10
Sustainable Agriculture	$ 458,441	$ 593,868
Restoration on Private Lands	202,782	314,092
Sustainable Business	118,914	28,568
Support of future period expenses	106,542	125,050
Organization Capacity	74,373	0
	$ 961,052	$ 1,061,578

Note 8 – Permanently Restricted Net Assets

Permanently restricted net assets consist of the Sustainable Conservation Endowment Fund (the Fund), whose purpose is to provide support in meeting the operating and program needs of the Organization.

The Board of Directors of the Organization has interpreted the State Prudent Management of Institutional Funds Act (SPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization 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 the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by SPMIFA. In accordance to SPMIFA, the organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the various funds, (2) the purposes of the donor-restricted endowment funds, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of the Organization, and (7) the Organization's investment policies.

Investment Return Objectives, Risk Parameters and Strategies – The Organization has adopted investment and spending policies, approved by the Board of Directors, for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment funds while also maintaining the purchasing power of those endowment assets over the long-term. Accordingly, the investment process seeks to achieve an after-cost total real rate of return, including investment income as well as capital appreciation, which exceeds the annual distribution with acceptable levels of risk. Endowment assets are invested in a well diversified asset mix, which includes equity and debt securities, that is intended to result in a consistent inflation-protected rate of return that has sufficient liquidity to make an annual distribution of 7%, while growing the funds if possible. Investment risk is measured in terms of the total endowment fund investment assets and allocation between asset classes and strategies are managed to not expose the fund to unacceptable levels of risk.

Spending policy – The Organization has a policy of appropriating for distribution each year up to 7% of its endowment fund's average fair value of the prior twelve calendar quarters through the calendar year-end preceding the fiscal year in which the distribution is planned. Until the Fund has been in existence for twelve calendar quarters, the annual amount shall be up to five percent of the average net fair value of the Fund's assets for as many complete calendar quarters as the Fund has been in existence. The Organization considered the long-term expected return on its investment assets, the nature and duration of the individual endowment funds, many of which must be maintained in perpetuity because of donor-restrictions, and the possible effect of inflation.

SUSTAINABLE CONSERVATION

Notes to Financial Statements
Years Ended December 31, 2011 and 2010

The composition of the Organization's endowment by net asset class at the end of December 31, 2011 and 2010, in total and by type of endowment fund, follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor restricted 12/31/11	$ 0	$ 106,542	$ 716,382	$ 822,924
Donor restricted 12/31/10	$ 0	$ 125,050	$ 713,182	$ 838,232

A reconciliation of the beginning and ending balance of the Organization's endowment at December 31, 2011 follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning	$ 0	$ 125,050	$ 713,182	$ 838,232
Investment return:				
Investment income	0	23,830	0	23,830
Management fees	0	(3,007)	0	(3,007)
Net depreciation (realized & unrealized)	0	(9,466)	0	(9,466)
Total investment return	0	11,357	0	11,357
Contributions	0	0	3,200	3,200
Appropriation of endowment for expenditures	0	(29,865)	0	(29,865)
Endowment net assets, ending	$ 0	$ 106,542	$ 716,382	$ 822,924

A reconciliation of the beginning and ending balance of the Organization's endowment at December 31, 2010 follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning	$ 0	$ 35,163	$ 560,982	$596,145
Investment return:				
Investment income	0	25,675	0	25,675
Management fees	0	(2,599)	0	(2,599)
Net depreciation (realized & unrealized)	0	66,811	0	66,811
Total investment return	0	89,887	0	89,887
Contributions	0	0	152,200	152,200
Recovery of prior years Accumulated losses	0	0	0	0
Appropriation of endowment for expenditures	0	0	0	0
Endowment net assets, ending	$ 0	$ 125,050	$713,182	$ 838,232

At December 31, 2011 or 2010 the fair value of invested assets assigned to individual donor restricted endowment net asset balances required to be maintained in perpetuity had no deficiency.

The investments restricted for long term purposes, in addition to the endowment funds and the accumulated earnings as summarized above, endowment assets at December 31, 2011 included $141,809 in deferred support, as described in Note 6, plus $29,106 in funds that were not transferred out of the endowment assets. At December 31, 2010, the endowment assets included $143,409 in deferred support less $24,397 in funds received but not transferred into the endowment assets.

Note 9 – Contributed Services

The Organization recognizes certain voluntary services as explained under note 2(j) above. The Organization recorded the following services as income and expense on the statement of activities.

	Program Services	Management & General
Year Ended December 31, 2011		
Legal services	$10,862	$0
Data analysis	2,498	0
Total	$ 13,360	$0
Year Ended December 31, 2010		
Legal services	$30,343	$1,497
Photography services	600	0
Total	$30,943	$1,497

Note 10 – Retirement Benefits

The Organization has a 401(k) retirement plan for employees working 20 hours per week or more and who have completed 90 days of credited service. Under the plan, the Organization provides a 50% match to amounts contributed by each employee up to 10% of their compensation. Plan contributions incurred by the Organization were $41,802 and $38,849 for the years ended December 31, 2011 and 2010, respectively.

Note 11 – Commitments under Operating Leases

The Organization leases its office space and certain equipment under non-cancelable lease arrangements. The facility lease provides for scheduled rent increases. Generally Accepted Accounting Principles (GAAP) requires that rental expense under such arrangements be recorded on a straight line basis. Management believes that the current method of recording rental expense based on amounts paid approximates GAAP. The minimum future commitments under these arrangements are:

Year ending December 31, 2012	$ 136,663
Year ending December 31, 2013	138,629
Year ending December 31, 2014	144,114
Year ending December 31, 2015	12,055
	$ 431,461

Total rent expense was $134,579 and $128,313 for the years ended December 31, 2011 and 2010, respectively.

Note 12 – Conditional Commitments

During 2011, the Organization received a conditional commitment in the amount of $200,000 that requires 100% matching from new private donors. The balance of the commitment with unmet condition at December 31, 2011 was $100,000. This balance is not recorded as income on the accompanying financial statements.

Note 13 – Line of Credit

The Organization has a secured line of credit in the amount of $250,000 with a financial institution. The line is secured primarily by accounts receivable, equipment and fixtures, and bears interest at prime plus 2%. The Organization did not use the line during the years ended December 31, 2011 or 2010 and there was no outstanding balance at December 31, 2011 or 2010.

Note 14 – Subsequent Events

Management has evaluated subsequent events through May 2, 2012, the date on which the financial statements were available to be issued.