SUSTAINABLE CONSERVATION

REPORT ON AUDIT OF FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2010
AND DECEMBER 31, 2009

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, 2010 and 2009, 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, 2010 and 2009, 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 4, 2011
Oakland, California

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SUSTAINABLE CONSERVATION

Statements of Financial Position
At December 31, 2010 and 2009

	2010	2009
Assets		
Current assets		
Cash and cash equivalents (Note 3)	$1,524,730	$1,618,092
Certificates of deposit	247,463	245,000
Contracts receivable	141,680	129,550
Grants receivable, net of $0 for uncollectable promises	-	129,999
Pledges receivable, net of $0 for uncollectable pledges	-	23,698
Other receivables	18,564	-
Prepaid expenses	60,254	117,948
Total Current Assets	1,992,691	2,264,287
Investments restricted for long-term purposes (Note 4)	957,244	789,235
Deposits	12,055	13,432
Property and equipment, net (Note 5)	8,535	9,300
Total Assets	$2,970,525	$3,076,254
Liabilities		
Current liabilities		
Accounts payable and accrued expenses	$ 102,551	$ 136,845
Accrued compensated absences	66,141	67,248
Deferred support (Note 6)	143,409	219,509
Total Current Liabilities and Total Liabilities	312,101	423,602
Net Assets		
Unrestricted	883,664	826,353
Temporarily restricted (Note 7)	1,061,578	1,265,317
Permanently restricted (Note 8)	713,182	560,982
Total Net Assets	2,658,424	2,652,652
Total Liabilities and Net Assets	$2,970,525	$3,076,254

See notes to financial statements

SUSTAINABLE CONSERVATION

Statements of Activities
Years Ended December 31, 2010 and 2009

	Year Ended December 31, 2010				Year Ended December 31, 2009			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support and Revenue								
Government grants and contracts	$ 290,572	$ -	$ -	$ 290,572	$ 285,227	$ -	$ -	$ 285,227
Foundation and community grants	25,000	1,417,751	-	1,442,751	465,224	793,234	30,000	1,288,458
Contributions	716,324	-	152,200	868,524	270,159	15,000	136,200	421,359
In-kind contributions (Note 9)	32,440	-	-	32,440	293,559	-	-	293,559
Client services	37,325	-	-	37,325	69,584	-	-	69,584
Interest	2,612	-	-	2,612	2,475	-	-	2,475
Other income	5,563	-	-	5,563	5,646	-	-	5,646
Net assets released from restriction:								
Purpose accomplished and time restriction expired	1,711,377	(1,711,377)	-	-	1,428,471	(1,428,471)	-	-
Total Support and Revenue	2,821,213	(293,626)	152,200	2,679,787	2,820,345	(620,237)	166,200	2,366,308
Expenses								
Program services	2,140,151	-	-	2,140,151	2,109,486	-	-	2,109,486
Supporting services:								
Management and general	325,977	-	-	325,977	326,228	-	-	326,228
Fundraising	297,774	-	-	297,774	285,669	-	-	285,669
Total Expenses	2,763,902	-	-	2,763,902	2,721,383	-	-	2,721,383
Change in net assets before income from long-term investments	57,311	(293,626)	152,200	(84,115)	98,962	(620,237)	166,200	(355,075)
Net income from long-term investments	-	89,887	-	89,887	123,940	35,164	-	159,104
Change in net assets	57,311	(203,739)	152,200	5,772	222,902	(585,073)	166,200	(195,971)
Net Assets at beginning of year	826,353	1,265,317	560,982	2,652,652	603,451	1,850,390	394,782	2,848,623
Net Assets at end of year	$ 883,664	$ 1,061,578	$ 713,182	$ 2,658,424	$ 826,353	$ 1,265,317	$ 560,982	$ 2,652,652

See notes to financial statements

SUSTAINABLE CONSERVATION

Statements of Cash Flows
Years Ended December 31, 2010 and 2009

	2010	2009
Cash flows from operating activities:		
Change in net assets	$ 5,772	$ (195,971)
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation	6,991	8,172
Net (gain) loss from investments	(66,811)	(140,147)
Contributions restricted for long-term purposes	(76,100)	(83,100)
(Increase) decrease in operating assets:		
Receivables	123,002	1,115,062
Prepaids	57,694	(86,451)
Deposits	1,377	12,353
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	(35,401)	(65,079)
Deferred revenue	(76,100)	(83,100)
Net cash provided (used) by operating activities	(59,576)	481,739
Cash flows from investing activities:		
Purchases of securities	(389,909)	(82,162)
Net change in certificates of deposit	(2,463)	(143,757)
Sales and maturities of investments	288,712	-
Purchase of equipment	(6,226)	-
Net cash used by investing activities	(109,886)	(225,919)
Cash flows from financing activities:		
Contributions restricted for long term purposes	76,100	83,100
Net cash provided by financing activities	76,100	83,100
Net increase (decrease) in cash and cash equivalents	(93,362)	338,920
Cash and cash equivalents at beginning of the year	1,618,092	1,279,172
Cash and cash equivalents at end of the year	$ 1,524,730	$ 1,618,092

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	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

SUSTAINABLE CONSERVATION

Statement of Functional Expenses
Year Ended December 31, 2009

	Program Services	Supporting Services: Management and General	Supporting Services: Fundraising	Common Costs	Total
Salaries	$ 933,963	$ 178,518	$ 181,310	$ -	$ 1,293,791
Payroll taxes	66,060	14,089	14,353	-	94,502
Employee benefits (Note 10)	110,374	24,588	24,001	-	158,963
Professional fees	314,226	52,949	7,629	-	374,804
Legal fees	290,383	1,500	-	-	291,883
Occupancy	114,494	15,791	26,765	-	157,050
Sub-grants	84,590	-	-	-	84,590
Travel	42,842	388	1,983	-	45,213
Printing & reproduction	24,213	3,860	8,522	2,418	39,013
Lobbying	36,850	-	-	-	36,850
Equipment rental & maintenance	-	4,229	-	22,673	26,902
Conference & meetings	14,170	6,441	4,186	-	24,797
Telephone & internet	9,216	-	423	10,124	19,763
Supplies	9,092	271	1,963	7,602	18,928
Recruitment & staff development	13,565	4,344	984	-	18,893
Insurance	-	9,552	-	-	9,552
Depreciation	5,524	1,304	1,342	-	8,170
Postage & delivery	1,915	1,436	2,474	766	6,591
Dues, subscriptions & publications	2,328	20	3,336	409	6,093
Licenses & fees	4,163	-	-	-	4,163
Bank charges	-	796	76	-	872
Common cost allocation	31,518	6,152	6,322	(43,992)	-
Total	$ 2,109,486	$ 326,228	$ 285,669	$ -	$ 2,721,383

See Notes to Financial Statements

SUSTAINABLE CONSERVATION

Notes to Financial Statements
Years Ended December 31, 2010 and 2009

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 governmental 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. Pledges receivable that are permanently restricted 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, receivables and investments. 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) or Securities Investor Protection Corporation (SIPC) up to a certain level. The uninsured cash and cash equivalent balance was $991,747 and $1,235,622 as of December 31, 2010 and December 31, 2009, respectively. Receivables principally consist of receivables from various government agencies, foundations and individuals. Realization of these items is dependent on the economic conditions of those agencies, foundations and individuals. 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 money market and mutual funds that are traded in active markets as follows:

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

	12/31/10	12/31/09
Fixed income funds	$ 297,390	$189,732
Equity funds	659,853	598,099
Money market funds	1	1,404
Total investments	$ 957,244	$ 789,235

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

December 31, 2010	Unrestricted	Temporarily Restricted	Total
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
December 31, 2009			
Interest	$0	$21,381	$ 21,381
Net gain	123,940	16,207	140,147
Investment fees	0	(2,424)	(2,424)
Net investment income	$123,940	$35,164	$159,104

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Notes to Financial Statements
Years Ended December 31, 2010 and 2009

Note 5 – Property and equipment

Property and equipment is summarized as follows:

	12/31/10	12/31/09
Office equipment	$22,839	$ 16,613
Computer equipment	21,038	21,038
Leasehold improvements	18,080	18,080
	61,957	55,731
Less: Accumulated depreciation	(53,422)	(46,431)
Property and equipment, net	$8,535	$ 9,300

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 $143,409 and $219,509 at December 31, 2010 and 2009, 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 Assets

Temporarily restricted net assets were available for the following purposes:

	12/31/10	12/31/09
Sustainable Agriculture	$593,868	$1,005,952
Restoration on Private Lands	314,092	219,201
Support of future period expenses	125,050	35,164
Sustainable Business	28,568	5,000
	$ 1,061,578	$ 1,265,317

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.

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Notes to Financial Statements
Years Ended December 31, 2010 and 2009

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.

The composition of the Organization's endowment by net asset class at the end of December 31, 2010 and 2009, in total and by type of endowment fund, follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor restricted 12/31/10	$ 0	$ 125,050	$ 713,182	$ 838,232
Donor restricted 12/31/09	$ 0	$ 35,164	$ 560,982	$ 596,146

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	$ 35,164	$560,982	$ 596,146
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
Appropriation of endowment for expenditures	0	0	0	0
Endowment net assets, ending	$ 0	$ 125,051	$ 713,182	$ 838,233

SUSTAINABLE CONSERVATION

Notes to Financial Statements
Years Ended December 31, 2010 and 2009

A reconciliation of the beginning and ending balance of the Organization's endowment at December 31, 2009 follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning	$ (123,940)	$ 0	$ 394,782	$270,842
Investment return:				
Investment income	0	21,381	0	21,381
Management fees	0	(2,424)	0	(2,424)
Net depreciation (realized & unrealized)	0	140,147	0	140,147
Total investment return	0	159,104	0	159,104
Contributions	0	0	166,200	166,200
Recovery of prior years Accumulated losses	123,940	(123,940)	0	0
Appropriation of endowment for expenditures	0	0	0	0
Endowment net assets, ending	$ 0	$ 35,164	$560,982	$ 596,146

At December 31, 2010 or 2009 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, included $143,409 and $219,509 of deferred support, as described in Note 6, less $24,397 and $26,420 in funds received but not transferred into the endowment at December 31, 2010 and 2009, respectively.

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.

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Notes to Financial Statements
Years Ended December 31, 2010 and 2009

	Program Services	Management & General
Year Ended December 31, 2010		
Legal services	$30,343	$1,497
Photography services	600	0
Total	$30,943	$1,497
Year Ended December 31, 2009		
Legal services	$290,382	$0

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 $38,849 and $30,526 for the years ended December 31, 2010 and 2009, 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, 2011	$ 125,887
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
	$ 557,348

Total expense related to these arrangements was $128,313 and $145,558 for the years ended December 31, 2010 and 2009, respectively.

Note 12 – 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, 2010 or 2009 and there was no outstanding balance at December 31, 2010 or 2009.

Note 13 – Subsequent Events

Management has evaluated subsequent events through May 4, 2011, the date on which the financial statements were available to be issued.