

GUANACASTE DRY FOREST
CONSERVATION FUND
FINANCIAL STATEMENTS
AND SUPPLEMENTAL INFORMATION
DECEMBER 31, 2015

GUANACASTE DRY FOREST CONSERVATION FUND

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INDEPENDENT AUDITORS' REPORT

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To the Audit Committee and
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Guanacaste Dry Forest Conservation Fund

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We have audited the accompanying financial statements of Guanacaste Dry Forest Conservation Fund, ("GDFCF"), (a California nonprofit corporation), which comprise the Statements of Financial Position as of December 31, 2015 and 2014, and the related Statement of Activities for the year ended December 31, 2015, and Statements of Cash Flows for the years ended December 31, 2015 and 2014, 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 (U.S. GAAP); 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 (GAAS). 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 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 Guanacaste Dry Forest Conservation Fund as of December 31, 2015, and the changes in its net assets and its cash flows for the year then ended in accordance with U.S. GAAP.

Correction of Error

As discussed in Note 15 to the financial statements, a certain error resulting in understating permanently restricted net assets as of December 31, 2014, was discovered by Management of GDFCF during the current year. Accordingly, a reclassification between board designated unrestricted and permanently restricted net assets was recorded in the year ended 2014 in the restated financial statements now presented, to correct the error. Our opinion is not modified with respect to that matter.

Other Matter - Supplemental Schedule

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplemental schedule of functional expenses on page 26 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with GAAS. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

MacFarlane-Faletti & Co. LLP

Santa Barbara, California
October 7, 2016

GUANACASTE DRY FOREST CONSERVATION FUND
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2015 AND 2014

| <u>ASSETS</u> | <u>2015</u> | <u>2014</u> <u>(Restated)</u> |
|---|----------------------|----------------------------------|
| Current Assets | | |
| Cash and cash equivalents | \$ 1,293,942 | \$ 729,586 |
| Agency cash funds held (Note 9) | 93,498 | 82,271 |
| Pledges receivable, current portion (Note 3) | 1,340,000 | 1,412,000 |
| Notes receivable, net (Note 4) | - | 190,211 |
| Other receivables | 256 | 91,398 |
| Prepaid expenses and deposits | 1,168 | 941 |
| Total Current Assets | <u>2,728,864</u> | <u>2,506,407</u> |
| Property and Equipment, net (Note 5) | <u>161,722</u> | <u>97,776</u> |
| Other Assets | | |
| Investments (Note 6) | 5,793,809 | 5,734,496 |
| Beneficial interest in trust (Note 8) | 1,406,788 | 1,488,646 |
| Pledges receivable, long term portion, net of current portion (Note 3) | 2,419,597 | 3,660,140 |
| Collections (Note 2) | - | - |
| Total Other Assets | <u>9,620,194</u> | <u>10,883,282</u> |
| Total Assets | <u>\$ 12,510,780</u> | <u>\$ 13,487,465</u> |
| <u>LIABILITIES AND NET ASSETS</u> | | |
| Current Liabilities | | |
| Agency funds payable (Note 9) | \$ 93,498 | \$ 82,271 |
| Grant payable | - | 50,000 |
| Accrued payroll and other expenses | 132,707 | 74,028 |
| Total Current Liabilities | <u>226,205</u> | <u>206,299</u> |
| Total Liabilities | <u>226,205</u> | <u>206,299</u> |
| Net Assets | | |
| Unrestricted net assets (Note 11) | 4,155,632 | 4,337,999 |
| Temporarily restricted net assets (Note 11) | 4,115,521 | 5,363,708 |
| Permanently restricted net assets (Note 11) | 4,013,422 | 3,579,459 |
| Total Net Assets | <u>12,284,575</u> | <u>13,281,166</u> |
| Total Liabilities and Net Assets | <u>\$ 12,510,780</u> | <u>\$ 13,487,465</u> |

See accompanying notes

GUANACASTE DRY FOREST CONSERVATION FUND
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2015
WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2014

| | 2015 | | | Total | 2014 |
|---|---------------------|---------------------------|---------------------------|----------------------|----------------------|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | | (Restated) Total |
| Revenue and Support | | | | | |
| Contributions and grants | \$ 702,845 | \$ 249,918 | \$ 515,821 | \$ 1,468,584 | \$ 2,565,048 |
| Investment income, net (Note 6) | (122,452) | - | - | (122,452) | 231,029 |
| Change in value of | | | | | |
| interest in trust (Note 8) | - | - | (81,858) | (81,858) | 115,286 |
| Environmental services payments | 75,599 | - | - | 75,599 | 100,070 |
| Easement and mitigation income | 107,779 | - | - | 107,779 | 106,369 |
| Notes receivable interest income | 727 | - | - | 727 | 30,640 |
| Net assets released from restrictions | 1,498,105 | (1,498,105) | - | - | - |
| Total Revenue and Support | 2,262,603 | (1,248,187) | 433,963 | 1,448,379 | 3,148,442 |
| Expenses | | | | | |
| Program Services | | | | | |
| Biodiversity Inventory and Development | 1,340,230 | - | - | 1,340,230 | 1,234,639 |
| Forest Acquisition and Management | 597,418 | - | - | 597,418 | 1,438,585 |
| ACG Operational Support | 39,828 | - | - | 39,828 | 45,841 |
| Total Program Services | 1,977,476 | - | - | 1,977,476 | 2,719,065 |
| Supporting Services | | | | | |
| General and administrative | 384,676 | - | - | 384,676 | 405,817 |
| Fundraising | 82,818 | - | - | 82,818 | 67,769 |
| Total Supporting Services | 467,494 | - | - | 467,494 | 473,586 |
| Total Operating Expenses | 2,444,970 | - | - | 2,444,970 | 3,192,651 |
| Change in Net Assets | (182,367) | (1,248,187) | 433,963 | (996,591) | (44,209) |
| Net Assets at Beginning of Year as Originally Stated (Note 15) | 4,450,861 | 5,363,708 | 3,466,597 | 13,281,166 | 13,325,375 |
| Prior period adjustment (Note 15) | (112,862) | - | 112,862 | - | - |
| Net Assets at Beginning of Year, Restated | 4,337,999 | 5,363,708 | 3,579,459 | 13,281,166 | 13,325,375 |
| Net Assets at End of Year | \$ 4,155,632 | \$ 4,115,521 | \$ 4,013,422 | \$ 12,284,575 | \$ 13,281,166 |

See accompanying notes

GUANACASTE DRY FOREST CONSERVATION FUND
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

| | <u>2015</u> | <u>2014</u> <u>(Restated)</u> |
|--|---------------------|----------------------------------|
| Cash Flows from Operating Activities: | | |
| Change in net assets | \$ (996,591) | \$ (44,209) |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | | |
| Depreciation | 24,784 | 19,104 |
| Loss on disposal of property and equipment | 1,182 | - |
| Allowance for uncollectible note receivable | 175,000 | 175,000 |
| (Gain)/loss on sale of investments | (67,051) | 101,337 |
| Decrease/(increase) in value of beneficial interest in trust | 81,858 | (115,286) |
| Unrealized loss/(gain) on investments | 346,145 | (150,107) |
| Permanently restricted cash contributions for endowment | (515,821) | (137,802) |
| Changes in: | | |
| Agency cash funds held | (11,227) | 31,480 |
| Pledges receivable | 1,312,543 | 1,369,270 |
| Other receivables | 91,142 | (58,709) |
| Prepaid expenses | (227) | 3,559 |
| Agency funds payable | 11,227 | (31,480) |
| Grant payable | (50,000) | (50,000) |
| Accrued payroll and other expenses | 58,679 | 56,651 |
| Net Cash Provided By Operating Activities | <u>461,643</u> | <u>1,168,808</u> |
| Cash Flows from Investing Activities: | | |
| Purchase of fixed assets | (89,912) | (28,731) |
| Issuance of notes receivable | - | (21,770) |
| Repayments on notes receivable | 15,211 | 63,853 |
| Proceeds from sale of investments | 1,137,545 | 701,991 |
| Purchase of investments | <u>(1,475,952)</u> | <u>(1,852,752)</u> |
| Net Cash Used By Investing Activities | <u>(413,108)</u> | <u>(1,137,409)</u> |
| Cash Flows from Financing Activities: | | |
| Contribution to beneficial interest in trust | - | (500,000) |
| Permanently restricted contributions for endowment | 515,821 | 137,802 |
| Net Cash Provided/(Used) By Financing Activities | <u>515,821</u> | <u>(362,198)</u> |
| Net Increase/(Decrease) in Cash and Cash Equivalents | 564,356 | (330,799) |
| Beginning Cash and Cash Equivalents | <u>729,586</u> | <u>1,060,385</u> |
| Ending Cash and Cash Equivalents | <u>\$ 1,293,942</u> | <u>\$ 729,586</u> |

See accompanying notes

GUANACASTE DRY FOREST CONSERVATION FUND

NOTES TO FINANCIAL STATEMENTS

NOTE 1: ORGANIZATION AND ACTIVITIES

Guanacaste Dry Forest Conservation Fund (“GDFCF”) was founded and initially funded in 1997 by Drs. Daniel Janzen and Winifred Hallwachs, with a gift of the \$400,000 Kyoto Prize that Janzen received that year. GDFCF has evolved to become the formal non-profit partner working with the Costa Rican government’s 165,000 hectare Area de Conservacion Guanacaste (“ACG”), a part of the country’s national system of protected areas. GDFCF’s mission is to promote the long-term survival of the ecosystems and biodiversity of ACG through conservation, education, science-based management, and biodiversity development. Janzen and Hallwachs have played a central role in a long-term campaign to acquire, restore, and protect the four distinct ecosystems within ACG as a single private-government, co-managed biophysical unit. ACG has become one of Costa Rica’s most significant protected areas due to its size, diversity, and decentralized management. As a UNESCO World Heritage Site, decreed in 1998, ACG is regarded as one of the most biologically rich places on the planet, containing 60% of Costa Rica’s biodiversity and an estimated 2.6% of total global biodiversity.

The early stages of GDFCF activity largely focused on raising money to purchase land for preservation. Over time, ACG has grown dramatically in size from the original 24,000 hectare 'Parque Santa Rosa' in 1971 to approximately 165,000 hectares today. Currently, with a biologically significant and protected land and marine area in place, GDFCF’s efforts are increasingly focused on biological knowledge and the sustainability of protection and management through research, education, and making its biodiversity content fully known to all public, local, national, and international research and scientific institutions. Over fifty percent of GDFCF’s current annual budget supports biodiversity inventory and biodiversity management involving the training and management of resident “parataxonomists” who work across a system of thirteen research stations throughout ACG. GDFCF’s science-based biodiversity research and development program is one of the most robust of its kind anywhere in the tropics and has led to discoveries of thousands of new species and to important changes in how the world views the taxonomy and ecology of tropical species.

GDFCF collaborates with ACG staff and a variety of other public and private scientific and educational partners on four primary activities: biodiversity research, land management, ACG operations, and community-based bioliteracy education. These activities are described in detail in the following sections.

GUANACASTE DRY FOREST CONSERVATION FUND

NOTES TO FINANCIAL STATEMENTS

NOTE 1: ORGANIZATION AND ACTIVITIES (Continued)

Biodiversity Inventory and Development

To promote the long-term survival of ACG, including its dry forest, rain forest, and cloud forest land, species, and ecosystems, and to educate the surrounding communities and people (near, far and internationally), and to promote research efforts that increase the knowledge of ACG, GDFCF manages four major science research projects (Bioinventories of Lepidoptera [BioLep - moths & butterflies], Coleoptera [BioCol - beetles] marine organisms [BioMar] and neotropical migrant birds [BioAves]), as well as two conservation management programs related to Rainforest Acquisition and Management, and ACG Operational Support. GDFCF also performs agency services for two educational programs: Programa Education Biologica (PEB) and the Southern Wings bird conservation project called Los Trogones. Each of these programs is operated as part of the private- public land mosaic that constitutes the protection and survival of ACG biodiversity.

GDFCF's biodiversity inventory and development consists of two major program tracks involving resident Costa Rican scientists called "parataxonomists." Parataxonomists work across a network of thirteen remote research stations in ACG collecting, rearing, data basing, and identifying species on the "front end", and moving this information out to the user community as physical specimens and databases of them (including images), and as "finished" products. These same parataxonomists are instrumental in maintaining a world-class curatorial program of preparing, data basing, transporting, and genetically analyzing these species on the "back end." Most of the specimens end up in natural history collections at high-level international institutions and museums such as the Smithsonian Institution, the Canadian National Insect Collection, and the Museo Nacional de Cultura de Costa Rica. The entire taxonomic process and biodiversity development process that is supported and facilitated by GDFCF continuously strives to increase biological knowledge, dissemination of that knowledge to the world at large, and species identification, all at no direct cost to the recipient. Of an estimated 375,000 species thought to exist in ACG, a number roughly equivalent to the total number of species in all of the USA and Canada, only about 30% have been identified and described.

A key element of GDFCF's biodiversity inventory and development is the role of DNA barcoding, a form of genetic fingerprinting of species. DNA analysis of samples collected in the field takes place in a laboratory in the Biodiversity Institute of Ontario at the University of Guelph in Canada. ACG/GDFCF participation in this program is done under the auspices of formal research permits from the Government of Costa Rica, and agreements with the Biodiversity Institute of Ontario and its staff.

GUANACASTE DRY FOREST CONSERVATION FUND

NOTES TO FINANCIAL STATEMENTS

NOTE 1: ORGANIZATION AND ACTIVITIES (Continued)

Forest Acquisition and Management

As indicated above, GDFCF exists to support biodiversity survival and protection of the ACG into the indefinite future. The goal is to achieve much of this through assisting with the harmonious integration of rural communities surrounding the ACG through biodiversity development, as well as national and international integration more commonly encountered in tropical conserved wild lands. Since 1997, GDFCF has received significant funds donated for land acquisition. In addition, donors have provided funds for future management and understanding of ACG and GDFCF activity on the GDFCF-government mosaic that constitutes ACG. (See Note 10.) GDFCF's founders, Dan Janzen and Winnie Hallwachs, played a major role in land acquisition efforts, and today the size of ACG covers approximately 165,000 hectares (roughly 410,000 acres).

While biologically significant protected land and marine areas are now in place, GDFCF continues to buy available and ecologically special (or strategically located) land for conservation and forest restoration, using funds from several contributors. GDFCF's land acquisitions are now focused on land located on the east side of ACG (known as the Caribbean rainforest area), in order to enlarge the conservation potential of this dangerously small rainforest ecosystem, which is a critical refuge for migrating birds and insects. Owing to the way ACG as a whole has been constructed by patchwork land purchases since 1985, and government national park decrees for 15 years before that, GDFCF holds title to three of the seventeen sectors that make up ACG, or approximately 13,500 hectares (about 12% of the total land base of ACG). GDFCF pays property taxes and various land management costs for these properties, and also receives ecosystem service payments (known as "PSAs" – Pago de Servicios Ambientales) under a unique federal government program designed to maintain high priority private forest lands in conservation status. This program is administered by the Costa Rica government national forestry finance agency (known as FONAFIFO). It is GDFCF's intent and vision that these lands will eventually be transferred to the Government as formal national park legal status (instead of their current status of private management "as if a national park"), when, and only when, the national legislation of Costa Rica has evolved to where the biodiversity and ecosystem management process allows the ACG directorate and management process to be as adaptive-management based and tailor-made for current biological and social reality as is today possible with private GDFCF land management.

ACG Operational Support

ACG represents, and is the result of, a complex effort to achieve long-lasting conservation through the social integration and non-damaging biodiversity development of a large complex tropical wildland. GDFCF specializes in helping to support the various ACG government costs that are unbudgeted or exceed existing government budgets. Items purchased automatically become property of the government of Costa Rica. Examples of support include unexpected repairs or asset replacements, support for new tourism and education initiatives, and formal courses for ACG government salaried staff.

GUANACASTE DRY FOREST CONSERVATION FUND

NOTES TO FINANCIAL STATEMENTS

NOTE 1: ORGANIZATION AND ACTIVITIES (Continued)

ACG Operational Support (Continued)

GDFCF has established a so-called “rapid response fund”, which is a funding mechanism used by non-governmental organizations world-wide to partner with and support local organizations that are protecting or attempting to conserve sensitive wild life areas. Funds received under the rapid response funding program are expected to be used for selected operational costs in particularly under-resourced areas and programs, where existing funding is insufficient to cover conservation costs, or where government support is simply inadequate. What is not spent in one year is rolled over to the next, thereby encouraging government staff to not make hasty or unnecessary use of these precious undesignated resources; if at the end of a grant period there are unexpected funds, GDFCF’s practice is to report this to the donor and seek their permission to redirect their use or to convert them to long-term reserve funds that provide additional job and operational security for both government and GDFCF personnel.

ACG Operational Support is an important function of GDFCF, owing to unpredictability of ACG government budgets, although it makes up a relatively small proportion of GDFCF’s annual budget.

Education for Bioliteracy

Education and research for bioliteracy is a growing component of GDFCF’s activities that integrate ACG’s staff and programs with communities around the perimeter of ACG, through educational outreach to over 50 schools and thousands of schoolchildren who live in those communities, and intellect-based local biodiversity research employment. GDFCF’s role is first to find and encourage charitable donations to fund ACG’s Programa de Educacion Biologica (referred to as “PEB”). Second, GDFCF serves as a pass-through for financial support to PEB that cannot go directly to the State-supported portion of PEB. GDFCF also serves as a fiscal agent to ACG’s Marine Bioawareness program (“MB” program). Both the PEB and MB programs serve children, adolescents, and adults. Funds received by GDFCF supplement Costa Rican federal government funding of these programs and are used to purchase program supplies, maintain vehicles and buildings, and pay staff involved in research and educational program delivery. Unlike the Biodiversity Research program, where GDFCF has a very direct management and oversight role, GDFCF plays primarily a supporting agency role for the educational programs managed by ACG staff. (See Note 9.)

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying financial statements of GDFCF have been prepared on the accrual basis of accounting under accounting standards generally accepted in the United States of America.

GUANACASTE DRY FOREST CONSERVATION FUND

NOTES TO FINANCIAL STATEMENTS

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial Statement Presentation

GDFCF reports 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.

Unrestricted Net Assets

All contributions are considered unrestricted unless specifically restricted by the donor. Unrestricted net assets include those designated by the board for particular uses.

Temporarily Restricted Net Assets

Temporarily restricted net assets are assets received with donor restrictions that will be satisfied by particular expenditures or actions of GDFCF that fulfill donor stipulations or by the passage of time.

Permanently Restricted Net Assets

Permanently restricted net assets consist of contributions and other inflows of funds subject to donor-imposed restrictions that neither expire by the passage of time nor can be fulfilled or otherwise removed by the actions of GDFCF.

Cash and Cash Equivalents

For purposes of the statement of cash flows, GDFCF considers all highly liquid investments with an initial maturity of three months or less to be cash and cash equivalents, including demand deposits and money market accounts. Amounts held for agency purposes and by investment brokers pending a suitable investment, are not considered cash and cash equivalents for the purpose of the statement of cash flows.

Pledges Receivable

Pledges receivable are recorded in the period in which the pledge is received at its estimated current collectible amount. Pledges receivable are discounted to present value using a discount rate based upon U.S. Treasury bill rates at the date of the pledge, with compounding calculated on a quarterly basis. Management periodically evaluates all pledges receivable for collectability and records an allowance for any amounts estimated to be uncollectible. At December 31, 2015 and 2014, there were no allowances for uncollectible pledges as management believes the balances to be fully collectible. (See Note 3.)

Notes Receivable

In prior years, GDFCF had loaned funds to certain of its parataxonomists and to a research institute and records the balance of these notes receivable due at face value. Management periodically evaluates these notes for collectability and records an allowance for any amounts estimated to be uncollectible. (See Note 4.)

GUANACASTE DRY FOREST CONSERVATION FUND

NOTES TO FINANCIAL STATEMENTS

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property and Equipment

GDFCF records property and equipment at cost if purchased or at fair market value at time of contribution if donated. Assets with a cost of \$2,500 or more and a useful life of more than one year are capitalized. GDFCF depreciates these assets using the straight-line method over their estimated useful lives. The estimated useful lives range from 3 to 5 years for vehicles, office and computer equipment and software, and 7 years for furniture. (See Note 5.)

Collections

GDFCF scientists and parataxonomists have discovered, catalogued, and preserved tens of thousands of species of hundreds of thousands of biological specimens on thousands of hectares of land held by the government of Costa Rica and GDFCF. These specimens are formally the property of Costa Rica, but collected and studied under research permits from the government of Costa Rica. Nearly all have been exported from ACG with formal government export permits, with the consent of the Costa Rican government, for donation to various national or international biodiversity institutions for use in research, education, and exhibitions. None have been sold or are destined for sale.

The approximately 13,500 hectares of land acquired by GDFCF are held as a collection intended for public exhibition, education, and/or research in furtherance of public service. The lands are protected, kept unencumbered, cared for, and preserved. They are subject to GDFCF's and related organizations' policy that requires the proceeds of land sales, should any ever occur, to be used to acquire other land for collections.

Not-for-profit accounting principles state that an organization that holds items that meet the definition of a collection has the option not to capitalize such collection items. In conformity with GAAP, none of the land received through donation or by purchase has been capitalized; cash or related assets held for future land purchases are reflected in the temporarily restricted net asset portion of the accompanying Statement of Financial Position. GDFCF received no donated land during 2015 and 2014.

Fair Value of Financial Instruments

The fair value of current assets and liabilities approximates carrying value because of the short-term nature of these items. The fair value of pledges receivable approximates carrying value based on the net present value discount, which corresponds with prevailing market interest rates (see Note 3). Investments are at fair value as disclosed in Note 6.

Foreign Operations

For Costa Rican operations whose functional currency is the local foreign currency, balance sheet accounts are translated at exchange rates in effect on the day of transfer of funds to the foreign bank accounts. GDFCF recognized currency exchange losses of \$1,055 and \$0 for the years ended December 31, 2015 and 2014, respectively.

GUANACASTE DRY FOREST CONSERVATION FUND

NOTES TO FINANCIAL STATEMENTS

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Contributions

Contributions other than of collections are measured at fair value on the date of contribution. Contributions and other inflows of funds temporarily subject to donor-imposed restrictions are reported as temporarily restricted. When a donor restriction expires, that is, when a stipulated time restriction ends or a purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported as net assets released from restrictions.

Donated Services

GDFCF relies on volunteers, including the Board of Directors, to perform certain services in realizing its mission. Contributed services are recognized as revenue and related expense if the services received (a) create or enhance long-lived assets, or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. The value of accounting, tax preparation, and biological research services donated to GDFCF and included in the financial statements totaled \$135,000 for both years ended December 31, 2015 and 2014, respectively.

Functional Allocation of Expenses

GDFCF allocates its expenses on a functional basis for program, fundraising, and support services. Expenses that can be identified directly to a particular function are allocated accordingly. Costs that are not directly associated with providing specific services have been allocated based upon the relative time spent by employees of GDFCF providing those services. Estimated allocation methodologies are reviewed by management twice a year and are revised as needed on a go-forward basis.

Taxes

GDFCF is recognized as tax-exempt by the Internal Revenue Service under Internal Revenue Code section 501(c)(3) and by the California Franchise Tax Board under Revenue & Taxation Code section 23071d. GDFCF is not classified as a private foundation. GDFCF has investments in two leasing partnerships which generate income subject to tax on unrelated business income. In addition, GDFCF may be subject to unrelated business income tax due to using its margin loan. Management believes that it has appropriate support for any tax positions taken, and as such, does not have any uncertain tax positions that are material to the financial statements for the year ended December 31, 2015, or for any year for which the statute of limitations remains open. The relevant statutes of limitations for GDFCF are as follows: three years for federal tax returns and four years for California tax returns.

GUANACASTE DRY FOREST CONSERVATION FUND

NOTES TO FINANCIAL STATEMENTS

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Estimates

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions may affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Estimates used in preparing these financial statements include allocation of certain expenses by function, collectability of pledges and notes receivable, net present value of pledges receivable, donated services, foreign currency rate adjustments from Canadian dollars to United States of America dollars, and the depreciable lives and estimated residual value of property and equipment.

It is at least reasonably possible that the significant estimates used will change within the next year.

Reclassifications

Certain balances reported for the year ended December 31, 2014, have been reclassified to make them comparable to the balances reported for the year ended December 31, 2015.

NOTE 3: PLEDGES RECEIVABLE

Unconditional promises to give are included in the financial statements in the appropriate net asset class as receivables and revenue at the time the pledge is received. Receivables have been discounted at prevailing rates at the time of pledge (see Note 2). These pledges are expected to be collected as follows:

| | <u>2015</u> | <u>2014</u> |
|--------------------------|---------------------|---------------------|
| Less than one year | \$ 1,340,000 | \$ 1,412,000 |
| One to five years | 2,499,000 | 3,799,000 |
| Over five years | <u>40,420</u> | <u>60,619</u> |
| Total Pledges Receivable | 3,879,420 | 5,271,619 |
| Less discounts | <u>(119,823)</u> | <u>(199,479)</u> |
| Pledges Receivable, net | <u>\$ 3,759,597</u> | <u>\$ 5,072,140</u> |

NOTE 4: NOTES RECEIVABLE

GDFCF's notes receivable consist of notes receivable due from parataxonomists (PTs) and, in the year ended December 31, 2014, notes receivable due from Costa Rica's Instituto Nacional de Biodiversidad (INBio).

During 2015, one of the co-founders of GDFCF provided approximately \$14,000 to GDFCF for the purpose of paying off the balance of all PT loans. During 2014, the same co-founder provided approximately \$26,000 to GDFCF for the purpose of paying off the balance of all PT loans except one. (See Note 10.)

GUANACASTE DRY FOREST CONSERVATION FUND

NOTES TO FINANCIAL STATEMENTS

NOTE 4: NOTES RECEIVABLE (Continued)

The INBio receivables consist of three notes, each with fixed interest of 8.0% per annum. The first note of \$50,000, dated October 12, 2011, and the second note of \$200,000, dated October 10, 2012, both had accrued interest and principal maturities on May 16, 2014. The maturity date has passed, and Management and INBio are no longer modifying the maturity date for these two notes. In October 2013, a third note was issued in the amount of \$100,000, with accrued interest and principal due on demand.

Management evaluated the collectability of the INBio receivables as of December 31, 2015, and determined the total principal balances owed of \$350,000 and accrued interest of \$56,854 were uncollectible. Management discontinued accruing interest on the notes on January 1, 2015. These balances were written off and a loss of \$231,854 was recorded at December 31, 2015. In the prior year, December 31, 2014, Management recorded a \$175,000 allowance for doubtful accounts of 50% of the total \$350,000 principal balance due.

Interest income accrued on notes receivable totaled \$727 and \$30,640 for the years ended December 31, 2015 and 2014, respectively.

NOTE 5: PROPERTY AND EQUIPMENT

GDFCF's investments in property and equipment are as follows at December 31:

| | <u>2015</u> | <u>2014</u> |
|---------------------------------------|-------------------|------------------|
| Buildings and improvements | \$ 63,842 | \$ 25,933 |
| Vehicles and transportation equipment | 96,252 | 54,170 |
| Field cameras and equipment | 45,218 | 43,818 |
| Computers and software | 76,628 | 73,808 |
| Other equipment | <u>17,582</u> | <u>14,246</u> |
| Total, at cost | 299,522 | 211,975 |
| Less: accumulated depreciation | <u>(137,800)</u> | <u>(114,199)</u> |
| Net property and equipment | <u>\$ 161,722</u> | <u>\$ 97,776</u> |

Depreciation expense for the years ended December 31, 2015 and 2014 was \$24,784 and \$19,104, respectively.

GUANACASTE DRY FOREST CONSERVATION FUND

NOTES TO FINANCIAL STATEMENTS

NOTE 6: INVESTMENTS

Investments are stated at market value, based primarily on quoted market prices for those or similar instruments. GDFCF invests predominantly in three types of investment funds: mutual funds (MFs), closed-end funds (CEFs), and exchange-traded funds (ETFs). The cost and market value of investments are as follows as of December 31, 2015 and 2014:

| | <u>2015</u> | | <u>2014</u> | |
|--|--------------------|----------------------------------|--------------------|----------------------------------|
| | <u>Cost</u> | <u>Fair Market Value</u> | <u>Cost</u> | <u>Fair Market Value</u> |
| MFs, CEFs, ETFs: | | | | |
| Equity Funds | \$3,410,751 | \$3,790,266 | \$2,846,777 | \$3,487,626 |
| Bond Funds | 1,349,437 | 1,266,492 | 1,520,436 | 1,527,299 |
| U.S. Treasuries | 431,979 | 416,541 | 388,424 | 376,804 |
| Equities | 212,001 | 222,000 | 173,605 | 170,680 |
| Real Estate Investment | | | | |
| Trusts (REITs) | 62,575 | 43,244 | 92,385 | 71,224 |
| Alternative funds: | | | | |
| Partnership investments | 34,056 | 28,590 | 70,450 | 58,984 |
| Loan funds | <u>153,362</u> | <u>26,676</u> | <u>156,625</u> | <u>41,879</u> |
| Total | <u>\$5,654,161</u> | <u>\$5,793,809</u> | <u>\$5,248,702</u> | <u>\$5,734,496</u> |
| Unrealized gain | | <u>\$ 139,648</u> | | <u>\$ 485,794</u> |
| Change in unrealized gain from prior year to current year | | <u>\$ (346,146)</u> | | <u>\$ 150,107</u> |

The investments are not held for trading purposes. Market values for fund investments and equities are from quoted prices as of December 31, 2015 and 2014, provided by third party sources. Market values for the REIT and other investments are from other third party sources as explained in Note 7. These estimates are not necessarily indicative of the amounts that GDFCF could realize in a current market exchange.

GDFCF has available to borrow up to 50% of its funds in two investment accounts held at a broker-dealer. The amount available at year end December 31, 2015, was \$1,949,135, with a borrowing power multiple of approximately two. GDFCF had a margin loan balance of \$25,516 and \$0, respectively, for the years ended December 31, 2015 and 2014.

GUANACASTE DRY FOREST CONSERVATION FUND

NOTES TO FINANCIAL STATEMENTS

NOTE 6: INVESTMENTS (Continued)

Investment income is summarized as follows for the years ended December 31:

| | <u>2015</u> | <u>2014</u> |
|-------------------------------------|---------------------|-------------------|
| Investment income | \$ 194,622 | \$ 217,833 |
| Realized gain/(loss), net | 67,051 | (101,337) |
| Net change in unrealized gains | (346,146) | 150,107 |
| Investment expenses | <u>(37,979)</u> | <u>(35,574)</u> |
| Total investment (loss)/income, net | <u>\$ (122,452)</u> | <u>\$ 231,029</u> |

GDFCF has directed its Finance Committee (“the Committee”) to be responsible for oversight of the investment portfolio. The Committee sets the investment policies and goals, including the appropriate risk exposures within the context of GDFCF’s endowment policies and needs. (See Note 12.)

NOTE 7: FAIR VALUE MEASUREMENT

GDFCF has adopted a framework for measuring and disclosing the fair value of assets and liabilities. Accounting principles define fair value as the price that would be received to sell an asset or be paid to transfer a liability (an exit price) in an orderly transaction between market participants on the measurement date. GAAP establishes a fair value hierarchy that prioritizes valuation measures (“inputs”) into three broad levels to ensure consistency and comparability. The valuation hierarchy gives the highest priority to quoted prices in active markets (“Level 1 inputs”) and the lowest priority to “unobservable inputs” (“Level 3 inputs”). These three levels of inputs are defined as follows:

Level 1: Quoted prices in active markets for identical assets or liabilities.

Level 2: Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in active markets that are not active; discounted cash flows; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3: Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The following is a description of the valuation methodologies used for instruments measured at fair value on a recurring basis and recognized in the accompanying Statement of Financial Position, as well as the general classification of such instruments pursuant to the valuation hierarchy.

In determining fair value, GDFCF utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible as well as considers counterparty credit risk in its assessment of fair value.

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then Level 2 fair values are estimated by using pricing models, quoted prices of securities with similar characteristics, or discounted cash flows.

GUANACASTE DRY FOREST CONSERVATION FUND

NOTES TO FINANCIAL STATEMENTS

NOTE 7: FAIR VALUE MEASUREMENT (Continued)

Financial instruments carried at fair value as of December 31, 2015, are classified in the table below in one of the three categories described above:

| | Quoted prices in active markets for identical asset <u>Level 1</u> | Significant other observable inputs <u>Level 2</u> | Significant unobservable inputs <u>Level 3</u> |
|------------------------------|--|--|---|
| MFs, CEFs, ETFs: | | | |
| Equity Funds | \$ 3,790,266 | \$ - | \$ - |
| Bond Funds | 1,266,492 | - | - |
| U.S. Treasuries | 416,541 | - | - |
| Equities | 222,000 | - | - |
| REITs | - | - | 43,244 |
| Alternative funds: | | | |
| Partnership Investments | - | - | 28,590 |
| Loan Funds | - | - | 26,676 |
| Beneficial interest in trust | - | <u>1,406,788</u> | - |
| Total | <u>\$ 5,695,299</u> | <u>\$ 1,406,788</u> | <u>\$ 98,510</u> |

Financial instruments carried at fair value as of December 31, 2014, are classified in the table below in one of the three categories described above:

| | Quoted prices in active markets for identical asset <u>Level 1</u> | Significant other observable inputs <u>Level 2</u> | Significant unobservable inputs <u>Level 3</u> |
|------------------------------|--|--|---|
| MFs, CEFs, ETFs: | | | |
| Equity Funds | \$ 3,487,626 | \$ - | \$ - |
| Bond Funds | 1,527,299 | - | - |
| U.S. Treasuries | 376,804 | - | - |
| Equities | 170,680 | - | - |
| REITs | - | - | 71,224 |
| Alternative funds: | | | |
| Partnership Investments | - | - | 58,984 |
| Loan Funds | - | - | 41,879 |
| Beneficial interest in trust | - | <u>1,488,646</u> | - |
| Total | <u>\$ 5,562,409</u> | <u>\$ 1,488,646</u> | <u>\$ 172,087</u> |

GUANACASTE DRY FOREST CONSERVATION FUND

NOTES TO FINANCIAL STATEMENTS

NOTE 7: FAIR VALUE MEASUREMENT (Continued)

The change in Level 3 financial instruments is as follows:

| | |
|------------------------------|------------------|
| Balance at December 31, 2013 | \$ 273,179 |
| Principal repayments | (56,557) |
| Investment fund liquidation | (85,327) |
| Investment gains, net | <u>40,792</u> |
| Balance at December 31, 2014 | \$ 172,087 |
| Principal repayments | (53,282) |
| Investment fund liquidation | (11,801) |
| Investment gains, net | <u>(8,494)</u> |
| Balance at December 31, 2015 | <u>\$ 98,510</u> |

Transfers from Level 3 to Level 1 during the years ended December 31, 2015 and 2014, totaled \$65,083 and \$141,884, respectively.

The following is a description of the general classification of such instruments pursuant to the valuation hierarchy:

Exchange-Traded and Closed-End Funds – Holdings of exchange-traded and closed-end funds are valued at intraday value (an estimate of the fund's net asset value (NAV)), based on quoted prices in active markets of the underlying securities held at December 31, 2015 and 2014.

Equities – Investment in common and preferred stock valued at quoted prices in active markets.

Mutual funds – Investment in mutual funds valued at the NAV of shares held at December 31, 2015 and 2014, based on quoted prices for the funds in active markets.

U.S. Treasuries – Investments in U.S. Treasuries are valued based upon qualified prices for similar vehicles.

REITs – Holdings of real estate investment trust shares valued based upon the trust manager's estimate of per-share value at year-end, as published in the trust's Form 8-K filed with the SEC each December.

Alternative funds – Investments in units of participation in master loans to equipment leasing partnerships are valued based upon the annual estimate of the year-end loan value provided by the partnership manager in a letter to investors. Investments in partnerships are valued based on estimates provided by the general partners in its annual report to partners.

Beneficial interest in trust – Investments in Canadian and U.S. securities valued at quoted prices in active Canadian and U.S. markets. Canadian securities prices are translated to U.S. dollars based upon the exchange rate for Canadian and U.S. dollars at the end of the year.

GUANACASTE DRY FOREST CONSERVATION FUND

NOTES TO FINANCIAL STATEMENTS

NOTE 8: BENEFICIAL INTEREST IN TRUST

GDFCF is named as a beneficiary of funds held in trust by the International Conservation Fund of Canada (ICFC). ICFC has set up a fund named the "Parataxonomist Trust Fund" (the Trust). The agreement between ICFC and GDFCF regarding the Trust specifies the funds and investment earnings are restricted for distribution and use for GDFCF's biodiversity inventory and development program - specifically for funding PTs costs. ICFC maintains variance power over the use and beneficiaries of funds and earnings on funds held in Trust, as well as investment management of Trust funds. Also see related party disclosures associated with the Trust in Note 10.

Distributions will be limited to the prior year income plus undisbursed income from the second prior year, unless extraordinary circumstances have occurred. No distributions have been made since inception of the Trust through December 31, 2015, and Management and ICFC intend to grow the Trust through reinvestment of earnings until such future time as sufficient funds in the Trust can generate earnings to fund PTs.

The Trust has been presented in the financial statements at its fair market value of \$1,406,788 and \$1,488,646 as of December 31, 2015 and 2014, respectively.

Any change in value of net assets held in the Trust is recorded in the Statement of Activities as "change in the value of beneficial interest in trust." The (decrease)/increase in value of beneficial interest in trust was (\$81,858) and \$115,286 for the years ended December 31, 2015 and 2014, respectively. Foreign currency exchange gain or loss adjustments between the value of the Canadian dollar and the United States dollar have been included in the change in value totals for December 31, 2015 and 2014, respectively.

NOTE 9: AGENCY FUNDS

GDFCF serves as an agent for ACG's Biological Education program. The funds are to be used to support PEB, as described in Note 1 under "Education for Bioliteracy." The balances of agency funds held by GDFCF for this activity at December 31, 2015 and 2014, were \$93,498 and \$82,271, respectively.

GDFCF serves as an agent for donations to Costa Rica's National Biodiversity Institute (INBio). In 2015, the University of Pennsylvania transferred \$50,000 to GDFCF to be disbursed as requested by INBio to support the general operations of INBio's research program, including salaries and other expenses incurred. The balance of agency funds held by GDFCF for this activity at December 31, 2015 was \$21,527.

GUANACASTE DRY FOREST CONSERVATION FUND

NOTES TO FINANCIAL STATEMENTS

NOTE 10: RELATED PARTIES

A GDFCF Board member was also a Vice President of Programs for a major funding foundation (the Foundation) for GDFCF until May 2015. While she was a member of the Foundation's grant-making committee, she was not a voting trustee of the committee, and she recused herself from voting decisions related to funding GDFCF.

GDFCF's Costa Rican operations are located on land and in buildings owned by ACG. Under a program administered by FONAFIFO (Costa Rica's national forestry financing agency), that provides ecosystem service payments to private landowners who conserve forestland, GDFCF received \$75,599 and \$100,070 during 2015 and 2014, respectively, for roughly 3,000 hectares of land that it owns directly in the ACG.

The Fundacion Parques Nacionales, (FPN), is a special Costa Rican endowment fund started by one of the co-founders of GDFCF to be a source of funding for the national park system. While FPN is now managed largely by the government, GDFCF conducts research on lands within ACG that are technically owned by FPN.

The co-founders of GDFCF are also co-founders (and former officers) of INBio. GDFCF has three notes receivable due from INBio totaling \$350,000. These notes receivable were fully written off in 2015, and are considered uncollectible as of December 31, 2015 (see Note 4). GDFCF also supports five part-time curators at INBio through a grant from a separate biodiversity foundation. One of the co-founders provided approximately \$14,000 and \$26,000 in cash to pay off PT loans recorded by GDFCF for the years ended December 31, 2015 and 2014, respectively. The servicing on these PT loans was transferred to the co-founder.

A board member of GDFCF is also an officer on the board of ICFC, a private foundation based in Nova Scotia, Canada, who invests in biodiversity projects around the world and supports conservation projects in ACG. ICFC holds funds held in Trust (See Note 8.)

Two of GDFCF's board members are married.

NOTE 11: NET ASSETS

GDFCF's net assets include the following:

Unrestricted and Board Designated Net Assets - Unrestricted net assets and unrestricted net assets designated by the board for special purposes.

Unrestricted and board designated net assets consist of the following at December 31:

| | <u>2015</u> | <u>2014</u> <u>(Restated)</u> |
|---|---------------------|----------------------------------|
| Unrestricted net assets | \$ 864,546 | \$ 1,211,395 |
| Deficit of value of endowment assets compared to original gifts | (52,560) | - |
| Board designated net assets for: | | |
| General endowment fund | 1,307,449 | 1,319,156 |
| PT program fund | 798,891 | 826,521 |
| PT program coordinator fund | <u>1,237,306</u> | <u>980,927</u> |
| Total Unrestricted and Board Designated Net Assets | <u>\$ 4,155,632</u> | <u>\$ 4,337,999</u> |

GUANACASTE DRY FOREST CONSERVATION FUND

NOTES TO FINANCIAL STATEMENTS

NOTE 11: NET ASSETS (Continued)

Temporarily Restricted Net Assets - Donor restricted net assets for a particular use or time restricted net assets.

Temporarily restricted net assets consist of the following at December 31:

| | <u>2015</u> | <u>2014</u> |
|---|---------------------|---------------------|
| Funds held for future operations and programs | \$ 3,565,825 | \$ 4,694,189 |
| Biodiversity research programs | 365,419 | 159,167 |
| Funds held for land acquisitions | 72,856 | 460,390 |
| Education programs | 61,000 | 30,000 |
| ACG support | <u>50,421</u> | <u>19,962</u> |
| Total Temporarily Restricted Net Assets | <u>\$ 4,115,521</u> | <u>\$ 5,363,708</u> |

Permanently Restricted Net Assets – Donor restricted net assets where the principal (corpus) is restricted into perpetuity. The income from these net assets may be used currently for the purpose for which the endowments were established.

Permanently restricted net assets, (collectively "Endowments"), consist of the following at December 31:

| | <u>2015</u> | <u>2014</u> (Restated) |
|---|---------------------|---------------------------|
| General Endowment Fund | \$ 1,000,000 | \$ 988,975 |
| PT Program Endowment | 993,772 | 988,975 |
| PT Program Endowment – ICFC Trust | 1,406,788 | 1,488,647 |
| PT Program Coordinator Endowment | <u>612,862</u> | <u>112,862</u> |
| Total Permanently Restricted Net Assets | <u>\$ 4,013,422</u> | <u>\$ 3,579,459</u> |

NOTE 12: CONTINGENCIES

GDFCF received funds from a number of contracts with various USA and Costa Rican entities. These contracts are subject to audit by the corresponding oversight agency or organization as to allowable costs paid with these funds and as to the share of costs contributed by GDFCF. GDFCF could be liable up to the full amount of the contract funds expended should costs charged under the respective contracts be disallowed. Management does not believe that they have charged to grants any material amounts that would be disallowed and have, therefore, not recorded an allowance for these amounts.

GUANACASTE DRY FOREST CONSERVATION FUND

NOTES TO FINANCIAL STATEMENTS

NOTE 13: ENDOWMENTS

As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions. Currently GDFCF has four board designated endowments and four permanently restricted endowments.

The Board of Directors of GDFCF 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, GDFCF 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 GDFCF in a manner consistent with the standard of prudence prescribed by SPMIFA. In accordance with SPMIFA, GDFCF 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 GDFCF, and (7) GDFCF's investment policies.

Investment Return Objectives, Risk Parameters, and Strategies

GDFCF has adopted investment and spending policies for endowment assets, established by the Finance Committee and approved by the Board of Directors, that attempt to maintain the corpus and 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 that includes investment income as well as capital appreciation 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 maintains and grows the corpus of the funds.

Actual returns in any given year may vary. Investment risk is measured in terms of the total restricted fund balance. Investment of assets is managed with the goal of not exposing the assets to unacceptable levels of risk.

GUANACASTE DRY FOREST CONSERVATION FUND

NOTES TO FINANCIAL STATEMENTS

NOTE 13: ENDOWMENTS (Continued)

Spending Policy

GDFCF did not spend the corpus of any of its permanently restricted net assets during the years ended December 31, 2015 and 2014. GDFCF had net investment earnings on endowments of (\$52,560) and \$99,935 for the years ended December 31, 2015 and 2014, respectively. In 2014, net investment earnings were expended on the biodiversity inventory and development program in accordance with the donor's intention. These releases from restrictions are included in net assets released from restriction on the Statement of Activities.

From time to time, the fair value of assets associated with donor-restricted funds may fall below the level that current law requires GDFCF to retain for a fund of perpetual duration. These deficiencies would be reported in the financial statements as a reduction in unrestricted net assets. As of December 31, 2015, GDFCF had a fund deficiency of \$52,560.

Changes in endowments for the year ended December 31, 2015, were as follows:

| | <u>Board Designated Endowment</u> | <u>Total Permanently Restricted Endowment</u> | <u>Total Endowment</u> |
|--|---|---|----------------------------|
| Balance at December 31, 2013 | \$ - | \$ 2,826,371 | \$ 2,826,371 |
| Contributions | - | 137,802 | 137,802 |
| Investment income, net | 152,254 | - | 152,254 |
| Transfer of unrestricted funds | 2,974,350 | - | 2,974,350 |
| Transfer of temporarily restricted funds (Also see Note 11 Funds intended for Endowment) | - | 500,000 | 500,000 |
| Change in value of beneficial interest in trust | <u>-</u> | <u>115,286</u> | <u>115,286</u> |
| Balance at December 31, 2014 (Restated) | <u>3,126,604</u> | <u>3,579,459</u> | <u>6,706,063</u> |
| Contributions | 225,950 | 515,821 | 741,771 |
| Investment income, net | (36,617) | (52,560) | (89,177) |
| Transfer of unrestricted funds | 27,709 | 52,560 | 80,269 |
| Change in value of beneficial interest in trust | <u>-</u> | <u>(81,858)</u> | <u>(81,858)</u> |
| Balance at December 31, 2015 | <u>\$ 3,343,646</u> | <u>\$ 4,013,422</u> | <u>\$ 7,357,068</u> |

GUANACASTE DRY FOREST CONSERVATION FUND

NOTES TO FINANCIAL STATEMENTS

NOTE 14: CONCENTRATION OF RISK

Approximately 59% of GDFCF's revenues came from four funders in both 2015 and 2014. These sources of support are not guaranteed in the future.

GDFCF also has significant investment balances and earnings. These investments are subject to the inherent risks of inflation and of market risk.

GDFCF maintains cash balances at several banks, and cash and cash equivalents held in 'sweep' bank accounts are held at a broker-dealer. Cash balances held at these banks, including sweep bank accounts held at the broker-dealer, are insured through the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 per depositor and per bank institution. At December 31, 2015, GDFCF had approximately \$834,000 of uninsured balances held in these accounts.

GDFCF has approximately \$214,000 in funds on deposit in Costa Rican financial institutions that may be exposed to risk in the event these banks go out of business.

Certain of GDFCF's investments and cash and cash equivalents in non-sweep accounts are held at a broker-dealer and are protected under the Securities Investor Protection Act (SIPA). Under the terms of SIPA, cash and cash equivalents are insured by the Securities Investor Protection Corporation (SIPC) up to \$250,000 per account held at the broker-dealer and remaining investments are insured up to \$500,000. At December 31, 2015, GDFCF had no uninsured cash and cash equivalents funds held at the broker-dealer.

Approximately 34% and 38% of funds for GDFCF's beneficial interest in trust are invested with Canadian financial institutions at December 31, 2015 and 2014, respectively. These funds have been adjusted from Canadian dollars to United States dollars at foreign currency exchange rates of 0.7200 and 0.9412 December 31, 2015 and 2014, respectively.

NOTE 15: PRIOR YEAR RESTATEMENT

During 2015, management realized that a donation received in 2014 that was classified as a board designated donation to the PT Program Coordinator Endowment was actually a donor-directed contribution to this endowment, with the restriction that the funds be held as a permanent endowment for the PT Coordinator position. As a result, board designated unrestricted net assets decreased and permanently restricted net assets increased \$112,862.

NOTE 16: SUBSEQUENT EVENTS

Management has evaluated subsequent events through October 7, 2016, which is the date the financial statements were available to be issued pending final approval by the Board of Directors. Management has determined that no subsequent events requiring disclosure or significantly impacting the financial statements have occurred.

SUPPLEMENTAL SCHEDULE

GUANACASTE DRY FOREST CONSERVATION FUND
SUPPLEMENTAL SCHEDULE OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2015
WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2014

| | Biodiversity Inventory and Development | Forest Ac- quisition and Management | ACG Operational Support | Total Programs | Adminis- trative | Fund- raising | Totals 2015 | Totals 2014 |
|--|--|---|-------------------------------|---------------------|---------------------|------------------|---------------------|---------------------|
| Salaries and wages | \$ 472,321 | \$ - | \$ - | \$ 472,321 | \$ 27,500 | \$ 38,500 | \$ 538,321 | \$ 489,785 |
| Payroll taxes | 98,513 | - | - | 98,513 | 2,187 | 3,062 | 103,762 | 89,205 |
| Employee benefits | 36,726 | - | - | 36,726 | 7,934 | 11,108 | 55,768 | 53,129 |
| Total Salaries and Related Expenses | 607,560 | - | - | 607,560 | 37,621 | 52,670 | 697,851 | 632,119 |
| Bad debt expense | - | - | - | - | 231,854 | - | 231,854 | 175,000 |
| Barcoding fees | 115,284 | - | - | 115,284 | - | - | 115,284 | 167,484 |
| Contract labor | 355,368 | 14,230 | - | 369,598 | - | - | 369,598 | 303,614 |
| Foreign currency exchange loss | - | - | - | - | 1,055 | - | 1,055 | - |
| Fuel | 43,231 | - | - | 43,231 | - | - | 43,231 | 38,937 |
| Grants | 14,972 | - | 39,828 | 54,800 | - | - | 54,800 | 87,677 |
| Insurance | 5,188 | - | - | 5,188 | 2,890 | - | 8,078 | 6,192 |
| Internet, telephone, and other utility costs | 6,998 | - | - | 6,998 | 5,711 | - | 12,709 | 8,971 |
| Land acquisitions and holding costs | - | 532,737 | - | 532,737 | - | - | 532,737 | 1,392,238 |
| Legal fees | - | 16,023 | - | 16,023 | - | 7,500 | 23,523 | 12,595 |
| Licenses and fees | 301 | - | - | 301 | 695 | 2,186 | 3,182 | 8,301 |
| Office expense | 3,027 | - | - | 3,027 | 7,231 | 4,194 | 14,452 | 19,011 |
| Professional services | - | - | - | - | 63,169 | - | 63,169 | 95,071 |
| Property taxes | - | 34,428 | - | 34,428 | - | - | 34,428 | 27,827 |
| Publishing costs | 2,445 | - | - | 2,445 | - | - | 2,445 | 16,406 |
| Supplies and other program costs | 70,155 | - | - | 70,155 | - | - | 70,155 | 63,807 |
| Travel and meals | 10,722 | - | - | 10,722 | 28,850 | 16,268 | 55,840 | 53,596 |
| Unrelated business tax | - | - | - | - | 5,600 | - | 5,600 | 3,594 |
| Vehicle costs | 76,518 | - | - | 76,518 | - | - | 76,518 | 61,107 |
| Workshop Costs | 3,677 | - | - | 3,677 | - | - | 3,677 | - |
| Total Expenses Before Depreciation | 1,315,446 | 597,418 | 39,828 | 1,952,692 | 384,676 | 82,818 | 2,420,186 | 3,173,547 |
| Depreciation | 24,784 | - | - | 24,784 | - | - | 24,784 | 19,104 |
| Total Expenses December 31, 2015 | <u>\$ 1,340,230</u> | <u>\$ 597,418</u> | <u>\$ 39,828</u> | <u>\$ 1,977,476</u> | <u>\$ 384,676</u> | <u>\$ 82,818</u> | <u>\$ 2,444,970</u> | |
| Total Expenses December 31, 2014 | <u>\$ 1,234,639</u> | <u>\$ 1,438,585</u> | <u>\$ 45,841</u> | <u>\$ 2,719,065</u> | <u>\$ 405,817</u> | <u>\$ 67,769</u> | | <u>\$ 3,192,651</u> |

See accompanying notes