

Western Cave Conservancy
Financial Statements
Year Ending December 31, 2006

I, Robert C. Haye, in my capacity as Treasurer of the Western Cave Conservancy, have prepared the accompanying financial statements. I believe these financial statements to present fairly, in all material respects, the financial position of the Western Cave Conservancy as of December 31, 2006, and the changes in its net assets and its cash flows for the year ended, in conformity with accounting principles generally accepted in the United States of America.

A handwritten signature in black ink, appearing to read 'Robert C. Haye', with a stylized flourish at the end.

Robert C. Haye
Treasurer, Western Cave Conservancy
January 22, 2007

Western Cave Conservancy
Statement of Financial Position
December 31, 2006

Assets

| | |
|----------------------------------|---------------------|
| Cash and cash equivalents | \$28,184.52 |
| Pledged contributions receivable | 355.00 |
| Accounts receivable | 0.00 |
| Land | <u>150,000.00</u> |
| Total assets | <u>\$178,539.52</u> |

Liabilities

| | |
|-------------------|------------------|
| Accounts payable | \$888.90 |
| Sales tax payable | 17.12 |
| Accrued expenses | 0.00 |
| Long-term debt | <u>34,424.55</u> |
| Total liabilities | <u>35,330.57</u> |

Net Assets

| | |
|----------------------------------|---------------------|
| Unrestricted | 143,208.95 |
| Temporarily restricted | 0.00 |
| Permanently restricted | <u>0.00</u> |
| Total net assets | <u>143,208.95</u> |
| Total liabilities and net assets | <u>\$178,539.52</u> |

Western Cave Conservancy
Statement of Activities
Year Ended December 31, 2006

| | <i>Unrestricted</i> | <i>Temp. restricted</i> | <i>Perm. restricted</i> | <i>Total</i> |
|--|---------------------|-----------------------------|-----------------------------|---------------------|
| Revenues, gains, and other support: | | | | |
| Contributions of cash and auction goods | \$37,431.00 | \$0.00 | \$0.00 | \$37,431.00 |
| Sale of promotional items | 545.04 | | | 545.04 |
| Interest earned | 600.62 | | | 600.62 |
| Grants received (see note 6) | 90,000.00 | | | 90,000.00 |
| Events | 1,034.84 | | | 1,034.84 |
| Net assets released from restrictions | | | | |
| Satisfaction of program restrictions | <u>500.00</u> | <u>(500.00)</u> | <u>0.00</u> | <u>0.00</u> |
| Total revenues, gains, and other support | 130,111.50 | (500.00) | 0.00 | 129,611.50 |
| Expenses and losses (see note 3): | | | | |
| Program services | | | | |
| Rippled Cave | 4,760.83 | | | |
| Conservation grants | 700.00 | | | |
| Newsletter | 101.52 | | | |
| Landowner relations | (74.72) | | | |
| Educational displays | <u>189.84</u> | | | |
| Total program services | 5,677.47 | | | 5,677.47 |
| Management and general | 1,070.40 | | | 1,070.40 |
| Fund-raising | <u>3,837.04</u> | | | <u>3,837.04</u> |
| Total expenses | 10,584.91 | | | 10,584.91 |
| Change in net assets | 119,526.59 | (500.00) | 0.00 | 119,026.59 |
| Net assets at beginning of year | <u>23,682.36</u> | <u>500.00</u> | <u>0.00</u> | <u>24,182.36</u> |
| Net assets at end of year | <u>\$143,208.95</u> | <u>\$0.00</u> | <u>\$0.00</u> | <u>\$143,208.95</u> |

Western Cave Conservancy
Statement of Functional Expenses
Year Ended December 31, 2006

| | ----- Programs (see note 3) ----- | | | | | Total | Management & general | Fundraising (see note 4) | Total expenses |
|----------------------------------|-----------------------------------|---------------|---------------|---------------|---------------|-----------------|-------------------------|-----------------------------|-------------------|
| | Rippled | Cons. Grants | Newsletter | Landowner | Displays | | | | |
| Personnel expenses (see note 1): | | | | | | | | | |
| Salaried & hourly | \$0.00 | \$0.00 | \$0.00 | \$0.00 | \$0.00 | \$0.00 | \$0.00 | \$0.00 | \$0.00 |
| Payroll taxes & benefits | <u>0.00</u> | <u>0.00</u> | <u>0.00</u> | <u>0.00</u> | <u>0.00</u> | <u>0.00</u> | <u>0.00</u> | <u>0.00</u> | <u>0.00</u> |
| Total personnel expenses | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Direct expenses: | | | | | | | | | |
| Bank fees | - | - | - | - | - | 0.00 | 57.00 | - | 57.00 |
| Closing costs | 796.00 | - | - | - | - | 796.00 | - | - | 796.00 |
| Credit card processing | - | - | - | - | - | 0.00 | 295.11 | - | 295.11 |
| Copying/printing | - | - | 13.77 | 10.34 | - | 24.11 | 22.78 | 408.28 | 455.17 |
| Delivery/transportation | - | - | - | - | 131.38 | 131.38 | - | - | 131.38 |
| Filing fees | - | - | - | - | - | 0.00 | 20.00 | - | 20.00 |
| Incentive gifts (see note 5) | - | - | - | - | - | 0.00 | - | 1,709.50 | 1,709.50 |
| Interest paid (see note 7) | 1,695.09 | - | - | - | - | 1,695.09 | - | - | 1,695.09 |
| Insurance | - | - | - | - | - | 0.00 | 593.31 | - | 593.31 |
| Educ. displays (see note 3) | - | - | - | -115.45 | - | -115.45 | - | - | -115.45 |
| Grants (see note 3) | - | 700.00 | - | - | - | 700.00 | - | - | 700.00 |
| Postage | - | - | 87.75 | 30.39 | - | 118.14 | 31.68 | 774.61 | 924.43 |
| Promotional items to sell | - | - | - | - | - | 0.00 | - | 587.80 | 587.80 |
| Property maintenance | 248.15 | - | - | - | - | 248.15 | - | - | 248.15 |
| Property tax | 1,946.60 | - | - | - | - | 1,946.60 | - | - | 1,946.60 |
| Safety equipment | 74.99 | - | - | - | - | 74.99 | - | - | 74.99 |
| Supplies: Events | - | - | - | - | - | 0.00 | - | 286.09 | 286.09 |
| Supplies: Member drive | - | - | - | - | - | 0.00 | - | 70.76 | 70.76 |
| Supplies: Other | - | - | - | - | 58.46 | 58.46 | 20.56 | - | 79.02 |
| Web site | <u>---</u> | <u>---</u> | <u>---</u> | <u>---</u> | <u>---</u> | <u>0.00</u> | <u>29.96</u> | <u>---</u> | <u>29.96</u> |
| Total direct expenses | <u>4,760.83</u> | <u>700.00</u> | <u>101.52</u> | <u>-74.72</u> | <u>189.84</u> | <u>5,677.47</u> | <u>1,070.40</u> | <u>3,837.04</u> | <u>10,584.91</u> |
| Total expenses | \$4,760.83 | \$700.00 | \$101.52 | -\$74.72 | \$189.84 | \$5,677.47 | \$1,070.40 | \$3,837.04 | \$10,584.91 |

Western Cave Conservancy
Statement of Cash Flows
For the Fiscal Year Ended December 31, 2006

| | |
|--|---------------------|
| Cash flows from operating activities: | |
| Cash received from donors | \$35,719.00 |
| Cash received from auction of donated goods | 1,357.00 |
| Cash received in exchange for goods or services | 1,579.88 |
| Grants received | 90,000.00 |
| Interest received | 600.62 |
| Interest paid (see note 7) | (1,695.09) |
| Cash paid out for expenses | <u>(8,035.00)</u> |
| Net cash provided by operating activities | <u>119,526.41</u> |
| Cash flows from investing activities: | |
| Purchase of land | (150,000.00) |
| Net cash used by investing activities | <u>(150,000.00)</u> |
| Cash flows from financing activities: | |
| Long-term debt incurred (see note 7) | 45,000.00 |
| Principal payments on long-term debt | <u>(10,575.45)</u> |
| Net cash provided by financing activities | <u>34,424.55</u> |
| Net increase in cash and cash equivalents | 3,950.96 |
| Cash and cash equivalents at beginning of year | <u>24,233.56</u> |
| Cash and cash equivalents at end of year | <u>\$28,184.52</u> |
| Reconciliation of change in net assets to net cash provided by operating activities: | |
| Change in net assets | \$119,026.59 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | |
| Increase in accounts payable | 837.70 |
| Increase in sales tax payable | 17.12 |
| Increase in pledged contributions receivable | (355.00) |
| Net cash provided by operating activities | \$119,526.41 |
| Supplemental data for noncash investing and financing activities: | |
| None to report | |

Western Cave Conservancy
Notes to the Financial Statements
Year Ending December 31, 2006

Note 1 – Organization

The Western Cave Conservancy, organized in 2002 and incorporated on August 17, 2002, is a not-for-profit public charity corporation dedicated to protecting caves primarily through direct purchase of land and easements.

The Conservancy is under the direction of an eight-member volunteer Board of Directors. The Directors were selected from among persons interested in protecting caves, and consideration was given to achieving a diverse, cooperative, experienced, and energetic group.

The Conservancy's operations are carried out by unpaid volunteers, which keeps expenses low and ensures maximum use of donated funds.

Note 2 – Significant accounting policies

Method of accounting: The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America, and include the accounts maintained by and directly under control of the Conservancy. Where statements on a cash basis are required, they have been computed by making appropriate adjustments to the accrual-based records.

Financial Statement Presentation: The Conservancy reports information regarding its financial position and activities in three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. Temporary restrictions are restrictions on the use of donated funds (imposed by a donor) that the Conservancy has a reasonable expectation of meeting. Permanent restrictions are those in which a donor stipulates that a contribution be maintained permanently, but allows the Conservancy to spend all or part of the income derived from the donated assets.

Cash: The Conservancy maintains its primary checking account at Bank of America which is insured by an agency of the federal government up to \$100,000. In addition, the Conservancy uses an interest-bearing money market account (also insured) at Nexity Bank. Most cash funds are held in these insured accounts. In addition, the Conservancy maintains a merchant account with First Regional Bank for the purpose of processing credit card transactions, and an additional merchant account with PayPal for the same purpose. The PayPal account is an uninsured but still quite safe money-market account.

Cash equivalents: For the purposes of the Statement of Cash Flows, the Conservancy considers all cash and other highly liquid investments with initial maturities of three months or less to be cash equivalents.

Investments: The Conservancy had no investments in 2006.

Land, Building, Equipment and Depreciation: Land, buildings and equipment are stated at cost or, in the case of donated property, at fair value at the time of the gift, less accumulated depreciation. Depreciation is provided on a straight-line basis over the assets' estimated useful lives. Normal repairs and maintenance are recorded as unrestricted expenses. In the case of property held for investment or conservation purposes, no depreciation is applied.

Contributions: Contributions received and unconditional promises to give are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence of donor restrictions and the nature of restrictions, if they exist.

Contributions are recognized when the donor makes a binding promise to give to the Conservancy that is, in substance, unconditional. Contributions restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. Donor restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction is satisfied, temporarily restricted net assets are reclassified to unrestricted net assets. If there is no longer a reasonable expectation of satisfying the restriction, the donor is given the option of either removing the restriction or obtaining a refund of the contribution.

Income Taxes: For income from contributions, the Conservancy is exempt from federal and state income taxes under Section 501(C)(3) of the Internal Revenue Code. However, the Conservancy must pay income taxes on "unrelated business income", that is, income not directly related to the Conservancy's exempt purposes. The Conservancy files all appropriate informational and tax returns with federal and California agencies, as well as agencies in other states in which the conservancy engages in significant fundraising activities and that require such returns (currently only Arizona and Oregon.)

Sales Tax: The collection and payment of California sales tax are not reflected as income and expenses in these statements. Rather, sales tax is considered a transfer from the buyer to the state with the Conservancy acting only as intermediary. This is in alignment with the way QuickBooks accounting software models sales tax, easing verification that the financial statements match the Conservancy's electronic records.

Note 3 – Program Expenses

During 2006 the Conservancy incurred many program-related expenses. The programs listed in this report are as follows:

1. Rippled: In March of 2006, the Conservancy purchased approx. 15 acres in Amador County, California to secure permanent protection for Rippled Cave, a significant cave on the property which is used by many local cavers as well as search and rescue personnel. In relation to this property, the Conservancy spent cash on closing costs, property maintenance (fencing, signage, etc.), and safety equipment (gloves, safety glasses) for volunteers working on the property. This program will continue into the foreseeable future.

2. Conservation Grants: In July, the Conservancy made its first conservation grant, in response to an application made by the Timpanogos Grotto of the National Speleological Society, for funds to gate and maintain Nutty Putty Cave and other nearby caves in Utah. This project aligned with the Conservancy's own goals, and Timpanogos Grotto was in the best position to protect these caves from imminent closure by the State of Utah. The Conservancy may make additional grants in coming years, depending on the number and quality of applications received.
3. Newsletter: Members of the Conservancy receive a periodic newsletter containing educational articles, updates on the Conservancy's activities, and calls to action. Three issues were published in 2006. The calls to action encourage activities beneficial to protecting caves, such as looking for unusual species of cave-adapted invertebrates, and writing letters to help protect caves in Nevada and California. This program will continue in 2007.
4. Landowner: In 2005, the Conservancy had purchased and distributed some educational booklets to selected cave landowners, in an effort to educate them about to their cave resources and the options available for protecting them. It turns out the expense recorded for this was incorrectly calculated and was too high. Thus, the records for 2006 show a negative expense adjustment. This program is likely to continue in 2007.
5. Educational Displays: The Conservancy obtained permission to use a display from the Oakland Museum for a cave-related educational event at the Pacific Grove Natural History Museum (in Pacific Grove, California.) The only expenses incurred for this event were for transporting the display back and forth. Volunteers staffed a table at the event, helping to educate the public regarding the importance of protecting caves and their contents.

Note 4 – Fundraising expenses

In 2006 the Conservancy undertook a major fundraising campaign to help pay off the purchase of Rippled Cave. This campaign was quite successful with a large gain in contributions received, but of course resulted in increased fundraising expenses over 2005. It is anticipated that these expenses will decline again in 2007.

Note 5 – Incentive gifts expense

As part of the campaign to raise funds for the Rippled Cave purchase, the Conservancy offered several incentive gifts for various levels of donation. Expenses were incurred for the purchase of WCC-logo fleece vests, travel mugs, patches, photo magnets, and photo puzzles.

Note 6 – Grant received

The Conservancy applied for, and received, a \$90,000.00 grant from the National Speleological Society (NSS) to help purchase the Rippled Cave property.

Note 7 – Loans

In order to purchase the Rippled Cave property, the Conservancy required a sudden infusion of cash to close the transaction. This was obtained in two ways:

First, a zero-interest “bridge loan” was obtained from one of the Conservancy's directors for \$90,000. This was quickly paid off using the NSS grant above.

Second, the Conservancy took out \$45,000 in three-year loans from members of the Conservancy. At the time, of the banks contacted only a few would consider loaning money on bare land to a young organization with few assets. Those banks that did consider loans estimated the interest rate would be at least 8%. In contrast, the loans obtained from members were for \$35,000 at 5% and \$10,000 at 7%. These lower rates resulted in significant savings to the Conservancy.

As of January 15, 2007, the higher interest (7%) loan has been paid off completely, and it appears the Conservancy will be able to pay off the remaining loans well before their three-year term.