

PRUDENCE CONSERVANCY, INC.

TABLE OF CONTENTS

	Page
Independent Auditor's Report	I
Financial Statements:	
Statements of Financial Position	2
Statements of Activities	3
Statements of Cash Flows	4
Notes to Financial Statements	5-9
Supplemental Information:	
Schedules of Program and Supporting Services	10

DUFOUR & SCHMITT, LTD

50 EXCHANGE TERRACE
SUITE 310
PROVIDENCE, R.I. 02903

TEL (401) 751-7154
FAX (401) 421-7806

The Board of Directors
Prudence Conservancy, Inc.

We have audited the accompanying statements of financial position of Prudence Conservancy, Inc. (a nonprofit organization) as of December 31, 2003 and 2002, and the related statements of activities 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 audit.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of financial misstatement. An audit includes, examining, on a test basis, evidence supporting the amounts and disclosures in the 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 audit provides 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 Prudence Conservancy, Inc. as of December 31, 2003 and 2002, and the changes in net assets and cash flows for the years then ended in conformity with generally accepted accounting principles.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information presented on page 9 is presented for the purpose of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

DUFOUR & SCHMITT, LTD

March 4, 2004

PRUDENCE CONSERVANCY, INC.
STATEMENTS OF FINANCIAL POSITION
December 31, 2003 and 2002

ASSETS	<u>2003</u>	<u>2002</u>
Cash and cash equivalents (note 2 and 7)	\$ 130,753	150,543
Unconditional promises to give (note 5):		
Temporarily restricted	38,430	-
Grant receivable	-	2,416
Prepaid expense	7,080	3,623
Property and equipment, net of accumulated depreciation of \$30,501 in 2003; \$23,325 in 2002 (note 3 and 4)	<u>1,001,685</u>	<u>949,409</u>
Total assets	\$ <u>1,177,948</u>	<u>1,105,991</u>
 LIABILITIES		
Accounts payable	\$ 1,092	890
Accrued expenses	<u>2,200</u>	<u>1,600</u>
Total liabilities	<u>3,292</u>	<u>2,490</u>
 NET ASSETS		
Unrestricted	55,482	46,746
Temporarily restricted (note 2)	124,074	113,931
Permanently restricted (note 2)	<u>995,100</u>	<u>942,824</u>
Total net assets	<u>1,174,656</u>	<u>1,103,501</u>
Total liabilities and net assets	\$ <u>1,177,948</u>	<u>1,105,991</u>

The accompanying notes are an integral part of these financial statements

PRUDENCE CONSERVANCY, INC.
STATEMENT OF ACTIVITIES
Year ended December 31, 2003 and 2002

	<u>2003</u>			<u>2002</u>	
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>	<u>Total</u>
Revenues, gains, and other support:					
Contributions and dues:					
Unrestricted (note 6)	\$ 21,828			21,828	12,564
Restrixed (note 2 and 5)	8,324	62,170		70,494	6,695
Grants	2,274			2,274	8,140
Interest and dividends	172	600		772	2,201
Rental income	1,000			1,000	1,000
Fundraising events	758			758	1,003
Product sales	695			695	1,405
Net assets restricted by board:					
Board designated restrictions (note 6)	(6,825)	6,825			-
Net assets released from restrictions:					
Restrictions satisfied by payment		(59,452)	59,452	-	-
Total revenue, gains and other support	<u>28,226</u>	<u>10,143</u>	<u>59,452</u>	<u>97,821</u>	<u>33,008</u>
Expenses:					
Program services	4,501	-	-	4,501	7,819
Supporting services					
Management and general	12,801		7,176	19,977	18,042
Fund-raising and product expense	<u>2,188</u>			<u>2,188</u>	<u>2,727</u>
Total expenses	<u>19,490</u>	<u>-</u>	<u>7,176</u>	<u>26,666</u>	<u>28,588</u>
Change in net assets	8,736	10,143	52,276	71,155	4,420
Net assets at beginning of year	<u>46,746</u>	<u>113,931</u>	<u>942,824</u>	<u>1,103,501</u>	<u>1,099,081</u>
Net assets at end of year	<u>\$ 55,482</u>	<u>124,074</u>	<u>995,100</u>	<u>1,174,656</u>	<u>1,103,501</u>

The accompanying notes are an integral part of these financial statements

PRUDENCE CONSERVANCY, INC.
STATEMENTS OF CASH FLOWS
Years Ended December 31, 2003 and 2002

	<u>2003</u>	<u>2002</u>
Cash flows from operating activities:		
Increase in net assets	\$ 71,155	4,420
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	7,176	6,271
Decrease (increase) in operating assets:		
Uncollected promises to give	(38,430)	-
Grants receivable	2,416	(916)
Prepaid expenses	(3,457)	(2,083)
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	<u>802</u>	<u>279</u>
Net cash provided by operating activities	<u>39,662</u>	<u>7,971</u>
Cash flows from investing activities:		
Payments for property and equipment	<u>(59,452)</u>	<u>(47,274)</u>
Net cash flows used by investing activities	<u>(59,452)</u>	<u>(47,274)</u>
Net increase in cash and cash equivalents	(19,790)	(39,303)
Cash and cash equivalents at beginning of year	<u>150,543</u>	<u>189,846</u>
Cash and cash equivalents at end of year	<u>\$ 130,753</u>	<u>150,543</u>

The accompanying notes are an integral part of these financial statements

PRUDENCE CONSERVANCY, INC.
Notes to Financial Statements
December 31, 2003 and 2002

NOTE I - Nature of Activities and Significant Accounting Policies

Nature of Activities

Prudence Conservancy, Inc. (the Organization) was founded in 1987 in Prudence Island, Rhode Island. Their objectives are: to inform and educate residents of Prudence Island of and on various environmental issues; and to maintain the rural character of Prudence through the acquisition of open spaces properties and its ongoing stewardship role with these properties.

Promises to Give

Contributions are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restriction expires in the fiscal year in which the contributions are recognized. All other donor restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

Contributed Services

SFAS 116 sets forth criteria that contributions of services shall be recognized if the services received require specialized skills that are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation. Any other services provided by volunteers that do not meet the above criteria shall not be recognized in the statements of activities.

In year 2003, legal services were donated to the Organization and recognized on the statement of activities.

Estimates

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that effect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

PRUDENCE CONSERVANCY, INC.
Notes to Financial Statements
December 31, 2003 and 2002

NOTE I - Nature of Activities and Significant Accounting Policies (continued)

Property and Equipment

It is the Organization's policy to capitalize property and equipment with a life expectancy of one year or more. Purchased property and equipment is capitalized at cost. Donations of property and equipment are recorded as contributions at their estimated fair value. Such donations are reported as unrestricted contributions unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted contributions. Absent donor stipulations regarding how long those donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Organization reclassifies temporarily restricted net assets to unrestricted net assets at that time. Property and equipment are depreciated using the straight-line method.

Financial Statement Presentation

The Organization has adopted Statement of Financial Accounting Standards (SFAS) No. 117, "Financial Statements of Not-for-Profit Organization." Under SFAS No. 117, the Organization is required to report 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. In addition, the Organization is required to present a statement of cash flows.

Contributions

The Organization has also adopted SFAS No. 116, "Accounting for Contributions Received and Contributions Made." Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence or nature of any donor restrictions.

Income Taxes

The Organization is a nonprofit organization as described in Section 501(c)(3) of the Internal Revenue Code and is exempt from federal and state income taxes.

Cash and Cash Equivalents

For purposes of the statements of cash flows, the Organization considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents.

Notes to Financial Statements
December 31, 2003 and 2002

NOTE 2 - Restrictions of Net Assets

Restrictions on net assets at the end of 2003 and 2002 are related to: (1) temporarily restricted - funds raised through the Farnham Farm Project which is a specified giving program to assist the organization in purchasing, improving, and maintaining this historically and ecologically significant farm; Funds donated for the purpose of renovating the barn at Farnham Farm for a community room; and an endowment for specific donations to the endowment and for memorials voted by the board which are not otherwise designated. (2) permanently restricted - donated property which has been generally restricted by the donee for the purpose of protecting island land from development. Included in the cash and cash equivalents on the Statements of Financial Position, are temporarily restricted funds totaling as follows:

	<u>2003</u>	<u>2002</u>
Endowment Fund	\$ 22,456	19,269
Renovation Fund	25,662	70,347
Farnham Farm Fund	<u>27,108</u>	<u>24,315</u>
	<u>\$ 75,226</u>	<u>113,931</u>

NOTE 3 - Property & Equipment

Property and equipment consist of the following:

	<u>2003</u>	<u>2002</u>
Land	\$ 738,485	738,485
Building	283,714	224,262
Furniture & equipment	<u>9,987</u>	<u>9,987</u>
	1,032,186	972,734
Accumulated depreciation	<u>30,501</u>	<u>23,325</u>
	<u>\$ 1,001,684</u>	<u>949,409</u>

Depreciation expense for 2003 and 2002 was \$7,176 and \$6,271, respectively.

PRUDENCE CONSERVANCY, INC.
Notes to Financial Statements
December 31, 2003 and 2002

NOTE 4 - Farnham Farm Project

On December 9, 1998, the Organization purchased the property from Albert Jiacovelli for \$350,000. The purchase price was funded by a payment of \$76,412, a mortgage note in the amount of \$175,000 as discussed in notes 3 and 4, and a contribution by Albert Jiacovelli in the form of a reduction in the purchase price of \$ 100,000.

The historic property will serve as headquarters for the Organization and the Prudence Historical Society, and as a focal point for stewardship, educational and recreational programs available to the island community.

A large portion of the building contents were also donated to the Organization by Mr. Jiacovelli. The Organization was unable to obtain a valuation for the personal property; therefore, no amount has been recorded in the accompanying financial statements.

In 2002 and 2003, the Organization completed planned renovations on the barn totaling \$50,637 and 45,712 respectively.

The Organization engaged a planner and facilitator to develop a master plan for restoration and adaptive reuse of Farnham farm buildings. A portion of the fee was funded from a grant provided by Preserve Rhode Island - Citizens Bank mini-grant program.

The Organization has begun the complete restoration and renovation of the farm buildings. The Organization estimates that this project will cost approximately four hundred and twenty five thousand dollars (\$425,000). The Organization is working to raise this over the next four years through pledges and pursuing matching funds from foundations and the state and federal government. As of December 31, 2003, the Organization has received donations and pledges totaling \$ 68,540,

NOTE 5 - Unconditional Promises to Give

The Organization has accounted for the doubtful collection of the capital campaign receivables by providing a reserve in the amount of \$ 4,270 for 2003.

Unconditional Promises to Give	\$ 42,700
Less- Allowance for Unconditional Promises	<u>(4,270)</u>
Net Unconditional Promises to Give	\$ <u>38,430</u>
Receivables in less than one year	\$ 13,050
Receivable in one to five years	<u>25,380</u>
Net Unconditional Promises to Give	\$ 38,430

PRUDENCE CONSERVATION, INC.
Notes to Financial Statements
December 31, 2003 and 2002

NOTE 6 - Memorial Contributions

In 2003, the board of directors voted to transfer the memorial donations received in 2002 into the endowment fund with the exception that funds donated in the memory of Margaret Beck be used to restore Sarah's Path. The fund transferred is as follows:

Transferred to Endowment Fund	\$ 1,075
Used for Restoration of Sarah's Path	<u>5,750</u>
	<u>\$ 6,825</u>

NOTE 7 - Concentration of Credit Risks

The organization maintains a bank account at a local bank. Accounts at an institution are insured by the Federal Deposit Insurance Corp. (FDIC) up to \$ 100,000. At December 31, 2003 the organization had no uninsured cash balances. The Organization also invests a majority of its cash at a local broker/dealer. The Organization does not believe that it is exposed to any significant credit risk in connection with these funds, since the broker/dealer invests primarily in U.S. Treasury securities.

NOTE 8 - Lease to use Coast Guard Real Property

The Organization has entered into a lease agreement, expiring on March 31, 2006, with the United States Coast Guard. The lease agreement permits the Organization to repair, maintain and secure Prudence Island Lighthouse in accordance with the provisions of the National Historic Preservation Act. The organization will conduct educational tours, hold fund raising events with and for the benefit of the general public. The Organization is responsible for improvements, repairs and maintenance of the lighthouse and is not permitted to use Coast Guard utilities. Based upon the Organization's non-profit nature and its intended use of the licensed facility there is no charge for this license.

PRUDENCE CONSERVANCY, INC.
SCHEDULE OF PROGRAM AND SUPPORTING SERVICES
Year ended December 31, 2003 and 2002

	<u>2003</u>			<u>2002</u>
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Program services:				
Trail and property maintenance	\$ 2,741			1,450
Camp and garden maintenance			-	61
Lighthouse maintenance	304			100
Consulting expense	271			5,261
Newsletter and printing expense	<u>1,185</u>			<u>947</u>
	<u>\$ 4,501</u>	<u>-</u>		<u>7,819</u>
Management and general:				
Office supplies	\$ 298			485
Postage	283			450
Bank charges	72			55
Telephone	583			524
Utilities	620			730
Insurance	3,005			3,910
Security expense	375			55
Professional fees	6,339			2,185
Dues and subscriptions	400			449
Repairs and maintenance	236			450
Annual convention expense				2,478
Annual meeting	590			-
Depreciation			7,176	6,271
	<u>\$ 12,801</u>		<u>7,176</u>	<u>19,977</u>
				<u>18,042</u>