

PRUDENCE CONSERVANCY, INC.
FINANCIAL STATEMENTS
DECEMBER 31, 2005 and 2004
(WITH ACCOUNTANT'S REPORT THEREON)

PRUDENCE CONSERVANCY, INC.

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditor's Report	1
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

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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, 2005 and 2004, 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, 2005 and 2004, 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.

June 1, 2006

PRUDENCE CONSERVANCY, INC.
STATEMENTS OF FINANCIAL POSITION
December 31, 2005 and 2004

ASSETS	2005	2004
Cash and cash equivalents	\$ 112,002	127,016
Unconditional promises to give:		
Temporarily restricted	15,300	28,724
Prepaid expense	6,299	7,423
Deposit on land	1,000	-
Property and equipment, net of accumulated depreciation of \$51,656 in 2005; \$39,970 in 2004	<u>2,683,776</u>	<u>1,029,244</u>
Total assets	<u><u>\$ 2,818,377</u></u>	<u><u>1,192,407</u></u>
 LIABILITIES		
Accounts payable	\$ -	100
Accrued expenses	<u>2,500</u>	<u>2,500</u>
Total liabilities	<u><u>2,500</u></u>	<u><u>2,600</u></u>
 NET ASSETS		
Unrestricted	48,218	55,596
Temporarily restricted	90,468	111,552
Permanently restricted	<u>2,677,191</u>	<u>1,022,659</u>
Total net assets	<u><u>2,815,877</u></u>	<u><u>1,189,807</u></u>
Total liabilities and net assets	<u><u>\$ 2,818,377</u></u>	<u><u>1,192,407</u></u>

The accompanying notes are an integral part of these financial statements

PRUDENCE CONSERVANCY, INC.
STATEMENT OF ACTIVITIES
Year ended December 31, 2005 and 2004

	2005			2004	
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
Revenues, gains, and other support:					
Contributions and dues:					
Unrestricted	\$ 19,075		1,637,800	1,656,875	25,127
Restricted		12,999		12,999	23,084
Grants	2,000	1,000		3,000	1,750
Interest and dividends	697	1,326		2,023	670
Rental income	1,727			1,727	1,000
Fundraising events	3,304			3,304	851
Camp, grazing and garden fees	3,419			3,419	2,622
Product sales	1,285			1,285	515
Net assets restricted by board:					
Board-designated restrictions	(2,490)	2,490		-	-
Net assets released from restrictions:					
Restrictions satisfied by payment	10,481	(38,899)	28,418	-	-
	<u>39,498</u>	<u>(21,084)</u>	<u>1,666,218</u>	<u>1,684,632</u>	<u>55,619</u>
Total revenue, gains and other support					
	<u>39,498</u>	<u>(21,084)</u>	<u>1,666,218</u>	<u>1,684,632</u>	<u>55,619</u>
Expenses:					
Program services	10,470	-	-	10,470	8,233
Supporting services					
Management and general	29,238	-	11,686	40,924	29,719
Fund-raising and product expense	7,168			7,168	2,516
	<u>46,876</u>	<u>-</u>	<u>11,686</u>	<u>58,562</u>	<u>40,468</u>
Total expenses					
	<u>46,876</u>	<u>-</u>	<u>11,686</u>	<u>58,562</u>	<u>40,468</u>
Change in net assets	(7,378)	(21,084)	1,654,532	1,626,070	15,151
Net assets at beginning of year	<u>55,596</u>	<u>111,552</u>	<u>1,022,659</u>	<u>1,189,807</u>	<u>1,174,656</u>
Net assets at end of year	<u>\$ 48,218</u>	<u>90,468</u>	<u>2,677,191</u>	<u>2,815,877</u>	<u>1,189,807</u>

The accompanying notes are an integral part of these financial statements.

PRUDENCE CONSERVANCY, INC.
STATEMENTS OF CASH FLOWS
Years Ended December 31, 2005 and 2004

	2005	2004
Cash flows from operating activities:		
Increase in net assets	\$ 1,626,070	15,151
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	11,686	9,469
Contributions of land and other products	(1,637,800)	
Decrease (increase) in operating assets:		
Uncollected promises to give	13,424	9,706
Prepaid expenses	1,124	(343)
Deposit on land	(1,000)	
Increase in operating liabilities:		
Accounts payable and accrued expenses	<u>(100)</u>	<u>(692)</u>
Net cash provided by operating activities	<u>13,404</u>	<u>33,291</u>
 Cash flows from investing activities:		
Payments for property and equipment	<u>(28,418)</u>	<u>(37,028)</u>
Net cash flows used by investing activities	<u>(28,418)</u>	<u>(37,028)</u>
 Net increase in cash and cash equivalents	(15,014)	(3,737)
Cash and cash equivalents at beginning of year	<u>127,016</u>	<u>130,753</u>
Cash and cash equivalents at end of year	<u>\$ 112,002</u>	<u>127,016</u>

The accompanying notes are an integral part of these financial statements.

PRUDENCE CONSERVANCY, INC.
Notes to Financial Statements
December 31, 2005 and 2004

NOTE 1 – 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 2005, 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, 2005 and 2004

NOTE 1 – 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.

PRUDENCE CONSERVANCY, INC.
Notes to Financial Statements
December 31, 2005 and 2004

NOTE 2 – Restrictions of Net Assets

Restrictions on net assets at the end of 2005 and 2004 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>2005</u>	<u>2004</u>
Endowment Fund	\$ 28,805	24,617
Renovation Fund	24,433	39,804
Farnham Farm Fund	<u>21,931</u>	<u>23,804</u>
	<u>\$ 75,169</u>	<u>88,225</u>

NOTE 3 – Property & Equipment

Property and equipment consist of the following:

	<u>2005</u>	<u>2004</u>
Land	\$ 2,381,982	738,485
Building and improvements	332,186	309,465
Furniture & equipment	<u>21,264</u>	<u>21,264</u>
	2,735,432	1,069,214
Accumulated depreciation	<u>51,656</u>	<u>39,970</u>
	<u>\$ 2,683,776</u>	<u>1,029,244</u>

Depreciation expense for 2005 and 2004 was \$ 11,686 and \$9,469, respectively.

On April 28, 2005, Preserve Rhode Island transferred to the organization all of its right, title, and interest in and to the property located on Prudence Island. At the date of transfer, the property had a fair value of \$1,637,800.

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.

PRUDENCE CONSERVANCY, INC.
Notes to Financial Statements
December 31, 2005 and 2004

NOTE 4 – Farnham Farm Project, continued

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. Jiakovelli. The Organization was unable to obtain a valuation for the personal property, therefore, no amount has been recorded in the accompanying financial statements.

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 several years through pledges and pursuing matching funds from foundations and the State and Federal government. As of December 31, 2004, the Organization has received donations and pledges totaling \$ 82,375.

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 \$ 1,700 for 2005 and \$ 3,192 for 2004.

Unconditional Promises to Give	\$ 17,000
Less – Allowance for Unconditional Promises to Give	<u>(1,700)</u>
Net Unconditional Promises to Give	\$ <u>15,300</u>
Receivables in less than one year	\$ 12,900
Receivables in one to five years	<u>2,400</u>
Net Unconditional Promises to Give	\$ <u>15,300</u>

PRUDENCE CONSERVANCY, INC.
Notes to Financial Statements
December 31, 2005 and 2004

NOTE 6 – 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, 2004 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 7 – 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.

NOTE 8 – Commitment

During the year, the organization signed a Purchase and Sale Agreement to purchase land for \$60,000 with 24 months to raise the funds. A deposit in the amount of \$1,000 was made from donations totaling \$1,100.

PRUDENCE CONSERVANCY, INC.
SCHEDULE OF PROGRAM AND SUPPORTING SERVICES
Year ended December 31, 2005 and 2004

	2005			2004	
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
Program services:					
Trail and property maintenance	\$ 1,203			1,203	1,048
Camp and garden maintenance	4,417			4,417	818
Lighthouse maintenance	678			678	242
Newsletter and printing expense	4,172			4,172	6,125
	<u>\$ 10,470</u>	-	-	<u>10,470</u>	<u>8,233</u>
Management and general:					
Office supplies	\$ 1,233			1,233	1,062
Postage	330			330	373
Telephone	568			568	599
Utilities	1,604			1,604	976
Insurance	5,524			5,524	5,733
Security expense	3,600			3,600	1,351
Professional fees	7,497			7,497	5,747
Dues and subscriptions	385			385	325
Repairs and maintenance	5,098			5,098	2,021
Rally expense	2,966			2,966	1,176
Annual meeting	433			433	887
Depreciation			11,686	11,686	9,469
	<u>\$ 29,238</u>	-	<u>11,686</u>	<u>40,924</u>	<u>29,719</u>