

THE CORAL REEF ALLIANCE

**Financial Statements for the Years Ended
June 30, 2014 and 2013
and Independent Auditors' Report**



CORAL REEF ALLIANCE

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
The Coral Reef Alliance
Oakland, California

We have audited the accompanying financial statements of The Coral Reef Alliance (a nonprofit corporation) (the "Organization") which comprise the statements of financial position as of June 30, 2014, and the related statements of activities, functional expenses, and cash flows for the year then ended, 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; 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.

Auditors' 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from 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 Organization'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 the Organization as of June 30, 2014, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

The financial statements of the Organization as of June 30, 2013 were audited by other auditors whose report dated October 4, 2013, expressed an unqualified opinion on those statements.

Karlsson & Lane, a.c.

Pleasanton, California
September 22, 2014

THE CORAL REEF ALLIANCE

STATEMENTS OF FINANCIAL POSITION JUNE 30, 2014 AND 2013

<u>ASSETS</u>	<u>2014</u>	<u>2013</u>
CURRENT ASSETS:		
Cash and cash equivalents	\$ 2,253,434	\$ 2,027,972
Contributions and grants receivable	428,638	106,627
Prepaid expenses	22,801	21,295
Total current assets	2,704,873	2,155,894
Deposits	554	2,771
Property and equipment, net	7,889	12,076
Total assets	<u>\$ 2,713,316</u>	<u>\$ 2,170,741</u>
 <u>LIABILITIES AND NET ASSETS</u>		
LIABILITIES:		
Accounts payable	\$ 114,598	\$ 71,106
Other accrued expenses	105,223	763,236
Total current liabilities	219,821	834,342
 NET ASSETS:		
Unrestricted	1,145,202	39,984
Temporarily restricted	1,348,293	1,296,415
Total net assets	2,493,495	1,336,399
Total liabilities and net assets	<u>\$ 2,713,316</u>	<u>\$ 2,170,741</u>

See notes to financial statements.

THE CORAL REEF ALLIANCE

STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2014

	Unrestricted	Temporarily Restricted	Total
REVENUE AND SUPPORT:			
Individual and corporate contributions	\$ 1,563,720	\$ 20,452	\$ 1,584,172
Foundation and government grants	303,404	1,180,911	1,484,315
Program fees and other income	88,181	-	88,181
Investment loss	(3,094)	-	(3,094)
	<u>1,952,211</u>	<u>1,201,363</u>	<u>3,153,574</u>
Total revenue and support			
Net assets released from restrictions	<u>1,149,485</u>	<u>(1,149,485)</u>	<u>-</u>
Total revenue, support, and net assets released from restrictions	<u>3,101,696</u>	<u>51,878</u>	<u>3,153,574</u>
EXPENSES:			
Program services	1,541,984	-	1,541,984
Support services:			
General and administrative	199,236	-	199,236
Fundraising	255,258	-	255,258
	<u>1,996,478</u>	<u>-</u>	<u>1,996,478</u>
Total expenses			
CHANGE IN NET ASSETS	<u>1,105,218</u>	<u>51,878</u>	<u>1,157,096</u>
NET ASSETS, BEGINNING OF YEAR,	<u>39,984</u>	<u>1,296,415</u>	<u>1,336,399</u>
NET ASSETS, END OF YEAR	<u>\$ 1,145,202</u>	<u>\$ 1,348,293</u>	<u>\$ 2,493,495</u>

See notes to financial statements.

THE CORAL REEF ALLIANCE

STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2013

	Unrestricted	Temporarily Restricted	Total
REVENUE AND SUPPORT:			
Foundation and government grants	\$ 169,532	\$ 3,361,556	\$ 3,531,088
Individual and corporate contributions	468,315	55,139	523,454
Program fees and other income	184,595	-	184,595
Investment income	329	1,295	1,624
	<u>822,771</u>	<u>3,417,990</u>	<u>4,240,761</u>
Total revenue and support			
Net assets released from restrictions	<u>2,618,892</u>	<u>(2,618,892)</u>	<u>-</u>
Total revenue, support, and net assets released from restrictions	<u>3,441,663</u>	<u>799,098</u>	<u>4,240,761</u>
EXPENSES:			
Program services	3,122,139	-	3,122,139
Support services:			
General and administrative	186,337	-	186,337
Fundraising	190,916	-	190,916
	<u>3,499,392</u>	<u>-</u>	<u>3,499,392</u>
Total expenses			
CHANGE IN NET ASSETS	<u>(57,729)</u>	<u>799,098</u>	<u>741,369</u>
NET ASSETS, BEGINNING OF YEAR,	<u>97,713</u>	<u>497,317</u>	<u>595,030</u>
NET ASSETS, END OF YEAR	<u>\$ 39,984</u>	<u>\$ 1,296,415</u>	<u>\$ 1,336,399</u>

See notes to financial statements.

THE CORAL REEF ALLIANCE

**STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2014**

	<u>Program</u>	<u>General and administrative</u>	<u>Fundraising</u>	<u>Total</u>
Salaries and wages	\$ 742,106	\$ 141,678	\$ 129,571	\$ 1,013,355
Grants and initiatives	219,408	-	-	219,408
Consultants	104,262	16,951	8,512	129,725
Training and workshops	125,176	-	54	125,230
Occupancy	99,761	10,334	12,083	122,178
Other personnel expenses	64,608	6,482	25,496	96,586
Payroll taxes	52,934	10,381	10,466	73,781
Travel	54,829	1,454	8,963	65,246
Printing and copying	26,104	733	19,210	46,047
Supplies and equipment	28,769	1,085	6,454	36,308
Postage	6,406	204	12,927	19,537
Telephone and internet	13,303	1,321	2,377	17,001
Bank charges	4,318	934	11,182	16,434
Dues and subscriptions	-	7,679	7,963	15,642
Total	<u>\$ 1,541,984</u>	<u>\$ 199,236</u>	<u>\$ 255,258</u>	<u>\$ 1,996,478</u>

See notes to financial statements.

THE CORAL REEF ALLIANCE

STATEMENT OF FUNCTIONAL EXPENSES FOR THE YEAR ENDED JUNE 30, 2013

	<u>Program</u>	<u>General and administrative</u>	<u>Fundraising</u>	<u>Total</u>
Grants and initiatives	\$ 1,644,390	\$ -	\$ -	\$ 1,644,390
Salaries and wages	821,121	131,309	111,609	1,064,039
Consultants	151,555	13,148	8,184	172,887
Training and workshops	127,895	7	-	127,902
Occupancy	99,501	3,118	7,754	110,373
Travel	86,214	109	3,027	89,350
Other personnel expenses	51,675	15,292	10,363	77,330
Payroll taxes	51,727	12,071	9,166	72,964
Printing and copying	27,114	427	12,040	39,581
Supplies and equipment	30,344	961	681	31,986
Postage	6,352	211	17,261	23,824
Telephone and internet	16,946	1,745	1,927	20,618
Bank charges	5,510	1,978	4,655	12,143
Dues and subscriptions	1,795	5,961	4,249	12,005
Total	<u>\$ 3,122,139</u>	<u>\$ 186,337</u>	<u>\$ 190,916</u>	<u>\$ 3,499,392</u>

See notes to financial statements.

THE CORAL REEF ALLIANCE

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 1,157,096	\$ 741,369
Adjustments to reconcile change in net assets to cash flows from operating activities:		
Depreciation and amortization	6,628	5,250
Realized and unrealized gain on investments	-	(17)
Changes in assets and liabilities that provided (used) cash:		
Contributions and grants receivable	(322,011)	190,570
Prepaid expenses	(1,506)	(10,152)
Deposits	2,217	2,500
Accounts payable	43,492	30,377
Other accrued expenses	(658,013)	691,354
Deferred revenue	-	(5,088)
	<u>227,903</u>	<u>1,646,163</u>
Net cash provided by operating activities		
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale of investments	-	9,293
Purchase of property and equipment	(2,441)	(6,918)
	<u>(2,441)</u>	<u>2,375</u>
Net cash (used in) provided by investing activities		
NET CHANGE IN CASH AND CASH EQUIVALENTS	225,462	1,648,538
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>2,027,972</u>	<u>379,434</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 2,253,434</u>	<u>\$ 2,027,972</u>

See notes to financial statements.

THE CORAL REEF ALLIANCE

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2014 AND 2013

1. ORGANIZATION

Nature of Operation - The Coral Reef Alliance (a nonprofit corporation) (the “Organization”) is a member supported, nonprofit organization, dedicated to protecting the health of coral reefs by integrating ecosystem management, sustainable tourism, and community partnerships. The Organization works with communities to identify and solve conservation challenges; changes attitudes and behavior through education and training; provides resources to strengthen conservation efforts; and creates incentives for sustainable tourism. The Organization’s major sources of revenue are foundation and government grants and donations.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Accounting Method - The Organization uses the accrual basis of accounting, which recognizes income in the period earned and expenses when incurred.

Basis of Accounting - The Organization reports information regarding its financial position and activities according to the three classes of net assets, as applicable: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Cash and Cash Equivalents - Cash and cash equivalents are all highly liquid investments with an original maturity of three months or less.

Contributions and Grants Receivable - Unconditional contributions and grants receivable are reported at fair value and are recognized in the period pledged or received. Grants that are considered exchange transactions are recorded as revenue when earned. Grants that are non-exchange transactions are accounted for as unconditional contributions. Delinquent contributions and grants receivable do not accrue interest. The Organization continually monitors the credit worthiness of each account and recognizes allowances for estimated bad debts on accounts that are no longer estimated to be collectible. The Organization regularly adjusts any allowance for subsequent collections and final determination that a receivable is no longer collectible. Bad debt recoveries are included in income as realized. The Organization had an allowance for bad debts of \$1,298 at both June 30, 2014 and 2013, respectively.

Property and Equipment - Property and equipment is stated at cost. Donated assets are recorded at their estimated fair market values at the date of donation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. Maintenance and repairs, which neither materially add to the value of the property nor appreciably prolong its life, are charged to expense as incurred. All acquisitions of property and equipment in excess of \$1,500 and all expenditures for repairs and maintenance, renewals, and betterments that materially prolong the useful lives of assets are capitalized.

Revenue Recognition - Contributions are recognized as revenue in the period unconditionally promised or received. The Organization reports contributions in the temporarily restricted net asset class if they are received with donor stipulations as to their use, or if the contribution contains an implied time restriction. They are initially reported in the temporarily restricted net asset class, even if it is anticipated such restrictions will be met in the current reporting period. If contributions are received without donor stipulations or an implied time restriction, they are considered unrestricted funds and are included as part of the Organization's unrestricted net assets.

Grants from governmental agencies which are funded on a cost-reimbursement basis are generally deemed to be exchange transactions and are not treated as contributions. Revenues from such activities are shown as unrestricted revenue in the statements of activities.

Income Taxes - Under provision of Section 501(c)(3) of the Internal Revenue Code and Section 23701d of the California Revenue and Taxation Code, the Organization is exempt from income taxes, except for net income from unrelated business income. There were no unrelated business activities in 2014 or 2013, respectively. Accordingly, no tax expense was incurred during either year.

The Organization has adopted the accounting guidance related to uncertain tax positions, and has evaluated its tax positions taken for all open tax years. Currently, the fiscal 2010 through 2013 information returns are open and subject to examination. In management's judgment there are no uncertain tax positions as of June 30, 2014.

Functional Expense Classification - The Organization charges and allocates its expenses on a functional basis among its program and support services. Expenses that can be identified with the program or support service are assigned directly. Expenses common to several functions are allocated based on a measure of usage that best relates to the particular expense.

Program costs include activities that result in goods and services being distributed to beneficiaries, customers, or members that fulfill the purpose or mission for which the Organization exists.

Support services include general and administrative costs and fundraising costs. General and administrative costs include oversight, business management, general record keeping, budgeting, financing, and related administrative activities. Fundraising costs include outreach to members; writing grant proposals; and conducting other activities involved with soliciting contributions.

Credit Risk - Financial instruments which potentially subject the Organization to credit risk consist principally of cash and cash equivalents and contributions and grants receivable. The Organization places its cash and cash equivalent balances with high credit quality financial institutions, which at times may exceed insured limits. The Organization does not require collateral for its receivables, and has not experienced any losses in such amounts. Management believes that the organization is not exposed to any significant credit risk with respect to its cash and receivable balances.

Reclassification - Certain reclassifications have been made to the 2013 financial statement balances to conform to the 2014 financial statement presentation.

Subsequent Events - Subsequent events have been evaluated through September 22, 2014, which is the date the financial statements were available to be issued.

3. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at June 30, 2014 and 2013, respectively:

	2014	2013
Furniture and equipment	\$ 21,557	\$ 21,274
Leasehold improvements	17,696	17,696
Property and equipment at cost	39,253	38,970
Less: Accumulated depreciation	(31,364)	(26,894)
Net property and equipment	<u>\$ 7,889</u>	<u>\$ 12,076</u>

Depreciation and amortization expense was \$6,628 and \$5,250 for the years ended June 30, 2014 and 2013, respectively.

4. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consisted of the following at June 30, 2014 and 2013, respectively:

	2014	2013
Reefs Tomorrow Initiative	\$ 611,559	\$ 949,195
Honduras	417,678	122,715
Marine tourism	125,877	-
Fiji	83,558	70,956
Time restricted	49,952	-
Indonesia	28,296	102,124
Hawaii	28,127	46,629
Other	3,247	4,796
Total temporarily restricted net assets	<u>\$ 1,348,293</u>	<u>\$ 1,296,415</u>

5. RETIREMENT PLAN

The Organization has a defined contribution plan (the “Plan”) covering all employees who meet minimum requirements. The Plan conforms to the provisions set by the Internal Revenue Service Code Section 401(k), *Defined Contribution Retirement Plan*. Under the 401(k) Plan, the Organization provides discretionary matching of participants’ contributions to the Plan. The Organization contributed \$22,227 and \$19,790 to the Plan during the years ended June 30, 2014 and 2013, respectively.

6. OPERATING LEASES

Rent expense totaled \$119,650 and \$107,845 during the years ended June 30, 2014 and 2013, respectively. Subsequent to June 30, 2014, the Organization’s office lease expired and a new non-cancellable office lease was executed. The lease expires in August 2019 with an option to extend for an additional five years. Future minimum lease payments due under the lease are as follows:

<u>Year end June 30,</u>	
2015	49,843
2016	76,260
2017	78,548
2018	80,904
2019	83,331
2020	14,025
Total	<u>\$ 382,912</u>

7. CONCENTRATIONS

Three donors comprised 83% of contributions and grants receivable at June 30, 2014. Two donors comprised 47% of contributions and grant revenue for the year ended June 30, 2014.