

THE CORAL REEF ALLIANCE

**Financial Statements for the Years Ended
June 30, 2016 and 2015
and Independent Auditors' Report**



CORAL REEF ALLIANCE

THE 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, 2016 and 2015, and the related statements of activities, functional expenses, and cash flows for the years 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 audits. We conducted our audits 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, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Karlsson & Lane, a.c.

Pleasanton, California

October 3, 2016

THE CORAL REEF ALLIANCE

STATEMENTS OF FINANCIAL POSITION JUNE 30, 2016 AND 2015

<u>ASSETS</u>	<u>2016</u>	<u>2015</u>
CURRENT ASSETS:		
Cash and cash equivalents	\$ 2,109,103	\$ 1,427,415
Investments	-	23,310
Contributions and grants receivable	597,244	292,225
Prepaid expenses	43,046	36,088
Total current assets	2,749,393	1,779,038
Deposits	7,012	7,612
Property and equipment, net	10,401	13,991
Total assets	<u>\$ 2,766,806</u>	<u>\$ 1,800,641</u>
LIABILITIES AND NET ASSETS		
LIABILITIES:		
Accounts payable	\$ 256,969	\$ 67,188
Other accrued expenses	115,296	101,652
Current portion of capital lease obligation	2,003	1,924
Total current liabilities	374,268	170,764
Capital lease obligation	4,622	6,626
Total liabilities	378,890	177,390
NET ASSETS:		
Unrestricted	1,760,113	1,112,930
Temporarily restricted	627,803	510,321
Total net assets	2,387,916	1,623,251
Total liabilities and net assets	<u>\$ 2,766,806</u>	<u>\$ 1,800,641</u>

See notes to financial statements.

THE CORAL REEF ALLIANCE

STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
REVENUE AND SUPPORT:			
Individual and corporate contributions	\$ 1,739,566	\$ 31,455	\$ 1,771,021
Foundation and government grants	194,498	1,291,434	1,485,932
Special events	66,810	-	66,810
Less: direct benefit to attendees	(47,807)	-	(47,807)
Program fees and other income	441	-	441
Investment income	358	-	358
	<u>1,953,866</u>	<u>1,322,889</u>	<u>3,276,755</u>
Total revenue and support			
Net assets released from restrictions	<u>1,205,407</u>	<u>(1,205,407)</u>	<u>-</u>
Total revenue, support, and net assets released from restrictions	<u>3,159,273</u>	<u>117,482</u>	<u>3,276,755</u>
EXPENSES:			
Program services	2,020,347	-	2,020,347
Support services:			
General and administrative	209,912	-	209,912
Fundraising	281,831	-	281,831
	<u>2,512,090</u>	<u>-</u>	<u>2,512,090</u>
Total expenses			
CHANGE IN NET ASSETS	<u>647,183</u>	<u>117,482</u>	<u>764,665</u>
NET ASSETS, BEGINNING OF YEAR,	<u>1,112,930</u>	<u>510,321</u>	<u>1,623,251</u>
NET ASSETS, END OF YEAR	<u>\$ 1,760,113</u>	<u>\$ 627,803</u>	<u>\$ 2,387,916</u>

See notes to financial statements.

THE CORAL REEF ALLIANCE

STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2015

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
REVENUE AND SUPPORT:			
Individual and corporate contributions	\$ 701,407	\$ 116,336	\$ 817,743
Foundation and government grants	283,890	366,041	649,931
Special events	73,629	-	73,629
Less: direct benefit to attendees	(43,870)	-	(43,870)
Program fees and other income	12,787	-	12,787
Investment loss	62	-	62
	<u>1,027,905</u>	<u>482,377</u>	<u>1,510,282</u>
Total revenue and support			
Net assets released from restrictions	<u>1,320,349</u>	<u>(1,320,349)</u>	<u>-</u>
Total revenue, support, and net assets released from restrictions	<u>2,348,254</u>	<u>(837,972)</u>	<u>1,510,282</u>
EXPENSES:			
Program services	1,918,828	-	1,918,828
Support services:			
General and administrative	225,062	-	225,062
Fundraising	236,636	-	236,636
	<u>2,380,526</u>	<u>-</u>	<u>2,380,526</u>
Total expenses			
CHANGE IN NET ASSETS	<u>(32,272)</u>	<u>(837,972)</u>	<u>(870,244)</u>
NET ASSETS, BEGINNING OF YEAR,	<u>1,145,202</u>	<u>1,348,293</u>	<u>2,493,495</u>
NET ASSETS, END OF YEAR	<u>\$ 1,112,930</u>	<u>\$ 510,321</u>	<u>\$ 1,623,251</u>

See notes to financial statements.

THE CORAL REEF ALLIANCE

STATEMENT OF FUNCTIONAL EXPENSES FOR THE YEAR ENDED JUNE 30, 2016

	<u>Program</u>	<u>General and administrative</u>	<u>Fundraising</u>	<u>Total</u>
Salaries and wages	\$ 960,549	\$ 147,044	\$ 158,833	\$ 1,266,426
Grants and initiatives	400,108	-	-	400,108
Consultants	144,780	17,101	8,282	170,163
Training and workshops	163,218	1,705	436	165,359
Other personnel expenses	100,419	15,815	10,627	126,861
Payroll taxes	79,006	11,866	14,042	104,914
Occupancy	71,941	5,494	7,592	85,027
Supplies and equipment	29,394	877	34,210	64,481
Printing and copying	21,520	205	16,954	38,679
Travel	25,104	1,047	2,218	28,369
Bank charges	3,397	727	15,227	19,351
Postage	8,364	256	8,127	16,747
Telephone and internet	11,966	538	783	13,287
Dues and subscriptions	581	6,930	4,500	12,011
Interest	-	307	-	307
Total	<u>\$ 2,020,347</u>	<u>\$ 209,912</u>	<u>\$ 281,831</u>	<u>\$ 2,512,090</u>

See notes to financial statements.

THE CORAL REEF ALLIANCE

STATEMENT OF FUNCTIONAL EXPENSES FOR THE YEAR ENDED JUNE 30, 2015

	<u>Program</u>	<u>General and administrative</u>	<u>Fundraising</u>	<u>Total</u>
Salaries and wages	\$ 715,364	\$ 138,839	\$ 147,076	\$ 1,001,279
Grants and initiatives	548,393	-	-	548,393
Consultants	189,585	42,133	17,644	249,362
Training and workshops	125,596	2,035	533	128,164
Occupancy	81,527	9,374	12,717	103,618
Other personnel expenses	71,210	8,015	11,780	91,005
Payroll taxes	53,433	10,211	12,393	76,037
Supplies and equipment	47,507	2,841	4,252	54,600
Travel	33,761	2,189	4,061	40,011
Printing and copying	22,778	57	6,564	29,399
Postage	15,365	284	1,301	16,950
Dues and subscriptions	-	7,431	7,739	15,170
Telephone and internet	11,578	886	2,076	14,540
Bank charges	2,731	367	8,500	11,598
Interest	-	400	-	400
Total	<u>\$ 1,918,828</u>	<u>\$ 225,062</u>	<u>\$ 236,636</u>	<u>\$ 2,380,526</u>

See notes to financial statements.

THE CORAL REEF ALLIANCE

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 764,665	\$ (870,244)
Adjustments to reconcile change in net assets to cash flows from operating activities:		
Depreciation and amortization	5,154	5,822
Receipt of donated equity securities	-	(23,310)
Proceeds from sale of donated equity securities	23,310	-
Loss on disposal of property and equipment	-	159
Changes in assets and liabilities that provided (used) cash:		
Contributions and grants receivable	(305,019)	136,413
Prepaid expenses	(6,958)	(13,287)
Deposits	-	(46)
Accounts payable	189,781	(47,410)
Other accrued expenses	13,644	(3,571)
	<u>684,577</u>	<u>(815,474)</u>
Net cash provided by (used in) investing activities		
CASH FLOWS FROM INVESTING ACTIVITIES:		
Return of deposits	600	-
Proceeds from sale of property and equipment	-	1,691
Lease deposits	-	(7,012)
Purchase of property and equipment	(1,564)	(3,678)
	<u>(964)</u>	<u>(8,999)</u>
Net cash used in investing activities		
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal payments on capital lease obligation	(1,925)	(1,546)
	<u>(1,925)</u>	<u>(1,546)</u>
Net cash used in financing activities		
NET CHANGE IN CASH AND CASH EQUIVALENTS	681,688	(826,019)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>1,427,415</u>	<u>2,253,434</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 2,109,103</u>	<u>\$ 1,427,415</u>
NON-CASH ACTIVITY -		
Purchase of equipment through capital lease	<u>\$ -</u>	<u>\$ 10,096</u>

See notes to financial statements.

THE CORAL REEF ALLIANCE

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016 AND 2015

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

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

Classification of Net Assets - The Organization reports information regarding its financial position and activities according 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 receivable are reported at fair value and are recognized in the period promised. Grants receivable that are considered exchange transactions are recognized as revenue when earned. Grants receivable that are considered unconditional contributions are recognized as revenue when promised. 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, 2016 and 2015, 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 2016 or 2015, 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 2013 through 2015 information returns are open and subject to examination. In management's judgment there are no uncertain tax positions as of June 30, 2016.

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.

Subsequent Events - Subsequent events have been evaluated through October 3, 2016, 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, 2016 and 2015, respectively:

	<u>2016</u>	<u>2015</u>
Furniture and office equipment	24,697	23,133
Less: Accumulated depreciation	<u>(14,296)</u>	<u>(9,142)</u>
Net property and equipment	<u>\$ 10,401</u>	<u>\$ 13,991</u>

Depreciation and amortization expense was \$5,154 and \$5,822 for the years ended June 30, 2016 and 2015, respectively.

4. CAPITAL LEASES

The Organization leases equipment under a capital lease that runs through September 2019. At June 30, 2016, equipment leased under capital leases had a cost basis of \$10,096 and related accumulated depreciation of \$2,644. Depreciation of equipment under capital leases is included in depreciation expense. The aggregate remaining minimum rental payments required under the terms of all existing leases as of June 30, 2016 are as follows:

<u>Year Ending June 30,</u>	
2017	\$ 2,002
2018	2,084
2019	2,169
2020	<u>370</u>
Total	<u>\$ 6,625</u>

5. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consisted of the following at June 30, 2016 and 2015, respectively:

	2016	2015
Indonesia	\$ 102,008	\$ 155,152
Reefscape modeling	125,884	-
Meso-America	90,000	-
Fiji	82,647	15,957
Time restricted	73,702	33,702
Hawaiian marine tourism	68,576	41,875
Hawaii	32,080	4,469
Honduras	29,883	200,659
Reefs Tomorrow initiative	21,023	58,507
Other	2,000	-
	<hr/>	<hr/>
Total temporarily restricted net assets	<u>\$ 627,803</u>	<u>\$ 510,321</u>

6. 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 \$28,422 and \$23,750 to the Plan during the years ended June 30, 2016 and 2015, respectively.

7. OPERATING LEASES

Rent expense totaled \$85,027 and \$94,673 during the years ended June 30, 2016 and 2015, respectively. Future minimum lease payments are as follows:

<u>Year end June 30,</u>	
2017	78,548
2018	80,904
2019	83,331
2020	14,025
	<hr/>
Total	<u>\$ 256,808</u>

8. CONCENTRATIONS

Two donors comprised 92% of contributions and grants receivable at June 30, 2016. Two donors comprised 47% of contributions and grant revenue for the year ended June 30, 2016.