

THE CORAL REEF ALLIANCE

**Financial Statements for the Years Ended
June 30, 2017 and 2016
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, 2017 and 2016, 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, 2017 and 2016, 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.

Harrison & Lane, a.c.

Pleasanton, California
October 3, 2017

THE CORAL REEF ALLIANCE

STATEMENTS OF FINANCIAL POSITION JUNE 30, 2017 AND 2016

| <u>ASSETS</u> | <u>2017</u> | <u>2016</u> |
|---|---------------------|---------------------|
| CURRENT ASSETS: | | |
| Cash and cash equivalents | \$ 1,698,654 | \$ 2,109,103 |
| Contributions and grants receivable | 985,653 | 597,244 |
| Prepaid expenses | 42,890 | 43,046 |
| Total current assets | 2,727,197 | 2,749,393 |
| Deposits | 7,472 | 7,012 |
| Property and equipment, net | 11,739 | 10,401 |
| Total assets | <u>\$ 2,746,408</u> | <u>\$ 2,766,806</u> |
| LIABILITIES AND NET ASSETS | | |
| LIABILITIES: | | |
| Accounts payable | \$ 539,151 | \$ 256,969 |
| Other accrued expenses | 112,311 | 115,296 |
| Current portion of capital lease obligation | 2,084 | 2,003 |
| Total current liabilities | 653,546 | 374,268 |
| Capital lease obligation | 2,539 | 4,622 |
| Total liabilities | 656,085 | 378,890 |
| NET ASSETS: | | |
| Unrestricted | 1,369,439 | 1,760,113 |
| Temporarily restricted | 720,884 | 627,803 |
| Total net assets | 2,090,323 | 2,387,916 |
| Total liabilities and net assets | <u>\$ 2,746,408</u> | <u>\$ 2,766,806</u> |

See notes to financial statements.

THE CORAL REEF ALLIANCE

STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2017

| | Unrestricted | Temporarily Restricted | Total |
|--|---------------------|---------------------------|---------------------|
| REVENUE AND SUPPORT: | | | |
| Individual and corporate contributions | \$ 858,009 | \$ 181,462 | \$ 1,039,471 |
| Foundation and government grants | 325,944 | 1,455,788 | 1,781,732 |
| Program fees and other income | 26 | - | 26 |
| Investment income | 658 | - | 658 |
| | <u>1,184,637</u> | <u>1,637,250</u> | <u>2,821,887</u> |
| Total revenue and support | | | |
| Net assets released from restrictions | <u>1,544,169</u> | <u>(1,544,169)</u> | <u>-</u> |
| | | | |
| Total revenue, support, and net assets released from restrictions | <u>2,728,806</u> | <u>93,081</u> | <u>2,821,887</u> |
| EXPENSES: | | | |
| Program services | 2,525,739 | - | 2,525,739 |
| Support services: | | | |
| General and administrative | 256,183 | - | 256,183 |
| Fundraising | 337,558 | - | 337,558 |
| | <u>3,119,480</u> | <u>-</u> | <u>3,119,480</u> |
| Total expenses | | | |
| CHANGE IN NET ASSETS | <u>(390,674)</u> | <u>93,081</u> | <u>(297,593)</u> |
| NET ASSETS, BEGINNING OF YEAR, | <u>1,760,113</u> | <u>627,803</u> | <u>2,387,916</u> |
| NET ASSETS, END OF YEAR | <u>\$ 1,369,439</u> | <u>\$ 720,884</u> | <u>\$ 2,090,323</u> |

See notes to financial statements.

THE CORAL REEF ALLIANCE

STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2016

| | Unrestricted | Temporarily Restricted | Total |
|--|---------------------|---------------------------|---------------------|
| 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 loss | 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 FUNCTIONAL EXPENSES FOR THE YEAR ENDED JUNE 30, 2017

| | <u>Program</u> | <u>General and administrative</u> | <u>Fundraising</u> | <u>Total</u> |
|--------------------------|---------------------|---------------------------------------|--------------------|---------------------|
| Salaries and wages | \$ 1,056,860 | \$ 156,482 | \$ 231,856 | \$ 1,445,198 |
| Grants and initiatives | 760,979 | - | - | 760,979 |
| Consultants | 177,909 | 52,159 | 4,823 | 234,891 |
| Other personnel expenses | 109,735 | 7,924 | 10,281 | 127,940 |
| Payroll taxes | 91,166 | 13,068 | 17,300 | 121,534 |
| Training and workshops | 104,261 | 9,182 | 2,734 | 116,177 |
| Occupancy | 79,011 | 5,527 | 7,260 | 91,798 |
| Supplies and equipment | 49,796 | 737 | 13,551 | 64,084 |
| Printing and copying | 28,235 | 743 | 14,770 | 43,748 |
| Travel | 27,649 | 255 | 10,922 | 38,826 |
| Postage | 10,211 | 1,012 | 5,135 | 16,358 |
| Bank charges | 3,972 | 915 | 11,210 | 16,097 |
| Dues and subscriptions | - | 7,534 | 7,162 | 14,696 |
| Media | 13,787 | - | - | 13,787 |
| Telephone and internet | 12,168 | 416 | 554 | 13,138 |
| Interest | - | 229 | - | 229 |
| Total | <u>\$ 2,525,739</u> | <u>\$ 256,183</u> | <u>\$ 337,558</u> | <u>\$ 3,119,480</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 | 33,369 | 63,640 |
| Printing and copying | 21,520 | 205 | 16,954 | 38,679 |
| Travel | 25,104 | 1,047 | 2,218 | 28,369 |
| Bank charges | 3,397 | 727 | 16,068 | 20,192 |
| 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

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

| | 2017 | 2016 |
|--|---------------------|---------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Change in net assets | \$ (297,593) | \$ 764,665 |
| Adjustments to reconcile change in net assets to cash flows from operating activities: | | |
| Depreciation and amortization | 4,492 | 5,154 |
| Proceeds from sale of donated equity securities | - | 23,310 |
| Changes in assets and liabilities that provided (used) cash: | | |
| Contributions and grants receivable | (388,409) | (305,019) |
| Prepaid expenses | 156 | (6,958) |
| Accounts payable | 282,182 | 189,781 |
| Other accrued expenses | (2,985) | 13,644 |
| Net cash (used in) provided by investing activities | <u>(402,157)</u> | <u>684,577</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Return of deposits | - | 600 |
| Lease deposits | (460) | - |
| Purchase of property and equipment | <u>(5,830)</u> | <u>(1,564)</u> |
| Net cash used in investing activities | <u>(6,290)</u> | <u>(964)</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Principal payments on capital lease obligation | <u>(2,002)</u> | <u>(1,925)</u> |
| Net cash used in financing activities | <u>(2,002)</u> | <u>(1,925)</u> |
| NET CHANGE IN CASH AND CASH EQUIVALENTS | (410,449) | 681,688 |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR | <u>2,109,103</u> | <u>1,427,415</u> |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | <u>\$ 1,698,654</u> | <u>\$ 2,109,103</u> |

See notes to financial statements.

THE CORAL REEF ALLIANCE

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2017 AND 2016

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, 2017 and 2016, 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 2017 or 2016, 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 2014 through 2016 information returns are open and subject to examination. In management's judgment there are no uncertain tax positions as of June 30, 2017.

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, 2017, 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, 2017 and 2016, respectively:

| | <u>2017</u> | <u>2016</u> |
|--------------------------------|------------------|------------------|
| Furniture and office equipment | 30,527 | 24,697 |
| Less: Accumulated depreciation | <u>(18,788)</u> | <u>(14,296)</u> |
| Net property and equipment | <u>\$ 11,739</u> | <u>\$ 10,401</u> |

Depreciation and amortization expense was \$4,492 and \$5,154 for the years ended June 30, 2017 and 2016, respectively.

4. CAPITAL LEASES

The Organization leases equipment under a capital lease that runs through September 2019. At June 30, 2017, equipment leased under capital leases had a cost basis of \$10,096 and related accumulated depreciation of \$4,086. 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, 2017 are as follows:

| <u>Year Ending June 30,</u> | |
|-----------------------------|-----------------|
| 2018 | 2,084 |
| 2019 | 2,169 |
| 2020 | <u>370</u> |
| Total | <u>\$ 4,623</u> |

5. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consisted of the following at June 30, 2017 and 2016, respectively:

| | 2017 | 2016 |
|---|-------------------|-------------------|
| Reefscape modeling | \$ 515,854 | \$ 125,884 |
| Indonesia | 68,633 | 102,008 |
| Meso-America | 43,222 | 90,000 |
| Hawaii | 36,228 | 32,080 |
| Fiji | 31,014 | 82,647 |
| Time | 13,702 | 73,702 |
| Virtual experience | 10,673 | - |
| Marine tourism | 1,558 | 68,576 |
| Honduras | - | 29,883 |
| Reefs Tomorrow initiative | - | 21,023 |
| Other | - | 2,000 |
| | <hr/> | <hr/> |
| Total temporarily restricted net assets | <u>\$ 720,884</u> | <u>\$ 627,803</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 \$33,406 and \$28,422 to the Plan during the years ended June 30, 2017 and 2016, respectively.

7. OPERATING LEASES

Rent expense totaled \$91,798 and \$85,027 during the years ended June 30, 2017 and 2016, respectively. Future minimum lease payments are as follows:

| <u>Year end June 30,</u> | |
|--------------------------|-------------------|
| 2018 | 80,904 |
| 2019 | 83,331 |
| 2020 | 14,025 |
| | <hr/> |
| Total | <u>\$ 178,260</u> |

8. CONCENTRATIONS

Two donors comprised 96% of contributions and grants receivable at June 30, 2017. One donor comprised 36% of contributions and grant revenue for the year ended June 30, 2017.

9. CONDITIONAL GRANTS

During 2017, the Organization received restricted grants totaling \$1,147,440 that contained donor conditions of future performance, generally the performance of the work specified in the grant. Since these grants are conditioned on future performance, they are not recorded as contribution revenue until donor conditions are met. During the year ended June 30, 2017, \$199,386 was recognized as performance occurred, leaving \$945,054 to be recognized in future periods.