

**SEACOLOGY**  
**(A Nonprofit Public Benefit Corporation)**

**FINANCIAL STATEMENTS**  
**AND SUPPLEMENTARY INFORMATION**

**For the Years Ended**  
**December 31, 2012 and 2011**

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Seacology  
Berkeley, California

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Seacology (a nonprofit organization) which comprise the statements of financial position as of December 31, 2012 and 2011, and the related statements of activities 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.

### **Auditor's 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 audits 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 entity'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 Seacology as of December 31, 2012 and 2011, 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.

**Other Matters**

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The schedules of functional expenses are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

*Doran & Associates*

June 10, 2013

**SEACOLOGY**  
(A Nonprofit Public Benefit Corporation)

**STATEMENTS OF FINANCIAL POSITION**  
December 31, 2012 and 2011

	2012	2011
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents (Note 1)	\$ 817,029	\$ 796,967
Expedition trust account (Note 1)	42,500	55,275
Current portion of contributions, grants and accounts receivable, net of allowance for doubtful accounts (Note 2)	111,758	120,293
Prepaid expenses and deposits	84,582	88,147
Inventory (Note 3)	<u>3,522</u>	<u>4,927</u>
Total current assets	1,059,391	1,065,609
Contributions, grants and accounts receivable, net of current portion, allowance for doubtful accounts and present value discount (Note 2)	13,440	29,223
Marketable equity securities (Note 4)	1,817,053	1,871,371
Equipment and leasehold improvements, net of accumulated depreciation of \$38,041 at 2012 and \$37,498 at 2011 (Notes 1 and 5)	<u>6,944</u>	<u>2,487</u>
Total assets	<u>\$ 2,896,828</u>	<u>\$ 2,968,690</u>
<b>LIABILITIES AND NET ASSETS</b>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 10,947	\$ 10,445
Accrued vacation liability (Note 6)	23,078	23,551
Prepaid expedition deposits	<u>41,500</u>	<u>37,450</u>
Total liabilities	<u>75,525</u>	<u>71,446</u>
Net assets (Note 7):		
Unrestricted net assets:		
Undesignated	1,922,493	1,991,061
Board-designated:		
Force for Good	298,639	331,694
Falealupo endowment (Note 8)	173,168	151,902
Quasi-endowment (Note 8)	<u>249,626</u>	<u>185,134</u>
Total unrestricted net assets	2,643,926	2,659,791
Temporarily restricted net assets	<u>177,377</u>	<u>237,453</u>
Total net assets	<u>2,821,303</u>	<u>2,897,244</u>
Total liabilities and net assets	<u>\$ 2,896,828</u>	<u>\$ 2,968,690</u>

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

**SEACOLOGY**  
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**STATEMENTS OF ACTIVITIES**  
**For the year ended December 31, 2012**

	Unrestricted	Temporarily Restricted	Total
<b>SUPPORT, REVENUE AND TRANSFERS</b>			
Public support:			
Foundation grants	\$ 349,331	\$ 115,926	\$ 465,257
Donations and bequests	<u>785,306</u>	<u>129,662</u>	<u>914,968</u>
Total public support	<u>1,134,637</u>	<u>245,588</u>	<u>1,380,225</u>
Revenue:			
Investment income (Note 4)	120,053	30,656	150,709
Expedition income, net of expenses of \$95,646	(2,946)	-	(2,946)
Special events, net of direct expenses of \$7,358	(7,358)	-	(7,358)
Miscellaneous	<u>89</u>	<u>-</u>	<u>89</u>
Total revenue	<u>109,838</u>	<u>30,656</u>	<u>140,494</u>
Net assets released from restriction (Note 9)	<u>336,320</u>	<u>(336,320)</u>	<u>-</u>
Total support, revenue and transfers	<u>1,580,795</u>	<u>(60,076)</u>	<u>1,520,719</u>
<b>EXPENSES</b>			
Program services	1,218,714	-	1,218,714
Management and general	135,798	-	135,798
Fundraising	<u>242,148</u>	<u>-</u>	<u>242,148</u>
Total expenses	<u>1,596,660</u>	<u>-</u>	<u>1,596,660</u>
Change in net assets	(15,865)	(60,076)	(75,941)
Net assets, beginning of year	<u>2,659,791</u>	<u>237,453</u>	<u>2,897,244</u>
Net assets, end of year	<u>\$ 2,643,926</u>	<u>\$ 177,377</u>	<u>\$ 2,821,303</u>

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

**SEACOLOGY**  
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**STATEMENTS OF ACTIVITIES (CONTINUED)**  
For the year ended December 31, 2011

	Unrestricted	Temporarily Restricted	Total
<b>SUPPORT, REVENUE AND TRANSFERS</b>			
Public support:			
Foundation grants	\$ 406,221	\$ 233,353	\$ 639,574
Donations and bequests	672,941	169,617	842,558
In-kind contributions (Note 1)	<u>13,125</u>	<u>-</u>	<u>13,125</u>
Total public support	<u>1,092,287</u>	<u>402,970</u>	<u>1,495,257</u>
Revenue:			
Investment income (loss) (Note 4)	(15,243)	(3,788)	(19,031)
Expedition income, net of expenses of \$95,372	27,472	-	27,472
Special events, net of direct expenses of \$2,720	<u>(1,174)</u>	<u>-</u>	<u>(1,174)</u>
Total revenue	<u>11,055</u>	<u>(3,788)</u>	<u>7,267</u>
Net assets released from restriction (Note 9)	<u>339,591</u>	<u>(339,591)</u>	<u>-</u>
Total support, revenue and transfers	<u>1,442,933</u>	<u>59,591</u>	<u>1,502,524</u>
<b>EXPENSES</b>			
Program services	1,141,100	-	1,141,100
Management and general	157,812	-	157,812
Fundraising	<u>234,503</u>	<u>-</u>	<u>234,503</u>
Total expenses	<u>1,533,415</u>	<u>-</u>	<u>1,533,415</u>
Change in net assets	(90,482)	59,591	(30,891)
Net assets, beginning of year	<u>2,750,273</u>	<u>177,862</u>	<u>2,928,135</u>
Net assets, end of year	<u>\$ 2,659,791</u>	<u>\$ 237,453</u>	<u>\$ 2,897,244</u>

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

**SEACOLOGY**  
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**STATEMENTS OF CASH FLOWS**  
For the years ended December 31, 2012 and 2011

	2012	2011
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Change in net assets	\$ (75,941)	\$ (30,891)
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Depreciation	543	4,447
Unrealized loss (gain) on investments	(93,850)	71,715
Stock contributions received	(44,983)	(27,535)
Changes in assets and liabilities:		
Contributions, grants and accounts receivable	24,318	(69,731)
Prepaid expenses and deposits	3,565	(2,303)
Inventory	1,405	563
Accounts payable and accrued expenses	502	7,827
Accrued vacation liability	(473)	(3,268)
Prepaid expedition deposits	4,050	(10,488)
Total adjustments	<u>(104,923)</u>	<u>(28,773)</u>
Net cash used by operating activities	<u>(180,864)</u>	<u>(59,664)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchase of equipment and leasehold improvements	(5,000)	(2,713)
Sales of marketable equity securities	675,010	447,451
Purchases and reinvestments of marketable equity securities	(481,859)	(302,419)
Change in expedition trust account	<u>12,775</u>	<u>(6,787)</u>
Net cash provided by investing activities	<u>200,926</u>	<u>135,532</u>
Net increase in cash and cash equivalents	20,062	75,868
Cash and cash equivalents, beginning of year	<u>796,967</u>	<u>721,099</u>
Cash and cash equivalents, end of year	<u>\$ 817,029</u>	<u>\$ 796,967</u>
Supplementary information:		
Non-cash transactions:		
Contribution of marketable equity securities	<u>\$ 44,983</u>	<u>\$ 27,535</u>

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



**SEACOLOGY**  
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**NOTES TO FINANCIAL STATEMENTS**  
**For the years ended December 31, 2012 and 2011**

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NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization - Seacology is a nonprofit public benefit corporation whose purpose is to protect the threatened species and habitats of the world's islands by working directly with local people to both conserve their natural resources and improve their quality of life. The Corporation's major sources of revenue are foundation grants, donations and bequests.

Basis of Presentation - Resources are classified for accounting and reporting purposes into three classes of net assets, according to externally imposed restrictions:

*Unrestricted net assets* - Net assets that are not subject to any donor-imposed restrictions.

*Temporarily restricted net assets* - Net assets resulting (a) from contributions and other inflows of assets whose use by the Corporation is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the Corporation pursuant to those stipulations, (b) from other asset enhancements and diminishment that are subject to the same kind of stipulations, and (c) from reclassification from (or to) other classes of net assets as a consequence of donor-imposed stipulations, their expiration by passage of time, or their fulfillment and removal by actions of the Corporation pursuant to those stipulations.

*Permanently restricted net assets* - Net assets resulting (a) from contributions and other inflows of assets whose use by the Corporation is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Corporation, (b) from other asset enhancements and diminishment that are subject to the same kinds of stipulations, and (c) from reclassification from (or to) other classes of net assets as a consequence of donor-imposed stipulations.

There were no permanently restricted net assets as of December 31, 2012 and 2011.

Method of Accounting - The financial statements of the Corporation are prepared using the accrual basis of accounting, which reflects revenue when earned and expenses as incurred.

Cash and Cash Equivalents - For purposes of the statement of cash flows, cash is defined as cash in demand deposit accounts as well as cash on hand. Cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash and investments so near their maturity that the risk of changes in value due to changes in interest rates is negligible. These are generally investments with maturity dates within three months of the acquisition date. Not included as cash equivalents are funds restricted as to their use, regardless of liquidity or the maturity dates of investments, which include funds held in the expedition trust account.

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**NOTES TO FINANCIAL STATEMENTS**  
**For the years ended December 31, 2012 and 2011**

NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Contributions - Contributions are recognized when the donor makes a promise to give to the Corporation that is, in substance, unconditional. 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.

In-Kind Contributions - The Corporation receives the benefit of in-kind services that either (a) create or enhance a nonfinancial asset or (b) require specialized skills, are provided by individuals possessing those skills and would typically need to be purchased by the organization if they had not been provided by contribution. During the year ended December 31, 2011, the Corporation received the benefit of certain in-kind goods and services measured at fair value on a non-recurring basis, as follows:

<u>Fair Value Measurements at December 31, 2011, Using</u>				
	Quoted Price in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
<u>Description</u>	<u>(Level 1)</u>	<u>(Level 2)</u>	<u>(Level 3)</u>	<u>Total</u>
Advertising	<u>\$ -</u>	<u>\$ 13,125</u>	<u>\$ -</u>	<u>\$ 13,125</u>

Equipment and Leasehold Improvements - The Corporation records equipment and leasehold improvements in excess of \$2,000 at historical cost or, if donated, at fair market value at the date of donation. Depreciation is determined on the straight-line method over the estimated useful life of 5 years.

Expedition Trust Account - As a licensed seller of travel for expeditions, the Corporation maintains a separate trust account used to hold participant deposits for travel. Use of these funds is restricted to pay travel service providers and other specific fees.

Income Taxes - The Corporation is exempt from federal and state taxes under Section 501(c)(3) of the Internal Revenue Code and Section 23701d of the California Revenue and Taxation Code, and is considered by the IRS to be an organization other than a private foundation. In the opinion of management, there is no unrelated business income.

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

Subsequent Events - Subsequent events have been evaluated through June 10, 2013, which is the date the financial statements were available to be issued.

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**NOTES TO FINANCIAL STATEMENTS**  
For the years ended December 31, 2012 and 2011

NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Reclassifications - Certain balances at, and for the year ended December 31, 2011, were reclassified to conform with December 31, 2012, balances.

ASC 740-10, Accounting for Uncertainty in Income Taxes - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the Corporation to report information regarding its exposure to various tax positions taken by the Corporation. The Corporation has determined whether any tax positions have met the recognition threshold and have measured the Corporation's exposure to those tax positions. Management believes that the Corporation has adequately addressed all relevant tax positions and that there are no unrecorded tax liabilities. Federal and state tax authorities generally have the right to examine and audit the previous three years of tax returns filed. Any interest or penalties assessed to the Corporation are recorded in operating expenses. No interest or penalties from federal or state tax authorities were recorded in the accompanying financial statements.

NOTE 2 CONTRIBUTIONS, GRANTS AND ACCOUNTS RECEIVABLE

The Corporation received pledges, grants and other receivables for various purposes. The receivables are collectible as follows at December 31, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Current portion	\$ 115,214	\$ 122,363
Less: allowance for doubtful accounts	<u>(3,456)</u>	<u>(2,070)</u>
Net current portion	<u>111,758</u>	<u>120,293</u>
Long-term portion:		
Year ending December 31, 2013	-	28,000
Year ending December 31, 2014	15,000	5,000
Less: allowance for doubtful accounts	(450)	(990)
Less: present value discount, 8%	<u>(1,110)</u>	<u>(2,787)</u>
Net long-term portion	<u>13,440</u>	<u>29,223</u>
Total contributions, grants and accounts receivable	<u>\$ 125,198</u>	<u>\$ 149,516</u>

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**NOTES TO FINANCIAL STATEMENTS**  
For the years ended December 31, 2012 and 2011

NOTE 3 INVENTORY

Inventory items consist of t-shirts, totes and pins held for resale and promotion. Inventory is stated at the lower of cost, as determined by the donor, if donated, or market value and is determined on a first-in, first-out basis on a non-recurring basis as follows:

<u>Description</u>	<u>Fair Value Measurements Using</u>			<u>Total</u>
	<u>Quoted Price in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>	
Inventory:				
December 31, 2012	\$ -	\$ 3,522	\$ -	\$ 3,522
December 31, 2011	\$ -	\$ 4,927	\$ -	\$ 4,927

NOTE 4 MARKETABLE EQUITY SECURITIES

The following are the major categories of marketable equity securities measured at fair value on a recurring basis during the years ended December 31, 2012 and 2011, using quoted prices in active markets for identified assets (Level 1); significant other observable inputs (Level 2); and significant unobservable inputs (Level 3):

<u>Description</u>	<u>Fair Value Measurements Using</u>			<u>Total</u>
	<u>Quoted Price in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>	
<i>December 31, 2012:</i>				
Mutual funds	\$ 1,781,415	\$ -	\$ -	\$ 1,781,415
Corporate stocks	35,638	-	-	35,638
	<u>\$ 1,817,053</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,817,053</u>
<i>December 31, 2011:</i>				
Mutual funds	\$ 1,669,364	\$ -	\$ -	\$ 1,669,364
Corporate stocks	1,983	-	-	1,983
Bonds	200,024	-	-	200,024
	<u>\$ 1,871,371</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,871,371</u>

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**NOTES TO FINANCIAL STATEMENTS**  
For the years ended December 31, 2012 and 2011

NOTE 4 MARKETABLE EQUITY SECURITIES (Continued)

The following summarizes the investment income (loss) during the years ended December 31, 2012 and 2011:

	2012	2011
Unrealized (loss) gain on investments	\$ 93,850	\$ (71,715)
Interest and dividend income	56,859	52,684
	\$ 150,709	\$ (19,031)

NOTE 5 EQUIPMENT AND LEASEHOLD IMPROVEMENTS

Equipment and leasehold improvements consist of the following:

<u>Equipment and leasehold improvements, at cost</u>	<u>Leasehold Improvements</u>	<u>Furniture and Equipment</u>	<u>Other</u>	<u>Total</u>
Balance, December 31, 2010	\$ 20,782	\$ 16,490	\$ -	\$ 37,272
Additions	-	2,713	-	2,713
Balance, December 31, 2011	20,782	19,203	-	39,985
Additions	-	-	5,000	5,000
Balance, December 31, 2012	20,782	19,203	5,000	44,985
<u>Accumulated depreciation</u>				
Balance, December 31, 2010	17,701	15,350	-	33,051
Depreciation expense	3,081	1,366	-	4,447
Balance, December 31, 2011	20,782	16,716	-	37,498
Depreciation expense	-	543	-	543
Balance, December 31, 2012	20,782	17,259	-	38,041
Equipment and leasehold improvements, net	\$ -	\$ 1,944	\$ 5,000	\$ 6,944

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**NOTES TO FINANCIAL STATEMENTS**  
For the years ended December 31, 2012 and 2011

NOTE 6 ACCRUED VACATION LIABILITY

Accumulated unpaid employee vacation benefits are recognized as liabilities of the Corporation. The value of accumulated vacation at December 31, 2012 and 2011, was \$23,078 and \$23,551, respectively.

NOTE 7 NET ASSETS

Unrestricted net assets:

The Corporation has unrestricted net assets that are not subject to donor imposed restrictions. The balance of unrestricted net assets at December 31, 2012 and 2011, was \$2,643,926 and \$2,659,791, respectively. Included in that amount are net assets that have been designated by the Board of Directors to be used as follows:

	2012	2011
Force for Good	\$ 298,639	\$ 331,694
Falealupo endowment (see Note 8)	173,168	151,902
Quasi-endowment (see Note 8)	249,626	185,134
	\$ 721,433	\$ 668,730

Temporarily restricted net assets:

These are contributions which were received with donor stipulations that limit the use of the assets for specific purposes and/or for specific time periods. Temporarily restricted net assets at December 31, 2012 and 2011, are designated for the following uses:

	2012	2011
Island Conservation projects	\$ 97,259	\$ 129,727
Endowment gains (see Note 8)	-	33,836
Time-restricted	35,000	29,000
Other	32,500	-
Western Pacific Islands project	12,534	33,360
Carbon Offset projects	5,100	-
Japan Disaster Relief Fund	-	8,000
Pacific Islands project	-	5,000
Sylvia Earle Marine Conservation Fund	-	4,230
Fundraising campaign	-	147
Less: allowance for uncollectible receivable and present value discount on restricted grants	(5,016)	(5,847)
	\$ 177,377	\$ 237,453

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**NOTES TO FINANCIAL STATEMENTS**  
**For the years ended December 31, 2012 and 2011**

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**NOTE 8    ENDOWMENT**

Seacology's endowment consists of two investment accounts established for a variety of purposes. Its endowment consists of Board-designated endowment funds. As required by GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Law - The Board of Directors of Seacology has interpreted the California State Prudent Management of Institutional Funds Act (SPMIFA) as requiring the preservation of the fair market value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Corporation classifies as permanently restricted net assets (a) the original value of the gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund, if applicable.

The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard of prudence prescribed in SPMIFA. In accordance with SPMIFA, the organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. The duration and preservation of the fund
2. The purpose of the organization and the donor-restricted endowment fund
3. General economic conditions
4. The possible effect of inflation and deflation
5. The expected total return from income and the appreciation of investments
6. Other resources of the organization
7. The investment policies of the organization

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**NOTES TO FINANCIAL STATEMENTS**  
For the years ended December 31, 2012 and 2011

NOTE 8 ENDOWMENT (CONTINUED)

Endowment Net Asset Composition by Type of Fund as of:

<u>December 31, 2012</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Board-designated endowment funds:				
Falealupo endowment	\$ 173,168	\$ -	\$ -	\$ 173,168
Quasi-endowment	<u>249,626</u>	<u>-</u>	<u>-</u>	<u>249,626</u>
Total funds	<u>\$ 422,794</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 422,794</u>
 <u>December 31, 2011</u>				
Board-designated endowment funds:				
Falealupo endowment	\$ 151,902	\$ -	\$ -	\$ 151,902
Quasi-endowment	<u>185,134</u>	<u>33,836</u>	<u>-</u>	<u>218,970</u>
Total funds	<u>\$ 337,036</u>	<u>\$ 33,836</u>	<u>\$ -</u>	<u>\$ 370,872</u>

Changes in Endowment Net Assets for the Fiscal Years Ended December 31, 2012 and 2011

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, December 31, 2010	<u>\$ 341,419</u>	<u>\$ 37,624</u>	<u>\$ -</u>	<u>\$ 379,043</u>
Investment return:				
Interest and dividends	2,007	10,748	-	12,755
Unrealized loss	<u>(4,677)</u>	<u>(14,536)</u>	<u>-</u>	<u>(19,213)</u>
Total investment return	<u>(2,670)</u>	<u>(3,788)</u>	<u>-</u>	<u>(6,458)</u>
Contributions	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Distributions	<u>(1,713)</u>	<u>-</u>	<u>-</u>	<u>(1,713)</u>
Endowment net assets, December 31, 2011	<u>337,036</u>	<u>33,836</u>	<u>-</u>	<u>370,872</u>



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**NOTES TO FINANCIAL STATEMENTS**  
For the years ended December 31, 2012 and 2011

NOTE 8 ENDOWMENT (CONTINUED)

Changes in Endowment Net Assets for the Fiscal Years Ended December 31, 2012 and 2011  
(Continued)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Investment return:				
Interest and dividends	32,606	4,477	-	37,083
Unrealized gain/loss	(11,340)	26,179	-	14,839
Total investment return	<u>21,266</u>	<u>30,656</u>	<u>-</u>	<u>51,922</u>
Contributions	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Appropriation of endowment assets for expenditure	<u>64,492</u>	<u>(64,492)</u>	<u>-</u>	<u>-</u>
Endowment net assets, December 31, 2012	<u>\$ 422,794</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 422,794</u>

Description of Amounts Classified as Permanently Restricted Net Assets and Temporarily Restricted Net Assets (Endowment Only) for the Fiscal Years Ended December 31, 2012 and 2011

*Permanently Restricted Net Assets*

	<u>2012</u>	<u>2011</u>
The portion of perpetual endowment funds that is required to be retained Permanently either by explicit donor stipulation of SPMIFA	\$ -	\$ -
Total endowment funds classified as permanently restricted net assets	<u>\$ -</u>	<u>\$ -</u>

Description of Amounts Classified as Permanently Restricted Net Assets and Temporarily Restricted Net Assets (Endowment Only) for the Fiscal Years Ended December 31, 2012 and 2011

*Temporarily Restricted Net Assets*

	<u>2012</u>	<u>2011</u>
Term endowment funds	\$ -	\$ -
The portion of perpetual endowment funds subject to a time restriction under SPMIFA:		
Without purpose restrictions	-	33,836
With purpose restrictions	<u>-</u>	<u>-</u>
Total endowment funds classified as temporarily restricted net assets	<u>\$ -</u>	<u>\$ 33,836</u>

**SEACOLOGY**  
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**NOTES TO FINANCIAL STATEMENTS**  
**For the years ended December 31, 2012 and 2011**

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NOTE 8    ENDOWMENT (CONTINUED)

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or SPMIFA requires the organization to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature would be reported in unrestricted net assets. There were no funds with deficiencies as of December 31, 2012 and 2011.

Return Objectives and Risk Parameters

For Falealupo Endowment and other Seacology endowment funds, the Corporation's objective is to earn a long-term real return, net of investment expenses, of at least 5% per annum. "Real return" means the time-weighted total return on the investment portfolio in excess of inflation as measured by the Consumer Price Index ("CPI"). Liquidity and capital preservation (price protection) are the Corporation's essential investment considerations at this time.

When Seacology's total capital assets reach a level at which a portion may be considered a true "endowment", the Corporation expects that the total investment objective for such endowment will be a long-term return in excess of CPI + 5%.

Strategies Employed for Achieving Objectives

The Corporation seeks to achieve the return objective through diversification across multiple asset classes and, when appropriate, active security selection.

When Seacology's total capital assets reach a level at which a portion may be considered a true "endowment", the Corporation's strategy will be to invest a portion of the endowment in "alternative" investments in restricted securities with little or no liquidity and significant capital risk.

The Investment Committee is responsible for reviewing and modifying as necessary the Investment Policy Statement, including the endowment.

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Quasi-endowment fund shall make an annual distribution to the Seacology general account for annual operating purposes in an amount to be determined by the Board, between 0% and 6% of the market value of the endowment fund on the preceding December 31. Such distribution shall be made no later than March 31 of each year. The annual distribution amount shall be initially set at 0% until the endowment fund reaches a balance of \$5,000,000, at which time the annual distribution amount will be set at 4% of the moving average of the last three years' total market value of the endowment fund on each December 31. An increase of the 6% maximum limit may be changed by the Board only with a dual vote per the procedures set forth below for extraordinary distributions from the endowment account. The annual distribution amount should be set by the Board within a range normally considered prudent.

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**NOTES TO FINANCIAL STATEMENTS**  
**For the years ended December 31, 2012 and 2011**

NOTE 8    ENDOWMENT (CONTINUED)

Spending Policy and How the Investment Objectives Relate to Spending Policy (Continued)

Quasi-endowment Extraordinary Distributions: In order to withdraw and distribute funds from the Quasi-endowment to the Seacology general operating account in excess of the annual distribution amount established by the Board, the proposed withdrawal must be communicated to the Board members and the vote of at least 75% of the acting Board members, not just a quorum of those present, must approve the withdrawal by two separate votes at least 30 days apart. Such notice shall be given in person, or by written or electronic communication as provided in the By-Laws for the giving of notices.

Amounts earned on investment returns for the Quasi-endowment Fund are released from restriction and appropriated as earned.

Distributions from the Falealupo Endowment may be made from both investment principal and income. Amounts earned on investment returns for the Falealupo Endowment are released from restriction and appropriated as earned. Distributions from the Falealupo Endowment are made on a case-by-case basis.

NOTE 9    NET ASSETS RELEASED FROM RESTRICTION

During the years ended December 31, 2012 and 2011, the following temporarily restricted funds were used for their restricted purposes, and they were released to unrestricted net assets:

	<u>2012</u>	<u>2011</u>
Island Conservation projects	\$ 139,664	\$ 179,765
Endowment gains (see Note 8)	64,492	-
Seacology Prize event underwriting	31,054	28,004
Pacific Island projects	30,000	25,000
Western Pacific Islands projects	20,826	64,930
Time-restricted	19,847	-
Sylvia Earle Marine Conservation Fund	9,730	16,370
Japan Disaster relief fund	8,250	4,645
Save an Acre	7,289	4,923
Other specific purposes	5,168	7,169
Carbon offset projects	-	8,785
	<u>\$ 336,320</u>	<u>\$ 339,591</u>

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**NOTES TO FINANCIAL STATEMENTS**  
For the years ended December 31, 2012 and 2011

NOTE 10 LEASES

Seacology leases its offices in Berkeley, California. The lease was renewed in 2011 and expires September 30, 2016. Rent expense for the lease for the years ended December 31, 2012 and 2011, was \$39,168 per year.

The Corporation has also entered into a lease for postage equipment for \$158 per quarter. The lease expires March 2015.

The estimated future minimum payments for the leases for the current and succeeding years are as follows:

Year ending December 31,	Office Lease	Equipment	Total
2013	\$ 39,168	\$ 632	\$ 39,800
2014	39,168	632	39,800
2015	39,413	158	39,571
2016	30,110	-	30,110
	<u>\$ 147,859</u>	<u>\$ 1,422</u>	<u>\$ 149,281</u>

NOTE 11 TAX SHELTERED ANNUITY

The Corporation established a 403(b) deferred income plan for all employees who have completed four months of service with the Corporation. Voluntary contributions are made by employees who choose to participate to the extent permissible by law. Additionally, the Corporation contributes an amount equal to 15% of employee salaries for eligible staff. During the years ended December 31, 2012 and 2011, the Corporation made contributions totaling \$71,012 and \$63,763, respectively, to the plan.

NOTE 12 JOINT COSTS

The Corporation achieves some of its programmatic goals in newsletter mailings, its website, and expeditions that include requests for contributions. In 2012 and 2011, the costs of these activities include \$30,315 and \$28,625, respectively, of joint costs that are not directly attributable to the program, fundraising, or management and general component of the activities. The joint costs incurred in 2012 and 2011 were allocated as follows:

2012:	Program	Management and General	Fundraising	Total
Postage	\$ 2,227	\$ -	\$ 247	\$ 2,474
Printing	6,977	-	775	7,752
Travel and meetings	8,044	-	12,045	20,089
	<u>\$ 17,248</u>	<u>\$ -</u>	<u>\$ 13,067</u>	<u>\$ 30,315</u>

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**NOTES TO FINANCIAL STATEMENTS**  
**For the years ended December 31, 2012 and 2011**

NOTE 12 JOINT COSTS (Continued)

<u>2011:</u>	<u>Program</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Postage	\$ 2,283	\$ 94	\$ 320	\$ 2,697
Printing	6,522	147	807	7,476
Travel and meetings	9,301	56	9,095	18,452
	<u>\$ 18,106</u>	<u>\$ 297</u>	<u>\$ 10,222</u>	<u>\$ 28,625</u>

NOTE 13 LICENSE AGREEMENTS

The Corporation has entered into exclusive non-transferable License Agreements with Seacology Germany, Seacology Japan, Seacology UK, and Seacology Scandinavia. These agreements allow the licensees to carry on the Seacology concept into Germany, Japan, Austria, Switzerland, Great Britain and the United Kingdom, and Scandinavia, so that more Seacology projects can be launched on developing islands throughout the world. The Corporation is the sole owner of the Seacology name, service, and trademarks associated directly with particular, unique and evolving conservation policies, concepts and practices, the Seacology brand, and extending to the manner and style with which Seacology, Inc. conducts its affairs.

Licensees agree that all work they undertake will be consistent with the concept, and licensees will not pursue any course of conduct or policy that Seacology believes to be inconsistent with same.

Under the License Agreements, Seacology presents the Licensees with projects on islands throughout the world (primarily islands in developing nations). As a representative organization, licensees can only fund "Seacology projects" which are identified, developed, structured and offered to them by Seacology. These License Agreements may be terminated at any time upon 30 days written notice. During the years ended December 31, 2012 and 2011, the Corporation received the following from licensees to fund specific projects:

	<u>2012</u>	<u>2011</u>
Seacology Germany	\$ 3,000	\$ -
Seacology Japan	30,000	-
Seacology Scandinavia	-	34,978
Seacology UK	9,921	56,382
	<u>\$ 42,921</u>	<u>\$ 91,360</u>

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**NOTES TO FINANCIAL STATEMENTS**  
**For the years ended December 31, 2012 and 2011**

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**NOTE 14 RISKS, UNCERTAINTIES AND CONCENTRATIONS**

The Corporation relies on a significant amount of funding received in the form of donations and grants from individuals and foundations as well as investment income to support its operations. The current global financial markets and discussions of a U.S. economic downturn may have an impact on the level of funding provided by these funding sources and the market value of marketable equity securities held by the Corporation. While it is impracticable to determine the impact of these events, management is taking steps to address potential changes in funding levels and reduce the Corporation's exposure to impact from these events.

**NOTE 15 CONTINGENCIES AND COMMITMENT**

As of December 31, 2012, the Corporation had exceeded the Federal Depository Insurance Corporation cash limit of \$250,000 on its depository accounts. At December 31, 2012, the Corporation had approximately \$275,000 on deposit in excess of federally insured limits.

**SUPPLEMENTARY INFORMATION**

**SEACOLOGY**  
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**SCHEDULES OF FUNCTIONAL EXPENSES**  
**For the year ended December 31, 2012**

	Program	Management and General	Fundraising	Total
Bookkeeping and accounting	\$ -	\$ 25,177	\$ -	\$ 25,177
Computer services	3,100	573	1,123	4,796
Consultants: Field representatives	122,496	-	-	122,496
Consultants: other	817	210	34,590	35,617
Dues, subscriptions and publications	1,275	278	453	2,006
Insurance	3,325	2,737	1,204	7,266
Licenses and permits	-	2,650	-	2,650
Office supplies and maintenance	7,158	1,326	2,685	11,169
Postage and delivery	3,752	643	1,860	6,255
Printing	7,478	126	4,303	11,907
Property taxes	-	292	-	292
Public education	15,925	-	-	15,925
Public relations	868	-	867	1,735
Rent and utilities	27,589	5,274	9,712	42,575
Salaries and employee benefits	457,357	84,216	163,456	705,029
Telephone	1,975	367	743	3,085
Travel and meetings	33,144	11,812	20,821	65,777
Depreciation expense	341	49	153	543
Seacology Prize Expenses	37,940	-	-	37,940
Grant payments/project expenses	493,722	-	-	493,722
Miscellaneous	452	68	178	698
<b>Total expenses</b>	<b><u>\$ 1,218,714</u></b>	<b><u>\$ 135,798</u></b>	<b><u>\$ 242,148</u></b>	<b><u>\$ 1,596,660</u></b>



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**SCHEDULES OF FUNCTIONAL EXPENSES (CONTINUED)**  
**For the year ended December 31, 2011**

	Program	Management and General	Fundraising	Total
Bookkeeping and accounting	\$ -	\$ 20,458	\$ -	\$ 20,458
Computer services	3,855	967	1,550	6,372
Consultants: Field representatives	112,711	-	-	112,711
Consultants: other	-	725	27,045	27,770
Dues, subscriptions and publications	1,472	385	617	2,474
Insurance	-	6,407	-	6,407
Legal fees	-	50	-	50
Licenses and permits	-	310	-	310
Office supplies and maintenance	7,232	1,800	3,014	12,046
Postage and delivery	3,254	866	1,686	5,806
Printing	6,605	501	3,480	10,586
Property taxes	-	477	-	477
Public education	14,746	-	-	14,746
Public relations	1,866	-	1,866	3,732
Rent and utilities	25,432	6,538	10,502	42,472
Salaries and employee benefits	371,142	93,650	153,541	618,333
Telephone	1,424	360	593	2,377
Travel and meetings	24,425	19,739	17,291	61,455
In-kind expenses	-	-	13,125	13,125
Depreciation expense	-	4,447	-	4,447
Seacology Prize Expenses	27,381	-	-	27,381
Grant payments/project expenses	539,122	-	-	539,122
Miscellaneous	433	132	193	758
	<u>433</u>	<u>132</u>	<u>193</u>	<u>758</u>
Total expenses	<u>\$ 1,141,100</u>	<u>\$ 157,812</u>	<u>\$ 234,503</u>	<u>\$ 1,533,415</u>