

SEACOLOGY
(A Nonprofit Public Benefit Corporation)

**FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION**

**For the Years Ended
December 31, 2016 and 2015**

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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, 2016 and 2015, 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, 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.

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 19, 2017

SEACOLOGY
(A Nonprofit Public Benefit Corporation)

STATEMENTS OF FINANCIAL POSITION
December 31, 2016 and 2015

	2016	2015
ASSETS		
Current assets:		
Cash and cash equivalents (Note 1)	\$ 549,812	\$ 788,270
Expedition trust account (Note 1)	100	100
Current portion of contributions, grants, and accounts receivable, net of allowance for doubtful accounts (Note 2)	1,949,535	1,830,736
Prepaid expenses and deposits	<u>107,758</u>	<u>95,063</u>
Total current assets	2,607,205	2,714,169
Contributions, grants and accounts receivable, net of current portion, allowance for doubtful accounts and present value discount (Note 2)	177,059	1,739,288
Marketable equity securities (Note 3)	5,331,124	2,828,486
Equipment and leasehold improvements, net of accumulated depreciation of \$58,043 at 2016 and \$53,481 at 2015 (Notes 1 and 4)	<u>1,976</u>	<u>6,538</u>
Total assets	<u>\$ 8,117,364</u>	<u>\$ 7,288,481</u>
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable and accrued expenses	\$ 5,436	\$ 45,740
Accrued vacation liability (Note 5)	<u>28,568</u>	<u>26,365</u>
Total liabilities	34,004	72,105
Net assets (Note 6):		
Unrestricted net assets:		
Undesignated	2,989,393	1,957,458
Board-designated:		
Force for Good	672,632	572,142
Falealupo endowment (Note 7)	177,219	169,676
Quasi-endowment (Note 7)	<u>951,186</u>	<u>304,277</u>
Total unrestricted net assets	4,790,430	3,003,553
Temporarily restricted net assets	<u>3,292,930</u>	<u>4,212,823</u>
Total net assets	8,083,360	7,216,376
Total liabilities and net assets	<u>\$ 8,117,364</u>	<u>\$ 7,288,481</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, 2016

	Unrestricted	Temporarily Restricted	Total
SUPPORT, REVENUE AND TRANSFERS			
Public support:			
Foundation grants	\$ 187,369	\$ 662,931	\$ 850,300
Donations and bequests	905,663	1,337,048	2,242,711
In-kind contributions (Note 1)	820	-	820
Total public support	<u>1,093,852</u>	<u>1,999,979</u>	<u>3,093,831</u>
Revenue:			
Investment income (Note 3)	85,070	54,452	139,522
Expedition income, net of expenses of \$10,258	(4,589)	-	(4,589)
Miscellaneous	77	-	77
Total revenue	<u>80,558</u>	<u>54,452</u>	<u>135,010</u>
Net assets released from restriction (Note 8)	<u>2,974,324</u>	<u>(2,974,324)</u>	<u>-</u>
Total support, revenue and transfers	<u>4,148,734</u>	<u>(919,893)</u>	<u>3,228,841</u>
EXPENSES			
Program services	1,977,446	-	1,977,446
Management and general	131,361	-	131,361
Fundraising	253,050	-	253,050
Total expenses	<u>2,361,857</u>	<u>-</u>	<u>2,361,857</u>
Change in net assets	1,786,877	(919,893)	866,984
Net assets, beginning of year	<u>3,003,553</u>	<u>4,212,823</u>	<u>7,216,376</u>
Net assets, end of year	<u>\$ 4,790,430</u>	<u>\$ 3,292,930</u>	<u>\$ 8,083,360</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, 2015

	Unrestricted	Temporarily Restricted	Total
SUPPORT, REVENUE AND TRANSFERS			
Public support:			
Foundation grants	\$ 212,125	\$ 484,537	\$ 696,662
Donations and bequests	1,046,086	3,811,988	4,858,074
In-kind contributions (Note 1)	<u>2,428</u>	<u>-</u>	<u>2,428</u>
Total public support	<u>1,260,639</u>	<u>4,296,525</u>	<u>5,557,164</u>
Revenue:			
Investment income (loss) (Note 3)	(49,409)	(8,770)	(58,179)
Expedition income, net of expenses of \$37,617	(17,352)	-	(17,352)
Special events, net of direct expenses of \$1,998	(1,998)	-	(1,998)
Miscellaneous	<u>332</u>	<u>-</u>	<u>332</u>
Total revenue	<u>(68,427)</u>	<u>(8,770)</u>	<u>(77,197)</u>
Net assets released from restriction (Note 8)	<u>876,773</u>	<u>(876,773)</u>	<u>-</u>
Total support, revenue and transfers	<u>2,068,985</u>	<u>3,410,982</u>	<u>5,479,967</u>
EXPENSES			
Program services	1,760,800	-	1,760,800
Management and general	124,008	-	124,008
Fundraising	<u>215,177</u>	<u>-</u>	<u>215,177</u>
Total expenses	<u>2,099,985</u>	<u>-</u>	<u>2,099,985</u>
Change in net assets	(31,000)	3,410,982	3,379,982
Net assets, beginning of year	<u>3,034,553</u>	<u>801,841</u>	<u>3,836,394</u>
Net assets, end of year	<u>\$ 3,003,553</u>	<u>\$ 4,212,823</u>	<u>\$ 7,216,376</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, 2016 and 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 866,984	\$ 3,379,982
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	4,562	9,455
Unrealized (gain) loss on investments	(16,017)	178,485
Realized loss (gain) on investments	9,611	(24)
Changes in assets and liabilities:		
Contributions, grants, and accounts receivable	1,443,430	(3,292,096)
Prepaid expenses and deposits	(12,695)	2,141
Accounts payable and accrued expenses	(40,304)	24,616
Accrued vacation liability	2,203	(393)
Prepaid expedition deposits	-	(15,430)
Total adjustments	<u>1,390,790</u>	<u>(3,093,246)</u>
Net cash provided by operating activities	<u>2,257,774</u>	<u>286,736</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Sales of marketable equity securities	653,297	1,118,553
Purchases and reinvestments of marketable equity securities	(3,149,529)	(1,559,427)
Change in expedition trust account	-	15,330
Net cash used by investing activities	<u>(2,496,232)</u>	<u>(425,544)</u>
Net decrease in cash and cash equivalents	(238,458)	(138,808)
Cash and cash equivalents, beginning of year	<u>788,270</u>	<u>927,078</u>
Cash and cash equivalents, end of year	<u>\$ 549,812</u>	<u>\$ 788,270</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, 2016 and 2015

NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization - Seacology (hereafter, the Corporation) 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 diminishments 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 diminishments 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, 2016 and 2015.

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.

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.

SEACOLOGY
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NOTES TO FINANCIAL STATEMENTS
For the years ended December 31, 2016 and 2015

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

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 years ended December 31, 2016 and 2015, the Corporation received the benefit of certain in-kind goods and services measured at fair value on a non-recurring basis, as follows:

<u>Description</u>	Fair Value Measurements Using			<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>	
<u>2016:</u>				
Event goods	\$ -	\$ 820	\$ -	\$ 820
<u>2015:</u>				
Equipment	\$ -	\$ 1,500	\$ -	\$ 1,500
Event goods	-	928	-	928
	\$ -	\$ 2,428	\$ -	\$ 2,428

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.

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NOTES TO FINANCIAL STATEMENTS
For the years ended December 31, 2016 and 2015

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

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.

Accounting Standards, ASU 2014-09, Revenue from Contracts with Customers (Topic 606)- In May 2014, the FASB issued new revenue recognition guidance, which applies to most contracts with customers. The core revenue recognition principle is that revenue should be recognized as the organization transfers goods or services to customers/clients in an amount reflecting the consideration it expects to receive. This new guidance is effective for the Corporation for annual reporting periods beginning after December 15, 2017. In the opinion of management, the implementation of this standard will not materially impact these financial statements.

Accounting Standards, ASU 2016-14, Presentation of Financial Statements of Not-for-Profit Entities (Topic 958)- In August 2016, the FASB issued new financial statement presentation guidance, which applies to most nonprofit financial statements. The new guidance will impact net asset classes, the presentation of investment return, and other changes, and is effective for annual financial statements issued for fiscal years beginning after December 15, 2017. The new standard is not expected to have a material impact on the Corporation's financial position, results of operations, or cash flows.

Subsequent Events - Subsequent events have been evaluated through June 19, 2017, which is the date the financial statements were available to be issued.

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, 2016 and 2015:

	2016	2015
Current portion	\$ 1,955,506	\$ 1,835,536
Less: allowance for doubtful accounts	(5,971)	(4,800)
Net current portion	<u>1,949,535</u>	<u>1,830,736</u>
Long-term portion, year ending December 31:		
2017	N/A	1,762,000
2018	213,332	287,494
2019	22,000	17,000
Less: allowance for doubtful accounts	(39,340)	(152,204)
Less: present value discount, 8%	(18,933)	(175,002)
Net long-term portion	<u>177,059</u>	<u>1,739,288</u>
Total contributions, grants, and accounts receivable	<u>\$ 2,126,594</u>	<u>\$ 3,570,024</u>

SEACOLOGY
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NOTES TO FINANCIAL STATEMENTS
For the years ended December 31, 2016 and 2015

NOTE 2 CONTRIBUTIONS, GRANTS, AND ACCOUNTS RECEIVABLE (Continued)

Included in pledges receivable is a significant pledge of investments, to be collected by the Corporation over several years. Because the investment instruments underlying the pledge may change in value, the pledge shall be adjusted accordingly until collected.

During the years ended December 31, 2016 and 2015, the Corporation also received several conditional pledges, totaling \$290,000 and \$500,000, respectively. These conditional awards will be recognized by the Corporation upon fulfillment of the conditions.

NOTE 3 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, 2016 and 2015, 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>	Fair Value Measurements Using			<u>Total</u>
	Quoted Price in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
<i>December 31, 2016:</i>				
Mutual funds	\$ 4,739,693	\$ -	\$ -	\$ 4,739,693
Corporate stocks	591,431	-	-	591,431
	<u>\$ 5,331,124</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,331,124</u>
<i>December 31, 2015:</i>				
Mutual funds	\$ 2,808,316	\$ -	\$ -	\$ 2,808,316
Corporate stocks	20,170	-	-	20,170
	<u>\$ 2,828,486</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,828,486</u>

The following summarizes the investment income (loss), including interest earned on bank deposits, earned during the years ended December 31, 2016 and 2015:

	2016	2015
Unrealized gain (loss) on investments	\$ 16,017	\$ (178,485)
Realized (loss) gain on investments	(9,611)	24
Interest and dividend income	133,116	120,282
	<u>\$ 139,522</u>	<u>\$ (58,179)</u>

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NOTES TO FINANCIAL STATEMENTS
For the years ended December 31, 2016 and 2015

NOTE 4 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, 2014	\$ 20,782	\$ 18,351	\$ 24,000	\$ 63,133
Additions	-	-	-	-
Disposals	-	(3,114)	-	(3,114)
Balance, December 31, 2015	20,782	15,237	24,000	60,019
Additions	-	-	-	-
Balance, December 31, 2016	<u>20,782</u>	<u>15,237</u>	<u>24,000</u>	<u>60,019</u>
<u>Accumulated depreciation</u>				
Balance, December 31, 2014	20,782	13,692	12,666	47,140
Depreciation expense	-	1,455	8,000	9,455
Disposals	-	(3,114)	-	(3,114)
Balance, December 31, 2015	20,782	12,033	20,666	53,481
Depreciation expense	-	1,228	3,334	4,562
Balance, December 31, 2016	<u>20,782</u>	<u>13,261</u>	<u>24,000</u>	<u>58,043</u>
Equipment and leasehold improvements, net	<u>\$ -</u>	<u>\$ 1,976</u>	<u>\$ -</u>	<u>\$ 1,976</u>

NOTE 5 ACCRUED VACATION LIABILITY

Accumulated unpaid employee vacation benefits are recognized as liabilities of the Corporation. The value of accumulated vacation at December 31, 2016 and 2015, was \$28,568 and \$26,365, respectively.

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NOTES TO FINANCIAL STATEMENTS
For the years ended December 31, 2016 and 2015

NOTE 6 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, 2016 and 2015, was \$4,790,430 and \$3,003,553, respectively. Included in that amount are net assets that have been designated by the Board of Directors to be used as follows:

	2016	2015
Force for Good	\$ 672,632	\$ 572,142
Falealupo endowment (see Note 7)	177,219	169,676
Quasi-endowment (see Note 7)	951,186	304,277
	\$ 1,801,037	\$ 1,046,095

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, 2016 and 2015, are designated for the following uses:

	2016	2015
Island Conservation projects	\$ 1,150,380	\$ 690,419
Time-restricted	2,193,916	3,805,190
Other	1,617	22,196
Western Pacific Islands project	11,261	27,024
Less: allowance for uncollectible receivable and present value discount on restricted grants	(64,244)	(332,006)
	\$ 3,292,930	\$ 4,212,823

NOTE 7 ENDOWMENT

The Corporation's endowment consists of three 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.

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NOTES TO FINANCIAL STATEMENTS
For the years ended December 31, 2016 and 2015

NOTE 7 ENDOWMENT (CONTINUED)

Interpretation of Law - The Board of Directors of the Corporation 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

Endowment Net Asset Composition by Type of Fund as of:

<u>December 31, 2016</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Board-designated endowment funds:				
Falealupo endowment	\$ 177,219	\$ -	\$ -	\$ 177,219
Quasi-endowment	<u>951,186</u>	<u>-</u>	<u>-</u>	<u>951,186</u>
Total funds	<u>\$ 1,128,405</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,128,405</u>
<u>December 31, 2015</u>				
Board-designated endowment funds:				
Falealupo endowment	\$ 169,676	\$ -	\$ -	\$ 169,676
Quasi-endowment	<u>304,277</u>	<u>-</u>	<u>-</u>	<u>304,277</u>
Total funds	<u>\$ 473,953</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 473,953</u>

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NOTES TO FINANCIAL STATEMENTS
For the years ended December 31, 2016 and 2015

NOTE 7 ENDOWMENT (CONTINUED)

Changes in Endowment Net Assets for the Fiscal Years Ended December 31, 2016 and 2015

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, December 31, 2014	\$ 496,240	\$ -	\$ -	\$ 496,240
Investment return:				
Interest and dividends	-	25,642	-	25,642
Unrealized gain/loss	-	(34,411)	-	(34,411)
Service charges	(68)	-	-	(68)
Total investment return	<u>(68)</u>	<u>(8,769)</u>	<u>-</u>	<u>(8,837)</u>
Contributions	<u>(8,769)</u>	<u>8,769</u>	<u>-</u>	<u>-</u>
Appropriation of endowment assets for expenditure	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Distribution	<u>(13,450)</u>	<u>-</u>	<u>-</u>	<u>(13,450)</u>
Endowment net assets, December 31, 2015	<u>473,953</u>	<u>-</u>	<u>-</u>	<u>473,953</u>
Investment return:				
Interest and dividends	-	31,939	-	31,939
Unrealized gain/loss	-	26,694	-	26,694
Service charges	-	(4,181)	-	(4,181)
Total investment return	<u>-</u>	<u>54,452</u>	<u>-</u>	<u>54,452</u>
Contributions	<u>700,000</u>	<u>-</u>	<u>-</u>	<u>700,000</u>
Appropriation of endowment assets for expenditure	<u>54,452</u>	<u>(54,452)</u>	<u>-</u>	<u>-</u>
Distribution	<u>(100,000)</u>	<u>-</u>	<u>-</u>	<u>(100,000)</u>
Endowment net assets, December 31, 2016	<u>\$ 1,128,405</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,128,405</u>

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NOTES TO FINANCIAL STATEMENTS
For the years ended December 31, 2016 and 2015

NOTE 7 ENDOWMENT (CONTINUED)

Description of Amounts Classified as Permanently Restricted Net Assets and Temporarily Restricted Net Assets (Endowment Only) for the Fiscal Years Ended December 31, 2016 and 2015

Permanently Restricted Net Assets

	2016	2015
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	\$ -	\$ -

Description of Amounts Classified as Permanently Restricted Net Assets and Temporarily Restricted Net Assets (Endowment Only) for the Fiscal Years Ended December 31, 2016 and 2015

Temporarily Restricted Net Assets

	2016	2015
Term endowment funds	\$ -	\$ -
The portion of perpetual endowment funds subject to a time restriction under SPMIFA:		
Without purpose restrictions	-	-
With purpose restrictions	-	-
Total endowment funds classified as temporarily restricted net assets	\$ -	\$ -

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, 2016 and 2015.

Return Objectives and Risk Parameters

For Falealupo Endowment and other endowment funds, the Corporation's objective is to earn a long-term real return, net of investment expenses, of at least 5% per annum pending market conditions. "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 the Corporation'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%.

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NOTES TO FINANCIAL STATEMENTS
For the years ended December 31, 2016 and 2015

NOTE 7 ENDOWMENT (CONTINUED)

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 the Corporation'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 held for operating purposes fund shall make an annual distribution to the Corporation 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.

A separate quasi-endowment fund was established in 2016 to contribute to the Corporation's long-term viability. Each year, some of these separate quasi-endowment funds will be withdrawn and deposited into the general operating account to be used for projects and operations, other than the Sri Lanka Mangrove protection program. In 2016, the amount withdrawn was \$100,000, with future withdrawals to increase by CPI.

Quasi-endowment Extraordinary Distributions: In order to withdraw and distribute funds from the Quasi-endowment to the 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.

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NOTES TO FINANCIAL STATEMENTS
For the years ended December 31, 2016 and 2015

NOTE 8 NET ASSETS RELEASED FROM RESTRICTION

During the years ended December 31, 2016 and 2015, the following temporarily restricted funds were used for their restricted purposes, and they were released to unrestricted net assets:

	2016	2015
Island Conservation projects	\$ 961,374	\$ 612,148
Endowment gains (losses) (see Note 7)	54,452	(8,769)
Seacology Prize event underwriting	29,839	30,822
Pacific Island projects	48,864	39,875
Western Pacific Islands projects	27,025	43,822
Time-restricted	1,839,696	147,266
Save an Acre	2,620	5,340
Other specific purposes	10,454	6,069
Carbon offset projects	-	200
	\$ 2,974,324	\$ 876,773

NOTE 9 LEASE

The Corporation leases its offices in Berkeley, California, under a lease maturing September 30, 2022. Minimum monthly rent ranges from \$3,264 to \$3,264. Rent expense for the lease for the years ended December 31, 2016 and 2015, was \$40,346 and \$39,413, respectively.

The estimated future minimum payments for the long-term lease for the current and succeeding years are as follows:

Year ending December 31,			
2017		\$	41,148
2018			41,970
2019			42,810
2020			43,666
2021			44,539
Thereafter			33,903
		\$	248,036

NOTE 10 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, 2016 and 2015, the Corporation made contributions totaling \$94,904 and \$75,739, respectively, to the plan.

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NOTES TO FINANCIAL STATEMENTS
For the years ended December 31, 2016 and 2015

NOTE 11 JOINT COSTS

The Corporation achieves some of its programmatic goals in newsletter mailings, its website, and expeditions that include requests for contributions. In 2016 and 2015, the costs of these activities include \$19,762 and \$29,147, 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 2016 and 2015 were allocated as follows:

<u>2016:</u>	<u>Program</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Postage	\$ 2,177	\$ 431	\$ 1,485	\$ 4,093
Printing	9,123	-	1,189	10,312
Travel and meetings	<u>1,881</u>	<u>-</u>	<u>3,476</u>	<u>5,357</u>
	<u>\$ 13,181</u>	<u>\$ 431</u>	<u>\$ 6,150</u>	<u>\$ 19,762</u>
<u>2015:</u>				
Consultants	\$ 120	\$ 120	\$ 360	\$ 600
Postage	2,179	412	1,433	4,024
Printing	9,891	136	1,190	11,217
Travel and meetings	<u>4,025</u>	<u>-</u>	<u>9,281</u>	<u>13,306</u>
	<u>\$ 16,215</u>	<u>\$ 668</u>	<u>\$ 12,264</u>	<u>\$ 29,147</u>

NOTE 12 LICENSE AGREEMENTS

The Corporation has entered into exclusive non-transferable License Agreements with Seacology Germany, Seacology Japan, and Seacology UK. These agreements allow the licensees to carry on the Seacology concept into Germany, Japan, Austria, Switzerland, and Great Britain and the United Kingdom, so that more 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 the Corporation believes to be inconsistent with same.

Under the License Agreements, the Corporation 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 the Corporation. These License Agreements may be terminated at any time upon 30 days written notice.

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NOTES TO FINANCIAL STATEMENTS
For the years ended December 31, 2016 and 2015

NOTE 12 LICENSE AGREEMENTS

During the years ended December 31, 2016 and 2015, the Corporation received the following pledges and contributions from licensees to fund specific projects:

	<u>2016</u>	<u>2015</u>
Seacology Germany	\$ -	\$ 20,000
Seacology Japan	<u>20,000</u>	<u>23,490</u>
	<u>\$ 20,000</u>	<u>\$ 43,490</u>

At December 31, 2016 and 2015, \$3,000 and \$14,000, respectively, was receivable from Seacology Germany.

NOTE 13 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 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.

One funder provided a pledge of approximately \$3,600,000, which is 65% of the total public support, in 2015. This pledge is also reported in contributions, grants, and accounts receivable at December 31, 2016 and 2015, representing 87% and 93%, respectively, of gross receivables.

SUPPLEMENTARY INFORMATION

SEACOLOGY
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SCHEDULES OF FUNCTIONAL EXPENSES
For the year ended December 31, 2016

	Program	Management and General	Fundraising	Total
Bookkeeping and accounting	\$ -	\$ 29,875	\$ -	\$ 29,875
Computer services	6,511	894	2,355	9,760
Consultants: Field representatives	124,867	-	-	124,867
Consultants: other	854	-	2,062	2,916
Dues, subscriptions and publications	2,029	286	667	2,982
Insurance	8,709	4,882	2,905	16,496
Licenses and permits	-	685	-	685
Office supplies and maintenance	7,446	989	2,524	10,959
Postage and delivery	2,673	642	2,951	6,266
Printing	9,205	785	8,737	18,727
Property taxes	-	292	-	292
Public education	22,199	-	-	22,199
Rent and utilities	29,710	4,189	10,058	43,957
Salaries and employee benefits	593,414	82,052	205,381	880,847
Telephone	2,761	381	950	4,092
Travel and meetings	59,847	4,909	13,142	77,898
In-kind expenses	521	68	231	820
Depreciation expense	3,073	425	1,064	4,562
Seacology Prize Expenses	29,989	-	-	29,989
Grant payments/project expenses	1,073,567	-	-	1,073,567
Miscellaneous	71	7	23	101
Total expenses	<u>\$ 1,977,446</u>	<u>\$ 131,361</u>	<u>\$ 253,050</u>	<u>\$ 2,361,857</u>

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SCHEDULES OF FUNCTIONAL EXPENSES (CONTINUED)
For the year ended December 31, 2015

	Program	Management and General	Fundraising	Total
Bookkeeping and accounting	\$ -	\$ 27,379	\$ -	\$ 27,379
Computer services	4,212	638	1,461	6,311
Consultants: Field representatives	135,105	-	-	135,105
Consultants: other	42,892	120	5,350	48,362
Dues, subscriptions and publications	1,792	299	525	2,616
Insurance	8,396	3,865	2,660	14,921
Legal fees	-	600	-	600
Licenses and permits	-	860	-	860
Office supplies and maintenance	7,423	1,140	2,634	11,197
Postage and delivery	2,599	930	1,747	5,276
Printing	9,939	136	6,577	16,652
Property taxes	-	298	-	298
Public education	34,449	-	-	34,449
Rent and utilities	29,051	4,441	9,499	42,991
Salaries and employee benefits	495,551	75,380	166,825	737,756
Telephone	2,155	328	746	3,229
Travel and meetings	56,599	6,482	13,666	76,747
In-kind expenses	934	146	1,349	2,429
Depreciation expense	6,351	966	2,138	9,455
Seacology Prize Expenses	30,876	-	-	30,876
Grant payments/project expenses	892,476	-	-	892,476
Total expenses	<u>\$ 1,760,800</u>	<u>\$ 124,008</u>	<u>\$ 215,177</u>	<u>\$ 2,099,985</u>