

SEACOLOGY
(A Nonprofit Public Benefit Corporation)

FINANCIAL STATEMENTS

For the Years Ended
December 31, 2018 and 2017

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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, 2018 and 2017, 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.

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, 2018 and 2017, 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.

Effect of Adopting New Accounting Standard

As discussed in Note 1, the Organization adopted the Financial Accounting Standards Board's Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958) - Presentation of Financial Statements of Not-for-Profit Entities* as of and for the year ended December 31, 2018. The requirements of the ASU have been applied retrospectively to all periods presented. Our opinion is not modified with respect to this matter.

A handwritten signature in blue ink that reads "Doran & Associates".

June 14, 2019

SEACOLOGY
(A Nonprofit Public Benefit Corporation)

STATEMENTS OF FINANCIAL POSITION
December 31, 2018 and 2017

	2018	2017
ASSETS		
Current assets:		
Cash and cash equivalents (Note 1)	\$ 1,915,710	\$ 2,270,990
Expedition trust account (Note 1)	-	8,233
Current portion of contributions, grants, and accounts receivable, net of allowance for doubtful accounts (Note 3)	184,488	513,723
Prepaid expenses and deposits	125,581	82,811
Total current assets	2,225,779	2,875,757
Contributions, grants and accounts receivable, net of current portion, allowance for doubtful accounts and present value discount (Note 3)	8,660	19,052
Marketable equity securities (Note 4)	4,828,220	5,544,299
Equipment and leasehold improvements, net of accumulated depreciation of \$57,154 at 2018 and \$56,242 at 2017 (Notes 1 and 5)	152	1,064
Total assets	\$ 7,062,811	\$ 8,440,172
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable and accrued expenses	\$ 20,851	\$ 34,334
Prepaid expedition deposits	-	8,133
Accrued vacation liability (Note 6)	49,293	37,162
Total liabilities	70,144	79,629
Net assets (Note 7):		
Net assets without donor restriction:		
Undesignated	2,961,019	3,109,506
Board-designated:		
Force for Good	813,174	802,404
Falealupo endowment (Note 8)	170,871	198,449
Quasi-endowment (Note 8)	2,760,375	3,019,968
Total net assets without donor restriction	6,705,439	7,130,327
Net assets with donor restriction	287,228	1,230,216
Total net assets	6,992,667	8,360,543
Total liabilities and net assets	\$ 7,062,811	\$ 8,440,172

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

SEACOLOGY
(A Nonprofit Public Benefit Corporation)

STATEMENTS OF ACTIVITIES
For the year ended December 31, 2018

	Without Donor Restriction	With Donor Restriction	Total
SUPPORT, REVENUE AND TRANSFERS			
Public support:			
Foundation grants	\$ 187,000	\$ 629,467	\$ 816,467
Donations and bequests	980,035	251,900	1,231,935
In-kind contributions (Note 1)	1,468	-	1,468
	<u>1,168,503</u>	<u>881,367</u>	<u>2,049,870</u>
Revenue:			
Investment income (loss), net (Note 4)	(383,651)	-	(383,651)
Expedition income, net of expenses of \$29,117	(11,557)	-	(11,557)
Event income (loss), net of expenses of \$5,000	(5,000)	-	(5,000)
Miscellaneous	15,745	-	15,745
	<u>(384,463)</u>	<u>-</u>	<u>(384,463)</u>
Net assets released from restriction (Note 9)	<u>1,824,355</u>	<u>(1,824,355)</u>	<u>-</u>
	<u>2,608,395</u>	<u>(942,988)</u>	<u>1,665,407</u>
EXPENSES AND LOSSES			
Program services	2,621,985	-	2,621,985
Management and general	135,275	-	135,275
Fundraising	276,023	-	276,023
	<u>3,033,283</u>	<u>-</u>	<u>3,033,283</u>
Change in net assets	(424,888)	(942,988)	(1,367,876)
Net assets, beginning of year	<u>7,130,327</u>	<u>1,230,216</u>	<u>8,360,543</u>
Net assets, end of year	<u>\$ 6,705,439</u>	<u>\$ 287,228</u>	<u>\$ 6,992,667</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, 2017

	Without Donor Restriction	With Donor Restriction	Total
SUPPORT, REVENUE AND TRANSFERS			
Public support:			
Foundation grants	\$ 153,053	\$ 984,484	\$ 1,137,537
Donations and bequests	927,600	406,909	1,334,509
In-kind contributions (Note 1)	820	-	820
Total public support	<u>1,081,473</u>	<u>1,391,393</u>	<u>2,472,866</u>
Revenue:			
Investment income, net (Note 4)	591,698	-	591,698
Expedition income, net of expenses of \$13,952	(10,352)	-	(10,352)
Miscellaneous	1,000	-	1,000
Total revenue	<u>582,346</u>	<u>-</u>	<u>582,346</u>
Net assets released from restriction (Note 9)	<u>3,454,107</u>	<u>(3,454,107)</u>	<u>-</u>
Total support, revenue and transfers	<u>5,117,926</u>	<u>(2,062,714)</u>	<u>3,055,212</u>
EXPENSES AND LOSSES			
Program services	2,407,209	-	2,407,209
Management and general	131,227	-	131,227
Fundraising	239,593	-	239,593
Total expenses and losses	<u>2,778,029</u>	<u>-</u>	<u>2,778,029</u>
Change in net assets	2,339,897	(2,062,714)	277,183
Net assets, beginning of year	<u>4,790,430</u>	<u>3,292,930</u>	<u>8,083,360</u>
Net assets, end of year	<u>\$ 7,130,327</u>	<u>\$ 1,230,216</u>	<u>\$ 8,360,543</u>

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

SEACOLOGY
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STATEMENTS OF FUNCTIONAL EXPENSES
For the year ended December 31, 2018

	Program	Management and General	Fundraising	Total
Bookkeeping and accounting	\$ -	\$ 24,867	\$ -	\$ 24,867
Computer services	7,224	938	2,524	10,686
Consultants: Field representatives	144,760	-	-	144,760
Consultants: other	40,417	982	12,879	54,278
Depreciation expense	616	81	215	912
Dues, subscriptions and publications	2,103	290	730	3,123
Event expenses	-	-	5,000	5,000
Expedition expenses	24,811	-	4,306	29,117
Grant payments/project expenses	1,570,856	-	-	1,570,856
In-kind expenses	985	96	387	1,468
Insurance	5,552	4,051	1,848	11,451
Investment expenses	-	48,933	-	48,933
Licenses and permits	-	370	-	370
Office supplies and maintenance	8,556	1,129	3,076	12,761
Postage and delivery	1,824	662	1,779	4,265
Printing	7,080	214	2,405	9,699
Property taxes	-	209	-	209
Public education	6,460	-	-	6,460
Rent and utilities	30,687	4,200	10,570	45,457
Salaries and employee benefits	666,435	88,462	232,281	987,178
Seacology Prize Expenses	39,634	-	-	39,634
Telephone	2,837	378	991	4,206
Travel and meetings	85,959	8,346	6,338	100,643
Total expenses by function	2,646,796	184,208	285,329	3,116,333
Less expenses included with revenues on the Statement of Activities:				
Event expenses	-	-	5,000	5,000
Expedition expenses	24,811	-	4,306	29,117
Investment expenses	-	48,933	-	48,933
Total expenses included in the expenses section on the Statement of Activities	\$ 2,621,985	\$ 135,275	\$ 276,023	\$ 3,033,283
	<u>86%</u>	<u>5%</u>	<u>9%</u>	<u>100%</u>

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

SEACOLOGY
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STATEMENTS OF FUNCTIONAL EXPENSES (CONTINUED)
For the year ended December 31, 2017

	Program	Management and General	Fundraising	Total
Bookkeeping and accounting	\$ -	\$ 24,163	\$ -	\$ 24,163
Computer services	9,334	1,290	2,953	13,577
Consultants: Field representatives	133,287	-	-	133,287
Consultants: other	16,550	-	7,365	23,915
Depreciation expense	627	85	200	912
Dues, subscriptions and publications	2,566	331	801	3,698
Expedition expenses	13,952	-	-	13,952
Grant payments/project expenses	1,399,541	-	-	1,399,541
In-kind expenses	556	61	203	820
Insurance	7,358	4,999	2,264	14,621
Investment expense	-	40,188	-	40,188
Legal fees	-	275	-	275
Licenses and permits	-	1,100	-	1,100
Miscellaneous	7	1	2	10
Office supplies and maintenance	11,377	1,506	3,646	16,529
Postage and delivery	3,084	411	1,570	5,065
Printing	9,994	148	4,819	14,961
Property taxes	-	291	-	291
Public education	40,149	-	-	40,149
Rent and utilities	30,878	4,285	9,778	44,941
Salaries and employee benefits	627,961	85,102	200,577	913,640
Seacology Prize Expenses	37,785	-	-	37,785
Telephone	3,107	415	992	4,514
Travel and meetings	73,048	6,764	4,423	84,235
Total expenses by function	2,421,161	171,415	239,593	2,832,169
Less expenses included with revenues on the Statement of Activities:				
Expedition expenses	13,952	-	-	13,952
Investment expense	-	40,188	-	40,188
Total expenses included in the expenses section on the Statement of Activities	\$ 2,407,209	\$ 131,227	\$ 239,593	\$ 2,778,029
	<u>87%</u>	<u>5%</u>	<u>8%</u>	<u>100%</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, 2018 and 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	<u>\$ (1,367,876)</u>	<u>\$ 277,183</u>
Adjustments to reconcile change in net assets to net cash (used) provided by operating activities:		
Depreciation	912	912
Unrealized loss (gain) on investments	547,918	(5,086)
Realized gain on investments	(96,792)	(557,687)
Changes in assets and liabilities:		
Contributions, grants, and accounts receivable	339,627	1,593,819
Prepaid expenses and deposits	(42,770)	24,947
Accounts payable and accrued expenses	(13,483)	28,898
Accrued vacation liability	12,131	8,594
Prepaid expedition deposits	<u>(8,133)</u>	<u>8,133</u>
Total adjustments	<u>739,410</u>	<u>1,102,530</u>
Net cash (used) provided by operating activities	<u>(628,466)</u>	<u>1,379,713</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Sales of marketable equity securities	1,022,569	2,862,976
Purchases and reinvestments of marketable equity securities	(757,616)	(2,513,378)
Change in expedition trust account	<u>8,233</u>	<u>(8,133)</u>
Net cash provided by investing activities	<u>273,186</u>	<u>341,465</u>
Net (decrease) increase in cash and cash equivalents	(355,280)	1,721,178
Cash and cash equivalents, beginning of year	<u>2,270,990</u>	<u>549,812</u>
Cash and cash equivalents, end of year	<u>\$ 1,915,710</u>	<u>\$ 2,270,990</u>
Supplementary information:		
Non-cash transactions:		
Donated securities	<u>\$ 40,598</u>	<u>\$ 64,748</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, 2018 and 2017

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.

Net Assets - Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions - Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions. The governing board has designated, from net assets without donor restrictions, net assets for identified reserves and board-designated endowments (see Note 7).

Net Assets With Donor Restrictions - Net assets subject to donor- (or certain grantor-) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

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 net assets with donor restrictions depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions.

In-Kind Contributions - The Corporation receives the benefit of in-kind goods and 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.

SEACOLOGY
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NOTES TO FINANCIAL STATEMENTS
For the years ended December 31, 2018 and 2017

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

Functional Expenses - The financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include salaries and benefits, which are allocated based on measures of effort by function by employees, and computer services, dues, subscriptions and publications, insurance: other, office supplies and maintenance, rent and utilities, telephone, and depreciation, which are allocated based on salary allocations.

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 3 to 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.

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 has 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 (four years for California). 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 Update, 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 did not materially impact these financial statements.

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NOTES TO FINANCIAL STATEMENTS
For the years ended December 31, 2018 and 2017

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

Accounting Standards Update, 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 impacted net asset classes, the presentation of investment return, and other changes, and was effective for annual financial statements issued for fiscal years beginning after December 15, 2017. The new standard did have a material impact on the Corporation's financial position, results of operations, or cash flows.

Accounting Standards Update, ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash* - In response to divergence in the way restricted cash is classified and presented in financial statements, FASB issued an amendment requiring that a statement of cash flows explain the change during a reporting period of the total of cash, cash equivalents, and amounts generally described as restricted cash and restricted cash equivalents. The amendment is effective for fiscal years beginning after December 31, 2018. The new standard could have an impact on the Corporation's statement of cash flows.

Accounting Standards Update, ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* - In June 2018, the FASB issued clarified guidance regarding the way nonprofit organizations record contracts and grants being received and issued. For each arrangement, the organization will have to determine key elements of the agreement including (a) whether or not there is an exchange transaction (i.e., direct commensurate value to funder), (b) whether there are donor-imposed conditions for non-exchange transactions (e.g., measurable performance barriers, etc.) before commitment may be recognized as income, and (c) whether there are donor-imposed restrictions on non-exchange, unconditional funds (i.e., limited purpose or timing restrictions). The new standard is effective for resource recipients for fiscal years beginning after December 15, 2018, and for resource providers for fiscal years beginning after December 15, 2019, and could have a material impact on the Corporation's statement of financial position, results of operations, and cash flows.

Accounting Standards Update, ASU 2016-02, *Leases* - In February 2016, the FASB issued amendments to the way lessees record lease transactions. Upon implementation, lessees will be required to recognize at commencement the right-of-use asset and a lease liability representing the lessee's obligation to make lease payments arising from the lease, as discounted, for all leases except short-term leases. This Standard is effective for annual financial statements issued for fiscal years beginning after December 15, 2019, and early adoption is permitted. Management is currently evaluating the impact the amendments to this ASU will have on the financial statements of the Corporation.

Reclassifications - Certain balances at, and for the year ended December 31, 2017, were reclassified to conform with December 31, 2018, balances.

Subsequent Events - Subsequent events have been evaluated through June 14, 2019, which is the date the financial statements were available to be issued.

SEACOLOGY
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NOTES TO FINANCIAL STATEMENTS
For the years ended December 31, 2018 and 2017

NOTE 2 LIQUIDITY AND AVAILABILITY OF RESOURCES

Seacology has \$2,874,000 in financial assets available for general expenditures within one year of the statement of financial position date. This amount consists of \$1,629,000 in cash and cash equivalents, \$183,000 in contributions receivable, and \$1,062,000 in operating investments. None of these assets are subject to donor restrictions, internal designations, or any contractual obligations. The Organization has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. The Organization invests cash in excess of daily requirements in short-term investments, CDs, and money market funds.

NOTE 3 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, 2018 and 2017:

	2018	2017
Current portion	\$ 187,251	\$ 550,270
Less: allowance for doubtful accounts	(2,763)	(36,547)
Net current portion	184,488	513,723
Long-term portion, year ending December 31:		
2019	N/A	22,000
2020	10,000	-
Less: allowance for doubtful accounts	(600)	(1,320)
Less: present value discount, 8%	(740)	(1,628)
Net long-term portion	8,660	19,052
 Total contributions, grants, and accounts receivable	 \$ 193,148	 \$ 532,775

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, 2018 and 2017, the Corporation also received several conditional pledges, totaling \$128,716 and \$158,716, respectively. These conditional awards will be recognized by the Corporation upon fulfillment of the conditions.

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NOTES TO FINANCIAL STATEMENTS
For the years ended December 31, 2018 and 2017

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, 2018 and 2017, using quoted prices in active markets for identical 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, 2018:</i>				
Corporate stocks / equities	\$ 3,530,232	\$ -	\$ -	\$ 3,530,232
Fixed income and preferreds	<u>1,297,988</u>	<u>-</u>	<u>-</u>	<u>1,297,988</u>
	<u>\$ 4,828,220</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,848,220</u>
<i>December 31, 2017:</i>				
Corporate stocks / equities	\$ 3,693,526	\$ -	\$ -	\$ 3,693,526
Fixed income and preferreds	1,824,660	-	-	1,824,660
Alternatives	<u>26,113</u>	<u>-</u>	<u>-</u>	<u>26,113</u>
	<u>\$ 5,544,299</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,544,299</u>

The following summarizes the investment income (loss), including interest earned on bank deposits, earned during the years ended December 31, 2018 and 2017:

	2018	2017
Unrealized (loss) gain on investments	\$ (547,918)	\$ 5,086
Realized gain on investments	96,792	557,687
Interest and dividend income	116,408	69,113
Investment fees	<u>(48,933)</u>	<u>(40,188)</u>
	<u>\$ (383,651)</u>	<u>\$ 591,698</u>

SEACOLOGY
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NOTES TO FINANCIAL STATEMENTS
For the years ended December 31, 2018 and 2017

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, 2016	\$ 20,782	\$ 15,237	\$ 24,000	\$ 60,019
Additions	-	-	-	-
Disposals	-	(2,713)	-	(2,713)
Balance, December 31, 2017	20,782	12,524	24,000	57,306
Additions	-	-	-	-
Balance, December 31, 2018	<u>20,782</u>	<u>12,524</u>	<u>24,000</u>	<u>57,306</u>
 <u>Accumulated depreciation</u>				
Balance, December 31, 2016	20,782	13,261	24,000	58,043
Depreciation expense	-	912	-	912
Disposals	-	(2,713)	-	(2,713)
Balance, December 31, 2017	20,782	11,460	24,000	56,242
Depreciation expense	-	912	-	912
Balance, December 31, 2018	<u>20,782</u>	<u>12,372</u>	<u>24,000</u>	<u>57,154</u>
Equipment and leasehold improvements, net	<u>\$ -</u>	<u>\$ 152</u>	<u>\$ -</u>	<u>\$ 152</u>

NOTE 6 ACCRUED VACATION LIABILITY

Accumulated unpaid employee vacation benefits are recognized as liabilities of the Corporation. A maximum of one and a half year's allotment of vacation days can be accrued. Once an employee reaches the maximum, the employee no longer accrues vacation until the balance drops below the maximum. The value of accumulated vacation at December 31, 2018 and 2017, was \$49,293 and \$37,162, respectively.

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NOTES TO FINANCIAL STATEMENTS
For the years ended December 31, 2018 and 2017

NOTE 7 NET ASSETS

Net assets without donor restriction:

The Corporation has net assets that are not subject to donor imposed restrictions. The balance of net assets without donor restriction at December 31, 2018 and 2017, was \$6,705,439 and \$7,130,327, respectively. Included in that amount are net assets that have been designated by the Board of Directors to be used as follows:

	2018	2017
Force for Good - Established in 1996 to fund projects to help protect fragile island environments for indigenous people	\$ 813,174	\$ 802,404
Falealupo endowment - Established in 1997 to fund the repair and upkeep of the Falealupo school which was the very first Seacology project, and the Falealupo canopy aerial walkway. These two projects were in exchange for protection of 30,000 acre rain forest in perpetuity (see Note 8)	170,871	198,449
Quasi-endowment - Established in 2003 to fund the long-term sustainability of Seacology (see Note 8)	2,760,375	3,019,968
	\$ 3,744,420	\$ 4,020,821

Net assets with donor restriction:

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. Net assets with donor restrictions at December 31, 2018 and 2017, are designated for the following uses:

	2018	2017
Island Conservation projects	\$ 55,731	\$ 849,249
Time-restricted	202,721	357,773
Pacific Islands projects	32,879	62,689
Less: allowance for uncollectible receivable and present value discount on restricted grants	(4,103)	(39,495)
	\$ 287,228	\$ 1,230,216

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NOTES TO FINANCIAL STATEMENTS
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NOTE 8 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.

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 retains in perpetuity (a) the original value of initial and subsequent gifts donated to the endowment, and (b) accumulations to the 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.

Donor-restricted amounts not retained in perpetuity are subject to appropriation 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>Description:</u>	<u>Without Donor Restriction</u>	<u>With Donor Restriction</u>	<u>Total</u>
<u>December 31, 2018:</u>			
Board-designated endowment funds:			
Falealupo endowment	\$ 170,871	\$ -	\$ 170,871
Quasi-endowment	<u>2,760,375</u>	<u>-</u>	<u>2,760,375</u>
Total funds	<u>\$ 2,931,246</u>	<u>\$ -</u>	<u>\$ 2,931,246</u>

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NOTES TO FINANCIAL STATEMENTS
For the years ended December 31, 2018 and 2017

NOTE 8 ENDOWMENT (Continued)

<u>Description:</u>	<u>Without Donor Restriction</u>	<u>With Donor Restriction</u>	<u>Total</u>
<u>December 31, 2017</u>			
Board-designated endowment funds:			
Falealupo endowment	\$ 198,449	\$ -	\$ 198,449
Quasi-endowment	<u>3,019,968</u>	<u>-</u>	<u>3,019,968</u>
Total funds	<u>\$ 3,218,417</u>	<u>\$ -</u>	<u>\$ 3,218,417</u>

Changes in Endowment Net Assets for the Fiscal Years Ended December 31, 2018 and 2017

	<u>Without Donor Restriction</u>	<u>With Donor Restriction</u>	<u>Total</u>
Endowment net assets, December 31, 2016	<u>\$ 1,128,405</u>	<u>\$ -</u>	<u>\$ 1,128,405</u>
Investment return:			
Interest and dividends	49,877	-	49,877
Unrealized gain/loss	284,077	-	284,077
Service charges	<u>(23,357)</u>	<u>-</u>	<u>(23,357)</u>
Total investment return	<u>310,597</u>	<u>-</u>	<u>310,597</u>
Contributions	<u>1,887,578</u>	<u>-</u>	<u>1,887,578</u>
Appropriation of endowment assets for expenditure	<u>-</u>	<u>-</u>	<u>-</u>
Distribution	<u>(108,163)</u>	<u>-</u>	<u>(108,163)</u>
Endowment net assets, December 31, 2017	<u>3,218,417</u>	<u>-</u>	<u>3,218,417</u>

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NOTES TO FINANCIAL STATEMENTS
For the years ended December 31, 2018 and 2017

NOTE 8 ENDOWMENT (Continued)

Changes in Endowment Net Assets for the Fiscal Years Ended December 31, 2018 and 2017
(Continued)

	Without Donor Restriction	With Donor Restriction	Total
Investment return:			
Interest and dividends	69,697	-	69,697
Unrealized gain/loss	(275,384)	-	(275,384)
Service charges	(29,116)	-	(29,116)
Total investment return	<u>(234,803)</u>	<u>-</u>	<u>(234,803)</u>
Contributions	<u>57,926</u>	<u>-</u>	<u>57,926</u>
Appropriation of endowment assets for expenditure	<u>-</u>	<u>-</u>	<u>-</u>
Distribution	<u>(110,294)</u>	<u>-</u>	<u>(110,294)</u>
Endowment net assets, December 31, 2018	<u>\$ 2,931,246</u>	<u>\$ -</u>	<u>\$ 2,931,246</u>

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 net assets with donor restrictions. There were no funds with deficiencies as of December 31, 2018 and 2017.

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, 2018 and 2017

NOTE 8 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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NOTE 9 NET ASSETS RELEASED FROM RESTRICTION

During the years ended December 31, 2018 and 2017, the following net assets with donor restriction were used for their restricted purposes, and they were released to net assets without donor restriction:

	2018	2017
Island Conservation projects	\$ 1,349,075	\$ 1,230,496
Seacology Prize event underwriting	30,621	37,285
Pacific Island projects	67,060	36,322
Western Pacific Islands projects	12,750	12,250
Time-restricted	357,773	2,132,583
Save an Acre	1,260	1,880
Other specific purposes	5,816	3,291
	\$ 1,824,355	\$ 3,454,107

NOTE 10 LEASE

The Corporation leases its offices in Berkeley, California, under a lease maturing September 30, 2022. Minimum monthly rent ranges from \$3,264 to \$3,767. Rent expense for the lease for the years ended December 31, 2018 and 2017, was \$41,970 and \$41,148, respectively.

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

Year ending December 31,		
2019		\$ 42,810
2020		43,666
2021		44,539
2022		33,903
		\$ 164,918

NOTE 11 TAX SHELTERED ANNUITY

The Corporation established a 403(b) deferred income plan at TIAA 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, 2018 and 2017, the Corporation made contributions totaling \$98,567 and \$94,985, respectively, to the plan.

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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 2018 and 2017, the costs of these activities include \$48,022 and \$18,056, 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 2018 and 2017 were allocated as follows:

<u>2018:</u>	<u>Program</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Postage and delivery	\$ 1,256	\$ 408	\$ 1,319	\$ 2,983
Printing and reproduction	7,072	-	786	7,858
Office supplies	511	511	-	1,022
Travel	3,842	-	3,200	7,042
Expedition expenses	<u>24,811</u>	<u>-</u>	<u>4,306</u>	<u>29,117</u>
	<u>\$ 37,492</u>	<u>\$ 919</u>	<u>\$ 9,611</u>	<u>\$ 48,022</u>
<u>2017:</u>				
Postage	\$ 2,584	\$ 110	\$ 604	\$ 3,298
Printing	9,985	16	1,120	11,121
Travel and meetings	<u>2,508</u>	<u>-</u>	<u>1,129</u>	<u>3,637</u>
	<u>\$ 15,077</u>	<u>\$ 126</u>	<u>\$ 2,853</u>	<u>\$ 18,056</u>

NOTE 13 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, 2018 and 2017

NOTE 13 LICENSE AGREEMENTS (Continued)

During the years ended December 31, 2018 and 2017, the Corporation received the following pledges and contributions from licensees to fund specific projects:

	<u>2018</u>	<u>2017</u>
Seacology Germany	\$ 12,000	\$ -
Seacology Japan	<u>10,000</u>	<u>14,019</u>
	<u>\$ 22,000</u>	<u>\$ 14,019</u>

At December 31, 2018 and 2017, \$2,000 was receivable from Seacology Germany.

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 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.

Two funders provided grants and donations totaling \$458,279, which is 27% of total income in 2018.

As of December 31, 2018, the Corporation had exceeded the federally insured cash limit of \$250,000 on its several depository accounts. At December 31, 2018, the Corporation had approximately \$1,345,000 on deposit in excess of federally insured limits.