

Ocean Alliance, Inc.

Financial Statements

June 30, 2016

Ocean Alliance, Inc.

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June 30, 2016

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FRITZ DEGUGLIELMO LLC
*CERTIFIED PUBLIC ACCOUNTANTS
& BUSINESS ADVISORS*

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Ocean Alliance, Inc.
Gloucester, Massachusetts

We have audited the accompanying financial statements of Ocean Alliance, Inc. (a nonprofit organization), which comprise the statement of financial position as of June 30, 2016, and the related statements of activities, functional expenses, and cash flows for the year 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 Ocean Alliance, Inc. as of June 30, 2016, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited Ocean Alliance, Inc.'s 2015 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated May 5, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedules of program support, revenue and expenses on pages 17 to 18 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 audit 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.

Handwritten signature of Fritz DeGuglielmo in cursive script.

Certified Public Accountants

Newburyport, Massachusetts

January 17, 2017

Ocean Alliance, Inc.
Statement of Financial Position
June 30, 2016
(with summarized comparative information as of June 30, 2015)

	<u>2016</u>	<u>2015</u>
ASSETS		
Cash and cash equivalents	\$ 76,885	\$ 74,439
Grants receivable	-	200,000
Prepaid expenses	6,774	8,571
Merchandise inventory	8,304	1,075
Property and equipment, net	906,008	973,322
Non-depreciable assets	3,125,887	2,994,429
Other assets	460	460
	<u>\$ 4,124,318</u>	<u>\$ 4,252,296</u>
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable	\$ 103,996	\$ 157,424
Payroll taxes payable	10,162	19,942
Accrued expenses	98,766	123,849
Loans payable	170,963	223,546
	<u>383,887</u>	<u>524,761</u>
Net Assets		
Unrestricted	3,735,355	3,702,390
Temporarily restricted	5,076	25,145
	<u>3,740,431</u>	<u>3,727,535</u>
Total Liabilities and Net Assets	<u>\$ 4,124,318</u>	<u>\$ 4,252,296</u>

See independent auditor's report and accompanying notes to financial statements

Ocean Alliance, Inc.
Statement of Activities
For the year ended June 30, 2016
(with summarized comparative information for the year ended June 30, 2015)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>2016 Total</u>	<u>2015 Total</u>
Support and Revenue				
Foundations and grants	\$ 369,036	\$ 8,800	\$ 377,836	\$ 615,714
Contributions	271,014	5,150	276,164	137,720
Program service fees	1,755	-	1,755	8,775
Donated assets	6,963	-	6,963	-
Miscellaneous income	4,111	-	4,111	4,443
Net Assets Released from Restrictions:				
Satisfaction of donor restrictions	<u>34,019</u>	<u>(34,019)</u>	<u>-</u>	<u>-</u>
	<u>686,898</u>	<u>(20,069)</u>	<u>666,829</u>	<u>766,652</u>
Expenses				
Program Services				
Voyage of the Odyssey	44,001	-	44,001	98,063
Right whale research	18,854	-	18,854	14,865
Other research and data analysis	26,405	-	26,405	54,968
Education and conservation	<u>291,561</u>	<u>-</u>	<u>291,561</u>	<u>155,163</u>
Total Program Services	380,821	-	380,821	323,059
Support Services				
General and administrative	69,859	-	69,859	81,163
Fundraising	<u>75,491</u>	<u>-</u>	<u>75,491</u>	<u>21,868</u>
Total Support Services	<u>145,350</u>	<u>-</u>	<u>145,350</u>	<u>103,031</u>
Total Expenses before Depreciation	<u>526,171</u>	<u>-</u>	<u>526,171</u>	<u>426,090</u>
Change in Net Assets before Depreciation and Net Loss on Sale of Assets	160,727	(20,069)	140,658	340,562
Depreciation	119,262	-	119,262	115,357
Net Loss on Sale of Assets	<u>8,500</u>	<u>-</u>	<u>8,500</u>	<u>-</u>
Change in Net Assets	32,965	(20,069)	12,896	225,205
Net Assets – Beginning of Year	<u>3,702,390</u>	<u>25,145</u>	<u>3,727,535</u>	<u>3,502,330</u>
Net Assets – End of Year	<u>\$3,735,355</u>	<u>\$ 5,076</u>	<u>\$3,740,431</u>	<u>\$3,727,535</u>

See independent auditor's report and accompanying notes to financial statements

Ocean Alliance, Inc.
Statement of Functional Expenses
For the year ended June 30, 2016
(with summarized comparative information for the year ended June 30, 2015)

	Management			Total 2016	Total 2015
	Program Services	and General	Fundraising		
Personnel	\$ 174,767	\$ 17,744	\$ 14,092	\$ 206,603	\$ 130,330
Payroll taxes/benefits	45,755	5,630	4,548	55,933	46,613
Professional services	52,471	17,508	250	70,229	79,595
Bank charges	50	2,245	6,594	8,889	1,585
Permits and other fees	3,359	297	-	3,656	-
Fundraising expense	-	-	40,493	40,493	37
Insurance	20,988	4,536	286	25,810	28,817
Interest	2,457	8,664	50	11,171	14,226
Miscellaneous	2,204	1,519	933	4,656	3,505
Moving expense	-	-	-	-	1,000
Odyssey/Right Whale/Marislá operations	19,215	-	-	19,215	24,057
Office expense	30	1,267	107	1,404	1,739
Postage and shipping	399	406	6,093	6,898	1,985
Program expense	20,902	-	-	20,902	29,132
Repairs and maintenance	7,408	55	237	7,700	11,151
Storage	3,552	-	-	3,552	1,764
Telecommunications	3,292	183	183	3,658	14,442
Travel	20,779	1,853	1,474	24,106	27,091
Utilities	3,193	-	151	3,344	4,348
Website maintenance	-	7,952	-	7,952	4,673
Total Expenses before Depreciation	<u>380,821</u>	<u>69,859</u>	<u>75,491</u>	<u>526,171</u>	<u>426,090</u>
Depreciation	<u>117,606</u>	<u>1,656</u>	<u>-</u>	<u>119,262</u>	<u>115,357</u>
Total	<u>\$ 498,427</u>	<u>\$ 71,515</u>	<u>\$ 75,491</u>	<u>\$ 645,433</u>	<u>\$ 541,447</u>

See independent auditor's report and accompanying notes to financial statements

Ocean Alliance, Inc.
Statement of Cash Flows
For the year ended June 30, 2016
(with summarized comparative information for the year ended June 30, 2015)

	<u>2016</u>	<u>2015</u>
Operating Activities		
Change in net assets	\$ 12,896	\$ 225,205
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	119,262	115,357
Donated assets	(6,963)	-
Net loss on sale of assets	8,500	-
Change in operating assets:		
Grants receivable	200,000	(200,000)
Prepaid expenses	1,797	(1,745)
Merchandise inventory	(7,229)	-
Other assets	-	(210)
Accounts payable	(53,428)	(2,393)
Payroll taxes payable	(9,780)	4,732
Accrued expenses	<u>(25,083)</u>	<u>7,078</u>
Net Cash Provided by Operating Activities	<u>239,972</u>	<u>148,024</u>
Investing Activities		
Proceeds from sale of property and equipment	2,000	-
Purchases of property and equipment	<u>(186,943)</u>	<u>(219,359)</u>
Net Cash Used in Investing Activities	<u>(184,943)</u>	<u>(219,359)</u>
Financing Activities		
Proceeds from loans payable	17,475	20,500
Payments on loans payable	<u>(70,058)</u>	<u>(47,656)</u>
Net Cash Used in Financing Activities	<u>(52,583)</u>	<u>(27,156)</u>
Net increase (decrease) in cash and cash equivalents	2,446	(98,491)
Cash and cash equivalents, beginning of year	<u>74,439</u>	<u>172,930</u>
Cash and cash equivalents, end of year	<u>\$ 76,885</u>	<u>\$ 74,439</u>
Supplemental Data:		
Taxes paid	<u>\$ -</u>	<u>\$ -</u>
Interest paid	<u>\$ 14,847</u>	<u>\$ 8,467</u>

See independent auditor's report and accompanying notes to financial statements

Ocean Alliance, Inc.
Notes to Financial Statements
June 30, 2016

NOTE A – ORGANIZATION

Ocean Alliance, Inc., a 501(c)(3) not-for-profit Organization, was founded in 1971 by renowned biologist Dr. Roger Payne. Ocean Alliance strives to increase public awareness of the importance of whale and ocean health through research and public education. Led by Dr. Payne and CEO Dr. Iain Kerr, we work with our scientific partners to collect a broad spectrum of data on whales and ocean life. Ocean Alliance uses this data to advise educators, policy makers, and the general public on wise stewardship of the oceans to mitigate pollution, prevent the collapse of marine mammal populations, and promote ocean and human health.

Ocean Alliance: Strategic Overview

To effectively carry out its mission, Ocean Alliance focuses efforts on three strategic priorities. These are:

1) Whale and Ocean Research

- a. Conducting ongoing, targeted research expeditions focused on whales and ocean pollution from both our research station in Argentina and through the development and application of new tools such as SnotBot, Earbot, FlirBot.
- b. Serving as a seasoned and reputable “pathfinder,” a familiar role in which Ocean Alliance anticipates problems and launches research initiatives to address these problems. Our capacity to respond quickly to crises related to marine mammal and ocean health has been key to our success in this arena (such as our response to the 2010 Gulf oil spill).
- c. Establishing and maintaining key research partnerships, such as Ocean Alliance’s current partnership with the Wise Laboratory of Environmental and Genetic Toxicology, the Seger Laboratory at the University of Utah, SCRIPPS Institute of Oceanography, Woods Hole Oceanographic Institution, Oregon State University, the University of Fairbanks Alaska and Endicott College.

2) Science Communications for Social Impact

- a. Developing informational tools based on Ocean Alliance’s historical and current research findings for use by our scientific and non-profit partners, educators, policy makers, risk managers and others concerned about the health of the world’s oceans and their connection to human health.
- b. Serving as an objective, experienced “voice of reason” regarding issues related to whale and ocean health by forming hypotheses based on data collected through rigorous scientific research methods.
- c. Distributing the results of Ocean Alliance/research partner findings to the general public through communications platforms including the press, social media outlets (e.g. Facebook, Twitter, Instagram) and through our own and our research partners websites.
- d. Distributing the results of Ocean Alliance/research partner findings to the general public through speaking engagements at venues such as the United Nations, Parley for the Oceans and TED talks.

3) Public Education (both formal and informal)

- a. Developing STEM & STEAM education initiatives through our new Robotics Laboratory and partnership with Endicott College and local art organizations. Providing unique opportunities and practical skill sets which will be extremely relevant in the work places of tomorrow in areas such as robotics, programming, computing and engineering for free to youths in a low-income area.
- b. Supporting curriculum development for grades 5-8 based on the multimedia content from both past and current science research expeditions (including the development of web-accessible ‘science learning modules’ correlated to the National Science Standards for educators and youth).
- c. Developing and distributing multimedia educational content for general audiences via key partnerships with educational institutions worldwide including aquaria, zoos, museums, nature centers and via Ocean Alliance’s website as well as at its science and education headquarters based in Gloucester, Massachusetts.
- d. Ongoing design and development of Ocean Alliance’s new 20,000 sq. ft. Oceanographic Research, Education and Innovation Center on the Gloucester, MA, waterfront. The complex already houses robotics laboratory spaces, dedicated classroom and community spaces for local/regional groups and partners, and provides public access to the waterfront for students and the public.

Ocean Alliance, Inc.
Notes to Financial Statements
June 30, 2016

NOTE A – ORGANIZATION – continued

Oceanographic Research, Education & Innovation Centre: Ocean Alliance's New Home

On June 10, 2008, Ocean Alliance purchased—for preservation and restoration—the iconic Tarr and Wonson Paint Manufactory located at the entrance to the inner harbor of Gloucester, Massachusetts. The historic 1863 site is being restored as a public accessible oceanographic research, education and innovation center.

The \$2 million purchase of the property was made possible by the Annenberg Foundation with a total grant of \$3 million towards the project, \$1 million of which was received in fiscal 2009 for capital campaign planning, site remediation and ongoing program support. The complete restoration of the landmark is estimated at another \$3 to \$4 million. Restoration of the second set of brick buildings (built in the 1870's) on site is expected to be completed winter 2017. The waterfront complex stands at the tip of Rocky Neck, one of America's oldest art colonies. The charm of the factory's architecture has inspired generations of artists, who have come from around the world to paint it. For over a century local fishermen used the factory's smokestack as a navigational guide. After being a vacant and polluted eyesore for over 30 years, the buildings are now Ocean Alliance's home and we hope a catalyst for change on the Gloucester waterfront. Ocean Alliance moved its offices into the first set of the brick buildings on site during April 2013.

“Wallis Annenberg and her foundation saw the importance, beauty, and iconic nature of the paint factory from across the continent in Los Angeles. We want to return the factory to as close to its original appearance as possible, and while doing so, use techniques that are as green as possible. We hope to demonstrate, through its restoration to a healthful and non-polluted state, what is possible for Gloucester's unique harbor and structures. Like generations before us who have lived in Gloucester, we make our living from the sea, and our intention is to move forward hand-in-hand with the community. We believe that our planned use of the buildings will not only respect the community's past, but will be a natural fit with the current environment and with our mission. We fully realize that acquiring and restoring the paint factory is the biggest challenge Ocean Alliance has yet faced, but we believe that the iconic value of the location and its role in maritime history offers a priceless reinforcement of our message.”

Roger Payne, Ocean Alliance Founder & President

The strategic direction of Ocean Alliance is fulfilled through its successful programs in whale and ocean research, science communications and public education as described below.

NOTE B – PROGRAM SERVICES

Whale and Ocean Research

1) Developing Benign Research Tools: Drones for Whale Research, SnotBot.

Whales are the ocean's canaries in the coal mine, and humanity is utterly dependent on healthy oceans for our own survival. Today whales face more threats than ever before. Chemical pollution, bycatch in global fisheries, noise pollution from ship traffic and seismic surveys, entanglement, ship strikes and habitat loss; the prime antagonists in a long list of diverse and destructive pressures. To protect whales, we need to have a better understanding of their health and the impacts of man-made stressors. In order to do this we must regularly be collecting physical, biological samples from the whales, in the same way that doctors collect and test people's blood to monitor their health. While we can't collect blood from free ranging whales, we can collect what might be the next best thing – Exhaled Breath Condensate (EBC) or whale blow. Ocean Alliance believes that the answer to many of these challenges lies in drones. Their research, including four years of development and research expeditions to Argentina, Mexico and Alaska collecting data from four species of whale, clearly demonstrate that drones will be game-changers in the field of marine mammal science and conservation. CEO and drone pilot Iain Kerr believes that the use of drones to collect marine mammal data is as significant as the invention of the microscope was for cellular biology. The advantages drones offer to the researcher are strong, diverse, replicable and affordable; and the rate at which technology in the industry is increasing suggests that it this only the beginning.

NOTE B – PROGRAM SERVICES – continued

2) R/V Odyssey Expeditions

R/V Odyssey Expeditions are an ongoing, formalized series of expeditions in which Ocean Alliance scientists and partners locate, track, identify, biopsy and acoustically record whales in targeted locations around the world. These efforts result in the collection of valuable baseline data sets and inform ongoing research (both collaborative and in-house) and policy decisions related to the effects of ocean contaminants on whales and other marine mammals. They also provide an excellent platform for our continuing series, a “*Voice from the Sea*” in which educators and other crew members connected with the expedition document, contextualize and report on the work being conducted in the field in a manner that is easily digestible to students, teachers and the general public.

3) Past Odyssey Expeditions: 2010 – 2014

On April 20, 2010, the Deepwater Horizon oil rig exploded resulting in an uncontrolled release of oil into the Gulf. Estimates now indicate that approximately 200 million gallons of oil were released. Superimposed on the threat of the oil: more than two million gallons of toxic chemical dispersants were intentionally pumped into the Gulf by BP to break up the oil. These chemicals were used in unprecedented amounts and in untested ways. In response to this unparalleled spill, Ocean Alliance immediately launched a Gulf Expedition to collect baseline data: to determine the potential short- and long-term effects on marine mammals of the oil spill and the massive deployment of Corexit, the toxic chemical dispersant. The Gulf data we collected will be put into global context by being integrated into Ocean Alliance’s data-set from our five-and-a-half-year scientific circumnavigation of the planet (detailed below).

4) Global Voyage of the Odyssey: 2000 – 2005

The goal of the global Voyage of the Odyssey was to collect baseline data on the distribution, concentrations and effects of environmental toxicants in the world’s oceans. The RV Odyssey covered 87,000 nautical miles over 5 ½ years collecting the first-ever global data set on toxic contaminants. Our focus species was the Sperm whale because it sits atop of oceanic food chains and has a cosmopolitan global distribution. As this data ages it becomes more valuable enabling Ocean Alliance to put other pollution studies into context.

Ocean Alliance’s scientific partners on this endeavor include: our primary partners at the Wise Laboratory of Environmental and Genetic Toxicology, the University of Utah, Cornell University and Scripps Institution of Oceanography. These affiliations with some of the top oceanographic institutions in the world uniquely position us to address and understand the emerging toxicological threats to marine mammals.

5) Patagonia Right Whale Program

In the fall of 2016, Ocean Alliance celebrated the 46th consecutive field season of our study of Southern right whale from the shores of Peninsula Valdez, Argentina. It was in 1970 that Ocean Alliance founder and President Dr. Roger Payne began studying a population of right whales that calve off the coast of Argentina. Since then, we have developed a uniquely detailed 46-year record of the life histories, distributions and associations of over 2,000 individually known right whales. This database, which is extended by aerial surveys of the population each year, has become an invaluable tool for protecting the whales and their habitat. Ocean Alliance’s Patagonia Right Whale Program also informs the study of the Northern right whale, a critically endangered parallel species.

The Patagonia Right Whale Program is the longest continuous study of any whale species based on known individuals, and it has created a context for discovery rarely encountered in field research that is unmatched by any other cetacean research initiative; it is widely recognized as one of the first modern whale research programs. At Peninsula Valdez (and aboard the RV Odyssey), Dr. Payne and Ocean Alliance scientists have pioneered many of the benign research techniques now used by cetacean researchers throughout the world.

NOTE B – PROGRAM SERVICES – continued

Science Communications for Social Impact

1) Communication Platforms

Independent, unbiased voices are rare when faced with the task of communicating the threats of human-made contaminants in the context of ocean pollution and whale research. The growth of the internet provides an additional challenge, a minefield containing as much dis-information as information. Ocean Alliance, due to its long history and reputation in the field, has the ability, capacity and independence to inform policy on a scientific level to ensure that these issues of concern reach the level of policy and decision makers both in the United States and abroad. Our success in communicating our findings to benefit humanity depends on our ability to maintain a strong media presence through diverse communication channels including the press, social media outlets, the Ocean Alliance web site and partner online networks. Ocean Alliance has more than 50,000 followers on Facebook, more than 1,500 Instagram followers and our Kickstarter campaign introduced us to another 1,700 individuals.

Because there is a moratorium on commercial whaling, people seem to believe that whales have been saved. This is far from the truth. Many of the whaling nations have sidestepped the moratorium, limited commercial whaling has resumed in Japan and effective international control is now all but lost. Meanwhile, more whales die each year from accidental entanglement in fishing gear than from harpoons. The world's whales face greater and more diverse threats than ever before. As far as we are concerned there is a dire threat on the horizon facing whales and humanity alike: both whales and humans are at risk from the long-term (chronic) effects of synthetic, toxic contaminants contained in their food, and climate change that could destroy the foundation of the ocean's food chain.

2) Distribution of Results: Getting the Word Out

Ocean Alliance believes that mitigating the effects of global ocean pollution on marine mammals—and ultimately humans—can be publicly embraced and adequately addressed only when presented in media formats that are both easily understandable to the general public and based on rigorous scientific research.

In 2009, Ocean Alliance released the results of 2000-2005 Odyssey Expedition, a five-year study of worldwide ocean pollution based on data collected from samples of sperm whale skin and blubber. The results were somewhat shocking (especially those related to chromium, a known human carcinogen) and have direct implications on the health of marine mammals and the health of human populations around the world—especially those that rely, in great part, on protein sources from the oceans (over a billion people). In 2015 Dr. Payne and Dr. Kerr gave over 20 public talks and were featured in over 300 SnotBot press articles. CEO Iain Kerr also spoke at a special event at the United Nations General Assembly in 2016. The idea behind the day was to get oceans higher on the global Climate Change agenda through providing impetus and political momentum at the mid-point between COP20 in Lima and COP21 in Paris. It also provided space for showcasing climate action and concrete initiatives, through a multi-stakeholder approach to address climate change.

Public Education (both formal and informal)

1) Public Education: Robotics Club – Paint Factory Fliers:

For the last 4 years we've been igniting the passions of the children of Gloucester (aged 6 – 16 years), by introducing them to a world of science, technology, software and engineering. Through our kid's robotics club, a small part of Ocean Alliance's Drones for Whale Research Development Program that includes the flagship SnotBot program, we've been planting the seeds of discovery in the next generation in a lively, fun, collaborative and interactive learning and play environment. It is also, crucially, totally free: there are no fees or costs to join the club and it's fully inclusive, we have both girls and boys. To date there have been no paid staff. The club's success is largely due to its flexible, unstructured format. Kids can come for 30 minutes and gain hands-on experience on a drone-flying simulator or stay 2 hours and start building their own plane/drone.

Ocean Alliance, Inc.
Notes to Financial Statements
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NOTE B – PROGRAM SERVICES – continued

There is no maximum or minimum attendance number, participants just need to bring their enthusiasm. On the current program, kids are building foam remote controlled airplanes (just over a foot in length). Older kids are working on the electronics packages, younger kids on the planes. The mixed age group means kids develop skills in coaching and collaboration. Construction, soldering and programming are a part of the core curriculum. The club is home to 3 simulators, where skills can be gained on plane, boat, helicopter, quadcopter or driving car simulations.

Once they “graduate” from simulators they can move on to real flying machines and take part in outdoor flying nights. The tools, materials and motors that the kids need are free and kindly provided by Applied Materials Foundation, and who knows, some of these children may well be their future employees. Guest drone flyers from manufacturers have attended, but the club would like to attract some talented drone mentors to further inspire the children. In 2017 we will develop and host a robotics competition that is modeled on Dean Kamen’s FIRST robotic challenge. See: <http://www.firstinspires.org/about/vision-and-mission>.

2) Odyssey Expeditions:

The expeditions and high seas communications capacity of the RV Odyssey gives us unique ‘teaching moments’ for increasing science-based, public education about the harmful effects of current human activities on ocean and wetland ecosystems.

The educational programming model is based on the successful, long-term programming Ocean Alliance developed and disseminated to the 118 ports in 22 countries visited by the Odyssey during the global Odyssey Expedition. The educational program of the Odyssey Expedition in the Gulf of Mexico included science-based video podcasts from the Gulf, daily blogs from the science crew aboard Odyssey, audio recordings of marine mammals obtained from Odyssey’s acoustic array, and photographic images captured from both above and below the surface of the water: see www.whale.org.

To date, Ocean Alliance’s educational content is diverse in its context and nature. For example, our web site blogs are supported by solid science research and a variety of charismatic images from our ocean expeditions. They are also presented in a format and tone that is easily accessible to wide public audiences.

For specific examples of Ocean Alliance’s expertise in creating and broadcasting engaging science-based content, please visit the research page on our website: <http://www.whale.org/research/> or for the global voyage of the Odyssey expedition the currently static, PBS-hosted, web site at www.pbs.org/odyssey.

3) Learning Platform: Modules in Development

Ocean Alliance seeks to build on its history of developing engaging multimedia content resources by further developing and thematically organizing its treasure trove of existing educational content into a series of 25-30 online, publicly accessible, grade-specific, standards-correlated ‘science learning modules.’

These modules will be easily integrated into existing middle school science curricula (as supplemental curricular resources), or may be used on their own to enhance existing ocean and whale educational exhibits and resources at zoos, aquaria, museums, nature centers, and after-school programs nationwide.

4) Educational Network: Building Partnerships

Ocean Alliance will utilize various means to inform educators, youth, and the general public about how to access the organization’s valuable educational resources. Our strategy includes: contacting umbrella organizations/associations serving science educators who work with middle school youth nationwide to inform them about our ocean-related educational resources; reaching out to aquaria, zoos, museums, and marine education centers nationwide; reaching out to other non-profit and government organizations working on issues related to ocean conservation and education—especially those with a focus on programs for middle school youth and educators; and utilizing social media, including Facebook and Twitter networks targeted toward middle school audiences and educators.

Ocean Alliance, Inc.
Notes to Financial Statements
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NOTE B – PROGRAM SERVICES – continued

5) Educational Programming: In-House Program Development

In 2010 Ocean Alliance undertook a capital campaign to restore an iconic landmark, a complex of buildings that were formerly home to the Tarr and Wonson Paint Manufactory on the Gloucester, Massachusetts waterfront. The complex is serving as both an oceanographic research, education and innovation center as well as Ocean Alliance's new headquarters.

Ocean Alliance's ongoing educational programming (currently focused on robotics) is being developed with an eye towards providing larger on-site programming for this future 20,000 square foot center on the Gloucester waterfront. We hope to work with other NGOs in our community so rather than replicating and competing we can work together for the good of the community. With that in mind we have already purchased the URL Gloucester Maritime Alliance.org.

The scientific, educational and practical reason for this project is to provide Ocean Alliance with a physical location in which to bring together key partners and 45+ years of influential research, intellectual capital and unique educational content. The restored headquarters will bring about stronger visibility for Ocean Alliance provide an extraordinary educational resource for students, teachers and the general public and leverage existing and new partnerships for the benefit of whales and ocean research.

Summary

Over the past decade, Ocean Alliance and its supporters have invested millions of dollars and an abundance of intellectual and physical energy to make our programs successful. We continue to build and capitalize on these investments in order to extract the maximum understanding from the research and education content we have amassed and to broadly communicate our findings to educate, motivate, inspire and effect change. This has given us the opportunity to strategically build and expand our organizational capacity in order to continue our work in making the case for wise stewardship of the oceans to mitigate pollution, prevent the collapse of marine mammal populations and promote ocean and human health.

“Ocean Alliance, under the leadership of world-renowned marine scientist Dr. Roger Payne & Dr. Iain Kerr, embodies an extraordinary combination of innovative scientific research and focused, informed environmental advocacy.”

Joel Reynolds: Senior Attorney, Natural Resources Defense Council (NRDC)

“At one time the greatest threat to whales was their wholesale slaughter. Today, I share with Dr. Payne the conviction that there are two greater concerns and both relate not only to whales and other life in the sea but to human survival and well-being as well. First is the swift and insidious contamination of the world's waters, now known to adversely affect reproduction in whales. Second is widespread ignorance about the sea and its relevance to humankind that in turn leads to complacency and indifference about the decline of ocean health.”

Dr. Sylvia Earle: Former Chief Scientist, National Oceanographic and Atmospheric Administration (NOAA)

NOTE C – SIGNIFICANT ACCOUNTING POLICIES

Financial Statement Presentation

The Organization adopted Financial Accounting Standards Board Accounting Standards Codification (FASB ASC) 958 (formerly SFAS No. 117, “*Financial Statements of Not-for-Profit Organizations*”). Under FASB ASC 958, the Organization is required to report information regarding its financial position and activities according to three classes of net assets as defined below.

Unrestricted Net Assets – consists of assets, public support and program revenues, which are available and used for operations and programs. Contributions are considered available for unrestricted use unless specifically restricted by the donor.

Ocean Alliance, Inc.
Notes to Financial Statements
June 30, 2016

NOTE C – SIGNIFICANT ACCOUNTING POLICIES – continued

Temporarily Restricted Net Assets – includes funds with donor-imposed restrictions, which permit the donee Organization to expend the assets as specified and is satisfied either by the passage of time or by actions of the Organization. Resources of this nature originate from gifts, grants, bequests, contracts and investment incomes earned on restricted funds.

Permanently Restricted Net Assets – includes resources, which have a permanent donor-imposed restriction, which stipulates that the assets are to be maintained permanently, but permits the Organization to expend part or all of the income derived from the donated assets.

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with Ocean Alliance, Inc.’s audited financial statements for the year ended June 30, 2015, from which the summarized information was derived. Certain reclassifications have been made to the summarized information to be consistent with the presentation in the audited financial statements as of June 30, 2016.

Recognition of Donor-Restricted Contributions

The Organization reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Restricted contributions received and expended in accordance with the donor’s restrictions in the same fiscal year are recognized as unrestricted public support in these financial statements.

Property and Equipment

Property, equipment, and furnishings with an economic life in excess of one year are capitalized at cost, if purchased, or if donated, at fair market value at the date of receipt. Expenditures for maintenance repairs and renewals are charged to expense as incurred, whereas, major betterments are capitalized as additions to property and equipment. Depreciation of property and equipment is computed using the straight-line method, and is charged against income over the estimated useful lives of the assets. During fiscal 2008, the Organization purchased property in Gloucester, Massachusetts for \$2,001,083 using grant funds. The Organization plans to renovate and use the property as a headquarters and for future programs. During fiscal 2016, the Organization spent \$180,419 of capitalized costs, related to the clean-up and renovation of the property. As of June 30, 2016, the Organization has incurred \$1,587,797 of renovation costs related to the property. As of June 30, 2016, land improvements and building with costs totaling \$464,993 have been placed in service. A summary of property and equipment as of June 30, 2016 is presented below.

	<u>Est. Life</u>	<u>Cost</u>
RV Odyssey	40	\$1,019,338
Odyssey Improvements	3-12	669,944
Sailing Vessel – WhaleSong	10	95,500
Research Equipment	5-12	210,113
Office and Other	5-12	189,857
Land Improvements and Building – in service	15-39	464,993
Non-depreciable Land and Buildings – not in service		3,123,887
Non-depreciable art work		<u>2,000</u>
		5,775,632
Accumulated Depreciation		<u>(1,743,737)</u>
		<u>\$4,031,895</u>

Ocean Alliance, Inc.
Notes to Financial Statements
June 30, 2016

NOTE C – SIGNIFICANT ACCOUNTING POLICIES – continued

Cash Equivalents

The Organization considers all highly liquid instruments purchased with a maturity of three months or less to be cash equivalents.

Merchandise Inventory

Merchandise inventory is stated at lower of cost or fair market value.

Use of Estimates

Management uses estimates and assumptions in preparing financial statements in accordance with generally accepted accounting principles. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could vary from the estimates that were used.

Functional Expenses

Ocean Alliance, Inc. allocates its expenses on a functional basis among its various programs and support services. Expenses that can be identified with a specific program and support service are allocated directly according to their natural expenditure classification. Other expenses that are common to several functions are allocated by various statistical bases used in conjunction with the Organization's cost allocation plan.

Supporting services are those related to operating and managing Ocean Alliance, Inc. and its programs on a day-to-day basis. Supporting services have been sub-classified as follows:

Management and General – includes all activities related to Ocean Alliance, Inc.'s internal management and accounting for program services.

Fund Raising – includes all activities related to maintaining contributor information, writing grant proposals, distribution of materials and other similar projects related to the procurement of funds for Ocean Alliance, Inc.'s programs.

Subsequent Events

Subsequent events have been evaluated through January 17, 2017, which is the date the financial statements were available to be issued.

NOTE D – PROMISES TO GIVE

Unconditional promises to give are recognized as revenues in the period received and as assets, decreases of liabilities, or expenses depending on the form of the benefits received. Conditional promises to give are recognized only when the conditions on which they depend are substantially met and the promises become unconditional.

Grants receivable consist of unconditional grants pledged but not received prior to June 30, 2016. As of June 30, 2016, the Organization did not have any grants receivable.

NOTE E – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets at June 30, 2016 consist of \$5,076 restricted for a scholarship fund and Right Whale project. For the year ended June 30, 2016, temporarily restricted net assets in the amount of \$34,019 were released from donor program restrictions by incurring expenses satisfying the purpose specified by the donor.

NOTE F – DONATED SERVICES AND ASSETS

Contributions of donated non-cash assets are recorded at their fair values in the period received. Contributions of donated services that create or enhance non-financial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are recorded at their fair values in the period received. During fiscal 2016, the Organization received donated equipment in the amount of \$6,963.

Ocean Alliance, Inc.
Notes to Financial Statements
June 30, 2016

NOTE G – LOANS PAYABLE

Loans payable consist of the following as of June 30, 2016

Loan payable with a bank, interest at 4.39%, monthly payments of principal in the amount of \$1,605 plus interest are due through May 2019.	\$ 52,395
Loan payable to City of Gloucester, interest at 2%, accrued interest only paid until August 31, 2012, monthly principal and interest payments of \$1,518 from September 1, 2012 until maturity of August 31, 2021.	89,529
Loans payable to related parties, interest at 0%, payable on demand.	<u>29,039</u>
	<u>\$ 170,963</u>

The loan payable to the City of Gloucester contains a covenant that the Organization must provide audited financial statements to the lender within 120 days of year end, which the Organization did not comply with. However, the City of Gloucester has subsequently extended the due date to May 31, 2017.

Principal maturities required on debt as of June 30, 2016, are as follows:

Year Ending <u>June 30</u>	<u>Amount</u>
2017	\$ 64,866
2018	36,166
2019	31,115
2020	17,600
2021	17,961
Thereafter	<u>3,255</u>
Total	<u>\$ 170,963</u>

NOTE H – RELATED PARTIES

As identified in Note G, the Organization had loans payable to related parties, which include loans from members of the Board of Directors in the amount of \$29,039. During fiscal 2016, board members also made contributions of \$21,000.

NOTE I – INTELLECTUAL MATERIALS

Through years of research the Organization has accumulated a vast collection of whale recordings, film and photographs and proprietary written material in the area of science, conservation and education.

NOTE J – CONTINGENCIES

In fiscal 2000, certain key members of the Organization deferred compensation in the amount of approximately \$228,000 to benefit the Organization's programs. The Organization entered into agreements with the key employees to pay the key employees for the unpaid past services rendered only when and if either of the following events occur: the R.V. Odyssey is sold and all debts of the corporation are paid, or the corporation is dissolved.

NOTE K – CONCENTRATIONS

The Organization maintains cash balances in a financial institution that at times may have amounts in excess of Federal Deposit Insurance Corporation (FDIC) coverage of \$250,000.

NOTE L – TAX POSITION

The Organization has adopted the application of the provisions of FASB ASC 740-10 (formerly FASB Interpretation No. 48, "Accounting For Uncertainty in Income Taxes"). The primary tax positions made by the Organization are the existence/non-existence of Unrelated Business Income Tax and the Organization's status as an exempt organization under Section 501(c)(3) of the Internal Revenue Code. The Organization currently evaluates all tax positions, and makes determinations regarding the likelihood of those positions being upheld

Ocean Alliance, Inc.
Notes to Financial Statements
June 30, 2016

NOTE L – TAX POSITION – continued

under review. For the years presented, and as a result of adoption, the Organization has not recognized any tax benefits or loss contingencies for uncertain tax positions based on its evaluations. The Organization's Forms 990, *Return of Organization Exempt from Income Tax*, for the years ending June 30, 2016, 2015, 2014 and 2013 are subject to examination by the IRS. Returns are generally subject to examination for three years after they are filed.

Ocean Alliance, Inc.
Schedule of Program Support, Revenue, and Expenses
For the year ended June 30, 2016
(with comparative totals for the year ended June 30, 2015)

	RESEARCH PROGRAMS				EDUCATION		2016 Total	2015 Total
	Voyage of the Odyssey	Right Whale Program	Whale- Song	Data Analysis	Other	Marisla		
<u>Program Support & Revenue</u>								
Foundations & Grants	\$ -	\$ -	\$ -	\$ -	\$ 111,943	\$ -	\$ 111,943	\$ 306,714
Contributions	503	5,150	-	14,850	1,775	-	22,278	47,964
Donated Assets/Services	-	-	-	-	6,963	-	6,963	-
Fees for Service	-	-	-	-	1,755	-	1,755	8,775
Merchandise and other	-	-	-	-	200	-	200	316
	<u>503</u>	<u>5,150</u>	<u>-</u>	<u>14,850</u>	<u>122,636</u>	<u>-</u>	<u>143,139</u>	<u>363,769</u>
<u>Expenses</u>								
Personnel	9,450	5,358	2,250	13,387	98,201	46,121	174,767	104,344
Payroll taxes & related	1,858	1,371	1,204	1,217	32,375	7,730	45,755	36,370
Professional services	-	5,958	-	-	46,513	-	52,471	55,064
Bank charges	20	30	-	-	-	-	50	105
Permits and other fees	84	-	494	-	2,781	-	3,359	-
Depreciation	82,253	-	9,550	-	25,803	-	117,606	113,150
Insurance	13,445	143	2,534	-	4,866	-	20,988	21,976
Interest	-	-	-	-	2,457	-	2,457	2,586
Miscellaneous	25	1,000	8	-	1,171	-	2,204	798
Moving expense	-	-	-	-	-	-	-	1,000
Odyssey/Right Whale/WhaleSong/Marisla operations	17,519	126	-	-	1,570	-	19,215	24,057
Office expense	-	-	-	-	30	-	30	184
Postage and shipping	42	153	-	-	204	-	399	502
Program expense	-	-	-	93	20,809	-	20,902	23,735
Repairs and maintenance	1,057	118	1,666	-	4,567	-	7,408	10,822
Storage	-	-	3,552	-	-	-	3,552	1,764
Telecommunications	274	91	-	-	2,927	-	3,292	13,992
Travel	-	4,430	-	-	16,349	-	20,779	21,147
Utilities	227	76	-	-	2,890	-	3,193	3,974
Website maintenance	-	-	-	-	-	-	-	639
Total Expenses	<u>126,254</u>	<u>18,854</u>	<u>21,258</u>	<u>14,697</u>	<u>263,513</u>	<u>53,851</u>	<u>498,427</u>	<u>436,209</u>
Excess (deficit) of revenue over expenses	<u>\$ (125,751)</u>	<u>\$ (13,704)</u>	<u>\$ (21,258)</u>	<u>\$ 153</u>	<u>\$ (140,877)</u>	<u>\$ (53,851)</u>	<u>\$ (355,288)</u>	<u>\$ (72,440)</u>

See independent auditor's report

Ocean Alliance, Inc.
Schedule of Program Support, Revenue, and Expenses
For the year ended June 30, 2015
(with comparative totals for the year ended June 30, 2014)

	RESEARCH PROGRAMS				EDUCATION		2015 Total	2014 Total
	Voyage of the Odyssey	Right Whale Program	Whale- Song	Data Analysis	Other	Marisla		
Program Support & Revenue								
Foundations & Grants	\$ 5,000	\$ 16,796	\$ -	\$ -	\$ 254,918	\$ 30,000	\$ 306,714	\$ 382,767
Contributions	780	824	-	-	46,360	-	47,964	24,771
Donated Assets/Services	-	-	-	-	-	-	-	150,616
Fees for Service	8,775	-	-	-	-	-	8,775	45,500
Merchandise and other	316	-	-	-	-	-	316	559
	<u>14,871</u>	<u>17,620</u>	<u>-</u>	<u>-</u>	<u>301,278</u>	<u>30,000</u>	<u>363,769</u>	<u>604,213</u>
Expenses								
Personnel	19,663	-	-	2,958	51,494	30,229	104,344	168,503
Payroll taxes & related	5,649	-	-	1,204	27,571	1,946	36,370	42,883
Professional services	14,931	9,900	1,300	12,958	15,975	-	55,064	102,758
Grant expense	-	-	-	-	-	-	-	25,000
Bank charges	105	-	-	-	-	-	105	112
Conferences and training	-	-	-	-	-	-	-	1,525
Depreciation	85,901	1,984	9,550	-	15,715	-	113,150	115,445
Insurance	15,914	63	2,069	607	3,323	-	21,976	96,298
Interest	100	-	-	-	2,486	-	2,586	6,735
Miscellaneous	581	-	117	-	100	-	798	1,547
Moving expense	-	-	-	-	1,000	-	1,000	-
Odyssey/Right Whale/WhaleSong/Marisla operations	18,208	1,733	3,936	-	180	-	24,057	31,291
Office expense	-	-	-	-	184	-	184	1,022
Postage and shipping	20	-	-	472	10	-	502	2,245
Printing	-	-	-	-	-	-	-	200
Program supplies	534	45	17	424	8,340	-	9,360	14,617
Repairs and maintenance	1,971	69	6,266	277	2,239	-	10,822	52,650
Research	-	-	-	14,375	-	-	14,375	13,411
Storage	-	-	1,764	-	-	-	1,764	-
Telecommunications	10,731	112	-	450	2,699	-	13,992	20,060
Travel	9,001	2,697	3,134	1,626	4,689	-	21,147	31,614
Utilities	655	246	-	375	2,698	-	3,974	3,060
Website maintenance	-	-	-	639	-	-	639	-
Total Expenses	<u>183,964</u>	<u>16,849</u>	<u>28,153</u>	<u>36,365</u>	<u>138,703</u>	<u>32,175</u>	<u>436,209</u>	<u>730,976</u>
Excess (deficit) of revenue over expenses	<u>\$ (169,093)</u>	<u>\$ 771</u>	<u>\$ (28,153)</u>	<u>\$ (36,365)</u>	<u>\$ 162,575</u>	<u>\$ (2,175)</u>	<u>\$ (72,440)</u>	<u>\$ (126,763)</u>

See independent auditor's report