

**Ocean Alliance, Inc.**

Financial Statements

June 30, 2017

**Ocean Alliance, Inc.**

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June 30, 2017

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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, 2017, 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, 2017, 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 2016 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated January 17, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016, 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, followed by three wavy lines indicating a signature.

Certified Public Accountants

Newburyport, Massachusetts

January 26, 2018

**Ocean Alliance, Inc.**  
Statement of Financial Position  
June 30, 2017  
(with summarized comparative information as of June 30, 2016)

	<u>2017</u>	<u>2016</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 234,869	\$ 76,885
Contributions receivable	23,791	-
Prepaid expenses	10,151	6,774
Merchandise inventory	5,876	8,304
Vessel, held for sale	120,000	-
Property and equipment, net	592,774	906,008
Non-depreciable assets	3,155,028	3,125,887
Other assets	460	460
	<hr/>	<hr/>
Total Assets	<u>\$ 4,142,949</u>	<u>\$ 4,124,318</u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>Liabilities</b>		
Accounts payable	\$ 68,590	\$ 103,996
Payroll taxes payable	16,490	10,162
Accrued expenses	118,766	98,766
Deposit on sale of vessel	120,000	-
Loans payable	130,402	170,963
	<hr/>	<hr/>
Total Liabilities	<u>454,248</u>	<u>383,887</u>
<b>Net Assets</b>		
Unrestricted	3,683,358	3,735,355
Temporarily restricted	5,343	5,076
	<hr/>	<hr/>
Total Net Assets	<u>3,688,701</u>	<u>3,740,431</u>
	<hr/>	<hr/>
Total Liabilities and Net Assets	<u>\$ 4,142,949</u>	<u>\$ 4,124,318</u>

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

**Ocean Alliance, Inc.**  
Statement of Activities  
For the year ended June 30, 2017  
(with summarized comparative information for the year ended June 30, 2016)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>2017 Total</u>	<u>2016 Total</u>
<b>Support and Revenue</b>				
Foundations and grants	\$ 411,927	\$ -	\$ 411,927	\$ 377,836
Contributions	261,432	15,000	276,432	276,164
Sale of Brownfields credit	80,431	-	80,431	-
Program service fees	49,500	-	49,500	1,755
Donated assets	94,715	-	94,715	6,963
Miscellaneous income	4,492	-	4,492	4,111
<b>Net Assets Released from Restrictions:</b>				
Satisfaction of donor restrictions	<u>14,733</u>	<u>(14,733)</u>	<u>-</u>	<u>-</u>
	<u>917,230</u>	<u>267</u>	<u>917,497</u>	<u>666,829</u>
<b>Expenses</b>				
<b>Program Services</b>				
Voyage of the Odyssey	156,529	-	156,529	44,001
Right whale research	19,308	-	19,308	18,854
Other research and data analysis	13,643	-	13,643	26,405
Education and conservation	<u>346,648</u>	<u>-</u>	<u>346,648</u>	<u>291,561</u>
<b>Total Program Services</b>	536,128	-	536,128	380,821
<b>Support Services</b>				
General and administrative	91,597	-	91,597	69,859
Fundraising	<u>28,534</u>	<u>-</u>	<u>28,534</u>	<u>75,491</u>
<b>Total Support Services</b>	<u>120,131</u>	<u>-</u>	<u>120,131</u>	<u>145,350</u>
<b>Total Expenses before Depreciation</b>	<u>656,259</u>	<u>-</u>	<u>656,259</u>	<u>526,171</u>
<b>Change in Net Assets before Depreciation and Net Loss on Sale of Assets</b>	260,971	267	261,238	140,658
Depreciation	108,964	-	108,964	119,262
Impairment Loss	204,004	-	204,004	-
Net Loss on Sale of Assets	<u>-</u>	<u>-</u>	<u>-</u>	<u>8,500</u>
<b>Change in Net Assets</b>	(51,997)	267	(51,730)	12,896
<b>Net Assets – Beginning of Year</b>	<u>3,735,355</u>	<u>5,076</u>	<u>3,740,431</u>	<u>3,727,535</u>
<b>Net Assets – End of Year</b>	<u>\$3,683,358</u>	<u>\$ 5,343</u>	<u>\$3,688,701</u>	<u>\$3,740,431</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, 2017

(with summarized comparative information for the year ended June 30, 2016)

	Management			Total 2017	Total 2016
	Program Services	and General	Fundraising		
Personnel	\$ 198,871	\$ 37,353	\$ 15,542	\$ 251,766	\$ 206,603
Payroll taxes/benefits	45,027	9,188	3,705	57,920	55,933
Professional services	59,470	17,609	750	77,829	70,229
Bank charges	92	1,734	87	1,913	8,889
Commissions	3,500	225	-	3,725	-
Fundraising expense	-	-	5,228	5,228	40,493
Insurance	22,737	6,469	435	29,641	25,810
Interest	1,798	5,078	-	6,876	11,171
Miscellaneous	894	504	53	1,451	4,656
Odyssey/Right Whale/Marisla operations	45,191	-	-	45,191	19,215
Office expense	653	2,284	-	2,937	1,404
Permits and other fees	914	269	-	1,183	3,656
Postage and shipping	2,794	1,007	98	3,899	6,898
Printing	15	1,871	-	1,886	-
Program expense	45,584	-	-	45,584	20,902
Repairs and maintenance	58,314	2,296	431	61,041	7,700
Storage	6,028	-	-	6,028	3,552
Telecommunications	2,233	197	197	2,627	3,658
Travel	39,388	2,995	1,821	44,204	24,106
Utilities	2,625	188	187	3,000	3,344
Website maintenance	-	2,330	-	2,330	7,952
Total Expenses before Depreciation	<u>536,128</u>	<u>91,597</u>	<u>28,534</u>	<u>656,259</u>	<u>526,171</u>
Depreciation	107,381	1,583	-	108,964	119,262
Total	<u>\$ 643,509</u>	<u>\$ 93,180</u>	<u>\$ 28,534</u>	<u>\$ 765,223</u>	<u>\$ 645,433</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, 2017  
(with summarized comparative information for the year ended June 30, 2016)

	<u>2017</u>	<u>2016</u>
Operating Activities		
Change in net assets	\$ (51,730)	\$ 12,896
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	108,964	119,262
Impairment loss	204,004	-
Donated assets	(94,715)	(6,963)
Sale of Brownfields credit	(80,431)	-
Net loss on sale of assets	-	8,500
Change in operating assets:		
Grants receivable	-	200,000
Contributions receivable	(23,791)	-
Prepaid expenses	(3,377)	1,797
Merchandise inventory	2,428	(7,229)
Accounts payable	(35,406)	(53,428)
Payroll taxes payable	6,328	(9,780)
Accrued expenses	<u>20,000</u>	<u>(25,083)</u>
Net Cash Provided by Operating Activities	<u>52,274</u>	<u>239,972</u>
Investing Activities		
Deposit on sale of vessel	120,000	-
Proceeds from sale of Brownfields Credit	80,431	-
Proceeds from sale of property and equipment	-	2,000
Purchases of property and equipment	<u>(54,160)</u>	<u>(186,943)</u>
Net Cash Provided by (Used in) Investing Activities	<u>146,271</u>	<u>(184,943)</u>
Financing Activities		
Proceeds from loans payable	-	17,475
Payments on loans payable	<u>(40,561)</u>	<u>(70,058)</u>
Net Cash Used in Financing Activities	<u>(40,561)</u>	<u>(52,583)</u>
Net increase in cash and cash equivalents	157,984	2,446
Cash and cash equivalents, beginning of year	<u>76,885</u>	<u>74,439</u>
Cash and cash equivalents, end of year	<u>\$ 234,869</u>	<u>\$ 76,885</u>
Supplemental Data:		
Taxes paid	<u>\$ -</u>	<u>\$ -</u>
Interest paid	<u>\$ 9,409</u>	<u>\$ 14,847</u>

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



**Ocean Alliance, Inc.**  
Notes to Financial Statements  
June 30, 2017

**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, and 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, 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.
- 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 partner’s 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 partnerships with local academic institutions such as Endicott College and Essex Elementary School, 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, 2017

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 \$4.5 million. Restoration of the second set of brick buildings (built in the 1870's) on site is expected to be completed summer 2018. 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.**

Drones have extraordinary potential in the fields of whale research and conservation. Ocean Alliance's Drones for Whale Research program, with the flagship SnotBot program at its core, has been running since 2012. The purpose of this program has been to explore and push the boundaries of this new research paradigm: determining what data can be collected with a drone and how best to collect it.

The program has thus far been immensely successful, far exceeding our expectations. The program has unequivocally demonstrated that these tools are capable of collecting a wide variety of powerful, robust data sets—all at a relatively low price point. This is crucial: the more researchers that are able to utilize these tools the better, particularly in the developing world where funding resources are scarce, yet the need is so great. Many of the most endangered species live or migrate through the waters of developing countries. Drones can help local groups take matters into their own hands, empowering them to collect the data they need to protect these species. Researchers today using a \$1,000 drone are able to collect data of a quality that even the most prestigious academic institutions would have struggled to collect just 10 years ago with \$100,000 worth of equipment.

With the SnotBot program, we have demonstrated that priceless biological samples can be obtained from a whale in an entirely non-invasive manner. The SnotBot drone flies through the blow of a whale, collecting the biological information within which can be used to look at DNA, hormones, microbiomes and potentially a number of other important indicators of the animal's ecology and health.

**Ocean Alliance, Inc.**  
Notes to Financial Statements  
June 30, 2017

**NOTE B – PROGRAM SERVICES – continued**

Using drones, we have studied behaviours never seen before in our 45-year history, done photo-identification work, attached an infra-red camera to a drone to study heat variation on whale's backs and have even collected bio-acoustics using a waterproof drone. Of great excitement, we are now working with hardware giant Intel to develop a powerful methodology for accurately determining the body condition of whales (an excellent indicator of general health). This project on its own could have immensely significant implications for marine mammal conservation. A recent video documenting this work can be seen here: <https://tinyurl.com/intelParleySnotBot>

Marine mammal science is on the verge of a revolution. The ultimate objective of our drone research is to ensure that this revolution takes place, and that when it does the full potential of these game-changing tools are wholly realised.

**2) 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 of Mexico. 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 Corexit 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). Data from these expeditions are still being analyzed and published papers are consistently reference in other publicaiotns and media.

**3) 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. Indeed, alongside our partners, we are still publishing data based on data collected during this period-and not just on toxicology. Recently we have discussed programs to look at bio-acoustics, DNA/genetics and hormones all collected during the voyage. Data from this expedition is still being analyzed and published papers are consistently reference in other publicaiotns and media.

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.

**4) Patagonia Right Whale Program**

In the fall of 2017, Ocean Alliance celebrated the 47<sup>th</sup> consecutive field season of our study of Southern right whales 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 47-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 great 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 (if not the) first modern whale research programs. At Peninsula Valdes (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.

**Ocean Alliance, Inc.**  
Notes to Financial Statements  
June 30, 2017

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, and the manner in which it has pervaded so many areas of our everyday lives, provides an additional challenge. The internet is 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 with impartiality 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 website and partner online networks. Ocean Alliance has more than 50,000 followers on Facebook, more than 1,500 Instagram followers and our 2015 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. The Vaquita porpoise looks set to go extinct soon, with many other species and populations close behind. Whales in our oceans today in fact face more threats than they have at any other point in history. Climate change, chemical pollution, noise pollution, bycatch/entanglement in fishing gear, ship strikes amongst the prime antagonists in a diversifying and intensifying list of pressures. Of course, the moratorium on commercial whaling was wonderful and saved many species from certain extinction. However, our job now is to communicate the reality that whales are now faced with a new suite of destructive pressures and that it will require the engagement of our own species to ensure their longevity moving into the future.

**2) Distribution of Results: Getting the Word Out**

Ocean Alliance believes that mitigation of the effects of these various threats on whales, marine life-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.

Since the 2000-2005 Voyage of the Odyssey expedition, over 50 publications, abstracts and posters have been published on this one expedition alone, 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). These results have played an important role in shaping the science communities understanding of pollutants in our oceans, particularly with an emphasis on heavy metals.

Since our SnotBot program's inception in 2015, Dr. Payne, Dr. Kerr and Science Manager Andy Rogan have given over 40 public talks on the program, which has also been featured in over 400 SnotBot press articles. CEO Iain Kerr also spoke at two special events at the United Nations General Assembly in 2015 and 2017. In addition, we have presented many posters, abstracts and talks at various academic, technology and conservation conferences/events all across the world. Putting so much emphasis into communicating the results of our work has enabled us to reach people all over the world about what is happening to whales and how we can better protect them. We are working with scientific partners to write a series of publications from the SnotBot data, from papers which look at the reactions of whales to drones and how to minimize such reactions, methodology/protocol papers explaining how best to collect blow samples from whales, and of course analysis papers describing what researchers have found within the samples.

**Ocean Alliance, Inc.**  
Notes to Financial Statements  
June 30, 2017

NOTE B – PROGRAM SERVICES – continued

**Public Education (both formal and informal)**

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

For the last 4 years we have 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.

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 programing 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. Guest drone flyers have attended: including from manufacturers, helicopter pilots, educators and drone hobbyists, but the club would like to attract some talented drone mentors to further inspire the children.

**2) SnotBot Expeditions:**

Our SnotBot expeditions, with the heavy emphasis on science communication (particularly geared towards children in the K-12 education system) give us unique ‘teaching moments’ for increasing science-based public education about the harmful effects of current human activities on ocean ecosystems, and what we can all do to alleviate these harmful effects.

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 Research Vessel 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](http://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 scientific research and a variety of charismatic images from our ocean expeditions. In an age where communications, outreach, education, advocacy and related fields are changing so quickly in response to the rise of the increasingly digital age we live in; we are being bold and innovative in adopting new techniques for reaching modern audiences. Our communications 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](http://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.

**Ocean Alliance, Inc.**  
Notes to Financial Statements  
June 30, 2017

NOTE B – PROGRAM SERVICES – continued

**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 primary/middle schools and educators; and utilizing social media, including Facebook and Twitter networks targeted toward primary/middle school audiences and educators.

Of excitement, SnotBot is to be featured in two separate children's books aimed at getting young people interested in science.

**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 and provide an extraordinary educational resource for students, teachers and the general public, leveraging 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)

**Ocean Alliance, Inc.**  
Notes to Financial Statements  
June 30, 2017

**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.

*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, 2016, 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, 2017.

*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 2017, the Organization spent \$41,141 of capitalized costs, related to the clean-up and renovation of the property. As of June 30, 2017, the Organization has incurred \$1,628,938 of renovation costs related to the property. As of June 30, 2017, land improvements and building with costs totaling \$476,993 have been placed in service.

During the year ended June 30, 2017, the Organization entered into an agreement to sell its vessel, the R.V. Odyssey, for \$120,000. The transfer of title occurred on November 2, 2017, subsequent to year end. Accordingly, the \$120,000 received by the organization prior to June 30, 2017 has been recorded as a liability in these financial statements. In addition, an impairment loss in the amount of \$204,004 has been recorded to recognize the difference between the vessel’s carrying cost and its fair market value.

**Ocean Alliance, Inc.**  
Notes to Financial Statements  
June 30, 2017

NOTE C – SIGNIFICANT ACCOUNTING POLICIES – continued

A summary of property and equipment as of June 30, 2017 is presented below.

<u>Est.</u>	<u>Life</u>	<u>Cost</u>
Sailing Vessel – WhaleSong	10	95,500
Sailing Vessel – Cachalot	10	92,000
Research Equipment	5-12	219,174
Office and Other	5-12	196,530
Land Improvements and Building – in service	15-39	476,993
Non-depreciable Land and Buildings – not in service		3,153,028
Non-depreciable art work		<u>2,000</u>
		4,235,225
Accumulated Depreciation		<u>(487,423)</u>
		<u>\$3,747,802</u>

*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 26, 2018, 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, 2017. As of June 30, 2017, the Organization had contributions receivable in the amount of \$23,791.



**Ocean Alliance, Inc.**  
Notes to Financial Statements  
June 30, 2017

**NOTE E – TEMPORARILY RESTRICTED NET ASSETS**

Temporarily restricted net assets at June 30, 2017 consist of \$5,343 restricted for the arts and science programs. For the year ended June 30, 2017, temporarily restricted net assets in the amount of \$14,733 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 2017, the Organization received a donated boat in the amount of \$92,000 and equipment in the amount of \$2,715.

**NOTE G – LOANS PAYABLE**

Loans payable consist of the following as of June 30, 2017

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.	\$ 33,131
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.	74,360
Loans payable to related parties, interest at 0%, payable on demand.	<u>22,911</u>
	\$ <u>130,402</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, 2018.

Principal maturities required on debt as of June 30, 2017, are as follows:

Year Ending <u>June 30</u>	<u>Amount</u>
2018	\$60,468
2019	31,115
2020	17,600
2021	17,961
2022	<u>3,258</u>
Total	\$ <u>130,402</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 \$22,911. During the year ending June 30, 2017, a board member forgave \$6,128 of his loan. The Organization recorded this forgiveness as a contribution to the Organization.

**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.

**Ocean Alliance, Inc.**  
Notes to Financial Statements  
June 30, 2017

**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. In fiscal 2017, an agreement was entered into to sell the R.V. Odyssey to an unrelated party. As a result of this sale, an agreement was reached with these key employees to pay the deferred compensation in full with a significantly lower negotiated amount satisfying the prior amount of unpaid compensation all in order to benefit the Organization's programs. As of June 30, 2017, \$25,000 of the negotiated payments had been made and \$20,000 remained payable. The unpaid amount and related payroll taxes have been recorded to accrued expenses in these financial statements.

**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 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, 2017, 2016, 2015 and 2014 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, 2017

(with comparative totals for the year ended June 30, 2016)

	RESEARCH PROGRAMS				EDUCATION			2017 Total	2016 Total
	Voyage of the Odyssey	Right Whale Program	Whale- Song	Data Analysis	Other	Marisla			
<u>Program Support &amp; Revenue</u>									
Foundations & Grants	\$ -	\$ 3,940	\$ -	\$ -	\$ 78,366	\$ 50,000	\$ 132,306	\$ 111,943	
Contributions	115,986	-	-	8,060	50,100	-	174,146	22,278	
Donated Assets/Services	-	-	-	-	92,000	-	92,000	6,963	
Fees for Service	-	-	-	-	49,500	-	49,500	1,755	
Merchandise and other	-	-	-	-	785	-	785	200	
	<u>115,986</u>	<u>3,940</u>	<u>-</u>	<u>8,060</u>	<u>270,751</u>	<u>50,000</u>	<u>448,737</u>	<u>143,139</u>	
<u>Expenses</u>									
Personnel	34,300	7,771	-	-	107,238	49,562	198,871	174,767	
Payroll taxes & related	2,892	1,853	-	-	22,990	17,292	45,027	45,755	
Professional services	4,994	2,420	-	-	49,106	2,950	59,470	52,471	
Bank charges	35	-	-	12	45	-	92	50	
Permits and other fees	26	-	26	-	862	-	914	3,359	
Commissions	-	-	-	-	3,500	-	3,500	-	
Depreciation	61,559	-	9,550	1,497	34,775	-	107,381	117,606	
Insurance	13,235	292	3,109	-	5,226	875	22,737	20,988	
Interest	-	-	-	-	1,798	-	1,798	2,457	
Miscellaneous	145	106	-	-	643	-	894	2,204	
Odyssey/Right Whale/WhaleSong/Marisla operations	44,844	347	-	-	-	-	45,191	19,215	
Office expense	630	-	-	23	-	-	653	30	
Postage and shipping	1,489	26	-	-	1,279	-	2,794	399	
Printing	15	-	-	-	-	-	15	-	
Program expense	488	3,138	-	5,458	36,500	-	45,584	20,902	
Repairs and maintenance	48,826	285	1,387	-	6,960	856	58,314	7,408	
Storage	2,400	-	3,628	-	-	-	6,028	3,552	
Telecommunications	66	131	-	-	1,642	394	2,233	3,292	
Travel	2,082	2,814	-	-	34,492	-	39,388	20,779	
Utilities	62	125	-	-	2,063	375	2,625	3,193	
Total Expenses	<u>218,088</u>	<u>19,308</u>	<u>17,700</u>	<u>6,990</u>	<u>309,119</u>	<u>72,304</u>	<u>643,509</u>	<u>498,427</u>	
Excess (deficit) of revenue over expenses	\$ (102,102)	\$ (15,368)	\$ (17,700)	\$ 1,070	\$ (38,368)	\$ (22,304)	\$ (194,772)	\$ (355,288)	

See independent auditor's report

**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			2015 Total
	Voyage of the Odyssey	Right Whale Program	Whale- Song	Data Analysis	Other	Marisla	2016 Total	
<u>Program Support &amp; 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
	503	5,150	-	14,850	122,636	-	143,139	363,769
<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	126,254	18,854	21,258	14,697	263,513	53,851	498,427	436,209
Excess (deficit) of revenue over expenses	\$ (125,751)	\$ (13,704)	\$ (21,258)	\$ 153	\$ (140,877)	\$ (53,851)	\$ (355,288)	\$ (72,440)

See independent auditor's report