

Ocean Alliance, Inc.

Financial Statements

June 30, 2018

Ocean Alliance, Inc.

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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, 2018, 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, 2018, 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 2017 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated January 26, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2017, 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.



Certified Public Accountants

Newburyport, Massachusetts

April 26, 2019

Ocean Alliance, Inc.
Statement of Financial Position
June 30, 2018
(with summarized comparative information as of June 30, 2017)

	<u>2018</u>	<u>2017</u>
ASSETS		
Cash and cash equivalents	\$ 400,534	\$ 234,869
Accounts receivable	10,160	-
Contributions receivable	33,000	23,791
Prepaid expenses	10,395	10,151
Merchandise inventory	3,889	5,876
Vessel, held for sale	-	120,000
Property and equipment, net	530,900	592,774
Non-depreciable assets	3,247,741	3,155,028
Other assets	460	460
	<u>\$ 4,237,079</u>	<u>\$ 4,142,949</u>
Total Assets	\$ 4,237,079	\$ 4,142,949
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable	\$ 72,957	\$ 68,590
Payroll taxes payable	13,728	16,490
Accrued expenses	98,766	118,766
Deposit on sale of vessel	-	120,000
Loans payable	75,397	130,402
	<u>260,848</u>	<u>454,248</u>
Total Liabilities	260,848	454,248
Net Assets		
Unrestricted	3,893,969	3,683,358
Temporarily restricted	82,262	5,343
	<u>3,976,231</u>	<u>3,688,701</u>
Total Net Assets	3,976,231	3,688,701
Total Liabilities and Net Assets	\$ 4,237,079	\$ 4,142,949

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

Ocean Alliance, Inc.
Statement of Activities
For the year ended June 30, 2018
(with summarized comparative information for the year ended June 30, 2017)

	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	2018 <u>Total</u>	2017 <u>Total</u>
Support and Revenue				
Foundations and grants	\$ 447,911	\$ 50,000	\$ 497,911	\$ 411,927
Contributions	228,387	68,583	296,970	276,432
Sale of Brownfields credit	-	-	-	80,431
Program service fees	162,815	-	162,815	49,500
Donated assets	17,973	-	17,973	94,715
Miscellaneous income	9,054	250	9,304	4,492
Net Assets Released from Restrictions:				
Satisfaction of donor restrictions	<u>41,914</u>	<u>(41,914)</u>	<u>-</u>	<u>-</u>
	<u>908,054</u>	<u>76,919</u>	<u>984,973</u>	<u>917,497</u>
Expenses				
Program Services				
Voyage of the Odyssey/Cachalot	86,031	-	86,031	164,373
Right whale research	17,791	-	17,791	19,308
SnotBot & Drones for Whale Research	226,571	-	226,571	182,870
Other research and data analysis	1,273	-	1,273	13,643
Education and conservation	<u>176,053</u>	<u>-</u>	<u>176,053</u>	<u>155,934</u>
Total Program Services	507,719	-	507,719	536,128
Support Services				
General and administrative	92,368	-	92,368	91,597
Fundraising	<u>30,021</u>	<u>-</u>	<u>30,021</u>	<u>28,534</u>
Total Support Services	<u>122,389</u>	<u>-</u>	<u>122,389</u>	<u>120,131</u>
Total Expenses before Depreciation	<u>630,108</u>	<u>-</u>	<u>630,108</u>	<u>656,259</u>
Change in Net Assets before Depreciation, Impairment				
Loss and Net Loss on Sale of Assets	277,946	76,919	354,865	261,238
Depreciation	48,413	-	48,413	108,964
Impairment Loss	-	-	-	204,004
Net Loss on Sale of Assets	<u>18,922</u>	<u>-</u>	<u>18,922</u>	<u>-</u>
Change in Net Assets	210,611	76,919	287,530	(51,730)
Net Assets – Beginning of Year	<u>3,683,358</u>	<u>5,343</u>	<u>3,688,701</u>	<u>3,740,431</u>
Net Assets – End of Year	<u>\$3,893,969</u>	<u>\$ 82,262</u>	<u>\$3,976,231</u>	<u>\$3,688,701</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, 2018

(with summarized comparative information for the year ended June 30, 2017)

	Management			Total	Total
	Program	and	Fundraising	2018	2017
	Services	General			
Personnel	\$ 186,835	\$ 24,520	\$ 12,698	\$ 224,053	\$ 251,766
Payroll taxes/benefits	42,348	12,134	3,107	57,589	57,920
Professional services	58,316	29,195	6,295	93,806	77,829
Bank charges	161	1,307	81	1,549	1,913
Commissions	-	-	-	-	3,725
Fundraising expense	-	-	5,062	5,062	5,228
Grant expense	19,035	-	-	19,035	-
Insurance	24,320	10,985	435	35,740	29,641
Interest	1,352	1,854	-	3,206	6,876
Miscellaneous	2,188	717	-	2,905	1,451
Odyssey/Right Whale/Marislá operations	13,844	-	-	13,844	45,191
Office expense	211	3,697	-	3,908	2,937
Permits and other fees	241	344	-	585	1,183
Postage and shipping	2,038	867	-	2,905	3,899
Printing	45	-	-	45	1,886
Program expense	59,168	-	-	59,168	45,584
Repairs and maintenance	49,495	1,645	651	51,791	61,041
Storage	600	-	-	600	6,028
Telecommunications	7,210	503	503	8,216	2,627
Travel	35,172	707	909	36,788	44,204
Utilities	4,741	280	280	5,301	3,000
Website maintenance	399	3,613	-	4,012	2,330
Total Expenses before Depreciation	507,719	92,368	30,021	630,108	656,259
Depreciation	45,347	3,066	-	48,413	108,964
Total	<u>\$ 553,066</u>	<u>\$ 95,434</u>	<u>\$ 30,021</u>	<u>\$ 678,521</u>	<u>\$ 765,223</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, 2018
(with summarized comparative information for the year ended June 30, 2017)

	<u>2018</u>	<u>2017</u>
Operating Activities		
Change in net assets	\$ 287,530	\$ (51,730)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	48,413	108,964
Impairment loss	-	204,004
Net Loss on Sale of Assets	18,922	-
Donated assets	(17,973)	(94,715)
Recharacterization of loan from board member	(5,000)	(6,128)
Sale of Brownfields credit	-	(80,431)
Change in operating assets:		
Accounts receivable	(10,160)	-
Contributions receivable	(9,209)	(23,791)
Prepaid expenses	(244)	(3,377)
Merchandise inventory	1,987	2,428
Accounts payable	4,367	(35,406)
Payroll taxes payable	(2,762)	6,328
Accrued expenses	<u>(20,000)</u>	<u>20,000</u>
Net Cash Provided by Operating Activities	<u>295,871</u>	<u>46,146</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	44,800	-
Purchases of property and equipment	<u>(125,001)</u>	<u>(54,160)</u>
Net Cash Provided by (Used in) Investing Activities	<u>(80,201)</u>	<u>146,271</u>
Financing Activities		
Payments on loans payable	<u>(50,005)</u>	<u>(34,433)</u>
Net Cash Used in Financing Activities	<u>(50,005)</u>	<u>(34,433)</u>
Net increase in cash and cash equivalents	165,665	157,984
Cash and cash equivalents, beginning of year	<u>234,869</u>	<u>76,885</u>
Cash and cash equivalents, end of year	<u>\$ 400,534</u>	<u>\$ 234,869</u>
Supplemental Data:		
Taxes paid	<u>\$ -</u>	<u>\$ -</u>
Interest paid	<u>\$ 3,206</u>	<u>\$ 9,409</u>

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

Ocean Alliance, Inc.
Notes to Financial Statements
June 30, 2018

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 and through televised media productions with National Geographic and the BBC.

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, 2018

NOTE A – ORGANIZATION – continued

Oceanographic Research, Education & Innovation Center: 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. Ocean Alliance moved its offices into the first set of the brick buildings on site during April 2013. 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 began in summer 2018.

In the fall of 2018 Ocean Alliance received an Economic Development Administration Technical Assistance Grant to conduct feasibility research to reconstruct two of the Tarr and Wonson Paint Factory buildings at Ocean Alliance's headquarters. The buildings will be used as a Maker Space Innovation Center. When completed the Paint Factory Maker Space Innovation Center will offer a state-of-the-art solution to an urgent community need of cost-efficient fabrication space on the waterfront. The Maker Space will support developing business ideas by giving entrepreneurs and community members low cost access to space and tools to create and support innovations in ocean health and new technologies. The newly reconstructed buildings will also offer shared spaces such as dockage for ocean going vessels and associated assets.

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.

“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.

Ocean Alliance, Inc.
Notes to Financial Statements
June 30, 2018

NOTE B – PROGRAM SERVICES – continued

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.

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. We are continuing to work with Artificial Intelligence developers to build a system to identify individual whales by their unique blowholes. In 2019 we will begin publishing scientific reports on our photogrammetry and infrared work and disseminating what we have learned through these programs to the whale science community. We will continue development of secondary programs such as EarBot and our Survey drone. All the while we will continue to push the boundaries of this new research paradigm, identify what these tools are capable of and where they are most desperately needed.

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 realized.

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 publications 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 publications 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.

Ocean Alliance, Inc.
Notes to Financial Statements
June 30, 2018

NOTE B – PROGRAM SERVICES – continued

4) Patagonia Right Whale Program

In the fall of 2018, Ocean Alliance celebrated the 48th 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 48-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 North Atlantic 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.

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 2,500 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, and ship strikes are 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.

Ocean Alliance, Inc.
Notes to Financial Statements
June 30, 2018

NOTE B – PROGRAM SERVICES – continued

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.

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 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. In 2018, Ocean Alliance completed its ninth SnotBot Expedition in Gabon, Africa. In each expedition location, including Gabon, Mexico, Argentina and the Dominican Republic, we leave a drone, teach our local research partners how to use it, and leave behind research protocols for their use. This allows our research partners to continue this important research work.

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.

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.

Ocean Alliance, Inc.
Notes to Financial Statements
June 30, 2018

NOTE B – PROGRAM SERVICES – continued

For specific examples of Ocean Alliance’s expertise in creating and broadcasting engaging science-based content, please visit the research page on our website: <https://whale.org/dfwr/> 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 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 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.

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, Inc.
Notes to Financial Statements
June 30, 2018

NOTE B – PROGRAM SERVICES – continued

“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.

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, 2017, 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, 2018.

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.

Accounts Receivable

Accounts receivable consist of program service revenue and miscellaneous income billed but not yet collected. All accounts receivable are considered collectible by management.

Ocean Alliance, Inc.
Notes to Financial Statements
June 30, 2018

NOTE C – SIGNIFICANT ACCOUNTING POLICIES – continued

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 2018, the Organization spent \$99,390 of capitalized costs, related to the clean-up and renovation of the property. As of June 30, 2018, the Organization has incurred a total of \$1,728,328 of renovation costs related to the property. As of June 30, 2018, land improvements and building with costs totaling \$483,670 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 sales proceeds were received by the Organization prior to June 30, 2017, but the title was not transferred until November 2, 2017. Accordingly, the \$120,000 received by the Organization in fiscal year 2017 was recorded as a liability as of June 30, 2017 and there was an impairment loss in the amount of \$204,004 recorded in fiscal 2017 to recognize the difference between the vessel's carrying cost and its fair market value. There was no gain or loss recognized for the year ended June 30, 2018.

A summary of property and equipment as of June 30, 2018 is presented below.

	<u>Est. Life</u>	<u>Cost</u>
Sailing Vessel – Cachalot	10	\$ 113,869
Research Equipment	5-12	222,985
Office and Other	5-12	210,919
Land Improvements and Building – in service	15-39	483,670
Non-depreciable Land and Buildings – not in service		3,245,741
Non-depreciable art work		<u>2,000</u>
		4,279,184
Accumulated Depreciation		<u>(500,543)</u>
		<u>\$3,778,641</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.

Ocean Alliance, Inc.
Notes to Financial Statements
June 30, 2018

NOTE C – SIGNIFICANT ACCOUNTING POLICIES – continued

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 April 26, 2019, 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, 2018. As of June 30, 2018, the Organization had contributions receivable in the amount of \$33,000

NOTE E – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets at June 30, 2018 consist of \$82,262 restricted for a documentary film and arts and science programs. For the year ended June 30, 2018, temporarily restricted net assets in the amount of \$41,914 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 2018, the Organization received donated equipment in the amount of \$17,973, which has been capitalized and included in property equipment as of June 30, 2018.

NOTE G – LOANS PAYABLE

Loans payable consist of the following as of June 30, 2018

Loan payable to City of Gloucester, interest at 2%, accrued interest only paid until August 31, 2012, monthly principal and interest payments of \$1,519 from September 1, 2012 until maturity of August 31, 2021.	\$ 57,486
Loans payable to related parties, interest at 0%, payable on demand.	<u>17,911</u>
	<u>\$ 75,397</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, 2019.

Principal maturities required on debt as of June 30, 2018, are as follows:

Year Ending <u>June 30</u>	<u>Amount</u>
2019	\$ 35,159
2020	17,600
2021	17,961
2022	<u>4,677</u>
Total	<u>\$ 75,397</u>

Ocean Alliance, Inc.
Notes to Financial Statements
June 30, 2018

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 \$17,911. During the year ending June 30, 2018, a board member forgave \$5,000 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.

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 were paid in fiscal 2018 and no liability remains for the deferred compensation as of June 30, 2018.

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, 2018, 2017, 2016 and 2015 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, 2018
(with comparative totals for the year ended June 30, 2017)

	RESEARCH PROGRAMS				EDUCATION		2018 Total	2017 Total
	Voyage of the Odyssey/ Cachalot	Right Whale Program	Whale- Song	SnotBot & Drones for Whale Research	Other	Marisla		
<u>Program Support & Revenue</u>								
Foundations & Grants	\$ 10,000	\$ -	\$ -	\$ 10,000	\$ 93,634	\$ 70,000	\$ 183,634	\$ 132,306
Contributions	67,473	-	-	1,837	35,850	-	105,160	174,146
Donated Assets/Services	17,973	-	-	-	-	-	17,973	92,000
Fees for Service	-	-	-	162,815	-	-	162,815	49,500
Merchandise and other	-	-	-	160	400	-	560	785
	<u>95,446</u>	<u>-</u>	<u>-</u>	<u>174,812</u>	<u>129,884</u>	<u>70,000</u>	<u>470,142</u>	<u>448,737</u>
<u>Expenses</u>								
Personnel	22,760	6,350	-	80,590	36,976	40,159	186,835	198,871
Payroll taxes & related	2,270	1,599	-	16,562	9,391	12,526	42,348	45,027
Professional services	6,910	-	-	23,616	18,440	9,350	58,316	59,470
Grant expense	-	-	-	-	19,035	-	19,035	-
Bank charges	-	30	-	30	101	-	161	92
Permits and other fees	36	-	-	30	175	-	241	914
Commissions	-	-	-	-	-	-	-	3,500
Depreciation	10,294	-	1,592	1,529	31,932	-	45,347	107,381
Insurance	12,084	289	356	10,003	1,588	-	24,320	22,737
Interest	-	-	-	-	1,352	-	1,352	1,798
Miscellaneous	832	113	-	958	285	-	2,188	894
Vessel operations	1,916	-	-	20	11,908	-	13,844	45,191
Office expense	-	-	-	60	151	-	211	653
Postage and shipping	31	233	-	1,774	-	-	2,038	2,794
Printing	-	-	-	45	-	-	45	15
Program expense	-	5,494	-	48,063	5,611	-	59,168	45,584
Repairs and maintenance	38,418	2,358	317	5,190	3,212	-	49,495	58,314
Storage	-	-	600	-	-	-	600	6,028
Telecommunications	455	335	-	4,576	1,844	-	7,210	2,233
Travel	226	803	-	33,188	815	140	35,172	39,388
Utilities	93	187	-	1,866	2,595	-	4,741	2,625
Website maintenance	-	-	-	-	399	-	399	-
Total Expenses	<u>96,325</u>	<u>17,791</u>	<u>2,865</u>	<u>228,100</u>	<u>145,810</u>	<u>62,175</u>	<u>553,066</u>	<u>643,509</u>
Excess (deficit) of revenue over expenses	<u>\$ (879)</u>	<u>\$ (17,791)</u>	<u>\$ (2,865)</u>	<u>\$ (53,288)</u>	<u>\$ (15,926)</u>	<u>\$ 7,825</u>	<u>\$ (82,924)</u>	<u>\$ (194,772)</u>

See independent auditor's report

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/ Cachalot	Right Whale Program	Whale- Song & Data Analysis	SnotBot & Drones for Whale Reseach	Other	Marisla		
<u>Program Support & Revenue</u>								
Foundations & Grants	\$ -	\$ 3,940	\$ -	\$ -	\$ 78,366	\$ 50,000	\$ 132,306	\$ 111,943
Contributions	115,986	-	8,060	49,600	500	-	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	-	-	-	35	750	-	785	200
	<u>207,986</u>	<u>3,940</u>	<u>8,060</u>	<u>99,135</u>	<u>79,616</u>	<u>50,000</u>	<u>448,737</u>	<u>143,139</u>
<u>Expenses</u>								
Personnel	34,300	7,771	-	71,750	35,488	49,562	198,871	174,767
Payroll taxes & related	2,892	1,853	-	16,823	6,167	17,292	45,027	45,755
Professional services	4,994	2,420	-	18,550	30,556	2,950	59,470	52,471
Bank charges	35	-	12	45	-	-	92	50
Permits and other fees	503	-	26	25	360	-	914	3,359
Commissions	3,500	-	-	-	-	-	3,500	-
Depreciation	66,159	-	11,047	-	30,175	-	107,381	117,606
Insurance	14,693	292	3,109	3,038	730	875	22,737	20,988
Interest	-	-	-	260	1,538	-	1,798	2,457
Miscellaneous	145	106	-	543	100	-	894	2,204
Vessel 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	613	3,138	5,458	31,092	5,283	-	45,584	20,902
Repairs and maintenance	51,110	285	1,387	2,854	1,822	856	58,314	7,408
Storage	2,400	-	3,628	-	-	-	6,028	3,552
Telecommunications	66	131	-	1,314	328	394	2,233	3,292
Travel	2,082	2,814	-	34,048	444	-	39,388	20,779
Utilities	62	125	-	1,249	814	375	2,625	3,193
Total Expenses	<u>230,532</u>	<u>19,308</u>	<u>24,690</u>	<u>182,870</u>	<u>113,805</u>	<u>72,304</u>	<u>643,509</u>	<u>498,427</u>
Excess (deficit) of revenue over expenses	<u>\$ (22,546)</u>	<u>\$ (15,368)</u>	<u>\$ (16,630)</u>	<u>\$ (83,735)</u>	<u>\$ (34,189)</u>	<u>\$ (22,304)</u>	<u>\$ (194,772)</u>	<u>\$ (355,288)</u>

See independent auditor's report