

Ocean Alliance, Inc.

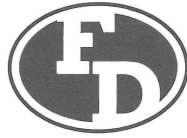
Financial Statements

June 30, 2014

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, 2014, 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, 2014, 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 2013 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated February 14, 2014. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2013, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matter

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 16 to 17 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.

A handwritten signature in cursive script that reads "Fritz DeSuglielmo LLC".

Certified Public Accountants

Newburyport, Massachusetts
February 3, 2015

Ocean Alliance, Inc.
Statement of Financial Position
June 30, 2014
(with summarized comparative information as of June 30, 2013)

	<u>2014</u>	<u>2013</u>
ASSETS		
Cash and cash equivalents	\$ 172,930	\$ 74,592
Prepaid insurance	6,826	11,134
Merchandise inventory	1,075	381
Property and equipment, net	844,729	1,612,354
Non-depreciable assets	3,019,020	2,943,753
Other assets	250	5,943
	<u>\$ 4,044,830</u>	<u>\$ 4,648,157</u>
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable	\$ 159,817	\$ 133,226
Payroll taxes payable	15,210	10,439
Accrued expenses	116,771	111,453
Loans payable	250,702	491,738
	<u>542,500</u>	<u>746,856</u>
Net Assets		
Unrestricted	3,501,987	3,875,958
Temporarily restricted	343	25,343
	<u>3,502,330</u>	<u>3,901,301</u>
Total Net Assets	<u><u>\$ 4,044,830</u></u>	<u><u>\$ 4,648,157</u></u>
Total Liabilities and Net Assets	<u><u>\$ 4,044,830</u></u>	<u><u>\$ 4,648,157</u></u>

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

Ocean Alliance, Inc.
Statement of Activities
For the year ended June 30, 2014
(with summarized comparative information for the year ended June 30, 2013)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>2014 Total</u>	<u>2013 Total</u>
Support and Revenue				
Foundations and grants	\$ 558,266	\$ -	\$ 558,266	\$ 561,645
Contributions	79,503	-	79,503	240,584
Program service fees	45,500	-	45,500	108,000
Donated services and assets	151,891	-	151,891	19,179
Miscellaneous income	3,701	-	3,701	2,718
Net Assets Released from Restrictions:				
Restrictions satisfied by payments	<u>25,000</u>	<u>(25,000)</u>	<u>-</u>	<u>-</u>
	<u>863,861</u>	<u>(25,000)</u>	<u>838,861</u>	<u>932,126</u>
Expenses				
Program Services				
Voyage of the Odyssey	301,859	-	301,859	265,211
Right whale research	31,072	-	31,072	31,715
Other research and data analysis	63,585	-	63,585	29,802
Education and conservation	<u>219,015</u>	<u>-</u>	<u>219,015</u>	<u>507,899</u>
Total Program Services	615,531	-	615,531	834,627
Support Services				
General and administrative	81,546	-	81,546	73,238
Fundraising	<u>19,964</u>	<u>-</u>	<u>19,964</u>	<u>27,287</u>
Total Support Services	<u>101,510</u>	<u>-</u>	<u>101,510</u>	<u>100,525</u>
Total Expenses before Depreciation	<u>717,041</u>	<u>-</u>	<u>717,041</u>	<u>935,152</u>
Change in Net Assets before Depreciation and Net Loss on Sale of Assets	146,820	(25,000)	121,820	(3,026)
Depreciation	123,230	-	123,230	123,856
Net Loss on Sale of Assets	<u>397,561</u>	<u>-</u>	<u>397,561</u>	<u>-</u>
Change in Net Assets	(373,971)	(25,000)	(398,971)	(126,882)
Net Assets – Beginning of Year	<u>3,875,958</u>	<u>25,343</u>	<u>3,901,301</u>	<u>4,028,183</u>
Net Assets – End of Year	<u>\$3,501,987</u>	<u>\$ 343</u>	<u>\$3,502,330</u>	<u>\$3,901,301</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, 2014
(with summarized comparative information for the year ended June 30, 2013)

	Program Services	Management and General	Fundraising	Total 2014	Total 2013
Personnel	\$ 168,503	\$ 12,760	\$ 14,226	\$ 195,489	\$ 162,049
Payroll taxes/benefits	42,883	7,485	3,785	54,153	47,115
Professional services	102,758	27,100	-	129,858	111,779
Grant expense	25,000	-	-	25,000	225,000
Bank charges	112	1,220	-	1,332	1,566
Conferences and trainings	1,525	35	-	1,560	341
Fundraising and events	-	-	98	98	150
Insurance	96,298	6,090	405	102,793	88,925
Interest	6,735	19,056	-	25,791	19,855
Miscellaneous	1,547	1,121	25	2,693	6,670
Odyssey/Right Whale/Caribana operations	31,291	-	-	31,291	78,461
Office expense	1,022	1,501	-	2,523	4,645
Postage and shipping	2,245	729	150	3,124	7,175
Printing	200	397	-	597	1,968
Program supplies	14,617	-	-	14,617	13,088
Rent	-	-	-	-	10,000
Repairs and maintenance	52,650	137	136	52,923	60,190
Research	13,411	-	-	13,411	269
Storage	-	1,167	-	1,167	4,168
Telecommunications	20,060	249	178	20,487	29,442
Travel	31,614	1,094	692	33,400	56,900
Utilities	3,060	270	269	3,599	2,824
Website maintenance	-	1,135	-	1,135	2,572
Total Expenses before Depreciation	<u>615,531</u>	<u>81,546</u>	<u>19,964</u>	<u>717,041</u>	<u>935,152</u>
Depreciation	<u>115,445</u>	<u>7,785</u>	<u>-</u>	<u>123,230</u>	<u>123,856</u>
Total	<u>\$ 730,976</u>	<u>\$ 89,331</u>	<u>\$ 19,964</u>	<u>\$ 840,271</u>	<u>\$ 1,059,008</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, 2014
(with summarized comparative information for the year ended June 30, 2013)

	<u>2014</u>	<u>2013</u>
Operating Activities		
Change in net assets	\$ (398,971)	\$ (126,882)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	123,230	123,856
Donated assets	(146,077)	(15,000)
Net Loss on Sale of Assets	397,561	-
Non-cash interest expense	738	-
Change in operating assets:		
Prepaid insurance	4,308	(748)
Merchandise inventory	(694)	-
Other assets	5,693	-
Accounts payable	26,591	19,949
Payroll taxes payable	4,771	(1,571)
Accrued expenses	<u>5,318</u>	<u>12,687</u>
Net Cash Provided by Operating Activities	<u>22,468</u>	<u>12,291</u>
Investing Activities		
Proceeds from sale of property and equipment	355,180	-
Purchases of property and equipment	<u>(83,147)</u>	<u>(131,357)</u>
Net Cash Provided by (Used in) Investing Activities	<u>272,033</u>	<u>(131,357)</u>
Financing Activities		
Proceeds from loans payable	65,000	214,000
Payments on loans payable	<u>(261,163)</u>	<u>(32,291)</u>
Net Cash Provided by (Used in) Financing Activities	<u>(196,163)</u>	<u>181,709</u>
Net increase in cash and cash equivalents	98,338	62,643
Cash and cash equivalents, beginning of year	<u>74,592</u>	<u>11,949</u>
Cash and cash equivalents, end of year	<u>\$ 172,930</u>	<u>\$ 74,592</u>
Supplemental Data:		
Taxes paid	<u>\$ -</u>	<u>\$ -</u>
Interest paid	<u>\$ 21,126</u>	<u>\$ 19,855</u>

Non-cash investing and financing activity:

See Note C to the financial statements for a description on non-cash investing and financing activity related to the sale of property and equipment.

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

Ocean Alliance, Inc.
Notes to Financial Statements
June 30, 2014

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 our research station in Argentina and aboard Ocean Alliance’s floating laboratory, *R.V. Odyssey*
- 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 University of Southern Maine’s Wise Laboratory of Environmental and Genetic Toxicology & The Seger Laboratory at the University of Utah & Olin College of Engineering.

2) Science Communications for Social Impact

- a. Developing informational tools based on Ocean Alliance’s historical and current research findings for use by our scientific and non-profit partners, educators, policy makers, risk managers, and others concerned about the health of the world’s oceans and their connection to human health.
- b. Serving as an objective, experienced “voice of reason” regarding issues related to whale and ocean health by forming hypotheses based on data collected through rigorous scientific research methods.
- c. Distributing the results of Ocean Alliance/research partner findings to the general public through communications platforms including the press, social media outlets (e.g. Facebook, Twitter, Instagram), and Ocean Alliance and its research partners’ web sites.
- 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 curricular materials 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).
- b. Developing and distributing multimedia educational content for general audiences via key partnerships with educational institutions worldwide including aquaria, zoos, museums and nature centers, and via Ocean Alliance’s web sites as well as its future science and education headquarters based in Gloucester, Massachusetts.
- c. Developing STEM education initiatives through our new Robotics Laboratory and partnership with Olin College of Engineering.
- d. Ongoing design and development of Ocean Alliance’s new 20,000 sq. ft. Oceanographic Research and Education Center on the Gloucester, MA, waterfront. This complex will house research laboratory spaces, public educational interactive exhibits, dedicated classroom and community space for local/regional groups and partners, and provide public access to the waterfront for students and the public.

Ocean Alliance, Inc.
Notes to Financial Statements
June 30, 2014

NOTE A – ORGANIZATION – continued

Oceanographic Research and Education Centre - A New Home For Ocean Alliance

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 will be restored as a public accessible oceanographic research and education center to be operated by Ocean Alliance.

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. An additional \$1.5 million has been raised to date towards site cleanup and restoration. The complete restoration of the landmark is estimated at another \$4 to \$6 million. Restoration work continues as funds are raised. The buildings stand 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 have used the factory's smokestack as a navigational guide. More recently, the factory appeared as a backdrop in the 2000 movie *The Perfect Storm*, but the buildings have been vacant for 32 years, since the close of the factory in 1980. Ocean Alliance moved its offices into one of the brick buildings on site on 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.” Ocean Alliance President, Roger Payne.

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

Odyssey Expeditions

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

Current Odyssey Expedition: On April 20, 2010, the Deepwater Horizon oil rig exploded resulting in an uncontrolled release of oil into the Gulf. Estimates now indicate that approximately 200 million gallons of oil were released. Superimposed on the threat of the oil, is the fact that more than two million gallons of toxic chemical dispersants were intentionally pumped into the Gulf by BP to break up the oil. These chemicals were used in unprecedented amounts and in untested ways.

Ocean Alliance, Inc.
Notes to Financial Statements
June 30, 2014

NOTE B – PROGRAM SERVICES - continued

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, a toxic dispersant. The Gulf data we are collecting will be integrated into Ocean Alliance's most recent, five-and-a-half-year, scientific circumnavigation of the globe to put the Gulf data into a global context and document the health of the world's oceans.

At this time (spring 2015), Ocean Alliance is the only NGO conducting extensive research on the toxicological effects of the BP spill (including oil and dispersants) on deepwater marine mammals in the Gulf. Throughout the Expedition, Ocean Alliance has been documenting its findings and reporting from the Gulf as an independent (non-corporate, non-governmental) science research organization.

The Gulf Expedition has now completed the first five field seasons and the research work has moved to the laboratory and data analysis Phase.

Ocean Alliance's scientific partner the Wise Laboratory of Environmental and Genetic Toxicology at the University of Southern Maine (USM) is one of the nation's leaders in marine mammal toxicology. USM scientists have been working closely with Ocean Alliance since the launch of the Gulf Expedition. Together, with the Wise Lab and the help of other science partners including: the University of Utah, Cornell University, and Scripps Institution of Oceanography; we are uniquely positioned to address the emerging toxicological threat in the Gulf.

Patagonia Right Whale Program

In the fall of 2014, Ocean Alliance celebrated the 44th consecutive field season of our study of the Southern Right Whale from the shores of Peninsula Valdez, Argentina. It was in 1970 that Ocean Alliance founder and President, Dr. Roger Payne, began studying a population of right whales that calves off the coast of Argentina. Since then, we have developed a uniquely detailed, 44-year record of the life histories, distributions and associations of over 2,000 individually known right whales. This database, which is extended by aerial surveys of the population each year, has become an invaluable tool for protecting the whales and their habitat. Ocean Alliance's Patagonia Right Whale Program also informs the study of the Northern Right Whale, a critically endangered parallel species

The Patagonia Right Whale Program is the longest continuous study of any whale species based on known individuals and it has created a context for discovery rarely encountered in field research that is unmatched by any other cetacean research initiative. 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

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. Ocean Alliance, due to its long history and reputation in the field, has the ability, capacity and independence to inform policy on a scientific level to ensure that these issues of concern reach the level of policy and decision makers both in the United States and abroad. Our success in communicating our findings to benefit humanity depends on our ability to maintain a strong media presence through diverse communications channels including the press, social media outlets, the Ocean Alliance web site, and partner online networks.

Because there is a moratorium on commercial whaling, people seem to believe that whales have been saved. This is far from the truth. Many of the whaling nations have sidestepped the moratorium, commercial whaling is about to resume in Japan, and effective international control is now all but lost. Meanwhile, more whales die each year from accidental entanglement in fishing gear than from harpoons.

Ocean Alliance, Inc.
Notes to Financial Statements
June 30, 2014

NOTE B – PROGRAM SERVICES – continued

The world's whales now face greater and more diverse threats than ever before. As far as we are concerned there is a dire threat on the horizon facing whales and humanity alike: both whales and humans are at risk from the long-term (chronic) effects of synthetic, toxic contaminants contained in their food, compounds such as PCBs, dioxins, furans, PAHs, DDT, DDE.

These compounds bioaccumulate as they move up food chains and cross generations, inexorably increasing in concentration with each passing year. They can interfere with fetal development and the normal formation of sex organs. They also diminish the ability of immune systems to fight infections; and, in humans, can make it difficult or impossible for children to concentrate long enough to learn effectively. These bio-persistent toxins are likely to have a devastating impact on marine mammals (including whales), and on human access to fish from the seas.

Distribution of Results: Getting the Word Out

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

In 2009, Ocean Alliance released the results of 2000-2005 Odyssey Expedition, a five-year study of worldwide ocean pollution based on data collected from samples of sperm whale skin and blubber. The results were somewhat shocking (especially those related to chromium, a known human carcinogen) and have direct implications on the health of marine mammals and the health of human populations around the world—especially those that rely, in great part, on protein sources from the oceans. While the Executive Summary report of the Odyssey Expedition was made public at the 2010 meetings of the International Whaling Commission in Agadir, Morocco, the results are still being distributed through scientific presentations and the media. The Expedition data is truly remarkable in terms of its scope and what it reveals about various toxic pollutants in the world's oceans. Ocean Alliance is working to "translate" this dataset quantifying baseline contaminant levels in the world's oceans into useful tools for risk managers, policy and decision makers, and the general public. Last but not least this data set allows us to put data that we continue to collect in locations such as the Gulf of Mexico into a global context.

Public Education

Odyssey Expeditions: From the Gulf

The disastrous oil spill in the Gulf of Mexico has provided a regrettable, but unique "teaching moment" for increasing science-based, public education about the harmful effects of current human activities on ocean and wetland ecosystems.

The educational programming model for the Gulf of Mexico Odyssey Expedition, which is planned to continue through 2015, is based on the successful, long-term programming Ocean Alliance developed and disseminated to the 118 ports in 22 countries visited by the *Odyssey* during its most recent global Odyssey Expedition. The educational program of the *Odyssey* Expedition in the Gulf of Mexico includes science-based video podcasts from the Gulf, daily blogs from the science crew aboard *Odyssey*, audio recordings of marine mammals obtained from *Odyssey's* acoustic array, and photographic images captured from both above and below the surface of the water, see www.whale.org.

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

For specific examples of Ocean Alliance's expertise in creating and broadcasting engaging science-based content, please visit our currently static, PBS-hosted, web site at www.pbs.org/odyssey.

Ocean Alliance, Inc.
Notes to Financial Statements
June 30, 2014

NOTE B – PROGRAM SERVICES – continued

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.

Educational Network: Building Partnerships

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

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 shore of Gloucester, Massachusetts. The complex will serve as both an oceanographic research and education center and as Ocean Alliance’s new headquarters.

Ocean Alliance’s ongoing educational programming is being developed with an eye toward providing on-site, programming for this future, 20,000 square foot center on the Gloucester waterfront. This complex will house research laboratory spaces, public educational interactive exhibits, dedicated classroom spaces, and community space for local/regional groups and partners, and provide public access to the waterfront for students and the public.

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 40+ years of influential research, intellectual capital and unique educational content. The restored headquarters will bring about stronger visibility for Ocean Alliance provide an extraordinary educational resource for students, teachers and the general public and leverage existing and new partnerships for the benefit of whales and ocean research.

Summary

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

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

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

Ocean Alliance, Inc.
Notes to Financial Statements
June 30, 2014

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, 2013, 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, 2014.

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.

Cash Equivalents

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

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 2014, the Organization spent \$33,242 of capitalized costs and received a non-cash grant in the amount of \$49,324, related to the clean-up and renovation of the property. As of June 30, 2014, the Organization has incurred \$1,189,115 of renovation costs related to the property. As of June 30, 2014, land improvements and building with costs totaling \$173,178 have been placed in service. A summary of property and equipment as of June 30, 2014 is presented below.

Ocean Alliance, Inc.
Notes to Financial Statements
June 30, 2014

NOTE C – SIGNIFICANT ACCOUNTING POLICIES – continued

	<u>Est. Life</u>	<u>Cost</u>
RV Odyssey	40	\$1,019,338
Odyssey Improvements	3-12	669,944
Sailing Vessel – WhaleSong	10	95,500
Research Equipment	5-12	198,350
Office and Other	5-12	202,037
Land Improvements and Building – in service	15-39	173,178
Non-depreciable Land and Buildings – not in service		3,017,020
Non-depreciable art work		<u>2,000</u>
		5,377,367
Accumulated Depreciation		<u>(1,513,618)</u>
		<u>\$3,863,749</u>

During the year ended June 30, 2014, the Organization sold a fully depreciated camera for \$792 and a sailing vessel with net book value of \$778,353 for \$400,000. Upon the sale of the sailing vessel, the Organization received cash in the amount \$154,388 and issued a loan to the buyer in the amount of \$200,000, which was subsequently repaid within fiscal 2014. The remaining \$45,612 of the selling price was paid by the buyer through direct payment of the remaining balance of principal and accrued interest on the Organization's loan payable. See Note F for more information on the loan payable.

During the year ended June 30, 2014, the Organization entered into a bailment agreement for the use of equipment with a value of \$169,200. There is no transfer of ownership or rental payments associated with this agreement. However, the Organization could assume liability for loss or damage to the equipment.

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 February 3, 2015, which is the date the financial statements were available to be issued.

Ocean Alliance, Inc.
Notes to Financial Statements
June 30, 2014

NOTE D – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consist of \$343 restricted for a scholarship fund. For the year ended June 30, 2014, temporarily restricted net assets in the amount of \$25,000 were released from donor program restrictions by incurring expenses satisfying the purpose specified by the donor.

NOTE E – 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 2014, the Organization received the donation of a boat, donated capitalized services related to the clean-up of the property discussed in Note C, the donation of software, and the donation of furniture by a board member. The assets and contribution revenues were recorded at their fair value on the date of donation in the amounts of \$95,500, \$49,324, \$803, and \$450, respectively. Also during fiscal 2014, the Organization received donated engineering and carpentry services, donated supplies from a third party, and donated supplies from a board member. The expenses and contribution revenues were recorded at their fair value on the dates of donation of \$5,220, \$122, and \$472, respectively.

NOTE F – LOANS PAYABLE

Loans payable consist of the following as of June 30, 2014:

Loan payable with a bank, interest at 2.00% above prime rate of the bank (5.25% at June 30, 2014), monthly payments of principal in the amount of \$2,000 plus interest from July 8, 2014 until maturity of June 8, 2016. The Organization entered into a loan modification agreement on June 30, 2014, which extended the maturity date from July 8, 2014, closed the revolving line of credit feature of the loan, changed the interest rate from 1.50% above prime rate of the bank, and established monthly payments.	\$ 100,000
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.	121,663
Loans payable to related parties, interest at 0%, payable on demand.	<u>29,039</u>
	<u>\$ 250,702</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 April 1, 2015.

Upon the sale of a sailing vessel during fiscal year 2014, the Organization paid off the principal balance of a loan with a third party in the amount of \$165,000. Also upon the sale, the remaining principal and accrued interest of the Organization's loan payable with a local bank, in the amounts of \$44,874 and \$738, respectively, were paid directly by the buyer.

Principal maturities required on debt as of June 30, 2015, are as follows:

Year Ending June 30	Amount
2015	\$ 68,944
2016	92,226
2017	16,563
2018	16,902
2019	17,248
Thereafter	<u>38,819</u>
Total	<u>\$ 250,702</u>

Ocean Alliance, Inc.
Notes to Financial Statements
June 30, 2014

NOTE G – RELATED PARTIES

As identified in Note F, the Organization had loans payable to related parties, which include loans from members of the Board of Directors in the amount of \$29,039. During fiscal 2014, board members also made contributions of \$8,022, including donated furniture of \$450 and donated supplies of \$472.

NOTE H – 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 I – CONTINGENCIES

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

NOTE J – 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 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, 2014, 2013, 2012 and 2011 are subject to examination by the IRS. Returns are generally subject to examination for three years after they are filed.

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.

Ocean Alliance, Inc.
Schedule of Program Support, Revenue, and Expenses
For the year ended June 30, 2014
(with comparative totals for the year ended June 30, 2013)

	RESEARCH PROGRAMS				EDUCATION		2014 Total	2013 Total
	Voyage of the Odyssey	Right Whale Program	Whale- Song	Data Analysis	Other	Caribana		
<u>Program Support & Revenue</u>								
Foundations & Grants	\$ 204,000	\$ 15,000	\$ -	\$ 62,500	\$ 51,267	\$ 50,000	\$ 382,767	\$ 509,145
Contributions	1,442	224	-	-	13,105	10,000	24,771	197,101
Donated Assets/Services	122	-	95,500	-	54,994	-	150,616	17,015
Fees for Service	45,500	-	-	-	-	-	45,500	108,000
Merchandise and other	559	-	-	-	-	-	559	-
	<u>251,623</u>	<u>15,224</u>	<u>95,500</u>	<u>62,500</u>	<u>119,366</u>	<u>60,000</u>	<u>604,213</u>	<u>831,261</u>
<u>Expenses</u>								
Personnel	83,312	-	-	13,738	71,453	-	168,503	147,225
Payroll taxes & related	20,206	-	-	5,010	17,667	-	42,883	32,866
Professional services	52,307	13,995	315	18,750	17,391	-	102,758	88,489
Grant expense	-	-	-	-	25,000	-	25,000	225,000
Bank charges	100	-	-	-	-	12	112	566
Conferences and training	-	313	-	1,212	-	-	1,525	341
Depreciation	89,535	2,282	4,775	1,260	1,660	15,933	115,445	117,377
Insurance	21,722	578	203	541	1,216	72,038	96,298	84,212
Interest	-	-	-	-	2,639	4,096	6,735	6,434
Miscellaneous	774	336	-	2	431	4	1,547	6,345
Odyssey/Right Whale/WhaleSong/Caribana operations	25,841	3,404	2,046	-	-	-	31,291	78,461
Office expense	440	582	-	-	-	-	1,022	1,959
Postage and shipping	682	933	149	473	8	-	2,245	6,577
Printing	102	-	-	-	98	-	200	268
Program supplies	9,993	231	17	1,428	2,948	-	14,617	13,088
Rent	-	-	-	-	-	-	-	8,000
Repairs and maintenance	47,681	1,020	2,293	182	1,292	182	52,650	59,862
Research	-	411	-	13,000	-	-	13,411	269
Storage	-	-	-	-	-	-	-	-
Telecommunications	18,825	241	-	234	526	234	20,060	28,486
Travel	18,164	8,848	737	3,255	610	-	31,614	43,149
Utilities	1,710	180	-	-	810	360	3,060	2,492
Website maintenance	-	-	-	-	-	-	-	538
Total Expenses	<u>391,394</u>	<u>33,354</u>	<u>10,535</u>	<u>59,085</u>	<u>143,749</u>	<u>92,859</u>	<u>730,976</u>	<u>952,004</u>
Excess (deficit) of revenue over expenses	<u>\$ (139,771)</u>	<u>\$ (18,130)</u>	<u>\$ 84,965</u>	<u>\$ 3,415</u>	<u>\$ (24,383)</u>	<u>\$ (32,859)</u>	<u>\$ (126,763)</u>	<u>\$ (120,743)</u>

See independent auditor's report.

Ocean Alliance, Inc.
Schedule of Program Support, Revenue, and Expenses
For the Year Ended June 30, 2013
(with comparative totals for the year ended June 30, 2012)

	RESEARCH PROGRAMS				EDUCATION		2013 Total	2012 Total
	Voyage of the Odyssey	Right Whale Program	Vieques	Data Analysis	Other	Caribana		
Program Support & Revenue								
Foundations & Grants	\$ 175,000	\$ 15,000	\$ 13,500	\$ -	\$ 305,645	\$ -	\$ 509,145	\$ 330,405
Contributions	750	12,451	-	-	33,900	150,000	197,101	58,091
Donated Assets/Services	-	-	-	-	15,015	2,000	17,015	69,086
Fees for Service	58,000	-	-	-	-	50,000	108,000	50,000
Adoptions, Merchandise, Other, and Fundraising	-	-	-	-	-	-	-	648
	<u>233,750</u>	<u>27,451</u>	<u>13,500</u>	<u>-</u>	<u>354,560</u>	<u>202,000</u>	<u>831,261</u>	<u>508,230</u>
Expenses								
Personnel	90,025	4,900	-	4,900	19,600	27,800	147,225	133,021
Payroll taxes & related	17,929	1,437	-	1,326	6,937	5,237	32,866	33,989
Professional services	30,878	7,644	1,000	2,000	9,140	37,827	88,489	72,273
Grant expense	-	-	-	-	225,000	-	225,000	-
Bank charges	91	25	-	-	-	450	566	112
Conferences and training	-	341	-	-	-	-	341	8,424
Depreciation	90,056	2,582	-	2,520	910	21,309	117,377	120,011
Insurance	17,475	247	-	-	10,592	55,898	84,212	37,024
Interest	600	-	-	-	2,695	3,139	6,434	2,694
Miscellaneous	44	2,343	-	-	360	3,598	6,345	5,893
Odyssey/Right Whale/Caribana operations	36,061	3,661	-	-	100	38,639	78,461	39,074
Office expense	445	482	-	-	987	45	1,959	397
Postage and shipping	3,510	107	2,846	40	-	74	6,577	8,998
Printing	-	268	-	-	-	-	268	2,705
Program supplies	10,523	48	391	-	750	1,376	13,088	8,002
Rent	3,750	500	-	1,000	1,750	1,000	8,000	15,191
Repairs and maintenance	10,613	1,815	-	4,679	4,596	38,159	59,862	55,032
Research	269	-	-	-	-	-	269	474
Storage	-	-	-	-	-	-	-	163
Telecommunications	23,379	639	-	468	852	3,148	28,486	6,174
Travel	18,667	7,175	9,970	416	1,026	5,895	43,149	40,915
Uniforms	-	-	-	-	-	-	-	1,853
Utilities	622	83	600	166	855	166	2,492	924
Website maintenance	330	-	-	-	208	-	538	577
Total Expenses	<u>355,267</u>	<u>34,297</u>	<u>14,807</u>	<u>17,515</u>	<u>286,358</u>	<u>243,760</u>	<u>952,004</u>	<u>593,920</u>
Excess (deficit) of revenue over expenses	<u>\$ (121,517)</u>	<u>\$ (6,846)</u>	<u>\$ (1,307)</u>	<u>\$ (17,515)</u>	<u>\$ 68,202</u>	<u>\$ (41,760)</u>	<u>\$ (120,743)</u>	<u>\$ (85,690)</u>

See independent auditor's report.