



OCEANA, INC. AND AFFILIATE

Consolidated Financial Statements

For the Year Ended December 31, 2016

(With Summarized Financial Information for the Year Ended December 31, 2015)



**and
Report Thereon**



OCEANA, INC. AND AFFILIATE

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Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Oceana, Inc. and Affiliate

We have audited the accompanying consolidated financial statements of Oceana, Inc. and Affiliate (collectively referred to as the Organization), which comprise the consolidated statement of financial position as of December 31, 2016, and the related consolidated statements of activities and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Oceana, Inc. and Affiliate as of December 31, 2016, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Continued

Other Matters

Report on Summarized Comparative Information

We have previously audited the Organization's 2015 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated July 13, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2015, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

Report on Consolidating and Supplemental Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplemental consolidating information is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, changes in net assets, and cash flows of the individual entities, and it is not a required part of the consolidated financial statements. The consolidated schedule of functional expenses is also presented for purposes of additional analysis and is not a required part of the consolidated 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 consolidated financial statements. The consolidating information and the consolidated schedule of functional expenses have been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidating information and the consolidated schedule of functional expenses are fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Raffa, P.C.

Raffa, P.C.

Washington, DC
June 27, 2017

OCEANA, INC. AND AFFILIATE
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
December 31, 2016
(With Summarized Financial Information as of December 31, 2015)

	2016	2015
ASSETS		
Current assets		
Cash and cash equivalents	\$ 19,357,679	\$ 21,461,361
Short-term investments	2,947,697	2,748,347
Grants and contributions receivable, current portion	4,689,520	9,915,136
Accounts receivable	196,880	37,125
Prepaid expenses and other	198,671	277,326
Total Current Assets	27,390,447	34,439,295
Long-term investments	95,334	113,331
Grants and contributions receivable, net of current portion	694,782	2,770,827
Property and equipment, net	1,834,291	1,870,584
Deposits	142,688	115,752
TOTAL ASSETS	\$ 30,157,542	\$ 39,309,789
LIABILITIES AND NET ASSETS		
Liabilities		
Current liabilities		
Accounts payable and accrued expenses	\$ 2,730,148	\$ 1,695,453
Deferred rent and lease incentive, current portion	220,151	156,188
Total Current Liabilities	2,950,299	1,851,641
Deferred rent and lease incentive, net of current portion	122,867	274,525
TOTAL LIABILITIES	3,073,166	2,126,166
Net Assets		
Unrestricted	11,868,893	13,511,413
Temporarily restricted	15,215,483	23,672,210
TOTAL NET ASSETS	27,084,376	37,183,623
TOTAL LIABILITIES AND NET ASSETS	\$ 30,157,542	\$ 39,309,789

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

OCEANA, INC. AND AFFILIATE

CONSOLIDATED STATEMENT OF ACTIVITIES

For the Year Ended December 31, 2016

(With Summarized Financial Information for the Year Ended December 31, 2015)

	Unrestricted	Temporarily Restricted	2016 Total	2015 Total
REVENUE AND SUPPORT				
Grants and contributions	\$ 6,130,286	\$ 16,710,627	\$ 22,840,913	\$ 16,637,456
Special events	2,095,281	-	2,095,281	2,327,589
In-kind revenue	1,370,362	-	1,370,362	1,054,749
Miscellaneous	49,668	-	49,668	67,230
Rental income	-	-	-	12,595
Investment income	39,716	-	39,716	9,144
Foreign currency transaction losses	(88,259)	-	(88,259)	(426,633)
Net assets released from restrictions:				
Satisfaction of time restrictions	5,458,970	(5,458,970)	-	-
Satisfaction of program restrictions	19,708,384	(19,708,384)	-	-
	34,764,408	(8,456,727)	26,307,681	19,682,130
TOTAL REVENUE AND SUPPORT				
EXPENSES				
Program Services:				
United States Oceans	6,981,387	-	6,981,387	4,580,268
International Activities	14,346,531	-	14,346,531	10,903,343
Communications	2,244,866	-	2,244,866	2,085,313
Law	1,793,659	-	1,793,659	1,104,585
Marine Science	1,481,827	-	1,481,827	971,611
Oceana Advocacy Resources, Inc.	12,850	-	12,850	55,552
Total Program Services	26,861,120	-	26,861,120	19,700,672
Supporting Services:				
General and administrative	5,762,934	-	5,762,934	4,517,737
Fundraising – cost of direct benefit to donors	172,834	-	172,834	281,013
Fundraising – other	3,610,040	-	3,610,040	2,732,838
Total Supporting Services	9,545,808	-	9,545,808	7,531,588
TOTAL EXPENSES	36,406,928	-	36,406,928	27,232,260
CHANGE IN NET ASSETS	(1,642,520)	(8,456,727)	(10,099,247)	(7,550,130)
NET ASSETS, BEGINNING OF YEAR	13,511,413	23,672,210	37,183,623	44,733,753
NET ASSETS, END OF YEAR	\$ 11,868,893	\$ 15,215,483	\$ 27,084,376	\$ 37,183,623

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

OCEANA, INC. AND AFFILIATE

CONSOLIDATED STATEMENT OF CASH FLOWS

For the Year Ended December 31, 2016

(With Summarized Financial Information for the Year Ended December 31, 2015)

Increase (Decrease) in Cash and Cash Equivalents

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (10,099,247)	\$ (7,550,130)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	522,969	480,063
Amortization of deferred lease incentive	83,551	68,034
Loss on disposal of land	88,595	-
Loss on impairment of long-lived asset	52,778	-
Realized and unrealized investment (gains) losses	(19,947)	18,691
Change in the allowance for grants receivable	-	22,536
Change in the present value discount for contributions receivable	(23,561)	(99,838)
Changes in assets and liabilities:		
Grants and contributions receivable	7,325,222	12,743,202
Accounts receivable	(159,755)	(13,941)
Prepaid expenses and other	78,655	100,983
Deposits	(26,936)	56,517
Accounts payable and accrued expenses	1,034,695	3,756
Deferred revenue	-	(205,532)
Deferred rent and lease incentive	(171,246)	(203,452)
	<u>(1,314,227)</u>	<u>5,420,889</u>
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES		
CASH FLOWS FROM INVESTING ACTIVITIES		
Sales of investments	11,595,989	7,741,062
Acquisition of investments	(11,757,395)	(8,119,001)
Sale of land	11,500	-
Acquisition of property and equipment	(639,549)	(708,445)
	<u>(789,455)</u>	<u>(1,086,384)</u>
NET CASH USED IN INVESTING ACTIVITIES		
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(2,103,682)	4,334,505
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>21,461,361</u>	<u>17,126,856</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 19,357,679</u>	<u>\$ 21,461,361</u>

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

OCEANA, INC. AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS For the Year Ended December 31, 2016

1. Organization and Summary of Significant Accounting Policies

Organization

Oceana, Inc. (Oceana) is a nonprofit organization incorporated under the laws of the District of Columbia on March 1, 2001. Oceana is the largest international advocacy organization focused solely on ocean conservation. Oceana's offices around the world work together to win strategic, directed campaigns that achieve measurable outcomes that will help make our oceans more biodiverse and abundant. These activities are funded primarily through grants and contributions.

Oceana Advocacy Resources, Inc. (OAR) is a nonprofit organization incorporated under the laws of the District of Columbia on December 4, 2001. OAR was formed to promote the design and effective implementation of policies at both the national and international levels, aimed at protecting and restoring marine fisheries and other living marine resources and the ecosystems in which they exist, and to engage the public in marine ecosystem advocacy efforts.

Principles of Consolidation

The consolidated financial statements include the accounts of Oceana and OAR (collectively referred to as the Organization). Oceana and OAR have been consolidated due to the presence of common control and economic interest, as required under accounting principles generally accepted in the United States of America (GAAP). All significant intercompany balances and transactions have been eliminated in the consolidation.

Oceana has field offices in Madrid, Spain; the United Kingdom; Brussels, Belgium; Santiago, Chile; Copenhagen, Denmark; Brasilia, Brazil; Manila, Philippines; Belize City, Belize and Lima, Peru. The offices in Spain, Belize, Brazil and the United Kingdom follow the host country's regulations and, as a result, were incorporated as independent entities. However, these entities are dependent on Oceana for funding, participate in Oceana's activities and decision-making, and carry out the general mission and international activities of Oceana. Therefore, their activities are combined with Oceana's activities in the accompanying consolidated financial statements.

Basis of Accounting

The consolidated financial statements of the Organization have been prepared on the accrual basis of accounting. In accordance with this method of accounting, revenue is recognized in the period in which it is earned and expenses are recognized in the period in which they are incurred.

Cash Equivalents

The Organization considers money market funds and certificates of deposit with an original maturity of three months or less or no penalty for early withdrawal to be cash equivalents. The Organization maintains cash accounts denominated in U.S. dollars, Chilean pesos, Belizean dollars, British pounds, Philippines pesos, Brazilian reals, Swiss francs, Euros and Danish kroner.

OCEANA, INC. AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS For the Year Ended December 31, 2016

1. Organization and Summary of Significant Accounting Policies (continued)

Grants and Contributions Receivable

The Organization uses the allowance method to record potentially uncollectible grants and contributions receivable. The allowance is based on management's analysis of specific accounts and promises to give. A provision for doubtful accounts is made when collection of the full amount is no longer probable.

Investments

Investments are composed of certificates of deposit with maturities of more than three months or an early termination penalty and fixed-income funds. Investments are reported in the accompanying consolidated financial statements at their fair value based upon quoted market prices. Investments with maturity dates of less than one year, as well as equities donated near the end of the year which the Organization sold shortly thereafter, are presented as short-term investments in the accompanying consolidated financial statements.

Fair Value Measurement

In accordance with the accounting standards for fair value measurement for those assets and liabilities that are measured at fair value on a recurring basis, the Organization has categorized its applicable financial instruments into a required fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the financial instruments fall within different levels of the hierarchy, the categorization is based on the lowest-level input that is significant to the fair value measurement of the instrument.

Applicable financial assets and liabilities are categorized based on the inputs to the valuation techniques as follows:

Level 1 – Financial assets and liabilities whose values are based on unadjusted quoted prices for identical assets or liabilities in an active market that the Organization has the ability to access.

Level 2 – Financial assets and liabilities whose values are based on quoted prices in markets that are not active or model inputs that are observable, either directly or indirectly, for substantially the full term of the asset or liability.

Level 3 – Financial assets and liabilities whose values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. These inputs reflect management's own assumptions about the assumptions a market participant would use in pricing the asset or liability.

As of December 31, 2016, only the Organization's investments, as described in Note 3 of these consolidated financial statements, were measured at fair value on a recurring basis.

OCEANA, INC. AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended December 31, 2016

1. Organization and Summary of Significant Accounting Policies (continued)

Classification of Net Assets

The net assets of the Organization are reported as follows:

- Unrestricted net assets represent the portion of expendable funds that are available for support of the Organization's operations.
- Temporarily restricted amounts are specifically restricted by donors or grantors for various purposes or time periods.

Property and Equipment and Related Depreciation and Amortization

Acquisitions of furniture and equipment and eligible internal-use software and website development cost greater than \$500 are capitalized at cost. Furniture, equipment, internal-use software and website development are being depreciated using the straight-line method over estimated useful lives of three to 10 years. Leasehold improvements are amortized over the lesser of their estimated useful lives or the remaining life of the lease. Expenditures for major additions and improvements are capitalized; expenditures for maintenance and repairs are charged to expense when incurred. Costs incurred in the development of internal-use software are expensed during the preliminary and post-implementation operation stages, including data conversion, training and maintenance costs. Costs incurred during the application development stage of software development are capitalized. Upon the retirement or disposal of assets, the cost and accumulated depreciation are eliminated from the accounts and the resulting gain or loss is included in revenue or expenses, as appropriate.

Revenue Recognition

The Organization reports grants and contributions of cash and other assets as temporarily restricted if they are received with donor stipulations that limit the use of the donated assets for a particular purpose or for a specific period of time. When the stipulated time restriction ends or the purpose of the restriction is met, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the accompanying consolidated statement of activities as net assets released from restrictions.

Unrestricted contributions and grants are reported as revenue in the year in which payments are received and/or unconditional promises to give are made.

Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using interest rates appropriate for the expected term of the promise to give. Amortization of the discount is included in grants and contributions revenue in the accompanying consolidated statement of activities. Conditional promises to give are not recognized in the consolidated financial statements until the conditions are substantially met.

OCEANA, INC. AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS For the Year Ended December 31, 2016

1. Organization and Summary of Significant Accounting Policies (continued)

Revenue Recognition (continued)

Revenue from grants and contracts treated as exchange transactions is recognized as costs are incurred on the basis of direct costs plus allowable indirect expenses. Revenue recognized on these grants and contracts for which billings have not been presented to or collected from the awarding agency is included in grants and contributions receivable in the accompanying consolidated statement of financial position.

Transactions in Foreign Currencies

Oceana, Inc. conducts many of its programs through field offices in foreign countries and, accordingly, transacts in the local currencies of those countries. These foreign currency transactions are translated into U.S. dollars at the appropriate exchange rates when each transaction is executed. The resulting gain or loss is reflected in the accompanying consolidated statement of activities as net foreign currency transaction gains or losses. The U.S. dollar is considered the functional and reporting currency of Oceana, Inc.

Donated Services

The Organization's programs are furthered through the contribution of services by various organizations. Donated services are recorded at fair value as of the date of the donation and are included in in-kind revenue or expenses in the accompanying consolidated financial statements. The Organization also receives additional contributed goods and services for which an estimate of the fair value is not determinable. For the year ended December 31, 2016, donated services consisted of pro-bono legal services relating to the law program.

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the accompanying consolidated statement of activities. Accordingly, certain costs have been allocated proportionately among the programs and supporting services based on salaries expense, employee headcount and allocable space used for each program or supporting service.

Estimates

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

2. Grants and Contributions Receivable

As of December 31, 2016, contributors to the Organization had unconditionally promised to give \$5,404,520 to be used for particular programs and general support in the coming years.

OCEANA, INC. AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended December 31, 2016

2. Grants and Contributions Receivable (continued)

All amounts were considered fully collectible and were due as follows:

Due within one year	\$ 4,689,520
Due in one to five years	<u>715,000</u>
Subtotal	5,404,520
Less: Present Value Component (1.50% - 2.91%)	<u>(20,218)</u>
Total Grants and Contributions Receivable	<u><u>\$ 5,384,302</u></u>

The Organization was awarded a conditional grant based on availability of sufficient assets in the amount of \$6,000,000 and recognized \$4,000,000 upon receipt of the funds in revenue under this grant for the year ended December 31, 2016. The revenue is included in grants and contributions revenue in the accompanying consolidated statement of activities.

3. Investments and Fair Value Measurement

The following table summarizes the Organization's investments measured at fair value on a recurring basis as of December 31, 2016, aggregated by the fair value hierarchy level with which those measurements were made:

	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Certificates of deposit	\$ 3,039,372	\$ -	\$ 3,039,372	\$ -
Fixed income – guaranteed mutual fund	<u>3,659</u>	<u>-</u>	<u>3,659</u>	<u>-</u>
Total	<u><u>\$ 3,043,031</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 3,043,031</u></u>	<u><u>\$ -</u></u>

Fixed income – Valued at net asset value (NAV) on a daily basis. There is a penalty for redemption before the maturity date.

Certificates of deposit – Certificates of deposit have original maturity dates in excess of 90 days. A yield-based matrix system was used to arrive at an estimated market value for these instruments, which are classified within Level 2 of the valuation hierarchy.

Net investment income consisted of the following for the year ended December 31, 2016:

Interest and dividends	\$ 19,769
Realized and unrealized investment gains	<u>19,947</u>
Total Investment Income	<u><u>\$ 39,716</u></u>

OCEANA, INC. AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended December 31, 2016

4. Property and Equipment and Related Depreciation and Amortization

The Organization held the following property and equipment as of December 31, 2016:

Leasehold improvements	\$ 2,364,583
Computer equipment	1,950,116
Furniture and office equipment	1,313,597
Computer software	985,908
Website development	661,503
Vehicles	<u>428,002</u>
Total Property and Equipment	7,703,709
Less: Accumulated Depreciation and Amortization	<u>(5,869,418)</u>
Property and Equipment, Net	<u>\$ 1,834,291</u>

Depreciation and amortization expense was \$522,969 for the year ended December 31, 2016.

5. Temporarily Restricted Net Assets

As of December 31, 2016, temporarily restricted net assets were available for the following:

International Activities	\$ 8,815,542
General operating support for future periods	1,858,074
United States Oceans	<u>4,541,867</u>
Total	<u>\$15,215,483</u>

6. Commitments and Risks

Operating Leases

The Organization entered into a noncancelable operating lease for its office space in Washington, DC, and the lease expires on July 15, 2018. During 2016, the Organization entered into the first amendment to the original lease for the purpose of adding office space. The original lease contains fixed increases in rent of 2.5% per annum for the original space and 2% per annum for the additional space beginning on the first anniversary date, and requires the payment of operating expenses. In addition, the Organization received the first three months of the original lease, as well as the first three months of the amended lease, at no cost as an incentive to enter into and extend the lease agreement, respectively. Under GAAP, abated rent and other concessions are recognized on a straight-line basis over the term of the lease, with the difference between the straight-line and cash basis rent being amortized ratably over the term of the lease. The lease also provided for a lease incentive for the build-out of the space totaling \$700,187 for the original lease, and \$56,525 for the first amendment, which were fully utilized. Lease incentives are amortized over the life of the lease

OCEANA, INC. AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS For the Year Ended December 31, 2016

6. Commitments and Risks (continued)

Operating Leases (continued)

on a straight-line basis as an offset to rent expense. The Organization also leases its international office space in Madrid, Spain; Manila, Philippines; Brasilia, Brazil; Santiago, Chile; Belize City, Belize; Lima, Peru; Copenhagen, Denmark; and Brussels, Belgium, as well as its offices in New York City, New York; Portland, Oregon; Monterey, California; and Juneau, Alaska, under noncancelable operating leases and a sublease, of which the latest expires in December 2020.

The future minimum rental payments required under the operating leases are as follows as of December 31, 2016:

For the Year Ending December 31,	
2017	\$ 1,504,189
2018	946,033
2019	269,230
2020	<u>237,348</u>
Total	<u>\$ 2,956,800</u>

Rent expense, not including utilities, totaled \$1,500,122 for the year ended December 31, 2016.

Concentration of Credit Risk

The Organization's cash and cash equivalents are composed of amounts in accounts at various financial institutions. While the amount, at times, exceeds the amount guaranteed by the Federal Deposit Insurance Corporation (FDIC) and, therefore, bears some risk, the Organization has not experienced, nor does it anticipate, any loss of funds. As of December 31, 2016, the amount in excess of the FDIC insured limit was \$15,854,462. As of December 31, 2016, the Organization maintained \$2,333,061 in accounts at non-U.S. financial institutions.

Foreign Operations

The Organization has field offices in Spain, the United Kingdom, Denmark, Belgium, Belize, the Philippines, Brazil, Chile and Peru for the purpose of building an international movement to save the oceans through public policy advocacy, science and economics, legal action, grassroots mobilization, and public education. The future results of these programs could be adversely affected by a number of potential factors, such as currency devaluations or changes in the political climate.

As of December 31, 2016, the Organization had cash and net property and equipment in these countries totaling \$3,353,129, representing approximately 11% of the Organization's total consolidated assets as of December 31, 2016.

OCEANA, INC. AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS For the Year Ended December 31, 2016

7. Retirement Plan

The Organization sponsors a noncontributory defined contribution retirement plan for all of its North American employees who have completed at least six months of service. Under the terms of the plan, the Organization makes annual contributions totaling 7% of each participant's compensation and will match up to 5% of its employees' contributions. Retirement expense totaled \$975,701 for the year ended December 31, 2016.

8. Income Taxes

Oceana and OAR are exempt from the payment of income taxes under Sections 501(c)(3) and 501(c)(4), respectively, of the Internal Revenue Code. As such, both organizations are taxed only on their net unrelated business income. No provision for income taxes is required for the year ended December 31, 2016, as neither organization had any significant net unrelated business income. In addition, some of the foreign operations of the Organization are subject to local income tax in the jurisdictions in which they operate.

The Organization follows the authoritative guidance relating to accounting for uncertainty in income taxes included in Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 740, *Income Taxes*. These provisions provide consistent guidance for the accounting for uncertainty in income taxes recognized in an entity's financial statements and prescribe a threshold of "more likely than not" for recognition and derecognition of tax positions taken or expected to be taken in a tax return. The Organization performed an evaluation of uncertainty in income taxes for the year ended December 31, 2016, and determined that there were no matters that would require recognition in the consolidated financial statements or that may have any effect on its tax-exempt status. As of December 31, 2016, the statute of limitations for tax years 2013 through 2015 remains open with the U.S. federal jurisdiction or the various states and local jurisdictions in which the Organization files tax returns. It is the Organization's policy to recognize interest and/or penalties related to uncertainty in income taxes, if any, in income tax expense.

9. Prior Year Summarized Financial Information

The consolidated 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 GAAP. Accordingly, such information should be read in conjunction with the Organization's consolidated financial statements for the year ended December 31, 2015, from which the summarized information was derived.

10. Related Party

The Organization supports Oceana Canada, in furtherance of a shared purpose, joining forces to address the needs of the same programs in Canada. Oceana Canada is an independent nonprofit organization incorporated under Canadian law. The Organization has a service

OCEANA, INC. AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended December 31, 2016

10. Related Party (continued)

agreement with Oceana Canada to provide administrative and other services. The Organization's Chairman of the Board also sits on Oceana Canada's all-volunteer Board. During the year ended December 31, 2016, the Organization donated \$753,659 in total cash contributions and performed services valued at \$242,739 in support of Oceana Canada's mission to preserve and protect Canada's oceans.

11. Reclassifications

Certain prior year amounts have been reclassified for comparative purposes to conform to the current year presentation.

12. Subsequent Events

In preparing these consolidated financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through June 27, 2017, the date the consolidated financial statements were available to be issued. There were no subsequent events that require recognition or disclosure in these consolidated financial statements.

SUPPLEMENTAL INFORMATION

OCEANA, INC. AND AFFILIATE

CONSOLIDATED SCHEDULE OF FUNCTIONAL EXPENSES
 For the Year Ended December 31, 2016
 (With Summarized Financial Information for the Year Ended December 31, 2015)

	Program Services						Supporting Services					2016 Total	2015 Total
	United States Oceans	International Activities	Communications	Law	Marine Science	Oceana Advocacy Resources, Inc.	Total Program Services	General and Administrative	Fundraising	Total Supporting Services			
Salaries and wages	\$ 3,203,098	\$ 4,965,777	\$ 857,251	\$ 194,392	\$ 796,397	\$ -	\$ 10,016,915	\$ 2,310,178	\$ 1,498,755	\$ 3,808,933	\$ 13,825,848	\$ 11,244,634	
Consultants	485,719	1,707,920	279,694	2,118	220,117	-	2,695,568	451,402	470,640	922,042	3,617,610	2,589,767	
Employee benefits	663,561	303,081	189,677	46,259	172,544	-	1,375,122	525,832	256,321	782,153	2,157,275	1,678,412	
Awards, grants and contributions	1,153,932	820,578	20	-	-	-	1,974,530	-	-	-	1,974,530	630,641	
Travel	269,940	809,597	65,202	-	89,060	-	1,233,799	390,100	284,483	674,583	1,908,382	1,699,365	
Occupancy	376,870	723,266	116,878	64,762	98,106	-	1,379,882	305,537	162,749	468,286	1,848,168	1,712,863	
Boat - rental, repairs and maintenance	59,415	1,308,749	12,984	-	1,839	-	1,382,987	10,494	-	10,494	1,393,481	179,798	
Payroll taxes	221,708	770,324	59,506	12,913	55,001	-	1,119,452	181,842	118,314	300,156	1,419,608	1,181,780	
In-kind expenses	-	-	-	1,370,362	-	-	1,370,362	-	-	-	1,370,362	1,054,749	
Marketing	4,873	336,115	85,278	-	-	-	426,266	4,495	10,000	14,495	440,761	104,665	
Conferences and meetings	75,336	488,141	6,658	5	7,268	-	577,408	234,771	682,693	917,464	1,494,872	1,126,172	
Supplies	38,425	142,462	5,264	1,273	6,405	81	193,910	93,578	23,600	117,178	311,088	312,811	
Advertising	86,869	479,565	9,582	-	145	-	576,161	34,393	25,848	60,241	636,402	190,717	
Professional fees	(531)	282,703	-	61,707	959	7,903	352,741	206,441	859	207,300	560,041	708,507	
Printing and publications	81,262	343,955	22,631	-	1,095	-	448,943	40,629	65,390	106,019	554,962	510,474	
Depreciation and amortization	10,284	212,046	6,126	16,000	3,517	-	247,973	272,364	2,632	274,996	522,969	480,063	
Telecommunications	76,124	177,496	19,006	17,934	11,515	-	302,075	63,394	31,070	94,464	396,539	356,824	
Insurance	42,949	129,705	11,561	2,537	10,670	-	197,422	105,057	17,852	122,909	320,331	198,724	
Web hosting and support	10	115	122,715	-	-	-	122,840	27,583	-	27,583	150,423	133,298	
Dues and subscriptions	51,660	37,607	25,064	149	4,745	-	119,225	252,111	30,079	282,190	401,415	188,728	
Bank fees	123	38,348	35,372	-	406	2,341	76,590	28,145	47,133	75,278	151,868	121,478	
Loss on disposal of property and equipment	-	88,595	-	-	-	-	88,595	52,778	-	52,778	141,373	-	
Postage and shipping	11,851	25,153	14,018	196	33	133	51,384	36,491	18,933	55,424	106,808	98,825	
Professional training and development	9,000	11,163	420	-	933	-	21,516	65,863	5,954	71,817	93,333	57,964	
Equipment rental and maintenance	15,132	11,197	6,467	2,152	1,072	-	36,020	29,404	13,565	42,969	78,989	127,435	
Miscellaneous	10,076	17,545	5,623	-	-	-	33,244	10,086	13,672	23,758	57,002	152,887	
Taxes and fees	365	16,831	34	900	-	2,392	20,522	29,966	30	29,996	50,518	-	
Interest	-	2,507	-	-	-	-	2,507	-	-	-	2,507	510	
Recruitment	33,336	95,990	287,835	-	-	-	417,161	-	2,302	2,302	419,463	367,633	
Bad debt expense	-	-	-	-	-	-	-	-	-	-	-	22,536	
TOTAL	\$ 6,981,387	\$ 14,346,531	\$ 2,244,866	\$ 1,793,659	\$ 1,481,827	\$ 12,850	\$ 26,861,120	\$ 5,762,934	\$ 3,782,874	\$ 9,545,808	\$ 36,406,928	\$ 27,232,260	

OCEANA, INC. AND AFFILIATE

CONSOLIDATING STATEMENT OF FINANCIAL POSITION
December 31, 2016

	<u>Oceana</u>	<u>OAR</u>	<u>Eliminations</u>	<u>Total</u>
ASSETS				
Current Assets				
Cash and cash equivalents	\$ 19,307,468	\$ 50,211	\$ -	\$ 19,357,679
Short-term investments	2,947,697	-	-	2,947,697
Grants and contributions receivable, current portion	4,689,520	-	-	4,689,520
Due from affiliate	107,234	-	(107,234)	-
Accounts receivable	196,880	-	-	196,880
Prepaid expenses and other	197,005	1,666	-	198,671
	<u>27,445,804</u>	<u>51,877</u>	<u>(107,234)</u>	<u>27,390,447</u>
Long-term investments	95,334	-	-	95,334
Grants and contributions receivable, net of current portion	694,782	-	-	694,782
Property and equipment, net	1,834,291	-	-	1,834,291
Deposits	142,688	-	-	142,688
	<u>30,212,899</u>	<u>51,877</u>	<u>(107,234)</u>	<u>30,157,542</u>
LIABILITIES AND NET ASSETS				
Liabilities				
Current Liabilities				
Accounts payable and accrued expenses	\$ 2,725,848	\$ 4,300	\$ -	\$ 2,730,148
Deferred rent and lease incentive, current portion	220,151	-	-	220,151
Due to affiliate	-	107,234	(107,234)	-
	<u>2,945,999</u>	<u>111,534</u>	<u>(107,234)</u>	<u>2,950,299</u>
Deferred rent and lease incentive, net of current portion	122,867	-	-	122,867
	<u>3,068,866</u>	<u>111,534</u>	<u>(107,234)</u>	<u>3,073,166</u>
Net Assets				
Unrestricted	11,928,550	(59,657)	-	11,868,893
Temporarily restricted	15,215,483	-	-	15,215,483
	<u>27,144,033</u>	<u>(59,657)</u>	<u>-</u>	<u>27,084,376</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 30,212,899</u>	<u>\$ 51,877</u>	<u>\$ (107,234)</u>	<u>\$ 30,157,542</u>

OCEANA, INC. AND AFFILIATE
CONSOLIDATING STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2016

	<u>Oceana</u>	<u>OAR</u>	<u>Eliminations</u>	<u>Total</u>
REVENUE AND SUPPORT				
Grants and contributions	\$ 22,840,913	\$ -	\$ -	\$ 22,840,913
Special events	2,095,281	-	-	2,095,281
In-kind revenue	1,370,362	-	-	1,370,362
Miscellaneous	49,668	-	-	49,668
Rental income	-	-	-	-
Investment income	39,716	-	-	39,716
Foreign currency transaction losses	(88,259)	-	-	(88,259)
	<u>26,307,681</u>	<u>-</u>	<u>-</u>	<u>26,307,681</u>
TOTAL REVENUE AND SUPPORT				
	<u>26,307,681</u>	<u>-</u>	<u>-</u>	<u>26,307,681</u>
EXPENSES				
Program Services:				
United States Oceans	6,981,387	-	-	6,981,387
International Activities	14,346,531	-	-	14,346,531
Communications	2,244,866	-	-	2,244,866
Law	1,793,659	-	-	1,793,659
Marine Science	1,481,827	-	-	1,481,827
Oceana Advocacy Resources, Inc.	-	12,850	-	12,850
	<u>26,848,270</u>	<u>12,850</u>	<u>-</u>	<u>26,861,120</u>
Total Program Services				
	<u>26,848,270</u>	<u>12,850</u>	<u>-</u>	<u>26,861,120</u>
Supporting Services:				
General and administrative	5,762,934	-	-	5,762,934
Fundraising – cost of direct benefit to donors	172,834	-	-	172,834
Fundraising – other	3,610,040	-	-	3,610,040
	<u>9,545,808</u>	<u>-</u>	<u>-</u>	<u>9,545,808</u>
Total Supporting Services				
	<u>9,545,808</u>	<u>-</u>	<u>-</u>	<u>9,545,808</u>
TOTAL EXPENSES	<u>36,394,078</u>	<u>12,850</u>	<u>-</u>	<u>36,406,928</u>
CHANGE IN NET ASSETS	(10,086,397)	(12,850)	-	(10,099,247)
NET ASSETS, BEGINNING OF YEAR	<u>37,230,430</u>	<u>(46,807)</u>	<u>-</u>	<u>37,183,623</u>
NET ASSETS, END OF YEAR	<u>\$ 27,144,033</u>	<u>\$ (59,657)</u>	<u>\$ -</u>	<u>\$ 27,084,376</u>