

**ALTASEA AT THE PORT
OF LOS ANGELES**

FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

ALTASEA AT THE PORT OF LOS ANGELES

FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
AltaSea at the Port of Los Angeles

Report on the Financial Statements

We have audited the accompanying financial statements of AltaSea at the Port of Los Angeles, which comprise the statement of financial position as of December 31, 2015 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 AltaSea at the Port of Los Angeles as of December 31, 2015, 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 AltaSea at the Port of Los Angeles' 2014 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated June 8, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2014, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Green Hasson & Janks LLP

June 1, 2016
Los Angeles, California

ALTASEA AT THE PORT OF LOS ANGELES

STATEMENT OF FINANCIAL POSITION
December 31, 2015
With Summarized Totals at December 31, 2014

| ASSETS | Unrestricted | Temporarily Restricted | 2015 Total | 2014 Total |
|---|---------------------|---------------------------|---------------------|----------------------|
| | | | | |
| Cash | \$ 1,113,935 | \$ 50,000 | \$ 1,163,935 | \$ 1,499,130 |
| Pledges Receivable (Net) | 2,377,097 | 20,000 | 2,397,097 | 16,708,406 |
| Prepaid Expenses | 59,346 | - | 59,346 | 35,754 |
| Property and Equipment (Net) | 2,970,675 | - | 2,970,675 | 1,176,048 |
| TOTAL ASSETS | \$ 6,521,053 | \$ 70,000 | \$ 6,591,053 | \$ 19,419,338 |
| LIABILITIES AND NET ASSETS | | | | |
| LIABILITIES: | | | | |
| Accounts Payable | \$ 684,082 | \$ - | \$ 684,082 | \$ 212,015 |
| Accrued Liabilities | 60,709 | - | 60,709 | 12,718 |
| TOTAL LIABILITIES | 744,791 | - | 744,791 | 224,733 |
| NET ASSETS: | | | | |
| Unrestricted | 5,776,262 | - | 5,776,262 | 2,496,199 |
| Temporarily Restricted | - | 70,000 | 70,000 | 16,698,406 |
| TOTAL NET ASSETS | 5,776,262 | 70,000 | 5,846,262 | 19,194,605 |
| TOTAL LIABILITIES AND NET ASSETS | \$ 6,521,053 | \$ 70,000 | \$ 6,591,053 | \$ 19,419,338 |

The Accompanying Notes are an Integral Part of These Financial Statements

ALTASEA AT THE PORT OF LOS ANGELES

STATEMENT OF ACTIVITIES

Year Ended December 31, 2015

With Summarized Totals for the Year Ended December 31, 2014

| | Unrestricted | Temporarily Restricted | 2015 Total | 2014 Total |
|--|--------------|---------------------------|---------------|---------------|
| REVENUE, PUBLIC SUPPORT AND OTHER INCOME (LOSS): | | | | |
| Grants and Contributions | \$ 1,223,865 | \$ 70,000 | \$ 1,293,865 | \$ 22,187,737 |
| Other Income | 6,316 | - | 6,316 | 1,923 |
| Write Off of Uncollectible Pledge Receivable | - | (9,114,970) | (9,114,970) | - |
| Impairment Loss on Construction in Progress | (796,618) | - | (796,618) | - |
| Net Assets Released from Time Restrictions | 7,583,436 | (7,583,436) | - | - |
| TOTAL REVENUE, PUBLIC SUPPORT AND OTHER INCOME (LOSS) | 8,016,999 | (16,628,406) | (8,611,407) | 22,189,660 |
| EXPENSES: | | | | |
| Program Services | 2,993,256 | - | 2,993,256 | 721,707 |
| Supporting Services: | | | | |
| Management and General | 326,406 | - | 326,406 | 821,605 |
| Development | 1,417,274 | - | 1,417,274 | 1,451,743 |
| TOTAL EXPENSES | 4,736,936 | - | 4,736,936 | 2,995,055 |
| CHANGE IN NET ASSETS | 3,280,063 | (16,628,406) | (13,348,343) | 19,194,605 |
| Net Assets - Beginning of Year | 2,496,199 | 16,698,406 | 19,194,605 | - |
| NET ASSETS - END OF YEAR | \$ 5,776,262 | \$ 70,000 | \$ 5,846,262 | \$ 19,194,605 |

The Accompanying Notes are an Integral Part of These Financial Statements

ALTASEA AT THE PORT OF LOS ANGELES

STATEMENT OF FUNCTIONAL EXPENSES

Year Ended December 31, 2015

With Summarized Totals for the Year Ended December 31, 2014

| | Program Services | Management and General | Development | 2015 Total | 2014 Total |
|---|---------------------|---------------------------|---------------------|---------------------|---------------------|
| Personnel Services | \$ 884,127 | \$ 167,452 | \$ 549,623 | \$ 1,601,202 | 885,645 |
| Promotion | 463,886 | - | 309,258 | 773,144 | - |
| Development | 273,446 | - | 273,446 | 546,892 | 684,557 |
| Marketing and Communication | 392,596 | - | 143,270 | 535,866 | 255,742 |
| Professional Services - Legal, Regulatory and Accounting | 243,569 | 122,629 | 66,556 | 432,754 | 712,969 |
| Facility and Office Expenses | 226,375 | 32,339 | 64,678 | 323,392 | 121,025 |
| Professional Services - Project Management | 309,805 | - | - | 309,805 | 182,190 |
| Program and Research | 174,018 | - | - | 174,018 | - |
| Depreciation | 14,821 | 2,470 | 7,411 | 24,702 | 7,404 |
| Equipment | 10,613 | 1,516 | 3,032 | 15,161 | 126,978 |
| Educational Programs | - | - | - | - | 18,545 |
| TOTAL 2015 FUNCTIONAL EXPENSES | \$ 2,993,256 | \$ 326,406 | \$ 1,417,274 | \$ 4,736,936 | |
| TOTAL 2014 FUNCTIONAL EXPENSES | \$ 721,707 | \$ 821,605 | \$ 1,451,743 | | \$ 2,995,055 |

The Accompanying Notes are an Integral Part of These Financial Statements

ALTASEA AT THE PORT OF LOS ANGELES

STATEMENT OF CASH FLOWS

Year Ended December 31, 2015

With Summarized Totals for the Year Ended December 31, 2014

| | <u>2015</u> | <u>2014</u> |
|--|----------------------------|----------------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Change in Net Assets | \$ (13,348,343) | \$ 19,194,605 |
| Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities: | | |
| Reversal of Present Value Discount on Pledges Receivable | (250,564) | 250,564 |
| Write Off of Uncollectible Pledge Receivable | 9,114,970 | - |
| Impairment Loss on Construction in Progress | 796,618 | - |
| Depreciation | 24,702 | 7,404 |
| (Increase) Decrease in: | | |
| Pledges Receivable | 5,446,903 | (16,958,970) |
| Prepaid Expenses | (23,592) | (35,754) |
| Increase in: | | |
| Accounts Payable | 472,067 | 212,015 |
| Accrued Liabilities | 47,991 | 12,718 |
| | <u>2,280,752</u> | <u>2,682,582</u> |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | 2,280,752 | 2,682,582 |
| CASH FLOWS USED IN INVESTING ACTIVITY: | | |
| Purchase of Property and Equipment | <u>(2,615,947)</u> | <u>(1,183,452)</u> |
| | (335,195) | 1,499,130 |
| NET INCREASE (DECREASE) IN CASH | (335,195) | 1,499,130 |
| Cash - Beginning of Year | <u>1,499,130</u> | <u>-</u> |
| CASH - END OF YEAR | <u><u>\$ 1,163,935</u></u> | <u><u>\$ 1,499,130</u></u> |

The Accompanying Notes are an Integral Part of These Financial Statements

ALTASEA AT THE PORT OF LOS ANGELES

NOTES TO FINANCIAL STATEMENTS

December 31, 2015

NOTE 1 - NATURE OF ORGANIZATION

AltaSea at the Port of Los Angeles (AltaSea) was incorporated on August 23, 2013 with the mission of accelerating scientific collaboration, facilitating job creation and inspiring the next generation for a more sustainable ocean. Built on a historic pier with access to the deep ocean, AltaSea's 35-acre campus will bring people together to expand science-based understanding of the ocean, incubate and sustain ocean-related business and pioneer new ocean-related education programs.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) BASIS OF PRESENTATION

The accompanying financial statements have been prepared on the accrual basis of accounting.

(b) ACCOUNTING

To ensure observance of certain constraints and restrictions placed on the use of resources, the accounts of AltaSea are maintained in accordance with the principles of net assets accounting. This is the procedure by which resources for various purposes are classified for accounting and reporting purposes into net asset classes that are in accordance with specified activities or objectives. Accordingly, all financial transactions have been recorded and reported by net asset class as follows:

- **Unrestricted.** These generally result from revenues generated by receiving unrestricted contributions, providing services, and receiving income from investments less expenses incurred in providing program related services, raising contributions, and performing administrative functions.
- **Temporarily Restricted.** AltaSea reports gifts of cash and other assets as temporarily 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 the purpose of the 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 purpose or time restrictions. AltaSea has \$70,000 of temporarily restricted net assets at December 31, 2015.
- **Permanently Restricted.** These net assets are received from donors who stipulate that resources are to be maintained permanently, but permit AltaSea to expend all of the income (or other economic benefits) derived from the donated assets. AltaSea has no permanently restricted net assets at December 31, 2015.

(c) CASH

AltaSea maintains its cash in bank deposit accounts, which, at times, may exceed federally insured limits. AltaSea has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash.

ALTASEA AT THE PORT OF LOS ANGELES

NOTES TO FINANCIAL STATEMENTS

December 31, 2015

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) GRANTS, CONTRIBUTIONS AND PLEDGES RECEIVABLE

Unconditional grants and contributions, including pledges recorded at fair value, are recognized as revenues in the period received. AltaSea reports unconditional grants and contributions as restricted support if they are received with donor stipulations that limit the use of the donated assets. Conditional promises to give are not included as revenue until such time as the conditions are substantially met. Management evaluated the collectability of pledges receivable at December 31, 2015 and no allowance for doubtful pledges was considered necessary.

(e) PROPERTY AND EQUIPMENT

Property and equipment are recorded at cost if purchased or at fair value at the date of donation if donated. Depreciation is provided on a straight-line basis over the estimated useful lives of the related assets as follows:

| | |
|------------------------|------------|
| Leasehold Improvements | Lease Term |
| Office Equipment | 5 Years |
| Vehicles | 7 Years |

Property and equipment are capitalized if the cost of an asset is greater than \$5,000 and the useful life is at least three years. Expenditures for repairs and maintenance are charged to operations when incurred while renewals and betterments are capitalized.

(f) LONG-LIVED ASSETS

AltaSea reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the book value of the assets may not be recoverable. An impairment loss is recognized when the sum of the undiscounted future cash flows is less than the carrying amount of the asset, in which case a write-down is recorded to reduce the related asset to its estimated fair value. An impairment loss of \$796,618 was recognized on construction in progress during the year ended December 31, 2015 and is included in the statement of activities.

(g) INCOME TAXES

AltaSea is exempt from federal taxation under Internal Revenue Code Section 501(c)(3) and the corresponding California provisions.

(h) FUNCTIONAL ALLOCATION OF EXPENSES

AltaSea's costs are accumulated into separate groupings as either direct or indirect. Indirect or shared costs are allocated among program and support services by a method that best measures the relative degree of benefit.

ALTASEA AT THE PORT OF LOS ANGELES

NOTES TO FINANCIAL STATEMENTS

December 31, 2015

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

(j) COMPARATIVE TOTALS

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 accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with AltaSea's financial statements for the year ended December 31, 2014 from which the summarized information was derived.

(k) SUBSEQUENT EVENTS

AltaSea has evaluated events and transactions occurring subsequent to the statement of financial position date of December 31, 2015 for items that should potentially be recognized or disclosed in these financial statements. The evaluation was conducted through June 1, 2016, the date these financial statements were available to be issued. No such material events or transactions were noted to have occurred, except as described in Note 3 below.

NOTE 3 - PLEDGES RECEIVABLE

During the year ended December 31, 2015, AltaSea entered into a settlement agreement with one of its donors. AltaSea accepted \$2,300,000 in full settlement of the donor's remaining pledge balance, which resulted in a write off of \$9,114,970 which is reflected in the statement of activities. Subsequent to year end, in February 2016, the \$2,300,000 was received in full. As part of the settlement agreement, AltaSea will receive an additional \$500,000 upon release by the City of Los Angeles of the donor's guaranty in connection with the AltaSea project. As of the date these financial statements were available to be issued, no release of the guaranty had occurred. The remaining pledge receivable balance at December 31, 2015 of \$20,000 is expected to be collected in two equal installments of \$10,000 during each of the years ended December 31, 2016 and 2017.

AltaSea is the recipient of a challenge grant for general operating support. The balance of the grant of \$800,000 at December 31, 2015 is conditional on AltaSea raising funds independent of this challenge grant. Contribution revenues will be recognized only when the conditions of the grant agreement have been met.

ALTASEA AT THE PORT OF LOS ANGELES

NOTES TO FINANCIAL STATEMENTS

December 31, 2015

NOTE 4 - PROPERTY AND EQUIPMENT

Property and equipment consist of the following at December 31, 2015:

| | | |
|--|-----------|------------------|
| Leasehold Improvements | \$ | 101,430 |
| Office Equipment | | 69,511 |
| Vehicles | | 20,189 |
| Construction in Progress (Phase 1) | | 2,712,467 |
| Construction in Progress (Interim Use) | | 99,184 |
| TOTAL | | 3,002,781 |
| Less: Accumulated Depreciation | | (32,106) |
| PROPERTY AND EQUIPMENT (NET) | \$ | 2,970,675 |

Depreciation expense for the year ended December 31, 2015 was \$24,702.

Due to the project's size and scope, the AltaSea campus is proposed to be constructed in three phases. Phase 1 is scheduled to be completed by the end of 2022. Phase 1 is comprised of three parts: Phase 1A, 1B and 1C. Phase 1A will include a restoration of warehouses 58-60, an education pavilion, wharf plaza and upgrade of the north façade of warehouse 57. Warehouses 58-60 will contain the aquaculture and blue tech clusters. The aquaculture cluster will be at the forefront of developing ocean related solutions and environmental sustainability. The blue tech cluster's emphasis is developing technology for remote monitoring, sensing and ocean exploration. Phase 1B is a full restoration of warehouse 57 (science hub) and the realignment of Leonard Aube Way. Phase 1C is the construction of the Engagement Center which will feature an auditorium and strengthen STEM education.

NOTE 5 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets at December 31, 2015 are restricted as follows:

| | | |
|--|-----------|---------------|
| Sea Barge Park | \$ | 50,000 |
| Time Restrictions | | 20,000 |
| TOTAL TEMPORARILY RESTRICTED NET ASSETS | \$ | 70,000 |

NOTE 6 - COMMITMENTS AND CONTINGENCIES

(a) OBLIGATIONS UNDER LEASE WITH THE CITY OF LOS ANGELES

In October 2014 Rockefeller Philanthropy Advisors, Inc. assigned its interest in a lease with the City of Los Angeles to AltaSea. The lease was entered into with respect to premises at the Port of Los Angeles for the purpose of developing and operating an urban marine center known as AltaSea at the Port of Los Angeles. The maximum term of the lease is 50 years, through December 2063.

The total acreage of the premises is 35 acres - 24 acres of land/wharf/warehouse and 11 acres of water. The premises subject to the lease agreement consist of various parcels that AltaSea is entitled to take possession of over a period of time, upon the satisfaction of various obligations, conditions and timelines outlined in the lease agreement.

ALTASEA AT THE PORT OF LOS ANGELES

NOTES TO FINANCIAL STATEMENTS

December 31, 2015

NOTE 6 - COMMITMENTS AND CONTINGENCIES (continued)

(a) OBLIGATIONS UNDER LEASE WITH THE CITY OF LOS ANGELES
(continued)

In terms of the agreement, AltaSea is required to invest the following minimum amounts to develop, construct and improve the premises:

| Premises | Required Minimum Investment |
|---|-----------------------------------|
| Interpretive Center, Public Promenade and Other Public Spaces | \$ 34,000,000 |
| Redevelopment of Certain Transit Shed Warehouses, Development of a Public Promenade, a Public Viewing Area and Other Public Spaces | 178,000,000 |
| Future Project Development and Public Sidewalks | <u>196,000,000</u> |
| TOTAL | <u><u>\$408,000,000</u></u> |

No later than December 2023, AltaSea is required to establish and maintain a reserve fund to provide funding for the revitalization, renovation and upgrading of the publicly accessible and viewable areas and structures at various intervals over the term of the lease. Annual deposits into the renovation fund will be required, initially at the lesser of 2% of gross receipts (as defined in the lease agreement) or \$100,000, with the maximum annual deposit increasing to \$150,000 and then \$200,000 as various parcels are acquired.

The minimum annual rent is dependent on AltaSea taking possession of parcels in accordance with the lease agreement and on AltaSea's provision of certain non-monetary services and public benefits, as outlined in the lease agreement.

(b) OBLIGATIONS UNDER OFFICE LEASE

In February 2015 AltaSea consented to the assignment by Rockefeller Philanthropy Advisors, Inc. of a long-term non-cancelable operating lease for office space that expires in August 2021. The lease contains provisions for a base rent, subject to fixed escalation, plus reimbursement for certain operating expenses. Rent expense for the year ended December 31, 2015 was \$146,872.

At December 31, 2015, minimum future rental payments on the lease are as follows:

Years Ending December 31

| | |
|--------------|--------------------------|
| 2016 | \$ 138,378 |
| 2017 | 142,642 |
| 2018 | 147,140 |
| 2019 | 151,311 |
| Thereafter | <u>261,245</u> |
| TOTAL | <u><u>\$ 840,716</u></u> |