AUDITED CONSOLIDATED
FINANCIAL STATEMENTS

OCEAN CONSERVANCY, INC.
AND SUBSIDIARY

SEPTEMBER 30, 2008 AND 2007

OCEAN CONSERVANCY, INC. AND SUBSIDIARY

AUDITED CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2008 AND 2007

CONTENTS

	Page
Independent Auditor's Report	1
Consolidated Financial Statements	
Consolidated Statements of Financial Position	2
Consolidated Statements of Activities and Changes in Net Assets	3
Consolidated Statements of Cash Flows	4
Consolidated Statement of Functional Expenses	5
Notes to the Consolidated Financial Statements	6 - 13

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Ocean Conservancy, Inc.
Washington, D.C.

We have audited the accompanying consolidated statements of financial position of Ocean Conservancy, Inc. and its subsidiary (collectively, the Organization) as of September 30, 2008 and 2007, the related consolidated statements of activities and changes in net assets, and of cash flows for the years then ended, and the consolidated statement of functional expenses for the year ended September 30, 2008. These consolidated financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. The summarized comparative information included in the consolidated statement of functional expenses for the year ended September 30, 2007 has been derived from the Organization's September 30, 2007 consolidated financial statements, and, in our report dated April 7, 2008, we expressed an unqualified opinion on those consolidated financial statements.

We conducted our audits 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Ocean Conservancy, Inc. and its subsidiary as of September 30, 2008 and 2007, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Argy, Wiltse & Robinson, P.C.

McLean, Virginia
March 9, 2009

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OCEAN CONSERVANCY, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

SEPTEMBER 30, 2008 AND 2007

	2008	2007 (Restated)
ASSETS		
Current assets		
Cash and cash equivalents	$ 57,492	$ 902,894
Investments	12,645,374	15,549,152
Grants receivable	157,146	84,781
Accounts receivable	20,994	32,939
Pledges receivable, net	2,640,510	643,849
Prepaid expenses and other current assets	157,769	295,856
Total current assets	15,679,285	17,509,471
Investments	256,142	394,866
Pledges receivable, net	3,311,412	399,627
Charitable remainder trust receivable	281,041	313,925
Property and equipment, net	406,352	364,488
Intangible assets, net	52,963	69,779
Deposits	205,181	229,260
Total assets	$ 20,192,376	$ 19,281,416
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable and accrued expenses	$ 1,312,641	$ 796,252
Annuity payment liability	154,628	148,262
Line-of-credit	1,250,000	0
Note payable	151,887	143,648
Total current liabilities	2,869,156	1,088,162
Annuity payment liability	656,092	648,556
Deferred rent	117,196	0
Note payable	2,493,942	2,643,269
Total liabilities	6,136,386	4,379,987
Net assets		
Unrestricted - Board designated	3,756,467	8,688,251
Temporarily restricted	8,750,128	4,663,783
Permanently restricted	1,549,395	1,549,395
Total net assets	14,055,990	14,901,429
Commitments		
Total liabilities and net assets	$ 20,192,376	$ 19,281,416

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

OCEAN CONSERVANCY, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

YEARS ENDED SEPTEMBER 30, 2008 AND 2007

	2008				2007 (Restated)			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue and support								
Contributions, grants and bequests	$ 7,996,931	$ 10,176,978	$ 0	$ 18,173,909	$ 8,461,982	$ 6,152,968	$ 20,000	$ 14,634,950
Investment and interest (loss) income	(2,345,712)	0	0	(2,345,712)	1,549,101	0	0	1,549,101
Building rental income	0	0	0	0	240,394	0	0	240,394
Federal grants	306,838	0	0	306,838	213,163	0	0	213,163
Merchandise royalties	22,715	0	0	22,715	52,214	0	0	52,214
List rental income	28,939	0	0	28,939	45,871	0	0	45,871
Other income	55,442	0	0	55,442	92,307	0	0	92,307
Net assets released from restrictions	5,896,647	(5,896,647)	0	0	5,164,939	(5,164,939)	0	0
Total revenues and support	11,961,800	4,280,331	0	16,242,131	15,819,971	988,029	20,000	16,828,000
Expenses								
Program services								
Citizen outreach	2,437,445	0	0	2,437,445	2,318,434	0	0	2,318,434
Sustainable fisheries	2,246,596	0	0	2,246,596	2,583,093	0	0	2,583,093
Marine wildlife	2,177,818	0	0	2,177,818	2,322,760	0	0	2,322,760
Communications, marketing and publications	1,940,070	0	0	1,940,070	1,174,562	0	0	1,174,562
Conserve special places	1,557,928	0	0	1,557,928	1,286,041	0	0	1,286,041
Ocean governance, international, and other	1,277,605	0	0	1,277,605	1,311,874	0	0	1,311,874
Total program services	11,637,462	0	0	11,637,462	10,996,764	0	0	10,996,764
Support services								
Fundraising and membership development	3,442,519	0	0	3,442,519	2,627,212	0	0	2,627,212
Management and administration	1,813,603	0	0	1,813,603	1,912,445	0	0	1,912,445
Total support services	5,256,122	0	0	5,256,122	4,539,657	0	0	4,539,657
Total expenses	16,893,584	0	0	16,893,584	15,536,421	0	0	15,536,421
Gains and losses								
Gain on sale of building and improvements	0	0	0	0	2,063,460	0	0	2,063,460
Losses and allowances on uncollectible promises to give	0	(193,986)	0	(193,986)	0	(312,527)	0	(312,527)
Change in net assets	(4,931,784)	4,086,345	0	(845,439)	2,347,010	675,502	20,000	3,042,512
Net assets at the beginning of the year (restated)	8,688,251	4,663,783	1,549,395	14,901,429	6,341,241	3,988,281	1,529,395	11,858,917
Net assets at the end of the year	$ 3,756,467	$ 8,750,128	$ 1,549,395	$ 14,055,990	$ 8,688,251	$ 4,663,783	$ 1,549,395	$ 14,901,429

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

OCEAN CONSERVANCY, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED SEPTEMBER 30, 2008 AND 2007

	2008	2007 (Restated)
Cash flows from operating activities:		
Change in net assets	$ (845,439)	$ 3,042,512
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Losses and allowances on uncollectible promises to give	193,986	312,527
Depreciation and amortization	262,320	507,742
Donation of marketable securities	(236,690)	(664,683)
Net realized and unrealized losses (gains) on investments	2,973,636	(1,122,880)
Change in value of charitable remainder trust receivable	32,884	(37,817)
Change in charitable gift annuity liability valuation	79,281	104,267
Gain on sale of building and improvements	0	(2,063,460)
Interest expense paid with building reserve	0	51,893
(Increase) decrease in:		
Grants receivable	(72,365)	58,508
Accounts receivable	11,945	10,320
Pledges receivable	(5,102,432)	766,073
Prepaid expenses and other current assets	138,087	(125,414)
Building reserves and escrows	0	252,622
Debt issuance costs	0	(47,873)
Increase (decrease) in:		
Accounts payable and accrued expenses	516,389	(208,252)
Annuity payment liability	(65,379)	(20,620)
Deferred rent	117,196	0
Total adjustments	(1,151,142)	(2,227,047)
Net cash (used in) provided by operating activities	(1,996,581)	815,465
Cash flows from investing activities:		
Purchases of investments	(1,056,518)	(6,411,891)
Proceeds from sales of investments	1,362,074	1,986,218
Proceeds from sale of building and improvements	0	5,793,116
Purchases of property and equipment	(287,368)	(261,562)
Decrease (increase) in deposits	24,079	(210,064)
Net cash provided by investing activities	42,267	895,817
Cash flows from financing activities:		
Net borrowings (repayments) under line-of-credit	1,250,000	(1,250,000)
Principal payments under note payable	(141,088)	(181,951)
Net cash provided by (used in) financing activities	1,108,912	(1,431,951)
Net (decrease) increase in cash and cash equivalents	(845,402)	279,331
Cash and cash equivalents at the beginning of the year	902,894	623,563
Cash and cash equivalents at the end of the year	$ 57,492	$ 902,894

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

OCEAN CONSERVANCY, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED SEPTEMBER 30, 2008, WITH COMPARATIVE TOTALS FOR 2007

	Program Services							Support Services				
	Citizen outreach	Sustainable fisheries	Marine wildlife	Communications, marketing and publications	Conserve special places	Ocean governance, international, and other	Total program services	Fundraising and membership development	Management and administration	Total support services	Total for the year ended September 30, 2008	Total for the year ended September 30, 2007
Salaries and wages	$ 457,597	$ 1,046,896	$ 391,865	$ 519,093	$ 766,415	$ 530,018	$ 3,711,884	$ 1,220,860	$ 618,232	$ 1,839,092	$ 5,550,976	$ 4,717,185
Printing	221,561	36,601	1,015,861	244,137	23,091	7,431	1,548,682	659,631	8	659,639	2,208,321	1,759,001
Professional fees	461,173	364,681	53,259	181,001	75,346	202,794	1,338,254	135,875	404,901	540,776	1,879,030	1,754,943
Delivery services	628,219	5,481	348,446	84,307	9,308	3,295	1,079,056	590,114	19,553	609,667	1,688,723	1,386,316
Rent, utilities and telephone	94,537	232,152	88,123	99,500	150,625	113,581	778,518	227,460	182,981	410,441	1,188,959	666,972
Employee benefits	96,230	220,723	81,047	107,566	158,513	110,008	774,087	252,065	125,306	377,371	1,151,458	1,226,680
Travel and meetings	230,265	215,345	133,606	30,232	178,025	97,439	884,912	44,874	37,076	81,950	966,862	767,274
Grants and contributions	3,641	0	7,620	510,000	104,128	84,500	709,889	0	0	0	709,889	732,587
Depreciation and amortization	20,187	46,184	17,287	22,900	33,811	23,382	163,751	53,858	44,711	98,569	262,320	507,742
Computer expenses	44,358	16,927	8,602	90,059	15,993	24,063	200,002	811	17,393	18,204	218,206	182,612
List rental expenses	0	0	0	0	0	0	0	166,108	0	166,108	166,108	136,567
Interest expense	0	8	0	0	124	0	132	0	160,217	160,217	160,349	450,911
Bank fees	4,250	209	85	1	78	16,593	21,216	1,217	135,783	137,000	158,216	65,935
Advertising	68,229	7,655	179	6,298	1,650	6,939	90,950	29,525	2,419	31,944	122,894	197,059
Repairs and maintenance	9,714	21,558	8,050	10,346	15,750	10,563	75,981	24,345	20,199	44,544	120,525	186,985
Office supplies	21,870	15,839	3,445	20,250	12,566	7,506	81,476	7,749	7,245	14,994	96,470	61,859
Temporary help	52,716	0	2,120	0	150	2,450	57,436	10,750	26,722	37,472	94,908	174,676
Insurance	4,419	10,109	3,784	5,012	7,400	5,118	35,842	11,788	12,094	23,882	59,724	93,127
Subscriptions/dues	4,058	4,315	647	6,382	4,580	31,379	51,361	1,606	1,456	3,062	54,423	35,113
Miscellaneous	1,748	293	0	0	0	0	2,041	1,420	28,659	30,079	32,120	141,316
Other materials /incentives	11,979	1,263	560	1,190	338	505	15,835	2,211	2,265	4,476	20,311	102,930
In-kind other	0	0	13,213	0	0	0	13,213	0	0	0	13,213	0
Property taxes and other	694	357	19	1,796	37	41	2,944	252	(33,617)	(33,365)	(30,421)	188,631
Total for the year ended September 30, 2008	$ 2,437,445	$ 2,246,596	$ 2,177,818	$ 1,940,070	$ 1,557,928	$ 1,277,605	$ 11,637,462	$ 3,442,519	$ 1,813,603	$ 5,256,122	$ 16,893,584	
Total for the year ended September 30, 2007	$ 2,318,434	$ 2,583,093	$ 2,322,760	$ 1,174,562	$ 1,286,041	$ 1,311,874	$ 10,996,764	$ 2,627,212	$ 1,912,445	$ 4,539,657		$ 15,536,421

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

NOTE 1 - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Ocean Conservancy, Inc. (OC) was established in 1972 to promote healthy and diverse ocean ecosystems and oppose practices that threaten ocean life and human life. Through research, education, and science-based advocacy, OC informs, inspires, and empowers people to speak and act on behalf of the oceans. In all its work, OC strives to be the world's foremost advocate for the oceans. OC is headquartered in Washington, D.C. and has regional offices located at various coastal regions of the United States and its territories. OC seeks to achieve its objectives by conducting policy-oriented research, educating the public and policy makers, and encouraging the development and implementation of sound policies through citizen participation and oversight. OC eschews confrontational politics and favors establishing, supporting and using administrative processes that compel wise protection and conservation of marine wildlife, ecosystems, and resources.

OC is funded principally by small contributions but also receives grants and contracts from individuals, foundations, government agencies, and corporations. OC is also funded by bequests and royalties.

2029 K LLC (2029 K Street or the Building), a wholly-owned subsidiary of OC, is a limited liability corporation that was formed in 2004 to purchase, operate, and maintain the office building located at 2029 K Street in Washington, D.C., where OC located its headquarters office. Effective June 2007, OC sold the building and moved its headquarters office to leased space at 1300 19th Street, NW, in Washington, D.C. Prior to the sale, approximately 19% of the building was leased to unrelated commercial and retail tenants.

The significant accounting policies followed by OC and 2029 K Street (collectively, the Organization) are described below.

Principles of consolidation

The accompanying consolidated financial statements include the accounts of OC and 2029 K Street. 2029 K Street is consolidated with OC in accordance with AICPA Statement of Position 94-3, *Reporting of Related Entities by Not-for-Profit Organizations.* All significant intercompany transactions and balances have been eliminated in consolidation.

Basis of accounting

The consolidated financial statements of the Organization have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly upon settlement, actual results could differ from those estimates.

Revenue recognition

Contributions are recognized as revenue when the donor makes an unconditional promise to give to OC. Contributions that are restricted as to how or when the funds are to be used are reported as increases in temporarily restricted net assets. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets. Donor-restricted contributions for which the donor has specified a permanent restriction are reported as increases in permanently restricted net assets.

OC uses the allowance method to determine uncollectible unconditional promises receivable. The allowance is based on prior years' experience and management's analysis of specific promises made. Conditional promises to give are recognized as revenue when the conditions on which they depend are substantially met.

Donated materials and professional services related to programs are recorded as contribution revenues and expenses at their fair values.

Building rental income is recognized on a straight-line basis, calculated by dividing the total rent to be paid by each lessee during the term of the lease by the lease term.

Revenues received under grants and contracts with the United States government and other agencies are recorded as revenues when the related costs are incurred. Grants receivable represent amounts due for expenditures incurred prior to year-end.

All other revenues are recognized when earned.

Cash equivalents

The Organization considers all undesignated, unrestricted short-term investments with initial maturities of three months or less to be cash equivalents. Temporary cash positions in the investment portfolio are considered investments and are not included in cash and cash equivalents on the statement of financial position.

Investments

Equity securities with readily determinable fair values and debt securities are presented at fair value in the financial statements based on quoted market prices. Alternative investments, which are not readily marketable, are carried at estimated fair values as provided by the investment managers. OC reviews and evaluates the values provided by the investment managers and agrees with the valuation methods and assumptions used in determining the fair value of the alternative investments. Those estimated fair values may differ significantly from the values that would have been used had a ready market for these securities existed.

Gains and losses on investments, including changes in market value, are reported in the consolidated statements of activities and changes in net assets as increases or decreases in unrestricted net assets unless their use is temporarily or permanently restricted by donor stipulation.

Property and equipment

Property and equipment are recorded at cost, and depreciated or amortized on the straight-line basis over the estimated useful lives of the assets of three to ten years for all property and equipment. Leasehold improvements are recorded at cost and amortized on a straight-line basis over the remaining lease term. The Organization's policy is to capitalize property and equipment purchases in excess of $1,000. Donated furniture and equipment exceeding the capitalization threshold is recorded at its estimated fair value on the date it is received.

Debt issuance costs

Debt issuance costs are amortized using the straight-line method over the terms of the applicable debt obligations, and are reflected net of accumulated amortization of $62,544 in the consolidated statement of financial position as of September 30, 2006. In June 2007, the Organization sold the associated property and the unamortized balance of debt issuance costs was written off against the proceeds from the sale. For the year ended September 30, 2007, the Organization recorded amortization expense related to debt issuance costs totaling $33,221.

Intangible assets

Intangible assets, which consists of intellectual property, are amortized on a straight-line basis over a period of ten years.

Unrestricted net assets

Unrestricted net assets are those that are not subject to donor-imposed stipulations. At September 30, 2008 and 2007, there were no undesignated unrestricted net assets.

Unrestricted net assets - board designated

OC's board of directors has set aside unrestricted amounts received from various donors as board designated fund assets, and has implemented an investment policy that includes an annual discretionary transfer of amounts to undesignated net assets to support operations.

Temporarily restricted net assets

Temporarily restricted net assets represent revenue received that is restricted by the donor as to either time or purpose of expenditure for which the restrictions have not been substantially met as of financial statement date.

Permanently restricted net assets

Permanently restricted net assets are those that are subject to donor imposed stipulations that they be maintained permanently by OC. Generally, the donors of these assets permit OC to use the income earned on related investments for general or specific purposes.

Income taxes

The Internal Revenue Service has determined that OC is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code (IRC), except for taxes on unrelated business income. OC is not a private foundation under 509(a)(1) of the IRC. Since OC owns 100% of 2029 K Street LLC, 2029 K Street is disregarded for federal and state income tax purposes. As such, all activity from 2029 K Street LLC is included with OC's income tax filings.

Due to 2029 K Street's rental activity, OC had unrelated business income during the year ended September 30, 2007. As of September 30, 2007, OC has accrued a liability in the amount of $40,000 for unrelated business income taxes primarily related to the sale of the building in 2007. Income taxes paid (net of refunds) during the year ended September 30, 2008 totaled $6,383. No income taxes were paid during the year ended September 30, 2007.

Functional allocation of expenses

The costs of providing the program and other activities have been summarized on a functional basis in the statements of activities and changes in net assets, and of functional expenses. Accordingly, certain costs have been allocated among the activities benefited.

Recent accounting pronouncements

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* (SFAS 157). SFAS 157 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. SFAS 157 applies to reporting periods beginning after November 15, 2007. The Organization has not determined the effect, if any, that the provisions of SFAS 157 will have on its consolidated financial statements.

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159, *The Fair Value for Financial Assets and Financial Liabilities* (SFAS 159). SFAS 159 permits entities to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. SFAS 159 also establishes presentation and disclosure requirements designed to facilitate comparisons between entities that choose different measurement attributes for similar types of assets and liabilities. SFAS 159 applies to reporting periods beginning after November 15, 2007. The Organization has not determined the effect, if any, that the provisions of SFAS 159 will have on its consolidated financial statements.

In July 2006, the FASB issued Interpretation No. 48, Accounting for Uncertainty in Income Taxes (FIN 48). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with Statement No. 109, Accounting for Income Taxes. FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition of tax benefits, classification on the balance sheet, interest and penalties, accounting in interim periods, disclosure, and transition.

In December 2008, the FASB provided for a deferral of the effective date of FIN 48 for certain nonpublic enterprises to annual financial statements for fiscal years beginning after December 15, 2008. Prior to adoption of FIN 48, the Organization will continue to evaluate its uncertain tax positions and related income tax contingencies under Statement No. 5, Accounting for Contingencies. SFAS No. 5 requires the Organization to accrue for losses it believes are probable and can be reasonably estimated. The Organization has not determined the effect, if any, that the provisions of FIN 48 will have on its consolidated financial statements.

NOTE 2 - INVESTMENTS

Investments consist of the following as of September 30:

	2008		2007	
	Cost	Fair Value	Cost	Fair Value
Money market accounts	$ 1,208,692	$ 1,208,692	$ 1,824,598	$ 1,824,598
Equity securities	6,143,714	5,455,362	7,294,293	8,612,021
Mutual funds	4,473,408	4,130,863	4,073,784	4,085,419
Alternative investments	1,969,535	1,688,771	900,000	1,027,114
Mortgage-backed securities	171,244	161,686	270,412	267,296
State and local government obligations	259,190	256,142	132,929	127,570
	$ 14,225,783	$ 12,901,516	$ 14,496,016	$ 15,944,018

For the years ended September 30, 2008 and 2007, the Organization recorded net realized and unrealized losses on investments of $2,973,636 and net realized and unrealized gains of $1,122,880, respectively, and interest and dividend income totaling $627,924 and $426,221, respectively.

NOTE 3 - PLEDGES RECEIVABLE

Pledges receivable consist of the following as of September 30:

	2008	2007 (Restated)
Receivable in less than one year	$ 2,684,396	$ 818,985
Receivable in one to five years	3,492,727	459,866
	6,177,123	1,278,851
Less: discount to present value (at 3.0%-6.50%)	(199,179)	(90,375)
Less: allowance for doubtful accounts	(26,022)	(145,000)
	$ 5,951,922	$ 1,043,476

NOTE 4 - PROPERTY AND EQUIPMENT

Property and equipment consists of the following as of September 30:

	2008	2007
Computer equipment	$ 1,284,909	$ 1,299,305
Furniture and fixtures	196,519	195,367
Leasehold improvements	47,075	42,087
	1,528,503	1,536,759
Less: accumulated depreciation and amortization	(1,122,151)	(1,172,271)
	$ 406,352	$ 364,488

Depreciation and amortization expense on property and equipment for the years ended September 30, 2008 and 2007 was $245,504 and $456,735, respectively.

NOTE 5 - INTANGIBLE ASSETS

Intangible assets consist of the following as of September 30:

	2008	2007
Intellectual property	$ 177,846	$ 177,846
Less: accumulated amortization	(124,883)	(108,067)
	$ 52,963	$ 69,779

Amortization expense on intangible assets for the years ended September 30, 2008 and 2007 was $16,816 and $17,786, respectively.

Expected amortization expense for each of the remaining years is as follows: $18,754 in 2009; $17,785 in 2010; $13,229 in 2011; $1,087 in 2012 and 2013; and $1,021 in 2014.

NOTE 6 - LINE-OF-CREDIT

OC maintains a revolving line-of-credit facility with a securities broker under which OC may borrow up to a maximum of $2,000,000. The credit line is payable on demand and provides for a variable interest rate equal to LIBOR plus 0.39% (2.88% at September 30, 2008). The line-of-credit is secured by a first priority lien on all cash and securities OC has deposited with the securities broker. At September 30, 2008 and 2007, OC had outstanding $1,250,000 and $0, respectively, on the credit line.

NOTE 7 - NOTE PAYABLE

OC maintains a term loan with an original principal amount of $3,000,000. The loan requires monthly principal and interest payments in the amount of $24,656, bears interest at 5.59% per annum, and is due on February 10, 2021. The outstanding balance at September 30, 2008 and 2007 was $2,645,829 and $2,786,917, respectively, and is secured by OC's investment portfolio.

Scheduled maturities of the note payable as of September 30, 2008 are as follows:

Years ending September 30,	
2009	$ 151,887
2010	160,598
2011	169,809
2012	179,549
2013	189,847
Thereafter	1,794,139
	$ 2,645,829

Interest expense related to notes payable (including the line-of-credit discussed in Note 6) was $160,348 and $450,911 for the years ended September 30, 2008 and 2007, respectively. Approximately $52,000 of the 2007 interest expense was paid through draws against the building reserves.

NOTE 8 - CHARITABLE GIFT ANNUITIES

OC has entered into charitable gift annuity arrangements with a number of donors. In exchange for contributions, these arrangements require OC to make annual fixed payments for the lives of the donors. The contributions are treated as contribution revenue when received and are included in the unrestricted net assets of OC. Contribution revenue for the years ended September 30, 2008 and 2007 was $85,520 and $109,783, respectively.

The annuity payment obligations are based on donor life expectancies as presented in actuarial tables discounted at rates ranging from 3.2% to 8.2%.

NOTE 9 - ALLOCATION OF JOINT COSTS

OC conducts direct mail campaigns that incurred joint costs for informational materials that included fundraising appeals. These joint costs are allocated on a basis that the management of OC determines to be appropriate based on its policies and practices and the content and purpose of the specific informational materials, in accordance with the provisions of AICPA's Statement of Position 98-2, *Accounting for Costs of Activities of Not-for-Profit Organizations and State and Local Government Entities That Include Fund Raising*.

These costs were allocated as follows for the years ended September 30:

	2008	2007
Program services	$ 2,490,065	$ 2,477,722
Fundraising and membership development	1,542,910	1,361,993
	$ 4,032,975	$ 3,839,715

NOTE 10 - COMMITMENTS

OC leases office space for its headquarters office in Washington, D.C. and its regional offices throughout the United States and its territories under the terms of noncancelable operating leases that expire at various dates through September 2020. Certain leases provide for additional rent based on OC's pro-rata share of increases in real estate taxes and operating expenses and a percentage of any Consumer Price Index increases. In addition, OC leases office equipment under the terms of noncancelable operating leases that expire at various dates through July 2009.

As of September 30, 2008, the following is a schedule by year of future minimum lease payments required under these operating leases:

Years ending September 30,	
2009	$ 871,000
2010	752,000
2011	641,000
2012	577,000
2013	585,000
Thereafter	4,643,000
	$ 8,069,000

Total rent expense for the years ended September 30, 2008 and 2007 was $835,599 and $400,736, respectively.

In accordance with accounting principles generally accepted in the United States of America, the Organization is recognizing the total cost of its office leases ratably over the respective lease periods. The difference between rent paid and that expensed is reflected as deferred rent and is being amortized over the term of the lease.

NOTE 11 - SELF-FUNDED INSURANCE PLAN

OC has a self-funded insurance plan (the Insurance Plan) for medical, dental and disability insurance available to all employees that includes coinsurance to minimize OC's annual financial risk. The maximum amount of medical claims that will be paid during the Insurance Plan's calendar year is $25,000 per employee and $500,000 for OC as a whole. The total expense for the fiscal years ended September 30, 2008 and 2007 of $542,766 and $709,775, respectively, includes claims of $257,887 and $451,933, respectively, and premiums and administrative fees of $284,879 and $257,842, respectively. As of September 30, 2008 and 2007, the accrued liability for incurred but not reported claims was $75,736 and $107,711, respectively.

NOTE 12 - DEFINED CONTRIBUTION PENSION PLAN

OC has a defined contribution pension plan (the Pension Plan) that covers all eligible employees of OC who are at least age 18 and have completed one year of service. Contributions to the Pension Plan, as determined by the Board, are 6% of qualifying compensation of the participants. OC recorded contributions to the Pension Plan of $166,515 and $197,669 for the years ended September 30, 2008 and 2007, respectively.

NOTE 13 - CONCENTRATIONS OF CREDIT RISK

OC is subject to credit risk concentrations principally from cash and cash equivalents, investments, grants receivable, accounts receivable and pledges receivable. OC believes the risk of loss associated with cash and cash equivalents is very low since cash and cash equivalents are maintained in financial institutions. However, as of September 30, 2008 and 2007 and at various times throughout the year, OC had cash and cash equivalents on deposit with financial institutions that exceeded federally insured limits. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investments securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect investment balances and the amounts reported in the consolidated statements of financial position. As of the date of the issuance of these financial statements, the market in which OC's securities are traded has experienced a substantial decline. OC's grants receivable are due from agencies of the U.S. Government and are subject to audit by the grantor agency. OC's accounts receivable and pledges receivable are due from numerous corporations, non-profit organizations and individuals. OC's management reviews the receivable balances as a whole to determine the adequacy of its allowance for doubtful accounts.

NOTE 14 - NON-CASH FINANCING AND INVESTING TRANSACTIONS

During the year ended September 30, 2007, there were several non-cash transactions related to the Organization's sale of the 2029 K Street building. As a result of these transactions, the Organization eliminated building costs with a net book value of $3,885,561, building reserves and escrows of $110,723, debt issuance costs of $220,445, and tenant deposits of $12,047. The related mortgage payable had a balance of $3,964,793 at the sale date and was defeased through a transfer of securities totaling this amount. The Organization recorded a defeasance fee of $425,206, which is included in the gain on sale of building and improvements in the accompanying consolidated statement of activities for the year ended September 30, 2007.

NOTE 15 - RELATED PARTY TRANSACTIONS

At September 30, 2008 and 2007, approximately 0.5% and 12%, respectively, of pledges receivable (see Note 3) were receivable from board members. Contributions received from board members during the years ended September 30, 2008 and 2007 totaled $362,866 and $710,778, respectively.

NOTE 16 - PRIOR PERIOD ADJUSTMENT

The consolidated financial statements as of and for the year ended September 30, 2007 have been restated to correct an error related to pledges receivable as of September 30, 2007. The effect of the restatement was to increase net assets by $291,000 with a corresponding increase in pledges receivable at September 30, 2007.