

AUDITED FINANCIAL STATEMENTS
OCEAN CONSERVANCY, INC.
JUNE 30, 2011

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying statement of financial position of Ocean Conservancy, Inc. (the Organization) as of June 30, 2011, and the related statements of activities and change in net assets, of cash flows, and of functional expenses for the year then ended. These financial statements are the responsibility of the Organization's management. 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 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 audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Ocean Conservancy, Inc. as of June 30, 2011, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Argy, Wiltse & Robinson, P.C.

McLean, Virginia
October 19, 2011

OCEAN CONSERVANCY, INC.
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2011

ASSETS

Cash and cash equivalents	\$ 2,666,313
Investments	13,764,902
Accounts and grants receivable	283,901
Prepaid expenses	343,961
Pledges receivable, net	1,305,505
Bequests receivable	360,006
Charitable remainder trusts receivable	664,804
Property and equipment, net	330,295
Deposits	88,806
Other assets	<u>40,614</u>
 Total assets	 \$ <u>19,849,107</u>

LIABILITIES AND NET ASSETS

Accounts payable and accrued expenses	\$ 1,040,561
Charitable gift annuities	681,664
Line-of-credit	0
Note payable	2,222,210
Deferred rent	<u>299,552</u>
 Total liabilities	 <u>4,243,987</u>
 Commitments	 <u> </u>
Net assets	
Unrestricted	
Undesignated	3,018,625
Board-designated	<u>5,476,425</u>
 Total unrestricted	 8,495,050
Temporarily restricted	5,517,900
Permanently restricted	<u>1,592,170</u>
 Total net assets	 <u>15,605,120</u>
 Total liabilities and net assets	 \$ <u>19,849,107</u>

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

OCEAN CONSERVANCY, INC.

STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS

YEAR ENDED JUNE 30, 2011

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Revenues and support				
Contributions, grants and bequests	\$ 8,406,359	\$ 5,711,412	\$ 0	\$ 14,117,771
List rental income	38,578	0	0	38,578
Other income	345,429	0	0	345,429
Net assets released from restrictions	<u>9,837,642</u>	<u>(9,837,642)</u>	<u>0</u>	<u>0</u>
Total revenues and support	<u>18,628,008</u>	<u>(4,126,230)</u>	<u>0</u>	<u>14,501,778</u>
Expenses				
Program services				
Gulf of Mexico restoration	3,650,865	0	0	3,650,865
Ocean policy science and governance	3,604,659	0	0	3,604,659
Communications and outreach	3,008,704	0	0	3,008,704
Trash free seas	1,803,162	0	0	1,803,162
Marine wildlife and ecosystem protection	<u>1,180,795</u>	<u>0</u>	<u>0</u>	<u>1,180,795</u>
Total program services	<u>13,248,185</u>	<u>0</u>	<u>0</u>	<u>13,248,185</u>
Support services				
Fundraising and membership development	2,332,916	0	0	2,332,916
Management and administration	<u>1,854,473</u>	<u>0</u>	<u>0</u>	<u>1,854,473</u>
Total support services	<u>4,187,389</u>	<u>0</u>	<u>0</u>	<u>4,187,389</u>
Total expenses	<u>17,435,574</u>	<u>0</u>	<u>0</u>	<u>17,435,574</u>
Change in net assets before gains	1,192,434	(4,126,230)	0	(2,933,796)
Gains				
Investment income	2,193,070	404,563	0	2,597,633
Decrease in allowance on uncollectible promises to give	<u>0</u>	<u>112,578</u>	<u>0</u>	<u>112,578</u>
Change in net assets	3,385,504	(3,609,089)	0	(223,585)
Net assets at the beginning of the period	<u>5,109,546</u>	<u>9,126,989</u>	<u>1,592,170</u>	<u>15,828,705</u>
Net assets at the end of the period	\$ <u>8,495,050</u>	\$ <u>5,517,900</u>	\$ <u>1,592,170</u>	\$ <u>15,605,120</u>

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

OCEAN CONSERVANCY, INC.
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2011

Cash flows from operating activities:

Change in net assets	\$ <u>(223,585)</u>
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Decrease in allowance on uncollectible promises to give	(112,578)
Depreciation and amortization	201,256
Donation of marketable securities	(117,987)
Net realized and unrealized gains on investments	(2,152,220)
Deferred rent	192,799
Change in value of charitable remainder trusts receivable	(102,625)
Change in charitable gift annuities liability valuation	80,817
Changes in operating assets and liabilities:	
Accounts and grants receivable	(124,478)
Pledges receivable	4,229,826
Bequests receivable	59,556
Prepaid expenses	(138,656)
Other assets	3,161
Accounts payable and accrued expenses	64,151
Charitable gift annuities	<u>(43,797)</u>
Total adjustments	<u>2,039,225</u>
Net cash provided by operating activities	<u>1,815,640</u>

Cash flows from investing activities:

Purchases of investments	(1,120,168)
Proceeds from sales of investments	1,502,150
Purchases of property and equipment	(175,374)
Decrease in deposits	<u>116,235</u>
Net cash provided by investing activities	<u>322,843</u>

Cash flows from financing activity:

Principal payments under note payable	<u>(155,524)</u>
Net cash used in financing activity	<u>(155,524)</u>
Net increase in cash and cash equivalents	1,982,959
Cash and cash equivalents at the beginning of the year	<u>683,354</u>
Cash and cash equivalents at the end of the year	\$ <u>2,666,313</u>

Supplemental disclosure of cash flow information:

Cash paid for interest	\$ <u>129,969</u>
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The accompanying notes are an integral part of these financial statements.

OCEAN CONSERVANCY, INC.
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2011

	Program Services					Support Services			Total for the Year Ended June 30, 2011	
	Gulf of Mexico Restoration	Ocean Policy Science and Governance	Communications and Outreach	Trash Free Seas	Marine Wildlife and Ecosystem Protection	Total Program Services	Fundraising and Membership Development	Management and Administration		Total Support Services
Salaries and wages	\$ 1,577,537	\$ 1,550,512	\$ 210,964	\$ 498,080	\$ 588,672	\$ 4,425,765	\$ 842,073	\$ 725,303	\$ 1,567,376	\$ 5,993,141
Professional fees	432,027	517,383	374,970	536,072	99,473	1,959,925	112,283	243,304	355,587	2,315,512
Employee benefits	467,497	440,733	58,738	138,911	164,177	1,270,056	234,808	201,957	436,765	1,706,821
Delivery services	8,281	4,578	1,073,600	42,118	3,452	1,132,029	442,852	8,081	450,933	1,582,962
Rent, utilities and telephone	410,571	359,405	50,297	116,309	163,382	1,099,964	180,040	243,294	423,334	1,523,298
Printing	54,862	14,801	846,127	97,869	4,324	1,017,983	306,401	2,087	308,488	1,326,471
Travel and meetings	404,692	248,666	64,515	203,638	87,425	1,008,936	27,079	31,159	58,238	1,067,174
Grants and contributions	16,000	250,500	80	43,690	200	310,470	20	0	20	310,490
Depreciation and amortization	49,671	48,820	6,642	15,683	18,535	139,351	26,514	35,391	61,905	201,256
Advertising	51,355	0	99,957	198	4,740	156,250	40,665	875	41,540	197,790
Office supplies	67,766	24,918	32,609	8,758	9,739	143,790	21,341	19,407	40,748	184,538
List rental expenses	0	0	122,001	0	0	122,001	50,704	346	51,050	173,051
Computer expenses	36,779	38,773	19,258	28,483	15,144	138,437	11,472	10,305	21,777	160,214
Interest expense	29	29	115	9	11	193	43	130,844	130,887	131,080
Miscellaneous	3,237	4,399	23,166	2,267	1,905	34,974	6,460	80,590	87,050	122,024
Repairs and maintenance	29,529	27,563	3,952	9,645	11,487	82,176	14,930	19,928	34,858	117,034
Subscriptions	21,099	55,271	16,557	8,432	1,171	102,530	4,534	6,224	10,758	113,288
Bank fees	165	271	1,715	57	110	2,318	492	82,300	82,792	85,110
Insurance	15,852	14,188	1,930	4,558	5,387	41,915	7,705	10,285	17,990	59,905
In-kind other	544	534	73	36,632	203	37,986	290	387	677	38,663
Temporary help	3,372	3,315	1,438	11,753	1,258	21,136	2,210	2,406	4,616	25,752
Total for the year ended June 30, 2011	\$ <u>3,650,865</u>	\$ <u>3,604,659</u>	\$ <u>3,008,704</u>	\$ <u>1,803,162</u>	\$ <u>1,180,795</u>	\$ <u>13,248,185</u>	\$ <u>2,332,916</u>	\$ <u>1,854,473</u>	\$ <u>4,187,389</u>	\$ <u>17,435,574</u>

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

OCEAN CONSERVANCY, INC.

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2011

NOTE 1 - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Ocean Conservancy, Inc. (OC) was established in 1972 to promote healthy and diverse ocean ecosystems and to 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 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 in various coastal regions of the United States. 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 in part by small contributions, but also receives grants and contracts from individuals, foundations, government agencies, and corporations. OC is also funded by bequests and royalties.

The significant accounting policies followed by OC are described below.

Basis of accounting

The financial statements of OC have been prepared using 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 the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Such estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results may differ from estimates under different assumptions or conditions.

Revenue recognition

Contributions are recognized as revenue when the donor makes an unconditional promise to give to OC. Wills are recorded as bequest revenue when the probate courts declare the wills valid and the proceeds are measurable. Split-interest agreements, including charitable remainder trusts, charitable lead trusts and perpetual trusts, are recorded as revenue when the trust agreements become irrevocable. Revenue from split-interest agreements is based on the present value of the expected cash flows to be received by OC. Revenue under charitable gift annuity arrangements is reduced by the estimated annuities to be paid by OC over the beneficiary's lifetime.

Contributions that are restricted by the donor 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 are recorded as contribution revenues and support and expenses at their fair values at the date of the gift.

Revenue received under grants and contracts with the United States government and other governmental agencies is recorded as revenue 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

OC 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 in the accompanying statement of financial position.

Investments

Investments are carried at fair value. Gains and losses on investments, including changes in market value, are reported in the statement of activities and change in net assets as increases or decreases in unrestricted net assets unless their use is temporarily or permanently restricted by donor stipulation or applicable law.

Charitable remainder trusts receivable

The fair values of the charitable remainder trusts receivable are estimated based on various assumptions including the present value of estimated future lump-sum cash flows.

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. Leasehold improvements are recorded at cost and amortized on a straight-line basis over the shorter of the remaining lease term or the useful life of the improvement. OC'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.

Charitable gift annuities

Annuity obligations arising from split-interest gifts are recognized as charitable gift annuities in the accompanying statement of financial position. The initial liabilities resulting from these gifts are measured at fair value using the present value of the future payments to be made to beneficiaries. These liabilities are subsequently remeasured at the present value of future payments to beneficiaries based on changes in life expectancy and other actuarial assumptions.

Unrestricted net assets - undesignated

Unrestricted net assets are those net assets that are not subject to donor-imposed stipulations or board designations.

Unrestricted net assets - board-designated

OC's Board of Directors has segregated 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 the financial statement date. In addition, pledges, bequests, and charitable remainder trust receivables that are not otherwise restricted are considered to be temporarily restricted until the funds are received.

Permanently restricted net assets

Permanently restricted net assets are those net assets 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. OC's donor-restricted endowment is subject to authoritative guidance issued by the Financial Accounting Standards Board (the FASB) on net asset classification of endowment funds, such that earnings on donor-restricted endowment funds are reflected as temporarily restricted net assets until appropriated for expenditure.

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.

In accordance with authoritative guidance on accounting for uncertainty in income taxes issued by the FASB, management has evaluated OC's tax positions and has concluded that OC has taken no uncertain tax positions that require adjustment to the financial statements to comply with the provisions of this guidance. With few exceptions, OC is no longer subject to income tax examinations by the U.S. federal, state or local tax authorities for years ended September 30, 2007 and prior.

Concentrations of credit risk

OC is subject to credit risk concentrations principally from cash and cash equivalents, investments, accounts and grants receivable, pledges receivable, bequests receivable, and charitable remainder trusts 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 at various times throughout the year, OC had cash and cash equivalents on deposit with financial institutions that exceeded federally insured limits. Investments are subject to market fluctuations that may materially affect the balances. OC's grants receivable are due from agencies of the United States government and are subject to audit by the grantor agency. All other receivables are due from numerous corporations, non-profit organizations and individuals. OC's management reviews the receivable balances as a whole to determine the necessity of its allowance for doubtful accounts.

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 change in net assets, and of functional expenses. Accordingly, certain costs have been allocated among the activities benefited.

Subsequent events

OC has evaluated its June 30, 2011 financial statements for subsequent events through October 19, 2011, the date the financial statements were available to be issued.

Recently adopted authoritative guidance

In January 2010, the FASB issued new authoritative guidance to improve disclosure about fair value measurements. The new guidance amends certain existing disclosure requirements and requires new disclosure regarding (a) transfers in and out of Levels 1 and 2 and (b) activity in Level 3 fair value measurements. The new guidance also provides amendments that clarify existing disclosures regarding (a) level of disaggregation for each class of assets and liabilities and (b) disclosures about inputs and valuation techniques for fair value measurements that fall in either Levels 2 or 3. The new guidance is effective for fiscal years beginning after December 15, 2009, except for the disclosure regarding the rollforward of activity in Level 3 fair value measurements which are effective for the fiscal years beginning after December 15, 2010. The adoption of the amendments effective for the year ended June 30, 2011 did not have a significant impact on OC's financial statements. Management does not believe the adoption of the additional Level 3 amendments, not yet in effect, will have a significant impact on OC's financial statements.

NOTE 2 - INVESTMENTS

Investments consist of the following as of June 30, 2011:

	<u>Cost</u>	<u>Fair Value</u>
Money market accounts	\$ 1,244,737	\$ 1,244,805
Equity securities	4,479,680	5,114,343
Mutual funds	4,533,983	4,717,081
Real estate investment trusts	610,342	656,914
U.S. Treasuries	481,624	481,165
Commodities	319,535	319,521
Mortgage-backed securities	<u>1,207,111</u>	<u>1,231,073</u>
	<u>\$ 12,877,012</u>	<u>\$ 13,764,902</u>

For the year ended June 30, 2011, OC recorded net realized and unrealized gains on investments of \$2,152,220, and interest and dividend income totaling \$445,413.

NOTE 3 - PLEDGES RECEIVABLE

Pledges receivable consist of the following as of June 30, 2011:

Receivable in less than one year	\$ 1,029,250
Receivable in one to five years	<u>290,000</u>
	1,319,250
Less: discount to present value	<u>(13,745)</u>
	<u>\$ 1,305,505</u>

NOTE 4 - CHARITABLE REMAINDER TRUSTS RECEIVABLE

OC is the remainder beneficiary in two irrevocable charitable remainder trusts, which are expected to be distributed upon termination of life interests retained by the donor. The amounts receivable from these trusts are revalued annually. The expected future cash flows from the trusts have been recorded at fair value using a present value approach with a discount rate of 3.0%. At June 30, 2011, the estimated fair value of these receivables totaled \$664,804, and is included in the charitable remainder trusts receivable in the accompanying statement of financial position. The estimated net present value of the charitable remainder trusts are considered to be temporarily restricted until the funds are received.

NOTE 5 - PROPERTY AND EQUIPMENT

Property and equipment consists of the following as of June 30, 2011:

Computer equipment	\$ 1,449,228
Furniture and fixtures	84,849
Leasehold improvements	74,667
Web development	<u>7,639</u>
	1,616,383
Less: accumulated depreciation and amortization	<u>(1,286,088)</u>
	<u>\$ 330,295</u>

Depreciation and amortization expense on property and equipment for the year ended June 30, 2011 totaled \$188,100.

NOTE 6 - 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 during the lives of the donors. The contributions are treated as contribution revenue when received and are included in unrestricted net assets in the accompanying financial statements. Contribution revenue for the year ended June 30, 2011 totaled \$105,103.

The annuity payment obligations are based on donor life expectancies as presented in actuarial tables, discounted at rates ranging from 1.8% to 8.2%.

NOTE 7 - 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 facility is payable on demand and provides for a variable interest rate equal to LIBOR plus 1.75% (1.93% at June 30, 2011). The line-of-credit is secured by a first priority lien on all cash and investments OC has deposited with the securities broker, and expires, if not renewed, on June 30, 2012. At June 30, 2011, OC had no outstanding balance under the facility.

NOTE 8 - 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 June 30, 2011 was \$2,222,210 and is secured by OC's investment portfolio.

Scheduled maturities of the note payable as of June 30, 2011 are as follows:

<u>Years ending June 30,</u>	
2012	\$ 177,063
2013	187,218
2014	197,956
2015	209,310
2016	221,315
Thereafter	<u>1,229,348</u>
	\$ <u>2,222,210</u>

NOTE 9 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consist of the following at June 30, 2011:

Net assets with purpose restriction	\$ 3,892,533
Net assets with time restriction	1,095,561
Endowment net assets	<u>529,806</u>
	\$ <u>5,517,900</u>

NOTE 10 - ENDOWMENT

OC holds its donor-restricted endowment in a separate investment account with Bank of America. The donor-restricted endowment fund has no purpose restrictions, and was established to provide continuing support for general operations of the organization.

The Board of Directors of OC has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-

restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, OC classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by OC in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the fund
- (2) The purposes of the organization and the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the organization
- (7) The investment policies of the organization

Endowment-related activities for the year ended June 30, 2011 are as follows:

	<u>Donor-Restricted Endowment Fund</u>
Investment return	
Investment income	\$ 66,351
Net gains	<u>338,212</u>
Total investment return	404,563
Appropriations	(101,995)
Investment management fees	<u>(12,153)</u>
Change in funds	\$ <u><u>290,415</u></u>

The following table presents the endowment-related balances and activities by net asset classification as of and for the year ended June 30, 2011:

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>
Endowment net assets, beginning of the year	\$ <u>239,391</u>	\$ <u>1,592,170</u>
Investment return		
Investment income	66,351	0
Net gains	<u>338,212</u>	<u>0</u>
Total investment return	404,563	0
Appropriations	(101,995)	0
Investment management fees	<u>(12,153)</u>	<u>0</u>
Endowment net assets, end of the year	\$ <u><u>529,806</u></u>	\$ <u><u>1,592,170</u></u>

The donors' intent in contributing to the OC endowment fund was to provide an ongoing source of funding for general operations. There are no donor restrictions as to how income generated from the endowment should be used. In order to honor donor intent, OC's board of directors has authorized an annual distribution of 5.00% of the fair market value of the fund annually. The fair market value of the fund is measured by taking the rolling average of the quarterly fair market values for the prior three years on a fiscal quarter basis.

The purpose of OC's endowment fund is to achieve, over a full-market cycle, a real rate of return in excess of the spending policy. The target rate of return over the long-term was derived as follows:

Annual spending	5.00%
Inflation	<u>3.00%</u>
Long-term target return	<u>8.00%</u>

From time to time, the fair value of assets associated with the individual donor-restricted endowment funds may fall below the level the donor or UPMIFA requires OC to retain as a fund of perpetual duration. When donor endowment deficits exist, they are classified as a reduction of unrestricted net assets. There were no such deficits as of June 30, 2011.

NOTE 11 - ALLOCATION OF JOINT COSTS

OC conducts direct mail campaigns that incur joint costs for informational materials that include 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 the current authoritative guidance.

These costs were allocated as follows for the year ended June 30, 2011:

Program services	\$ 2,609,278
Fundraising and membership development	1,044,410
Management and general	<u>6,717</u>
	<u>\$ 3,660,405</u>

NOTE 12 - FAIR VALUE MEASUREMENTS

Certain assets are recorded at fair value. Fair value is defined as the price that would be received to sell an asset between market participants in an orderly transaction on the measurement date. The market in which the reporting entity would sell the asset with the greatest volume and level of activity for the asset is known as the principal market. When no principal market exists, the most advantageous market is used. This is the market in which the reporting entity would sell the asset with the price that maximizes the amount that would be received. Fair value is based on assumptions market participants would make in pricing the asset. Generally, fair value is based on observable quoted market prices or derived from observable market data when such market prices or data are available. When such prices or inputs are not available, the reporting entity should use valuation models.

OC's assets recorded at fair value on a recurring basis are categorized based on the priority of the inputs used to measure fair value. The inputs used in measuring fair value are categorized into three levels, as follows:

- **Level 1** - Inputs that are based upon quoted prices for identical instruments traded in active markets.
- **Level 2** - Inputs that are based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar investments in markets that are not active, or models based on valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the investment.
- **Level 3** - Inputs that are generally unobservable and typically reflect management's estimates of assumptions that market participants would use in pricing the asset. The fair values are therefore determined using model-based techniques that include option pricing models, discounted cash flow models, and similar techniques.

The following section describes the valuation methodologies OC uses to measure its financial assets at fair value.

Investments

Investments include money market accounts, equity securities, mutual funds, real estate investment trusts, commodities, U.S. treasuries and mortgage-backed securities.

In general, and where applicable, OC uses quoted prices in active markets for identical assets to determine fair value. Certain investments in very short-term interest-earning financial instruments are deemed to be very secure and will convert to cash within 90 days. These pricing methodologies apply to Level 1 investments as scheduled below.

Charitable remainder trust agreements

Charitable remainder trust agreements, which are irrevocable, are administered by a trustee or fiscal agent. At the end of each term, a portion of the remaining trust assets, as defined in the trust agreements, is to be distributed to OC. The expected future cash inflows from the trusts are based on the fair value of the investments, future expected investment returns, and the life expectancy of the donor or donor's designee, and have been recorded at present value based on a discount rate of 3.0%. The value of these trusts is based on unobservable inputs and OC's own assumptions and is therefore classified within Level 3.

Assets measured at fair value on a recurring basis are summarized below as of June 30, 2011:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments:				
Mutual funds				
U.S. large cap	\$ 278,627	\$ 0	\$ 0	\$ 278,627
U.S. mid cap	143,587	0	0	143,587
U.S. small cap	97,703	0	0	97,703
Internationally developed	896,382	0	0	896,382
Emerging markets	522,504	0	0	522,504
Bond funds	<u>2,778,278</u>	<u>0</u>	<u>0</u>	<u>2,778,278</u>
	<u>4,717,081</u>	<u>0</u>	<u>0</u>	<u>4,717,081</u>
Equity securities				
Consumer discretionary	725,333	0	0	725,333
Consumer supplies	308,363	0	0	308,363
Energy	447,483	0	0	447,483
Financials	653,844	0	0	653,844
Health care	934,852	0	0	934,852
Industrials	538,716	0	0	538,716
Information technology	1,029,087	0	0	1,029,087
Materials	250,863	0	0	250,863
Telecommunication services	95,437	0	0	95,437
Utilities	<u>130,365</u>	<u>0</u>	<u>0</u>	<u>130,365</u>
	<u>5,114,343</u>	<u>0</u>	<u>0</u>	<u>5,114,343</u>
Real estate investment trusts	656,914	0	0	656,914
Commodities	319,521	0	0	319,521
U.S. Treasuries	481,165	0	0	481,165
Mortgage-backed securities	1,231,073	0	0	1,231,073
Money market accounts	<u>1,244,805</u>	<u>0</u>	<u>0</u>	<u>1,244,805</u>
Total investments	<u>13,764,902</u>	<u>0</u>	<u>0</u>	<u>13,764,902</u>
Charitable remainder trusts receivable	<u>0</u>	<u>0</u>	<u>664,804</u>	<u>664,804</u>
Total assets at fair value	<u>\$ 13,764,902</u>	<u>\$ 0</u>	<u>\$ 664,804</u>	<u>\$ 14,429,706</u>

A rollforward of the fair value measurements using unobservable inputs (Level 3) for the year ended June 30, 2011 is as follows:

	<u>Alternative Investments</u>	<u>Charitable Remainder Trusts</u>
Beginning balance, June 30, 2010	\$ 96,123	\$ 562,179
Purchases, issuances, and settlements	(96,123)	0
Change in value in split-interest agreements	<u>0</u>	<u>102,625</u>
Ending balance, June 30, 2011	<u>\$ 0</u>	<u>\$ 664,804</u>

NOTE 13 - SELF-FUNDED INSURANCE PLAN

OC has a self-funded insurance plan for medical, dental and disability insurance available to all employees scheduled to work 30 or more hours per week that includes co-insurance to minimize OC's annual financial risk. The maximum amount of medical claims that will be paid during the insurance provider's plan year is \$25,000 per employee, up to an aggregate amount of \$667,000. Total expense for the year ended June 30, 2011 of \$955,884 includes claims of \$614,366 and premiums and administrative fees of \$341,518. As of June 30, 2011, the accrued liability for incurred but not reported claims was \$153,592.

NOTE 14 - 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, have completed one year of service and have worked 1,000 hours or more in the preceding 12-month period. Contributions to the Pension Plan, as determined by OC's Board of Directors, are 6.00% of qualifying compensation of the participants. OC recorded contributions to the Pension Plan of \$248,521 for the year ended June 30, 2011.

NOTE 15 - RELATED PARTY TRANSACTIONS

During the year ended June 30, 2011, OC recorded contributions from board members totaling \$164,696.

NOTE 16 - COMMITMENTS

OC leases office space for its headquarters office in Washington, D.C. and its regional offices throughout the United States 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 as well as 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 March 2015.

As of June 30, 2011, the following is a schedule by year of approximate future minimum lease payments required under these operating leases:

Years ending June 30,

2012	\$ 837,000
2013	796,000
2014	764,000
2015	660,000
2016	687,000
Thereafter	<u>2,938,000</u>
	<u>\$ 6,682,000</u>

In accordance with authoritative guidance issued by the FASB, OC 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 in the accompanying statement of financial position. Rent expense for the year ended June 30, 2011 totaled \$1,277,528.