



OCEAN CONSERVANCY, INC.

AUDITED FINANCIAL STATEMENTS

JUNE 30, 2013 AND 2012

The report accompanying these financial statements was issued by BDO USA, LLP, a Delaware limited liability partnership and the U.S. member of BDO International Limited, a UK company limited by guarantee.



OCEAN CONSERVANCY, INC.
AUDITED FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012

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Tel: 703-893-0600
Fax: 703-893-2766
www.bdo.com

8405 Greensboro Drive
Suite 700
McLean, VA 22102

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of Ocean Conservancy, Inc. (OC), which comprise the statement of financial position as of June 30, 2013, and the related statements of activities and change in net assets, cash flows and functional expenses 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Ocean Conservancy, Inc as of June 30, 2013, and the changes in its net assets, its cash flows, and its functional expenses for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

The 2012 financial statements of Ocean Conservancy, Inc. were audited by other auditors who combined with BDO USA, LLP in 2012. Their report, dated October 17, 2012, expressed an unmodified opinion on those statements. The 2012 summarized comparative information included in the statement of functional expenses has been derived from OC's June 30, 2012 financial statements.

BDO USA, LLP

McLean, Virginia
October 25, 2013

OCEAN CONSERVANCY
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2013 AND 2012

	2013	2012
ASSETS		
Cash and cash equivalents	\$ 722,086	\$ 1,232,512
Investments	16,094,970	14,351,961
Accounts and grants receivable	285,048	344,204
Pledges receivable, net	6,943,053	4,481,848
Bequests receivable	135,681	188,275
Charitable remainder trusts receivable	759,052	665,058
Prepaid expenses	614,773	263,531
Property and equipment, net	332,687	532,182
Deposits	95,346	95,206
Other assets	35,000	35,928
Total assets	\$ 26,017,696	\$ 22,190,705
LIABILITIES AND NET ASSETS		
Accounts payable and accrued expenses	\$ 997,675	\$ 1,376,172
Charitable gift annuities	901,094	824,396
Note payable	1,861,132	2,047,110
Deferred rent	315,087	277,044
Total liabilities	4,074,988	4,524,722
Commitments		
Net assets		
Unrestricted		
Undesignated	3,238,006	2,453,330
Board-designated	7,746,404	6,166,926
Total unrestricted	10,984,410	8,620,256
Temporarily restricted	9,366,128	7,453,557
Permanently restricted	1,592,170	1,592,170
Total net assets	21,942,708	17,665,983
Total liabilities and net assets	\$ 26,017,696	\$ 22,190,705

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

OCEAN CONSERVANCY

STATEMENTS OF ACTIVITIES AND CHANGE IN NET ASSETS

YEARS ENDED JUNE 30, 2013 AND 2012

	Year ended June 30, 2013				Year ended June 30, 2012			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Changes in net assets:								
Revenues and support								
Contributions, grants, and bequests	\$ 9,467,445	\$ 12,055,992	\$ 0	\$ 21,523,437	\$ 9,762,142	\$ 11,294,515	\$ 0	\$ 21,056,657
List rental income	31,992	0	0	31,992	27,034	0	0	27,034
Other income	463,180	0	0	463,180	556,697	0	0	556,697
Net assets released from program restrictions	10,376,563	(10,376,563)	0	0	9,338,269	(9,338,269)	0	0
Total revenues and support	<u>20,339,180</u>	<u>1,679,429</u>	<u>0</u>	<u>22,018,609</u>	<u>19,684,142</u>	<u>1,956,246</u>	<u>0</u>	<u>21,640,388</u>
Expenses								
Program services								
Communications and outreach	4,379,967	0	0	4,379,967	4,185,149	0	0	4,185,149
Gulf of Mexico restoration	3,755,627	0	0	3,755,627	4,149,659	0	0	4,149,659
Ocean policy science and governance	2,954,144	0	0	2,954,144	2,961,577	0	0	2,961,577
Trash free seas	1,480,197	0	0	1,480,197	2,153,711	0	0	2,153,711
Marine wildlife and ecosystem protection	1,812,520	0	0	1,812,520	1,455,530	0	0	1,455,530
Total program services	<u>14,382,455</u>	<u>0</u>	<u>0</u>	<u>14,382,455</u>	<u>14,905,626</u>	<u>0</u>	<u>0</u>	<u>14,905,626</u>
Support services								
Fundraising and membership development	2,831,006	0	0	2,831,006	2,534,038	0	0	2,534,038
Management and administration	2,096,401	0	0	2,096,401	2,066,125	0	0	2,066,125
Total support services	<u>4,927,407</u>	<u>0</u>	<u>0</u>	<u>4,927,407</u>	<u>4,600,163</u>	<u>0</u>	<u>0</u>	<u>4,600,163</u>
Total expenses	<u>19,309,862</u>	<u>0</u>	<u>0</u>	<u>19,309,862</u>	<u>19,505,789</u>	<u>0</u>	<u>0</u>	<u>19,505,789</u>
Change in net assets before gains (losses)	1,029,318	1,679,429	0	2,708,747	178,353	1,956,246	0	2,134,599
Gains (losses)								
Investment income (loss)	1,334,836	233,142	0	1,567,978	(53,147)	(20,589)	0	(73,736)
Change in net assets	2,364,154	1,912,571	0	4,276,725	125,206	1,935,657	0	2,060,863
Net assets at the beginning of the year	8,620,256	7,453,557	1,592,170	17,665,983	8,495,050	5,517,900	1,592,170	15,605,120
Net assets at the end of the year	<u>\$ 10,984,410</u>	<u>\$ 9,366,128</u>	<u>\$ 1,592,170</u>	<u>\$ 21,942,708</u>	<u>\$ 8,620,256</u>	<u>\$ 7,453,557</u>	<u>\$ 1,592,170</u>	<u>\$ 17,665,983</u>

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

OCEAN CONSERVANCY
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2013 AND 2012

	2013	2012
Cash flows from operating activities:		
Change in net assets	\$ 4,276,725	\$ 2,060,863
Adjustments to reconcile change in net assets to net cash and cash equivalents provided by operating activities:		
Depreciation and amortization	225,343	170,705
Donation of marketable securities	(158,259)	(55,142)
Net realized and unrealized (gains) losses on investments	(1,068,310)	483,075
Change in deferred rent	38,043	(22,508)
Change in value of charitable remainder trusts receivable	(93,994)	(254)
Change in charitable gift annuities liability valuation	(48,412)	135,545
Changes in operating assets and liabilities:		
Accounts and grants receivable	59,156	(60,303)
Pledges receivable	(2,461,205)	(3,176,343)
Bequests receivable	52,594	171,731
Prepaid expenses	(351,242)	80,430
Other assets	928	4,686
Accounts payable and accrued expenses	(378,497)	335,611
Charitable gift annuities	125,110	7,187
Total adjustments	(4,058,745)	(1,925,580)
Net cash provided by operating activities	217,980	135,283
Cash flows from investing activities:		
Purchases of investments	(1,870,194)	(2,211,416)
Proceeds from sales of investments	1,353,754	1,196,424
Purchases of property and equipment	(25,848)	(372,592)
Increase in deposits	(140)	(6,400)
Net cash used in investing activities	(542,428)	(1,393,984)
Cash flows from financing activity:		
Principal payments under note payable	(185,978)	(175,100)
Net cash used in financing activity	(185,978)	(175,100)
Net decrease in cash and cash equivalents	(510,426)	(1,433,801)
Cash and cash equivalents at the beginning of the year	1,232,512	2,666,313
Cash and cash equivalents at the end of the year	\$ 722,086	\$ 1,232,512
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$ 111,322	\$ 121,394

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

OCEAN CONSERVANCY

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2013, WITH COMPARATIVE TOTALS FOR 2012

	Program Services					Support Services					Total for the year ended June 30, 2013	Total for the year ended June 30, 2012
	Communications and Outreach	Gulf of Mexico Restoration	Ocean Policy Science and Governance	Trash Free Seas	Marine Wildlife and Ecosystem Protection	Total Program Services	Fundraising and Membership Development	Management and Administration	Total Support Services			
Salaries and wages	\$ 784,306	\$ 1,808,625	\$ 1,308,926	\$ 637,545	\$ 748,937	\$ 5,288,339	\$ 791,028	\$ 898,560	\$ 1,689,588	\$ 6,977,927	\$ 6,619,604	
Professional fees	544,979	426,157	673,493	180,779	431,187	2,256,595	207,078	230,904	437,982	2,694,577	2,703,459	
Printing	1,259,097	22,455	4,620	54,294	8,797	1,349,263	682,044	20,384	702,428	2,051,691	1,470,984	
Employee benefits	185,637	434,452	315,693	153,208	181,236	1,270,226	190,622	214,214	404,836	1,675,062	1,894,149	
Rent, utilities and telephone	191,055	502,839	242,014	113,962	167,516	1,217,386	139,050	240,133	379,183	1,596,569	1,546,556	
Delivery services	814,660	6,314	3,460	56,418	3,142	883,994	439,603	18,691	458,294	1,342,288	1,785,431	
Travel and meetings	86,220	309,498	269,250	108,216	141,401	914,585	92,642	72,979	165,621	1,080,206	958,404	
Office supplies	136,848	55,213	22,971	13,138	17,465	245,635	84,161	38,117	122,278	367,913	525,017	
Depreciation and amortization	23,666	54,574	39,496	19,237	22,598	159,571	23,869	41,903	65,772	225,343	170,705	
Computer expenses	80,179	9,776	7,485	19,048	11,137	127,625	36,369	4,728	41,097	168,722	151,654	
List rental expenses	99,656	0	0	0	0	99,656	57,421	1,107	58,528	158,184	162,951	
Advertising	68,775	24,265	0	13,118	11,114	117,272	34,686	873	35,559	152,831	227,715	
Grants and contributions	14	16,653	12,000	61,533	42,557	132,757	75	448	523	133,280	606,823	
Subscriptions	8,323	31,731	24,805	26,299	6,400	97,558	22,280	8,702	30,982	128,540	144,276	
Miscellaneous	4,742	2,999	4,105	1,704	1,819	15,369	8,048	87,502	95,550	110,919	126,132	
Interest expense	10	24	17	8	10	69	10	110,392	110,402	110,471	120,930	
Repairs and maintenance	10,929	25,287	14,128	7,854	10,477	68,675	8,538	15,189	23,727	92,402	97,270	
Bank fees	323	322	194	74	154	1,067	1,113	71,986	73,099	74,166	79,451	
Insurance	6,883	24,443	11,487	5,595	6,573	54,981	6,942	12,187	19,129	74,110	68,163	
In-kind other	62,341	0	0	1,653	0	63,994	0	0	0	63,994	0	
Temporary help	11,324	0	0	6,514	0	17,838	5,427	7,402	12,829	30,667	46,115	
Total for the year ended June 30, 2013	\$ 4,379,967	\$ 3,755,627	\$ 2,954,144	\$ 1,480,197	\$ 1,812,520	\$ 14,382,455	\$ 2,831,006	\$ 2,096,401	\$ 4,927,407	\$ 19,309,862		
Total for the year ended June 30, 2012	\$ 4,185,149	\$ 4,149,659	\$ 2,961,577	\$ 2,153,711	\$ 1,455,530	\$ 14,905,626	\$ 2,534,038	\$ 2,066,125	\$ 4,600,163		\$ 19,505,789	

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

OCEAN CONSERVANCY, INC.

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2013 AND 2012

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, including unconditional promises to give, are recognized in the period received. Contributions received are considered to be available for use unless specifically restricted by the donor. Amounts received that are designated for a future period, or are restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increase those net asset classes. Unconditional promises to give, which do not state a due date, are presumed to be time-restricted by the donor until received and are reported as temporarily restricted net assets. Wills are recorded as bequest revenue when the probate courts declare the wills valid and the proceeds are measurable. Irrevocable split-interest agreements, including charitable remainder trusts, charitable lead trusts and perpetual trusts, are recorded as revenue when the trust agreements become irrevocable.

OC uses the allowance method to determine uncollectible unconditional pledges receivable. The allowance is based on experience as well as management's analysis of specific pledges made, including such factors as prior collection history, type of contribution, and nature of fundraising activity. Conditional pledges are recognized as revenue when the conditions on which they depend are substantially met. Contributions, including multi-year pledges and split interest agreements, to be received after one year are recorded at the present value of the estimated future cash flows. Subsequent changes in this discount resulting from the passage of time are accounted for as contributions in subsequent years. Revenue under charitable gift annuity arrangements is reduced by the estimated annuities to be paid by OC over the beneficiary's lifetime.

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 statements of financial position.

Investments

Investments are carried at fair value. Gains and losses on investments, including changes in market value, are reported in the statements 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 value of the charitable remainder trusts receivable is estimated based on various assumptions including the present value of estimated future lump-sum cash flows.

Property and equipment

Property and equipment is 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 equal to or in excess of \$5,000. 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 statements 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 and undesignated 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 the authoritative guidance issued by the Financial Accounting Standards Board (the FASB) on net asset classifications of endowment funds, such that earnings on donor-restricted endowment funds for not-for-profit organizations that are subject to the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA) are classified as temporarily restricted net assets until such amounts are 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 Section 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 June 30, 2009 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. Cash and cash equivalents balances are maintained at high-quality financial institutions and, at times, balances may exceed federally insured limits. OC has never experienced any losses related to these balances. All non-interest bearing cash balances were fully insured through December 31, 2012 due to a temporary federal program in effect from December 31, 2010 through December 31, 2012. Under the program, there was no limit to the amount of insurance for eligible accounts. Beginning in 2013, insurance coverage reverted to \$250,000 per depositor at each financial institution, and the Organization's non-interest bearing cash balances may again exceed federally insured limits. Cash and cash equivalents on deposit in excess of federally insured limits at June 30, 2013 approximate \$758,000.

Investments are exposed to various risks such as interest rate, market, and credit risks. OC's charitable remainder trusts receivable are due from donor trusts that hold investments that are subject to the same types of investment risks. Due to the level of risk associated with certain investments, it is at least reasonably possible that changes in the values of investments will occur in the near term and that such changes could materially affect the investments and charitable remainder trusts receivable balances and the amounts reported in the statements of financial position. 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, 2013 financial statements for subsequent events through October 25, 2013, the date the financial statements were available to be issued. OC is not aware of any subsequent events that would require recognition or disclosure in the financial statements.

Accounting pronouncement not yet adopted

In July 2012, the FASB issued guidance to simplify the process of classification of cash receipts arising from the sale of certain donated financial assets, such as investments, in the statement of cash flows of not-for-profit entities. This new guidance is effective prospectively for fiscal years beginning after June 15, 2013. Early adoption is only permitted if an entity's financial statements for those fiscal years have not been made available for issuance. Management is currently evaluating the impact of the adoption on this standard on its financial statements.

NOTE 2 - INVESTMENTS

Investments consist of the following as of June 30:

	2013		2012	
	Cost	Fair Value	Cost	Fair Value
Money market accounts	\$ 910,035	\$ 910,076	\$ 1,007,797	\$ 1,007,797
Equity securities	2,867,983	3,646,970	4,712,240	5,299,109
Mutual funds	9,839,803	10,174,209	4,981,301	4,913,793
Real estate investment trusts	789,762	774,576	622,170	744,904
U.S. Treasuries	124,914	125,135	705,317	751,758
Commodities	528,647	386,216	416,732	330,710
Mortgage-backed securities	<u>72,102</u>	<u>77,788</u>	<u>1,300,431</u>	<u>1,303,890</u>
	<u>\$ 15,133,246</u>	<u>\$ 16,094,970</u>	<u>\$ 13,745,988</u>	<u>\$ 14,351,961</u>

For the years ended June 30, 2013 and 2012, OC recorded net realized and unrealized gains (losses) on investments of \$1,068,310 and \$(483,075), respectively and interest and dividend income totaling \$499,668 and \$409,339, respectively.

NOTE 3 - PLEDGES RECEIVABLE

Pledges receivable consist of the following as of June 30:

	2013	2012
Receivable in less than one year	\$ 4,869,482	\$ 4,437,212
Receivable in one to five years	<u>2,162,500</u>	<u>87,500</u>
	7,031,982	4,524,712
Less: discount to present value	<u>(88,929)</u>	<u>(42,864)</u>
	<u>\$ 6,943,053</u>	<u>\$ 4,481,848</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 discount rates ranging from 1.4% to 1.6%. At June 30, 2013 and 2012, the estimated fair value of these receivables totaled \$759,052 and \$665,058, respectively, and is included in the charitable remainder trusts receivable in the accompanying statements 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:

	<u>2013</u>	<u>2012</u>
Computer equipment	\$ 1,300,455	\$ 1,532,855
Web development	290,578	270,577
Leasehold improvements	100,694	100,694
Furniture and fixtures	<u>90,696</u>	<u>84,849</u>
	1,782,423	1,988,975
Less: accumulated depreciation and amortization	<u>(1,449,736)</u>	<u>(1,456,793)</u>
	<u>\$ 332,687</u>	<u>\$ 532,182</u>

Depreciation and amortization expense on property and equipment for the years ended June 30, 2013 and 2012 totaled \$225,343 and \$170,705, respectively.

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 related to charitable gift annuities for the years ended June 30, 2013 and 2012 totaled \$178,213 and \$236,284, respectively.

The annuity payment obligations are based on donor life expectancies as presented in actuarial tables, discounted at rates ranging from 1.0% 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 during the year ended June 30, 2012 and \$1,000,000 during the year ended June 30, 2013. The facility is payable on demand and provides for a variable interest rate equal to LIBOR plus 1.75% (1.95% at June 30, 2013). The line-of-credit is secured by a first priority lien on all cash and investments deposited with the securities broker, and expires, if not renewed, on December 31, 2013. At June 30, 2013 and 2012, 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 term 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, 2013 and 2012 was \$1,861,132 and \$2,047,110, respectively and is secured by OC's investment portfolio.

Scheduled maturities of the note payable as of June 30, 2013 are as follows:

<u>Years ending June 30,</u>	
2014	\$ 197,956
2015	209,310
2016	221,315
2017	234,008
2018	247,430
Thereafter	<u>751,113</u>
	<u>\$ 1,861,132</u>

NOTE 9 - TEMPORARILY RESTRICTED NET ASSETS

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

	<u>2013</u>	<u>2012</u>
Net assets with purpose restrictions	\$ 7,991,978	\$ 5,246,813
Net assets with time restrictions	853,554	1,806,524
Endowment net assets	<u>520,596</u>	<u>400,220</u>
	<u>\$ 9,366,128</u>	<u>\$ 7,453,557</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, OC 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 in the donor-restricted endowment fund for the years ended June 30 are as follows:

	<u>2013</u>	<u>2012</u>
Investment return		
Investment income	\$ 78,132	\$ 66,332
Net gains (losses)	<u>155,010</u>	<u>(86,920)</u>
Total investment return	233,142	(20,588)
Appropriations	(101,973)	(97,672)
Investment management fees	<u>(10,793)</u>	<u>(11,326)</u>
Change in funds	<u>\$ 120,376</u>	<u>\$ (129,586)</u>

The following table presents the endowment-related balances and activities by net asset classification as of and for the years ended June 30, 2013 and 2012:

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>
Endowment net assets, June 30, 2011	\$ 529,806	\$ 1,592,170
Investment return		
Investment income	66,332	0
Net losses	<u>(86,920)</u>	<u>0</u>
Total investment return	<u>(20,588)</u>	<u>0</u>
Appropriations	(97,672)	0
Investment management fees	<u>(11,326)</u>	<u>0</u>
Endowment net assets, June 30, 2012	<u>400,220</u>	<u>1,592,170</u>
Investment return		
Investment income	78,132	0
Net gains	<u>155,010</u>	<u>0</u>
Total investment return	<u>233,142</u>	<u>0</u>
Appropriations	(101,973)	0
Investment management fees	<u>(10,793)</u>	<u>0</u>
Endowment net assets, June 30, 2013	<u>\$ 520,596</u>	<u>\$ 1,592,170</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%
Inflation	<u>3%</u>
Long-term target return	<u><u>8%</u></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, 2013 and 2012.

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 years ended June 30:

	<u>2013</u>	<u>2012</u>
Program services	\$ 2,636,355	\$ 2,546,213
Fundraising and membership development	1,519,043	1,220,061
Management and general	<u>29,293</u>	<u>22,734</u>
	<u>\$ 4,184,691</u>	<u>\$ 3,789,008</u>

NOTE 12 - FAIR VALUE MEASUREMENTS

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability between market participants in an orderly transaction on the measurement date. The market in which the reporting entity would sell the asset or transfer the liability with the greatest volume and level of activity for the asset or liability 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 or transfer the liability with the price that maximizes the amount that would be received or minimizes the amount that would be paid. Fair value is based on assumptions market participants would make in pricing the asset or liability. 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 and liabilities recorded at fair value are categorized based on the priority of the inputs used to measure fair value. Fair value measurement standards require an entity to maximize the use of observable inputs (such as quoted prices in active markets) and minimize the use of unobservable inputs (such as appraisals or other valuation techniques) to determine 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 2 also includes practical expedient investments with notice periods for redemption of 90 days or less.
- **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. Level 3 also includes practical expedient investments with notice periods for redemption of more than 90 days.

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, U.S. Treasuries, commodities, 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.

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

	2013			Total
	Level 1	Level 2	Level 3	
Investments:				
Money market accounts	\$ 910,076	\$ 0	\$ 0	\$ 910,076
Equity securities				
Consumer discretionary	550,395	0	0	550,395
Consumer supplies	281,480	0	0	281,480
Energy	256,852	0	0	256,852
Financials	505,491	0	0	505,491
Health care	594,338	0	0	594,338
Industrials	506,413	0	0	506,413
Information technology	720,927	0	0	720,927
Materials	139,749	0	0	139,749
Telecommunication services	55,008	0	0	55,008
Utilities	36,317	0	0	36,317
	<u>3,646,970</u>	<u>0</u>	<u>0</u>	<u>3,646,970</u>
Mutual funds				
U.S. large cap	2,900,970	0	0	2,900,970
U.S. mid cap	221,570	0	0	221,570
U.S. small cap	163,074	0	0	163,074
Internationally developed	1,434,033	0	0	1,434,033
Emerging markets	529,652	0	0	529,652
Bond funds	4,924,910	0	0	4,924,910
	<u>10,174,209</u>	<u>0</u>	<u>0</u>	<u>10,174,209</u>
Real estate investment trusts	774,576	0	0	774,576
U.S. Treasuries	125,135	0	0	125,135
Commodities	386,216	0	0	386,216
Mortgage-backed securities	77,788	0	0	77,788
Total investments	<u>16,094,970</u>	<u>0</u>	<u>0</u>	<u>16,094,970</u>
Total assets at fair value	<u>\$ 16,094,970</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 16,094,970</u>

	2012			
	Level 1	Level 2	Level 3	Total
Investments:				
Money market accounts	\$ 1,007,797	\$ 0	\$ 0	\$ 1,007,797
Equity securities				
Consumer discretionary	924,656	0	0	924,656
Consumer supplies	303,181	0	0	303,181
Energy	518,732	0	0	518,732
Financials	804,366	0	0	804,366
Health care	924,286	0	0	924,286
Industrials	451,935	0	0	451,935
Information technology	973,154	0	0	973,154
Materials	132,313	0	0	132,313
Telecommunication services	110,454	0	0	110,454
Utilities	156,032	0	0	156,032
	<u>5,299,109</u>	<u>0</u>	<u>0</u>	<u>5,299,109</u>
Mutual funds				
U.S. large cap	331,280	0	0	331,280
U.S. mid cap	139,669	0	0	139,669
U.S. small cap	92,803	0	0	92,803
Internationally developed	896,958	0	0	896,958
Emerging markets	532,465	0	0	532,465
Bond funds	2,920,618	0	0	2,920,618
	<u>4,913,793</u>	<u>0</u>	<u>0</u>	<u>4,913,793</u>
Real estate investment trusts	744,904	0	0	744,904
U.S. Treasuries	751,758	0	0	751,758
Commodities	330,710	0	0	330,710
Mortgage-backed securities	1,303,890	0	0	1,303,890
	<u>14,351,961</u>	<u>0</u>	<u>0</u>	<u>14,351,961</u>
Total investments	<u>14,351,961</u>	<u>0</u>	<u>0</u>	<u>14,351,961</u>
Total assets at fair value	<u>\$ 14,351,961</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 14,351,961</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 \$35,000 per employee. Total expense for the years ended June 30, 2013 and 2012 of \$771,419 and \$1,077,398, respectively, includes claims of \$621,839 and \$787,831, respectively, and premiums and administrative fees of \$149,580 and \$289,567, respectively. As of June 30, 2013 and 2012, the accrued liability for incurred but not reported claims was \$0 and \$144,212, respectively.

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 \$328,686 and \$293,844 for the years ended June 30, 2013 and 2012, respectively.

NOTE 15 - RELATED PARTY TRANSACTIONS

During the years ended June 30, 2013 and 2012, OC recorded contributions from board members totaling \$431,800 and \$251,817, respectively.

NOTE 16 - MAJOR DONOR

One donor accounted for 79% of the OC's total pledges receivable and 36% of total revenue as of and for the year ended June 30, 2013.

NOTE 17 - 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, 2013, the following is a schedule by year of approximate future minimum lease payments required under these operating leases:

<u>Years ending June 30,</u>	
2014	\$ 826,000
2015	670,000
2016	687,000
2017	663,000
2018	680,000
Thereafter	<u>1,595,000</u>
	<u>\$ 5,121,000</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 years ended June 30, 2013 and 2012 totaled \$1,285,658 and \$1,217,455 respectively.