Financial Statements and Independent Auditors' Report

June 30, 2015 and 2014

# Financial Statements June 30, 2015 and 2014

# **Contents**

Independent Auditors' Report	1-2
Financial Statements	
Statements of Financial Position	3
Statements of Activities	4-5
Statements of Functional Expenses	6-7
Statements of Cash Flows	
Notes to the Financial Statements	9-24





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#### INDEPENDENT AUDITORS' REPORT

To the Board of Directors Ocean Conservancy, Inc.

We have audited the accompanying financial statements of Ocean Conservancy, Inc. (OC), which comprise the statements of financial position as of June 30, 2015 and 2014; the related statements of activities, functional expenses, and cash flows for the years 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 audits. 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 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 OC as of June 30, 2015 and 2014, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Vienna, Virginia October 21, 2015

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# Statements of Financial Position June 30, 2015 and 2014

	2015			2014
Assets			-	
Cash and cash equivalents	\$	3,740,306	\$	1,435,037
Investments		21,057,106		17,500,314
Accounts and grants receivable		124,858		385,392
Pledges receivable, net		8,455,161		5,346,625
Bequests receivable		1,606,854		888,300
Charitable remainder trusts receivable		844,529		854,524
Prepaid expenses		760,218		601,178
Property and equipment, net		237,714		390,686
Deposits		82,030		96,281
Other assets		92,802		92,802
Total assets	\$	37,001,578	\$	27,591,139
Liabilities and Net Assets				
Liabilities				
Accounts payable and accrued expenses	\$	1,720,554	\$	1,111,215
Charitable gift annuities		863,603		873,899
Note payable		-		1,664,442
Deferred rent		344,055		332,440
Total liabilities		2,928,212		3,981,996
Net Assets				
Unrestricted:				
Undesignated		199,659		2,347,862
Board-designated		16,628,777		9,367,610
Total unrestricted		16,828,436		11,715,472
Temporarily restricted		15,652,760		10,301,501
Permanently restricted		1,592,170		1,592,170
Total net assets		34,073,366		23,609,143
Total liabilities and net assets	\$	37,001,578	\$	27,591,139

## Statement of Activities For the Year Ended June 30, 2015

	Unrestricted	Temporarily Restricted		Permanently Restricted		Total
Revenue and Support						
Contributions, grants, and						
bequests	\$ 15,867,445	\$	15,635,430	\$	-	\$ 31,502,875
List rental income	42,033		-		-	42,033
Other income	79,502		_		_	79,502
Net assets released from						
restrictions	 10,342,060		(10,342,060)		-	 
Total revenue and support	 26,331,040		5,293,370			 31,624,410
Expenses						
Program services:						
Communications and outreach	3,627,318		-		-	3,627,318
Gulf of Mexico restoration	3,299,568		_		_	3,299,568
Ocean policy science						
and governance	3,853,688		-		-	3,853,688
Trash free seas	3,247,722		-		-	3,247,722
Marine wildlife and						
ecosystem protection	 1,830,273		-		-	 1,830,273
Total program services	 15,858,569					 15,858,569
Supporting services:						
Fundraising and membership						
development	3,685,596		-		-	3,685,596
Management and						
administration	2,097,408		-		-	2,097,408
Total supporting services	 5,783,004		-		-	 5,783,004
Total expenses	 21,641,573		_		_	21,641,573
Change in net assets before gains	 4,689,467		5,293,370			9,982,837
Investment income, net	 423,497		57,889		-	481,386
Change in Net Assets	5,112,964		5,351,259		-	10,464,223
Net Assets, beginning of year	 11,715,472		10,301,501		1,592,170	23,609,143
Net Assets, end of year	\$ 16,828,436	\$	15,652,760	\$	1,592,170	\$ 34,073,366

## Statement of Activities For the Year Ended June 30, 2014

	1	Unrestricted	,	Temporarily Restricted	Permanently Restricted		Total
Revenue and Support							
Contributions, grants, and							
bequests	\$	9,173,941	\$	9,309,528	\$	-	\$ 18,483,469
List rental income		31,928		_		_	31,928
Other income		283,890		-		-	283,890
Net assets released from							
restrictions		8,690,087		(8,690,087)			 
Total revenue and support	-	18,179,846		619,441		-	 18,799,287
Expenses							
Program services:							
Communications and outreach		3,547,337		-		-	3,547,337
Gulf of Mexico restoration		3,474,352		-		_	3,474,352
Ocean policy science							
and governance		3,193,331		-		_	3,193,331
Trash free seas		1,715,315		-		_	1,715,315
Marine wildlife and							
ecosystem protection	_	1,947,792	_				1,947,792
Total program services		13,878,127		-			 13,878,127
Supporting services:							
Fundraising and membership							
development		3,436,996		-		-	3,436,996
Management and							
administration		2,022,354		-		-	2,022,354
Total supporting services		5,459,350					 5,459,350
Total expenses		19,337,477					19,337,477
Change in net assets before gains		(1,157,631)		619,441		-	(538,190)
Investment income, net		1,888,693		315,932		-	2,204,625
Change in Net Assets		731,062		935,373		-	1,666,435
Net Assets, beginning of year		10,984,410		9,366,128		1,592,170	 21,942,708
Net Assets, end of year	\$	11,715,472	\$	10,301,501	\$	1,592,170	\$ 23,609,143

See accompanying notes. 5

## Statement of Functional Expenses For the Year Ended June 30, 2015

		Program Services Supporting Services								
	Communications and Outreach	Gulf of Mexico Restoration	Ocean Policy Science and Governance	Trash Free Seas	Marine Wildlife Total and Ecosystem Program Protection Services		Fundraising and Membership Development	Management and Administration	Total Supporting Services	Total
Salaries and wages	\$ 375,672	\$ 1,735,721	\$ 1,417,420	\$ 888,465	\$ 862,495 \$	5,279,773	\$ 1,030,160	\$ 852,018	\$ 1,882,178	\$ 7,161,951
Professional fees	530,646	190,115	907,170	1,269,392	336,103	3,233,426	338,722	255,889	594,611	3,828,037
Printing	1,040,419	1,382	2,520	42,929	9,638	1,096,888	863,549	6,452	870,001	1,966,889
Employee benefits	95,030	438,287	360,438	227,659	220,294	1,341,708	261,348	213,969	475,317	1,817,025
Rent, utilities, and	,,,,,,	,		,	,	-,- :-,:		,-	., .,	-,,
telephone	61,603	440,193	235,794	147,432	151,472	1,036,494	169,334	247,390	416,724	1,453,218
Delivery services	740,987	3,365	1,588	35,631	957	782,528	603,598	5,791	609,389	1,391,917
Travel and meetings	31,232	325,623	303,409	156,705	109,474	926,443	99,187	41,318	140,505	1,066,948
Supplies	103,313	44,312	38,632	25,445	18,254	229,956	104,582	34,086	138,668	368,624
Advertising	167,435	31,213	55,184	11,464	485	265,781	55,890	322	56,212	321,993
Subscriptions	150,477	16,867	26,008	5,968	4,093	203,413	29,191	8,689	37,880	241,293
Depreciation and										
amortization	8,679	40,100	32,746	20,526	19,926	121,977	23,800	34,928	58,728	180,705
List rental expenses	79,666	-	-	-	-	79,666	63,052	151	63,203	142,869
Interest expense	-	-	-	-	-	-	-	66,652	66,652	66,652
Bank fees	239	225	260	604	83	1,411	1,457	284,625	286,082	287,493
Insurance	3,715	17,164	14,016	8,786	8,529	52,210	10,187	14,950	25,137	77,347
Grants and contributions	-	1,100	447,750	23,250	80,614	552,714	-	-	-	552,714
Repairs and maintenance	1,868	11,073	7,248	5,651	4,289	30,129	5,123	7,518	12,641	42,770
Miscellaneous	21,182	2,545	3,174	2,309	3,327	32,537	24,341	6,975	31,316	63,853
Computer expenses	13,575	283	331	145	240	14,574	168	6,488	6,656	21,230
Temporary help	51	-	-	500	-	551	363	9,193	9,556	10,107
In-kind other	201,529	-	-	374,861		576,390	1,544	4	1,548	577,938
Total Expenses	\$ 3,627,318	\$ 3,299,568	\$ 3,853,688	\$ 3,247,722	\$ 1,830,273 \$	15,858,569	\$ 3,685,596	\$ 2,097,408	\$ 5,783,004	\$ 21,641,573

See accompanying notes.

6

## Statement of Functional Expenses For the Year Ended June 30, 2014

			Program	Services		S				
	Communications and Outreach	mmunications Mexico Science and Trash and Ecosystem Program Membership and Support			Trash and Ecosystem Program		Total Supporting Services	Total		
Salaries and wages	\$ 578,956	\$ 1,772,081	\$ 1,351,992	\$ 764,666	\$ 936,278 \$	5,403,973	\$ 1,004,055	\$ 897,964	\$ 1,902,019	\$ 7,305,992
Professional fees	418,368	197,916	867,128	270,736	393,892	2,148,040	275,626	247,415	523,041	2,671,081
Printing	984,309	33,348	2,554	65,068	7,719	1,092,998	801,187	10,281	811,468	1,904,466
Employee benefits	145,619	437,670	336,704	189,838	245,013	1,354,844	249,048	222,587	471,635	1,826,479
Rent, utilities, and	110,015	.57,676	223,73.	105,000	2.0,010	1,00 1,011	2.5,0.0	<b>===,</b> e o <i>r</i>	.,1,000	1,020,>
telephone	96,685	461,236	228,779	130,766	171,522	1,088,988	167,939	265,192	433,131	1,522,119
Delivery services	663,601	4,964	2,676	52,834	1,624	725,699	548,649	8,425	557,074	1,282,773
Travel and meetings	59,241	368,887	268,742	129,331	109,144	935,345	97,500	46,394	143,894	1,079,239
Supplies	94,841	64,856	47,509	30,428	31,068	268,702	104,855	52,551	157,406	426,108
Advertising	205,793	455	988	3,000	-	210,236	34,654	350	35,004	245,240
Subscriptions	149,783	8,821	15,574	3,122	3,175	180,475	24,618	6,343	30,961	211,436
Depreciation and	,	,	,	,	,	,	,	,	,	,
amortization	13,862	42,428	32,370	18,308	22,417	129,385	24,040	38,439	62,479	191,864
List rental expenses	71,371	-	-	-	-	71,371	64,166	408	64,574	135,945
Interest expense	-	-	-	92	-	92	, -	99,878	99,878	99,970
Bank fees	342	288	284	94	152	1,160	1,570	82,019	83,589	84,749
Insurance	5,262	23,544	12,288	6,950	8,510	56,554	9,126	14,592	23,718	80,272
Grants and contributions	-	33,100	1,100	38,857	6,000	79,057	-	-	-	79,057
Repairs and maintenance	5,041	19,980	11,771	7,380	8,522	52,694	8,742	13,978	22,720	75,414
Miscellaneous	18,145	3,712	12,305	2,712	2,164	39,038	20,694	3,892	24,586	63,624
Computer expenses	36,047	1,066	94	53	592	37,852	104	3,298	3,402	41,254
Temporary help	71	-	473	-	-	544	423	8,348	8,771	9,315
In-kind other	-	-	-	1,080	-	1,080	-	-	-	1,080
Total Expenses	\$ 3,547,337	\$ 3,474,352	\$ 3,193,331	\$ 1,715,315	\$ 1,947,792 \$	13,878,127	\$ 3,436,996	\$ 2,022,354	\$ 5,459,350	\$ 19,337,477

See accompanying notes.

7

# Statements of Cash Flows For the Years Ended June 30, 2015 and 2014

	2015		2014
Cash Flows from Operating Activities			
Change in net assets	\$ 10,464,223	\$	1,666,435
Adjustments to reconcile change in net assets to			
net cash provided by operating activities:			
Depreciation and amortization	180,705		191,864
Donation of marketable securities	(70,871)		(118,678)
Net realized and unrealized gain on investments	(32,422)		(1,775,103)
Change in charitable gift annuities' liability valuation	128,974		122,457
Change in operating assets and liabilities:			
(Increase) decrease in:			
Accounts and grants receivable	260,534		(100,344)
Pledges receivable, net	(3,108,536)		1,596,428
Bequests receivable	(718,554)		(752,619)
Charitable remainder trusts receivable	9,995		(95,472)
Prepaid expenses	(159,040)		13,595
Other assets	-		(57,802)
Increase (decrease) in:			
Accounts payable and accrued expenses	609,339		113,540
Charitable gift annuities	(139,270)		(149,652)
Deferred rent	11,615		17,353
Net cash provided by operating activities	 7,436,692	•	672,002
Cash Flows from Investing Activities			
Purchases of property and equipment	(27,733)		(249,863)
Purchases of investments	(7,684,851)		(1,643,863)
Proceeds from sales of investments	4,231,352		2,132,300
Increase (decrease) in deposits	 14,251		(935)
Net cash (used in) provided by investing activities	(3,466,981)		237,639
<b>Cash Flows from Financing Activity</b>			
Principal payments under note payable	(1,664,442)		(196,690)
Net cash used in financing activity	(1,664,442)		(196,690)
Net Increase in Cash and Cash Equivalents	2,305,269		712,951
Cash and Cash Equivalents, beginning of year	1,435,037		722,086
Cash and Cash Equivalents, end of year	\$ 3,740,306	\$	1,435,037
Supplemental Disclosure of Cash Flow Information Cash paid for interest	\$ 66,652	\$	100,765

Notes to Financial Statements June 30, 2015 and 2014

## 1. Nature of Operations

Ocean Conservancy, Inc. (OC) was established in 1972 to promote healthy and diverse ocean ecosystems. OC educates and empowers citizens to take action on behalf of the ocean and the millions of people who depend on it every day. OC works with fishermen, scientists, conservation groups, businesses, decision-makers, and the public to develop sound science-based practices that protect the ocean and coastal environments. From the Arctic to the Gulf of Mexico to beaches and waterways around the globe, OC brings people together to find solutions to the most pressing problems facing our ocean.

OC is headquartered in Washington, D.C. and has offices located in various coastal regions of the United States. 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.

## 2. Summary of Significant Accounting Policies

## **Basis of Accounting and Presentation**

The financial statements of OC have been prepared using the accrual basis of accounting.

Net assets are reported based on the presence or absence of donor-imposed restrictions, as follows:

- Unrestricted net assets: Represent funds that are not subject to donor-imposed stipulations and are available for support of operations. Unrestricted net assets include both undesignated and Board-designated amounts. 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: Represent funds subject to donor-imposed restrictions that are met either by actions of OC or through the passage of time. Pledges, bequests, and charitable remainder trusts receivables that are not otherwise restricted are considered to be temporarily restricted until the funds are received.
- Permanently restricted net assets: Represent net assets subject to donor-imposed stipulations that they be maintained permanently by OC. Generally the donors of these assets permit OC to use all or part of the income earned on related investments for general or specific purposes.

Notes to Financial Statements June 30, 2015 and 2014

## 2. Summary of Significant Accounting Policies (continued)

### Basis of Accounting and Presentation (continued)

• Permanently restricted net assets (continued): OC's donor-restricted endowment is subject to the authoritative guidance issued by the Financial Accounting Standards Board (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.

#### 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.

#### 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 financial statements.

#### Investments

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

### Accounts and Grants Receivable

Accounts and grants receivable consist of amounts due under contracts or other exchange transactions. Accounts receivable are stated at their net realizable value. Management considers all amounts to be fully collectible. Accordingly, no allowance for doubtful accounts has been recorded.

Notes to Financial Statements June 30, 2015 and 2014

## 2. Summary of Significant Accounting Policies (continued)

### Pledges Receivable

Pledges receivable represent unconditional promises to give. 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. At June 30, 2015 and 2014, no allowance was recorded as management believes that all pledges are fully collectible.

Amounts to be collected more than a year after the balance sheet date are recorded net of a present value discount. The discounts on these amounts are computed using risk-free interest rates applicable to the period over which the promises are to be received. Subsequent changes in this discount resulting from the passage of time are accounted for as contributions in subsequent years.

Conditional pledges are recognized as revenue when the conditions on which they depend are substantially met.

## Charitable Remainder Trusts Receivable

Charitable remainder trusts receivable are recorded at their net realizable value, as 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 are recorded at their estimated fair value on the date 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.

Notes to Financial Statements June 30, 2015 and 2014

## 2. Summary of Significant Accounting Policies (continued)

### Charitable Gift Annuities (continued)

These liabilities are subsequently remeasured at the present value of future payments to beneficiaries based on changes in life expectancy and other actuarial assumptions.

#### 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. 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.

### Measure of Operations

OC includes in its measure of operations all revenues and expenses that are an integral part of its programs and supporting activities, and excludes net investment income.

Notes to Financial Statements June 30, 2015 and 2014

## 2. Summary of Significant Accounting Policies (continued)

### 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 statements of functional expenses. Accordingly, certain costs have been allocated among the activities benefited.

## Subsequent Events

In preparing these financial statements, OC has evaluated events and transactions for potential recognition or disclosure through October 21, 2015, the date the financial statements were available to be issued.

#### 3. Concentrations

### Credit Risk

Financial instruments that potentially subject OC to significant concentrations of credit risk consist of cash and cash equivalents, investments, accounts and grants receivable, pledges receivable, bequests receivable, and charitable remainder trusts receivable. OC maintains cash deposit and transaction accounts, along with investments, with various financial institutions and some of these values exceed insurable limits under the Federal Depository Insurance Corporation (FDIC) and Securities Investor Protection Corporation (SIPC). OC has not experienced any credit losses on its cash and cash equivalents, and investments to date as it relates to FDIC and SIPC insurance limits. Management periodically assesses the financial condition of these financial institutions and believes that the risk of any credit loss is minimal.

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, nonprofit organizations, and individuals. OC's management reviews the receivable balances as a whole to determine the necessity of an allowance for doubtful accounts.

Notes to Financial Statements June 30, 2015 and 2014

## 3. Concentrations (continued)

### Revenue Risk

For the year ended June 30, 2015, one donor accounted for approximately 22% of total revenue. Amounts receivable from this donor accounted for 62% of OC's total pledges receivable as of June 30, 2015. For the year ended June 30, 2014, one donor accounted for 16% of total revenue. Amounts receivable from this donor accounted for 23% of OC's total pledges receivable as of June 30, 2014.

#### 4. Investments

Investments are recorded at fair market value and are comprised of the following at June 30:

	2015	2014
Mutual funds	\$ 18,776,764	\$ 11,255,008
Real estate investment trusts	1,169,735	875,425
Money market accounts	699,948	1,029,849
Commodities	316,534	402,551
U.S. Treasuries	94,125	125,040
Equity securities	-	3,750,158
Mortgage-backed securities	 	 62,283
Total investments	\$ 21,057,106	\$ 17,500,314

### 5. Fair Value Measurements

OC follows FASB Accounting Standards Codification (ASC) 820, Fair Value Measurements and Disclosures, for its financial assets. This standard establishes a fair value hierarchy that prioritizes the inputs to valuation techniques 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 categorization of a financial instrument within the hierarchy is based upon the pricing transparency of the instrument and does not necessarily correspond to the entity's perceived risk of that instrument.

Notes to Financial Statements June 30, 2015 and 2014

### 5. Fair Value Measurements (continued)

The inputs used in measuring fair value are categorized into three levels. Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and liabilities and have the highest priority. Level 2 is based upon observable inputs other than quoted market prices, and Level 3 is based on unobservable inputs. Transfers between levels in the fair value hierarchy are recognized at the end of the reporting period.

In general, and where applicable, OC uses quoted prices in active markets for identical assets to determine fair value. This pricing methodology applies to Level 1 investments.

OC's Level 3 financial liabilities, whose values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement, consist of split-interest agreements (charitable gift annuities are discussed in Note 9).

The following table presents OC's fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis as of June 30, 2015:

	Level 1	Level 2	Level 3	Total
A C 1				
Assets at fair value:				
Money market accounts	\$ 699,948	\$ - \$	-	\$ 699,948
Mutual funds:				
U.S. large cap	7,587,775	-	-	7,587,775
U.S. mid cap	990,079	-	-	990,079
U.S. small cap	898,869	-	-	898,869
International-developed	2,486,365	-	-	2,486,365
Emerging markets	414,597	-	-	414,597
Bond funds	6,399,079	-	-	6,399,079
Real estate investment				
trusts	1,169,735	-	-	1,169,735
U.S. Treasuries	94,125	-	-	94,125
Commodities	316,534	-	-	316,534
Total assets at fair value	\$ 21,057,106	\$ - \$	-	\$ 21,057,106
Liabilities:				
Split-interest agreements	\$ -	\$ - \$	863,603	\$ 863,603

Notes to Financial Statements June 30, 2015 and 2014

# **5.** Fair Value Measurements (continued)

The following table presents OC's fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis as of June 30, 2014:

		Level 1		Level 2	Level 3		Total
Assets at fair value:							
	\$	1,029,849	Ф	- \$		\$	1,029,849
Money market accounts	Ф	1,029,049	Ф	- Ф	-	Ф	1,029,049
Equity securities:		552.026					550 02 <i>C</i>
Consumer discretionary		552,036		-	-		552,036
Consumer supplies		312,798		-	-		312,798
Energy		275,128		-	-		275,128
Financials		601,012		-	-		601,012
Health care		548,726		-	-		548,726
Industrials		494,153		-	-		494,153
Information technology		781,197		-	-		781,197
Materials		81,221		-	-		81,221
Telecommunication		58,606		-	-		58,606
Utilities		45,281		-	-		45,281
Mutual funds:							
U.S. large cap		2,993,236		-	-		2,993,236
U.S. mid cap		184,107		-	-		184,107
U.S. small cap		155,388		-	-		155,388
International-developed		1,835,270		-	-		1,835,270
Emerging markets		650,917		-	-		650,917
Bond funds		5,436,090		-	_		5,436,090
Real estate investment							
trusts		875,425		-	_		875,425
U.S. Treasuries		125,040		-	_		125,040
Commodities		402,551		-	_		402,551
Mortgage-backed		,					,
securities		62,283		_	_		62,283
		,					,
Total assets at fair value	\$	17,500,314	\$	- \$	-	\$	17,500,314
T ' 1 '1''							
Liabilities:  Split interest agreements	¢		\$	- \$	873,899	Φ	<b>972 900</b>
Split-interest agreements	\$		Ф	<u>- ф</u>	0/3,099	Ф	873,899

Notes to Financial Statements June 30, 2015 and 2014

# 5. Fair Value Measurements (continued)

The following table provides a summary of changes in fair value of OC's Level 3 split-interest liabilities for the years ended June 30, 2015 and 2014:

Balance at June 30, 2013	\$ 901,094
New gift annuities	59,760
Distributions	(209,412)
Change in value	122,457
Balance at June 30, 2014	873,899
New gift annuities	48,319
Distributions	(187,589)
Change in value	128,974
Balance at June 30, 2015	\$ 863,603

Investment income consists of the following for the years ended June 30:

	2015	 2014		
Interest and dividends Realized and unrealized gain Less: investment management fees	\$ 526,288 32,422 (77,324)	\$ 505,705 1,775,103 (76,183)		
Total investment income, net	\$ 481,386	\$ 2,204,625		

## 6. Pledges Receivable

Pledges receivable consist of the following as of June 30:

	2015		2014	
Receivable in less than one year Receivable in one to five years	\$ 5,286,943 3,314,000	\$	4,611,344 800,000	
Total Less: discount to present value	8,600,943		5,411,344	
(2.5% and 2.3%, respectively)	(145,782)		(64,719)	
Total pledges receivable, net	\$ 8,455,161	\$	5,346,625	

Notes to Financial Statements June 30, 2015 and 2014

#### 7. 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 the estimated net realizable value using a present value approach with discount rates ranging from 2.0% to 2.4%. At June 30, 2015 and 2014, the estimated value of these receivables totaled \$844,529 and \$854,524, respectively. The estimated net present value of the charitable remainder trusts are considered to be temporarily restricted until the funds are received.

# 8. Property and Equipment

Property and equipment consists of the following at June 30:

	2015		2014	
Computers and equipment Web development Leasehold improvements Furniture and fixtures	\$	1,400,060 290,578 269,360 34,382	\$	1,381,016 290,578 260,670 34,382
Total property and equipment Less: accumulated depreciation		1,994,380		1,966,646
and amortization		(1,756,666)		(1,575,960)
Property and equipment, net	\$	237,714	\$	390,686

#### 9. 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, 2015 and 2014 totaled \$48,319 and \$59,760, 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%.

Notes to Financial Statements June 30, 2015 and 2014

#### 10. 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 \$1,000,000 during the years ended June 30, 2015 and 2014. The facility is payable on demand and provides for a variable interest rate equal to LIBOR plus 1.75% (1.90% at June 30, 2015). 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, 2015. At June 30, 2015 and 2014, OC had no outstanding balance under the facility.

## 11. Note Payable

OC maintained a term loan with an original principal amount of \$3,000,000. The term loan required monthly principal and interest payments in the amount of \$24,656, bearing interest at 5.59% per annum, with a due date of February 10, 2021. During the year ended June 30, 2015, OC paid the outstanding balance of this term loan. At June 30, 2015, OC had no outstanding balance under this note.

## 12. Temporarily Restricted Net Assets

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

	2015		 2014	
Purpose restricted Time restricted Endowment	\$	12,599,385 2,368,103 685,272	\$ 7,289,497 2,278,406 733,598	
Total temporarily restricted net assets	\$	15,652,760	\$ 10,301,501	

#### 13. 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.

### Interpretation of Relevant Law

The Board of Directors of OC has interpreted the 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.

Notes to Financial Statements June 30, 2015 and 2014

### 13. Endowment (continued)

### Interpretation of Relevant Law (continued)

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) duration and preservation of the fund; (2) purposes of OC and the donor-restricted endowment fund; (3) general economic conditions; (4) possible effect of inflation and deflation; (5) expected total return from income and the appreciation or depreciation of investments; (6) other resources of OC; and (7) investment policies of OC.

## **Spending Policy**

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. 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.

#### Return Objectives, Risk Parameters, and Strategies

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	5.0%
Inflation	3.0%
Long-term target return	8.0%

Notes to Financial Statements June 30, 2015 and 2014

# 13. Endowment (continued)

# Composition of Funds

Endowment net asset composition was as follows at June 30:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
2015: Donor-restricted endowment	\$ -	\$ 685,272	\$ 1,592,170	\$ 2,277,442
2014: Donor-restricted endowment	\$ -	\$ 733,598	\$ 1,592,170	\$ 2,325,768

## Changes in Endowment Net Assets

For the years ended June 30, changes in endowment net assets were as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, June 30, 2013	\$ -	\$ 520,596	\$ 1,592,170	\$ 2,112,766
Investment return: Investment income Net appreciation		74,197 250,863	- -	74,197 250,863
Total investment return		325,060	-	325,060
Appropriations Management fees	-	(102,930) (9,128)		(102,930) (9,128)
Endowment net assets, June 30, 2014		733,598	1,592,170	2,325,768
Investment return: Investment income Net depreciation		80,607 (15,136)	-	80,607 (15,136)
Total investment return		65,471	-	65,471
Appropriations Management fees	- -	(106,215) (7,582)		(106,215) (7,582)
Endowment net assets, June 30, 2015	\$ -	\$ 685,272	\$ 1,592,170	\$ 2,277,442

Notes to Financial Statements June 30, 2015 and 2014

### 13. Endowment (continued)

### Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the organization to retain as a fund of perpetual duration. In accordance with accounting principles generally accepted in the United States of America, deficiencies of this nature would be reported by OC in unrestricted net assets. There were no fund deficiencies as of June 30, 2015 and 2014.

### 14. Retirement Plan

OC has a defined contribution 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 plan, as determined annually by OC's Board of Directors, are 6% of qualifying compensation of the participants for 2015 and 2014. OC recorded contributions to the plan of \$353,307 and \$323,442 for the years ended June 30, 2015 and 2014, respectively.

#### 15. 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 and includes coinsurance to minimize OC's annual financial risk. The maximum amount of medical claims that OC will pay during the insurance provider's plan year is \$35,000 per employee. The claims provider requires certain funds be paid in advance to cover future claims and premiums. At June 30, 2015 and 2014, prepaid health insurance costs under this arrangement totaled \$434,613 and \$219,729, respectively.

Total health insurance expense for the year ended June 30, 2015 was \$910,824, including claims of \$487,813, and premiums and administrative fees of \$423,011. Total health insurance expense for the year ended June 30, 2014 was \$915,054, including claims of \$540,610, and premiums and administrative fees of \$374,444.

#### 16. Allocation of Joint Costs

OC conducts direct mail campaigns that incur joint costs for informational materials, which 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.

Notes to Financial Statements June 30, 2015 and 2014

### **16.** Allocation of Joint Costs (continued)

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

	2015		2014	
Program services Fundraising and membership development Management and administrative	\$	2,525,674 1,996,097 4,526	\$	2,088,321 1,877,500 11,933
Total joint costs	\$	4,526,297	\$	3,977,754

## 17. Related Party Transactions

During the years ended June 30, 2015 and 2014, OC recorded contributions from Board members totaling \$600,875 and \$456,756, respectively.

#### 18. Commitments

OC leases office space for its headquarters 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 2021. As of June 30, 2015, the future minimum lease payments required under the operating leases are as follows for the years ending June 30:

2016	\$ 793,043
2017	766,961
2018	712,111
2019	701,427
2020	714,591
2021	 183,083
Total	\$ 3,871,216

Notes to Financial Statements June 30, 2015 and 2014

### 18. Commitments (continued)

In accordance with authoritative guidance issued by FASB ASC, OC is recognizing the total cost of its office leases ratably over the respective lease periods. The difference between rent paid and expensed is reflected as deferred rent in the accompanying statements of financial position. Rent expense for the years ended June 30, 2015 and 2014 totaled \$1,211,942 and \$1,227,788, respectively.

### 19. 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. No tax expense is recorded in the accompanying financial statements for the years ended June 30, 2015 and 2014, as there were no unrelated business activities.

Management evaluated OC's tax positions and has concluded that OC has taken no uncertain tax positions that require either recognition or disclosure in the accompanying financial statements.