

Ocean Conservancy, Inc.

Financial Statements
and Independent Auditors' Report

June 30, 2018 and 2017

Ocean Conservancy, Inc.

Financial Statements
June 30, 2018 and 2017

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
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, 2018 and 2017; 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 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 OC as of June 30, 2018 and 2017, 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.

Handwritten signature in black ink that reads "Rogers + Company PLLC". The "R" is large and stylized, with a loop at the top. The rest of the text is written in a cursive, handwritten style.

Vienna, Virginia
October 18, 2018

Ocean Conservancy, Inc.

Statements of Financial Position June 30, 2018 and 2017

	2018	2017
Assets		
Cash and cash equivalents	\$ 4,713,983	\$ 5,888,157
Investments	25,339,469	22,133,944
Accounts and grants receivable	172,427	158,830
Pledges receivable, net	13,494,899	3,965,511
Bequests receivable	2,342,191	1,491,837
Charitable remainder trusts receivable, net	1,235,719	1,230,985
Deferred compensation investments	24,994	41,381
Prepaid expenses	544,635	654,383
Property and equipment, net	313,967	371,061
Deposits	84,075	90,683
Other assets	92,802	92,802
Total assets	<u>\$ 48,359,161</u>	<u>\$ 36,119,574</u>
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	\$ 1,588,725	\$ 1,353,809
Charitable gift annuities	578,276	933,758
Deferred compensation	24,994	41,381
Deferred rent	68,649	266,035
Total liabilities	<u>2,260,644</u>	<u>2,594,983</u>
Net Assets		
Unrestricted:		
Undesignated	387,204	351,529
Board-designated	20,842,547	18,371,827
Total unrestricted	21,229,751	18,723,356
Temporarily restricted	22,030,231	13,209,065
Permanently restricted	2,838,535	1,592,170
Total net assets	<u>46,098,517</u>	<u>33,524,591</u>
Total liabilities and net assets	<u>\$ 48,359,161</u>	<u>\$ 36,119,574</u>

See accompanying notes.

Ocean Conservancy, Inc.

Statement of Activities
For the Year Ended June 30, 2018

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue and Support				
Contributions, grants, and bequests	\$ 13,267,532	\$ 22,456,968	\$ 1,246,365	\$ 36,970,865
List rental income	67,681	-	-	67,681
Other income	236,760	-	-	236,760
Net assets released from restrictions	13,821,802	(13,821,802)	-	-
Total revenue and support	27,393,775	8,635,166	1,246,365	37,275,306
Expenses				
Program services:				
Communications and outreach	4,469,415	-	-	4,469,415
Gulf of Mexico restoration	1,673,019	-	-	1,673,019
Ocean policy science and governance	5,715,620	-	-	5,715,620
Trash free seas	3,428,913	-	-	3,428,913
Marine wildlife and ecosystem protection	5,137,447	-	-	5,137,447
Total program services	20,424,414	-	-	20,424,414
Supporting services:				
Fundraising and membership development	3,836,994	-	-	3,836,994
Management and administration	2,108,412	-	-	2,108,412
Total supporting services	5,945,406	-	-	5,945,406
Total expenses	26,369,820	-	-	26,369,820
Change in net assets before gains	1,023,955	8,635,166	1,246,365	10,905,486
Investment income, net	1,482,440	186,000	-	1,668,440
Change in Net Assets	2,506,395	8,821,166	1,246,365	12,573,926
Net Assets, beginning of year	18,723,356	13,209,065	1,592,170	33,524,591
Net Assets, end of year	\$ 21,229,751	\$ 22,030,231	\$ 2,838,535	\$ 46,098,517

See accompanying notes.

Ocean Conservancy, Inc.

Statement of Activities
For the Year Ended June 30, 2017

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue and Support				
Contributions, grants, and bequests	\$ 12,756,099	\$ 11,830,960	\$ -	\$ 24,587,059
List rental income	62,197	-	-	62,197
Other income	36,410	-	-	36,410
Net assets released from restrictions	11,288,184	(11,288,184)	-	-
Total revenue and support	24,142,890	542,776	-	24,685,666
Expenses				
Program services:				
Communications and outreach	5,059,067	-	-	5,059,067
Gulf of Mexico restoration	2,614,082	-	-	2,614,082
Ocean policy science and governance	4,242,671	-	-	4,242,671
Trash free seas	3,242,684	-	-	3,242,684
Marine wildlife and ecosystem protection	3,432,533	-	-	3,432,533
Total program services	18,591,037	-	-	18,591,037
Supporting services:				
Fundraising and membership development	3,683,800	-	-	3,683,800
Management and administration	2,180,395	-	-	2,180,395
Total supporting services	5,864,195	-	-	5,864,195
Total expenses	24,455,232	-	-	24,455,232
Change in net assets before gains	(312,342)	542,776	-	230,434
Investment income, net	1,861,262	224,964	-	2,086,226
Change in Net Assets	1,548,920	767,740	-	2,316,660
Net Assets, beginning of year	17,174,436	12,441,325	1,592,170	31,207,931
Net Assets, end of year	\$ 18,723,356	\$ 13,209,065	\$ 1,592,170	\$ 33,524,591

See accompanying notes.

Ocean Conservancy, Inc.

Statement of Functional Expenses
For the Year Ended June 30, 2018

	Program Services					Supporting Services				Total
	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 Supporting Services	
Salaries and wages	\$ 785,326	\$ 898,371	\$ 2,262,992	\$ 1,327,064	\$ 1,978,743	\$ 7,252,496	\$ 1,231,328	\$ 1,052,037	\$ 2,283,365	\$ 9,535,861
Professional fees	731,018	134,235	1,413,949	726,209	445,928	3,451,339	396,198	255,669	651,867	4,103,206
Printing	962,922	6,285	2,791	44,863	8,199	1,025,060	823,061	17,620	840,681	1,865,741
Employee benefits	221,223	253,877	634,883	373,829	540,569	2,024,381	346,861	296,402	643,263	2,667,644
Rent, utilities, and telephone	78,986	186,065	228,109	133,768	248,398	875,326	122,270	163,278	285,548	1,160,874
Delivery services	544,057	2,502	3,216	66,603	5,073	621,451	466,681	10,957	477,638	1,099,089
Travel and meetings	104,788	148,576	315,420	549,864	271,030	1,389,678	93,486	57,529	151,015	1,540,693
Supplies	113,071	11,199	26,927	80,465	52,052	283,714	99,050	21,146	120,196	403,910
Advertising	301,934	-	60,806	2,097	864	365,701	80,311	1,271	81,582	447,283
Subscriptions	104,227	3,559	32,724	12,069	9,534	162,113	50,992	31,426	82,418	244,531
Depreciation and amortization	10,057	11,504	28,979	16,994	25,339	92,873	15,768	31,147	46,915	139,788
List rental expenses	81,232	-	-	-	-	81,232	65,964	1,038	67,002	148,234
Bank fees	287	125	304	1,223	946	2,885	1,058	127,014	128,072	130,957
Insurance	6,227	7,123	17,942	10,709	15,689	57,690	9,763	12,904	22,667	80,357
Grants and contributions	-	500	670,839	35,750	1,517,385	2,224,474	-	-	-	2,224,474
Repairs and maintenance	4,088	5,261	9,682	11,150	8,717	38,898	5,655	9,733	15,388	54,286
Miscellaneous	13,922	2,906	3,711	3,016	6,930	30,485	13,686	4,757	18,443	48,928
Computer expenses	814	931	2,346	1,376	2,051	7,518	1,276	5,338	6,614	14,132
Temporary help	2,038	-	-	-	-	2,038	2,835	8,917	11,752	13,790
In-kind other	403,198	-	-	31,864	-	435,062	10,751	229	10,980	446,042
Total Expenses	\$ 4,469,415	\$ 1,673,019	\$ 5,715,620	\$ 3,428,913	\$ 5,137,447	\$ 20,424,414	\$ 3,836,994	\$ 2,108,412	\$ 5,945,406	\$ 26,369,820

See accompanying notes.

Ocean Conservancy, Inc.

Statement of Functional Expenses
For the Year Ended June 30, 2017

	Program Services					Supporting Services				Total
	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 Supporting Services	
Salaries and wages	\$ 815,168	\$ 1,397,748	\$ 1,759,032	\$ 1,132,327	\$ 1,348,972	\$ 6,453,247	\$ 1,128,263	\$ 1,048,474	\$ 2,176,737	\$ 8,629,984
Professional fees	993,733	184,586	1,097,534	939,189	527,440	3,742,482	351,300	270,322	621,622	4,364,104
Printing	1,056,976	7,664	2,781	60,458	9,657	1,137,536	831,398	10,136	841,534	1,979,070
Employee benefits	220,075	379,817	474,216	305,263	363,668	1,743,039	304,167	282,656	586,823	2,329,862
Rent, utilities, and telephone	109,141	349,685	232,292	151,029	200,865	1,043,012	149,171	236,776	385,947	1,428,959
Delivery services	616,983	1,951	1,775	42,901	1,886	665,496	466,407	7,359	473,766	1,139,262
Travel and meetings	73,503	213,793	363,672	412,789	217,891	1,281,648	86,064	45,944	132,008	1,413,656
Supplies	120,042	19,804	20,381	58,065	16,781	235,073	96,275	17,352	113,627	348,700
Advertising	232,236	2,474	116,128	29,577	30,042	410,457	130,896	575	131,471	541,928
Subscriptions	95,729	3,968	24,145	8,361	5,426	137,629	49,823	27,191	77,014	214,643
Depreciation and amortization	7,862	13,482	16,966	10,921	13,011	62,242	10,882	17,460	28,342	90,584
List rental expenses	69,848	-	-	-	-	69,848	49,840	120	49,960	119,808
Bank fees	3,209	25	16	785	186	4,221	3,805	141,022	144,827	149,048
Insurance	7,747	13,284	16,718	10,762	12,821	61,332	10,723	17,204	27,927	89,259
Grants and contributions	100,498	11,815	105,000	39,445	670,000	926,758	-	-	-	926,758
Repairs and maintenance	2,871	7,397	6,316	6,575	6,783	29,942	3,984	6,373	10,357	40,299
Miscellaneous	2,327	3,026	3,103	2,566	5,113	16,135	7,672	33,659	41,331	57,466
Computer expenses	2,029	3,563	2,596	1,671	1,991	11,850	1,665	7,290	8,955	20,805
Temporary help	270	-	-	-	-	270	1,465	10,482	11,947	12,217
In-kind other	528,820	-	-	30,000	-	558,820	-	-	-	558,820
Total Expenses	\$ 5,059,067	\$ 2,614,082	\$ 4,242,671	\$ 3,242,684	\$ 3,432,533	\$ 18,591,037	\$ 3,683,800	\$ 2,180,395	\$ 5,864,195	\$ 24,455,232

See accompanying notes.

Ocean Conservancy, Inc.

Statements of Cash Flows
For the Years Ended June 30, 2018 and 2017

	2018	2017
Cash Flows from Operating Activities		
Change in net assets	\$ 12,573,926	\$ 2,316,660
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation and amortization	139,788	90,584
Donation of marketable securities	(116,885)	(212,861)
Change in pledges receivable discount	117,563	(31,425)
Net realized and unrealized gains on investments	(1,215,853)	(1,654,933)
Change in charitable gift annuities' liability valuation	(9,410)	148,494
Permanently restricted net asset contributions	(1,246,365)	-
Change in operating assets and liabilities:		
(Increase) decrease in:		
Accounts and grants receivable	(13,597)	54,274
Pledges receivable	(9,646,951)	2,619,699
Bequests receivable	(850,354)	(586,977)
Charitable remainder trusts receivable, net	(4,734)	(398,725)
Deferred compensation investments	16,387	(37,856)
Prepaid expenses	109,748	(87,323)
Increase (decrease) in:		
Accounts payable and accrued expenses	234,916	40,710
Charitable gift annuities	(346,072)	(65,772)
Deferred compensation	(16,387)	37,856
Deferred rent	(197,386)	(43,176)
	(471,666)	2,189,229
Net cash (used in) provided by operating activities		
Cash Flows from Investing Activities		
Purchases of property and equipment	(82,694)	(128,590)
Purchases of investments	(6,608,684)	(2,254,164)
Proceeds from sales of investments	4,735,897	2,623,241
Decrease (increase) in deposits	6,608	1,624
	(1,948,873)	242,111
Net cash (used in) provided by investing activities		
Cash Flows from Financing Activity		
Permanently restricted net asset contributions	1,246,365	-
	1,246,365	-
Net cash provided by financing activity		
Net (Decrease) Increase in Cash and Cash Equivalents	(1,174,174)	2,431,340
Cash and Cash Equivalents, beginning of year	5,888,157	3,456,817
Cash and Cash Equivalents, end of year	\$ 4,713,983	\$ 5,888,157

See accompanying notes.

Ocean Conservancy, Inc.

Notes to Financial Statements
June 30, 2018 and 2017

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.

Ocean Conservancy, Inc.

Notes to Financial Statements
June 30, 2018 and 2017

2. Summary of Significant Accounting Policies (continued)

Basis of Accounting and Presentation (continued)

- *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. 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 (UPMIFA) of 2006 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.

Ocean Conservancy, Inc.

Notes to Financial Statements
June 30, 2018 and 2017

2. Summary of Significant Accounting Policies (continued)

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.

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, 2018 and 2017, 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.

Ocean Conservancy, Inc.

Notes to Financial Statements
June 30, 2018 and 2017

2. Summary of Significant Accounting Policies (continued)

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.

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.

Ocean Conservancy, Inc.

Notes to Financial Statements
June 30, 2018 and 2017

2. Summary of Significant Accounting Policies (continued)

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.

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.

Recently Issued Accounting Pronouncements

In August 2016, the FASB issued Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements for Not-for-Profit Entities*. The update changes the manner by which nonprofit organizations classify net assets as well as improves information presented in financial statements and notes about nonprofit organization liquidity, financial performance, and cash flows. The guidance is effective beginning in OC's fiscal year 2019.

In February 2016, the FASB issued ASU 2016-02, *Leases*. The update requires a lessee to recognize a right-of-use asset and lease liability, initially measured at the present value of the lease payments, in its statements of financial position. The guidance also expands the required quantitative and qualitative lease disclosures. The guidance is effective beginning in OC's fiscal year 2021.

Subsequent Events

In preparing these financial statements, OC has evaluated events and transactions for potential recognition or disclosure through October 18, 2018, the date the financial statements were available to be issued.

Ocean Conservancy, Inc.

Notes to Financial Statements
June 30, 2018 and 2017

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.

Revenue Risk

For the year ended June 30, 2018, one donor accounted for 29% of total revenue. Amounts receivable from this donor accounted for 52% of OC's total pledges receivable as of June 30, 2018. For the year ended June 30, 2017, two donors accounted for approximately 27% of total revenue. Amounts receivable from these donors accounted for 61% of OC's total pledges receivable as of June 30, 2017.

Ocean Conservancy, Inc.

Notes to Financial Statements June 30, 2018 and 2017

4. Investments

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

	<u>2018</u>	<u>2017</u>
Mutual funds	\$ 24,047,023	\$ 20,590,914
Money market accounts	553,443	918,933
Commodities	619,018	510,054
Mortgage-backed securities	13,960	17,471
U.S. Treasuries	106,025	96,572
Total investments	<u>\$ 25,339,469</u>	<u>\$ 22,133,944</u>

Net investment income consists of the following for the years ended June 30:

	<u>2018</u>	<u>2017</u>
Interest and dividends	\$ 520,062	\$ 489,415
Realized and unrealized gains	1,215,853	1,654,933
Less: investment management fees	<u>(67,475)</u>	<u>(58,122)</u>
Total investment income, net	<u>\$ 1,668,440</u>	<u>\$ 2,086,226</u>

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.

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.

Ocean Conservancy, Inc.

Notes to Financial Statements
June 30, 2018 and 2017

5. Fair Value Measurements (continued)

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, 2018:

	Level 1	Level 2	Level 3	Total
Assets at fair value:				
Money market accounts	\$ 553,443	\$ -	\$ -	\$ 553,443
Mutual funds:				
U.S. large cap	8,412,320	-	-	8,412,320
U.S. mid cap	1,685,244	-	-	1,685,244
U.S. small cap	1,051,100	-	-	1,051,100
International-developed	2,425,419	-	-	2,425,419
Emerging markets	1,036,027	-	-	1,036,027
Bond funds	9,436,913	-	-	9,436,913
U.S. Treasuries	106,025	-	-	106,025
Commodities	619,018	-	-	619,018
Mortgage-backed securities	13,960	-	-	13,960
Deferred compensation investments:				
Mutual funds - real estate	2,318	-	-	2,318
Mutual funds - equity	22,676	-	-	22,676
Total assets at fair value	<u>\$ 25,364,463</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 25,364,463</u>
Liabilities:				
Split-interest agreements	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 578,276</u>	<u>\$ 578,276</u>

Ocean Conservancy, Inc.

Notes to Financial Statements
June 30, 2018 and 2017

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, 2017:

	Level 1	Level 2	Level 3	Total
Assets at fair value:				
Money market accounts	\$ 918,933	\$ -	\$ -	\$ 918,933
Mutual funds:				
U.S. large cap	7,290,744	-	-	7,290,744
U.S. mid cap	1,456,213	-	-	1,456,213
U.S. small cap	1,213,328	-	-	1,213,328
International-developed	2,483,904	-	-	2,483,904
Emerging markets	1,079,907	-	-	1,079,907
Bond funds	7,066,818	-	-	7,066,818
U.S. Treasuries	96,572	-	-	96,572
Commodities	510,054	-	-	510,054
Mortgage-backed securities	17,471	-	-	17,471
Deferred compensation investments:				
Money market accounts	20,109	-	-	20,109
Mutual funds - real estate	2,033	-	-	2,033
Mutual funds - equity	19,239	-	-	19,239
Total assets at fair value	<u>\$ 22,175,325</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 22,175,325</u>
Liabilities:				
Split-interest agreements	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 933,758</u>	<u>\$ 933,758</u>

The following table provides a summary of changes in fair value of OC's Level 3 split-interest liabilities for the year ended June 30, 2018:

	<u>Split-Interest</u>
Beginning balance	\$ 933,758
New gift annuities	77,303
Distributions	(423,375)
Change in value	<u>(9,410)</u>
Ending balance	<u>\$ 1,512,034</u>

Ocean Conservancy, Inc.

Notes to Financial Statements
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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 year ended June 30, 2017:

	<u>Split-Interest</u>
Beginning balance	\$ 851,036
New gift annuities	41,589
Distributions	(107,361)
Change in value	<u>148,494</u>
Ending balance	<u><u>\$ 933,758</u></u>

6. Pledges Receivable

Pledges receivable consist of the following as of June 30:

	<u>2018</u>	<u>2017</u>
Receivable in less than one year	\$ 9,362,439	\$ 3,487,429
Receivable in one to five years	<u>4,321,941</u>	<u>550,000</u>
Total pledges receivable	13,684,380	4,037,429
Less: discount to present value (3.8% and 3.5%, respectively)	<u>(189,481)</u>	<u>(71,918)</u>
Pledges receivable, net	<u><u>\$ 13,494,899</u></u>	<u><u>\$ 3,965,511</u></u>

7. Charitable Remainder Trusts Receivable

OC is the remainder beneficiary in three 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 3.4% to 2.6%. At June 30, 2018 and 2017, the estimated value of these receivables totaled \$1,235,719 and \$1,230,985, respectively. The estimated net present value of the charitable remainder trusts are considered to be temporarily restricted until the funds are received.

Ocean Conservancy, Inc.

Notes to Financial Statements June 30, 2018 and 2017

8. Property and Equipment

Property and equipment consists of the following at June 30:

	<u>2018</u>	<u>2017</u>
Computers and equipment	\$ 938,588	\$ 957,589
Web development	399,116	327,853
Leasehold improvements	285,800	285,800
Furniture and fixtures	<u>5,847</u>	<u>5,847</u>
Total property and equipment	1,629,351	1,577,089
Less: accumulated depreciation and amortization	<u>(1,315,384)</u>	<u>(1,206,028)</u>
Property and equipment, net	<u><u>\$ 313,967</u></u>	<u><u>\$ 371,061</u></u>

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, 2018 and 2017 totaled \$55,376 and \$146,167, 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%.

10. Temporarily Restricted Net Assets

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

	<u>2018</u>	<u>2017</u>
Purpose restricted	\$ 7,718,399	\$ 8,501,307
Time restricted	13,494,899	3,965,511
Endowment	<u>816,933</u>	<u>742,247</u>
Total temporarily restricted net assets	<u><u>\$ 22,030,231</u></u>	<u><u>\$ 13,209,065</u></u>

Ocean Conservancy, Inc.

Notes to Financial Statements
June 30, 2018 and 2017

11. 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 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) 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.

Ocean Conservancy, Inc.

Notes to Financial Statements
June 30, 2018 and 2017

11. Endowment (continued)

Return Objectives, Risk Parameters, and Strategies

OC follows a conservative investment policy for endowment assets that attempts to preserve fully the original corpus and optimize returns. Should significant, new donations be made to the endowment assets, OC's investment policy would permit a strategy of long-term growth of the endowment assets. Under such a policy, the endowment assets would be invested in a manner that is intended to produce a real rate of return in excess of the spending policy.

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 require 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, 2018 and 2017.

Composition of Funds

Endowment net asset composition was as follows at June 30:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<u>2018:</u>				
Donor-restricted endowment	\$ -	\$ 816,933	\$ 2,838,535	\$ 3,655,468
<u>2017:</u>				
Donor-restricted endowment	\$ -	\$ 742,247	\$ 1,592,170	\$ 2,334,417

Ocean Conservancy, Inc.

Notes to Financial Statements
June 30, 2018 and 2017

11. Endowment (continued)

Changes in Endowment Net Assets

Changes in endowment net assets were as follows for the years ended June 30:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, June 30, 2016	\$ -	\$ 627,577	\$ 1,592,170	\$ 2,219,747
Investment return:				
Investment income	-	55,553	-	55,553
Net appreciation	-	175,134	-	175,134
Total investment return	-	230,687	-	230,687
Appropriations	-	(110,294)	-	(110,294)
Management fees	-	(5,723)	-	(5,723)
Endowment net assets, June 30, 2017	-	742,247	1,592,170	2,334,417
Investment return:				
Investment income	-	53,719	-	53,719
Net appreciation	-	138,415	-	138,415
Total investment return	-	192,134	-	192,134
Contributions	-	-	1,246,365	1,246,365
Appropriations	-	(111,314)	-	(111,314)
Management fees	-	(6,134)	-	(6,134)
Endowment net assets, June 30, 2018	\$ -	\$ 816,933	\$ 2,838,535	\$ 3,655,468

Ocean Conservancy, Inc.

Notes to Financial Statements
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12. Retirement Plans

Defined Contribution Plan

OC has a defined contribution 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 2018 and 2017. OC recorded contributions to the plan of \$431,207 and \$409,213 for the years ended June 30, 2018 and 2017, respectively.

Deferred Compensation Plan

OC adopted a non-qualified deferred compensation plan under Internal Revenue Code (IRC) Section 457(b) for executive employees. Deferred compensation and investments designated for such deferrals are only available and taxable upon termination of employment, retirement, death, or an unforeseeable emergency.

Until paid or made available to the participant or beneficiary, all deferred amounts, and investment earnings related thereto, are solely the property and rights of OC. At June 30, 2018 and 2017, the deferred compensation assets and corresponding liabilities held at fair value amounted to \$24,994 and \$41,381, respectively, and are included in the accompanying statements of financial position. OC contributed \$1,800 and \$4,100 to the plan for the years ended June 30, 2018 and 2017, respectively.

13. 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.

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

	<u>2018</u>	<u>2017</u>
Program services	\$ 2,380,359	\$ 2,618,071
Fundraising and membership development	1,932,956	1,868,126
Management and administrative	<u>30,405</u>	<u>4,491</u>
Total joint costs	<u>\$ 4,343,720</u>	<u>\$ 4,490,688</u>

Ocean Conservancy, Inc.

Notes to Financial Statements
June 30, 2018 and 2017

14. Related Party Transactions

During the years ended June 30, 2018 and 2017, OC recorded contributions from Board members totaling \$432,076 and \$365,864, respectively.

15. Operating Leases

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 January 2031. 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.

The future minimum lease payments required under the operating leases are as follows for the years ending June 30:

2019	\$ 1,013,221
2020	986,872
2021	923,907
2022	923,076
2023	931,337
Thereafter	<u>7,606,439</u>
Total	<u>\$ 12,384,852</u>

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, 2018 and 2017 totaled \$997,257 and \$1,278,708, respectively.

Ocean Conservancy, Inc.

Notes to Financial Statements
June 30, 2018 and 2017

16. Income Taxes

The Internal Revenue Service has determined that OC is exempt from federal income taxes under IRC Section 501(c)(3), 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, 2018 and 2017, 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.