

Ocean Conservancy, Inc.

Financial Statements
and Independent Auditors' Report

June 30, 2020 and 2019

Ocean Conservancy, Inc.

Financial Statements
June 30, 2020 and 2019

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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, 2020 and 2019; 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, 2020 and 2019, 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.

Emphasis of Matter

As discussed in Note 2 to the financial statements, OC adopted Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers* (Topic 606) and FASB ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. Our opinion is not modified with respect to this matter.

A handwritten signature in black ink that reads "Rogers + Company PLLC". The word "Rogers" is written in a large, stylized cursive font, followed by a plus sign and the words "Company PLLC" in a smaller, more standard cursive font.

Vienna, Virginia
October 27, 2020

Ocean Conservancy, Inc.

Statements of Financial Position
June 30, 2020 and 2019

	2020	2019
Assets		
Cash	\$ 6,731,489	\$ 6,475,080
Investments	33,738,152	30,620,899
Accounts receivable	50,394	48,763
Grants receivable	1,545,537	372,187
Contributions receivable, net	5,003,190	7,221,930
Bequests and trusts receivable	3,822,549	1,538,408
Charitable remainder trusts receivable, net	956,814	1,307,055
Prepaid expenses	497,510	1,152,390
Deferred compensation plan assets	88,156	44,924
Property and equipment, net	39,258	166,832
Deposits	84,075	149,297
Other assets	92,802	92,802
Total assets	\$ 52,649,926	\$ 49,190,567
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	\$ 2,279,226	\$ 1,998,094
Charitable gift annuities	1,015,471	964,333
Deferred rent	298,026	194,600
Deferred compensation plan liabilities	88,156	44,924
Total liabilities	3,680,879	3,201,951
Net Assets		
Without donor restrictions:		
Undesignated	4,412,861	2,143,534
Board-designated	26,012,750	23,274,820
Total without donor restrictions	30,425,611	25,418,354
With donor restrictions:		
Purpose and time restrictions	15,703,801	17,730,627
Perpetual in nature	2,839,635	2,839,635
Total with donor restrictions	18,543,436	20,570,262
Total net assets	48,969,047	45,988,616
Total liabilities and net assets	\$ 52,649,926	\$ 49,190,567

See accompanying notes.

Ocean Conservancy, Inc.

Statement of Activities
For the Year Ended June 30, 2020

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Revenue and Support			
Contributions, grants, and bequests	\$ 17,535,460	\$ 15,428,661	\$ 32,964,121
In-kind contributions	-	504,432	504,432
List rental income	36,977	-	36,977
Royalties	94,148	-	94,148
Other income	45,209	-	45,209
Net assets released from restrictions	18,058,591	(18,058,591)	-
Total revenue and support	<u>35,770,385</u>	<u>(2,125,498)</u>	<u>33,644,887</u>
Expenses			
Program services:			
Science, policy, and outreach	9,574,547	-	9,574,547
Marine ecosystem protection	7,024,938	-	7,024,938
Trash free seas	6,975,221	-	6,975,221
Climate	1,643,099	-	1,643,099
Total program services	<u>25,217,805</u>	<u>-</u>	<u>25,217,805</u>
Supporting services:			
Fundraising and membership development	4,879,554	-	4,879,554
Management and administration	2,311,548	-	2,311,548
Total supporting services	<u>7,191,102</u>	<u>-</u>	<u>7,191,102</u>
Total expenses	<u>32,408,907</u>	<u>-</u>	<u>32,408,907</u>
Change in net assets before gains	3,361,478	(2,125,498)	1,235,980
Investment return, net	1,645,779	98,672	1,744,451
Change in Net Assets	5,007,257	(2,026,826)	2,980,431
Net Assets, beginning of year	<u>25,418,354</u>	<u>20,570,262</u>	<u>45,988,616</u>
Net Assets, end of year	<u>\$ 30,425,611</u>	<u>\$ 18,543,436</u>	<u>\$ 48,969,047</u>

See accompanying notes.

Ocean Conservancy, Inc.

Statement of Activities
For the Year Ended June 30, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and Support			
Contributions, grants, and bequests	\$ 15,810,297	\$ 12,316,176	\$ 28,126,473
In-kind contributions	-	438,382	438,382
List rental income	37,594	-	37,594
Royalties	102,435	-	102,435
Net assets released from restrictions	17,230,436	(17,230,436)	-
Total revenue and support	33,180,762	(4,475,878)	28,704,884
Expenses			
Program services:			
Science, policy, and outreach	7,718,842	-	7,718,842
Marine ecosystem protection	9,510,226	-	9,510,226
Trash free seas	5,460,682	-	5,460,682
Climate	978,640	-	978,640
Total program services	23,668,390	-	23,668,390
Supporting services:			
Fundraising and membership development	4,376,381	-	4,376,381
Management and administration	2,380,668	-	2,380,668
Total supporting services	6,757,049	-	6,757,049
Total expenses	30,425,439	-	30,425,439
Change in net assets before gains	2,755,323	(4,475,878)	(1,720,555)
Investment return, net	1,433,280	177,374	1,610,654
Change in Net Assets	4,188,603	(4,298,504)	(109,901)
Net Assets, beginning of year	21,229,751	24,868,766	46,098,517
Net Assets, end of year	\$ 25,418,354	\$ 20,570,262	\$ 45,988,616

See accompanying notes.

Ocean Conservancy, Inc.

Statement of Functional Expenses
For the Year Ended June 30, 2020

	Program Services					Supporting Services			
	Science, Policy, and Outreach	Marine Ecosystem Protection	Trash Free Seas	Climate	Total Program Services	Fundraising and Membership Development	Management and Administration	Total Supporting Services	Total
Salaries and wages	\$ 2,505,478	\$ 3,707,001	\$ 2,211,072	\$ 729,531	\$ 9,153,082	\$ 1,756,119	\$ 1,037,859	\$ 2,793,978	\$ 11,947,060
Employee benefits	704,152	1,041,835	621,411	205,031	2,572,429	493,549	291,214	784,763	3,357,192
Professional fees	1,697,286	1,172,296	1,784,720	429,030	5,083,332	386,983	342,367	729,350	5,812,682
Printing	1,129,363	4,216	84,567	6,993	1,225,139	969,175	20,729	989,904	2,215,043
Rent, utilities, and telephone	267,082	492,866	234,149	82,533	1,076,630	185,711	182,961	368,672	1,445,302
Delivery services	665,722	3,415	71,093	587	740,817	564,720	13,349	578,069	1,318,886
Travel and meetings	749,289	319,234	519,650	113,400	1,701,573	90,217	43,706	133,923	1,835,496
Supplies	127,580	33,297	109,286	30,043	300,206	89,468	16,233	105,701	405,907
Depreciation and amortization	25,253	37,363	22,286	7,353	92,255	17,700	17,619	35,319	127,574
Computer expenses	1,611	2,384	1,422	469	5,886	1,129	2,403	3,532	9,418
List rental expenses	211,200	20,000	-	-	231,200	88,117	1,405	89,522	320,722
Advertising and telemarketing	561,787	820	3,630	1,956	568,193	125,135	2,217	127,352	695,545
Grants and contributions	83,000	136,566	1,217,991	23,000	1,460,557	-	-	-	1,460,557
Subscriptions	171,624	30,045	25,301	5,614	232,584	87,047	40,524	127,571	360,155
Miscellaneous	11,137	8,997	5,953	1,312	27,399	5,476	7,018	12,494	39,893
Repairs and maintenance	178,459	13,050	29,413	5,697	226,619	8,789	6,283	15,072	241,691
Bank fees	646	1,553	3,254	550	6,003	1,638	176,763	178,401	184,404
Insurance	-	-	23	-	23	-	92,207	92,207	92,230
Temporary help	9,446	-	-	-	9,446	8,581	16,691	25,272	34,718
In-kind	474,432	-	30,000	-	504,432	-	-	-	504,432
Total Expenses	\$ 9,574,547	\$ 7,024,938	\$ 6,975,221	\$ 1,643,099	\$ 25,217,805	\$ 4,879,554	\$ 2,311,548	\$ 7,191,102	\$ 32,408,907

See accompanying notes.

Ocean Conservancy, Inc.

Statement of Functional Expenses
For the Year Ended June 30, 2019

	Program Services					Supporting Services			
	Science, Policy, and Outreach	Marine Ecosystem Protection	Trash Free Seas	Climate	Total Program Services	Fundraising and Membership Development	Management and Administration	Total Supporting Services	Total
Salaries and wages	\$ 1,733,496	\$ 3,962,473	\$ 1,785,682	\$ 223,946	\$ 7,705,597	\$ 1,459,487	\$ 1,102,376	\$ 2,561,863	\$ 10,267,460
Employee benefits	482,925	1,103,884	497,464	62,388	2,146,661	406,591	307,105	713,696	2,860,357
Professional fees	1,672,058	1,159,053	1,732,602	492,446	5,056,159	422,179	297,716	719,895	5,776,054
Printing	1,008,913	13,524	85,494	18,892	1,126,823	846,428	26,099	872,527	1,999,350
Rent, utilities, and telephone	205,998	603,668	212,993	26,773	1,049,432	171,890	197,168	369,058	1,418,490
Delivery services	645,979	3,572	76,852	828	727,231	516,507	14,773	531,280	1,258,511
Travel and meetings	423,022	599,979	689,528	111,188	1,823,717	156,028	62,662	218,690	2,042,407
Supplies	118,614	48,080	130,018	2,550	299,262	84,489	23,205	107,694	406,956
Depreciation and amortization	25,012	57,173	25,765	3,231	111,181	21,059	24,295	45,354	156,535
Computer expenses	1,625	3,715	1,674	210	7,224	1,368	1,686	3,054	10,278
List rental expenses	124,639	-	-	-	124,639	70,770	1,502	72,272	196,911
Advertising and telemarketing	546,861	4,576	23,028	-	574,465	133,502	2,875	136,377	710,842
Grants and contributions	145,000	1,895,165	133,198	24,000	2,197,363	-	-	-	2,197,363
Subscriptions	149,344	23,038	11,582	10,520	194,484	61,673	37,254	98,927	293,411
Miscellaneous	18,886	12,257	4,344	336	35,823	10,028	10,942	20,970	56,793
Interest	-	-	-	-	-	-	227	227	227
Repairs and maintenance	6,370	17,914	9,978	784	35,046	6,191	5,535	11,726	46,772
Bank fees	324	2,155	2,768	548	5,795	1,532	171,137	172,669	178,464
Insurance	-	-	552	-	552	-	85,426	85,426	85,978
Temporary help	8,554	-	-	-	8,554	6,659	8,685	15,344	23,898
In-kind	401,222	-	37,160	-	438,382	-	-	-	438,382
Total Expenses	\$ 7,718,842	\$ 9,510,226	\$ 5,460,682	\$ 978,640	\$ 23,668,390	\$ 4,376,381	\$ 2,380,668	\$ 6,757,049	\$ 30,425,439

See accompanying notes.

Ocean Conservancy, Inc.

Statements of Cash Flows
For the Years Ended June 30, 2020 and 2019

	2020	2019
Cash Flows from Operating Activities		
Change in net assets	\$ 2,980,431	\$ (109,901)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	127,574	156,535
Donation of marketable securities	(239,211)	(141,341)
Change in contributions receivable discount	(21,986)	(154,586)
Net realized and unrealized gain on investments	(1,143,320)	(1,057,532)
Change in charitable gift annuities' liability valuation	88,042	75,819
Donor restricted funds to be held in perpetuity	-	(1,100)
Change in operating assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	(1,631)	(15,784)
Grants receivable	(1,173,350)	(232,739)
Contributions receivable, net	2,240,726	6,427,555
Bequests and trusts receivable	(2,284,141)	803,783
Charitable remainder trusts receivable	350,241	(71,336)
Prepaid expenses	654,880	(607,755)
Deferred compensation plan assets	(43,232)	(19,930)
Deposits	65,222	(65,222)
Increase (decrease) in:		
Accounts payable and accrued expenses	281,132	409,369
Charitable gift annuities	(36,904)	310,238
Deferred rent	103,426	125,951
Deferred compensation plan liabilities	43,232	19,930
Net cash provided by operating activities	1,991,131	5,851,954
Cash Flows from Investing Activities		
Purchases of property and equipment	-	(9,400)
Purchases of investments	(7,618,531)	(28,788,985)
Proceeds from sales of investments	5,883,809	24,706,428
Net cash used in investing activities	(1,734,722)	(4,091,957)
Cash Flows from Financing Activity		
Donor restricted funds to be held in perpetuity	-	1,100
Net cash provided by financing activity	-	1,100
Net Increase in Cash	256,409	1,761,097
Cash, beginning of year	6,475,080	4,713,983
Cash, end of year	\$ 6,731,489	\$ 6,475,080
Supplementary Disclosure of Cash Flow Information		
Cash paid for interest	\$ -	\$ 227
Cash paid for unrelated business income taxes	\$ -	\$ 5,177

See accompanying notes.

Ocean Conservancy, Inc.

Notes to Financial Statements
June 30, 2020 and 2019

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 are prepared on the accrual basis of accounting. Net assets are reported based on the presence or absence of donor-imposed restrictions, as follows:

- *Net Assets Without Donor Restrictions* – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions. Net assets without donor restrictions include both undesignated and Board-designated amounts. OC's Board of Directors has segregated amounts received without donor restrictions from various donors into a Board-designated fund, and has implemented an investment policy that includes an annual discretionary transfer of amounts to undesignated net assets to support operations.
- *Net Assets With Donor Restrictions* – Net assets subject to donor- (or certain grantor-) imposed restrictions. OC reports grants and contributions restricted by donors as increases in net assets without donor restrictions if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted grants and contributions are reported as increases in net assets with donor restrictions, depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions.

Ocean Conservancy, Inc.

Notes to Financial Statements
June 30, 2020 and 2019

2. Summary of Significant Accounting Policies (continued)

Investments

Investments are recorded at fair value based on quoted market prices. All realized and unrealized gains and losses, net of investment management fees, are reported as a component of net investment return in the accompanying statements of activities.

Accounts Receivable

OC's accounts receivable are all due in less than one year and are recorded at net realizable value. OC writes off accounts receivable when they become uncollectible. When necessary, an allowance for uncollectible accounts receivable is determined based on management's best estimate of the outstanding uncollectible accounts. No allowance for doubtful accounts is recorded, as management believes that all accounts receivable are fully collectible.

Grants and Contributions Receivable

Grants and contributions receivable represent unconditional amounts committed to OC. Grants and contributions receivable are reflected at either net realizable value, or at net present value based on projected cash flows. OC uses the allowance method to determine uncollectible receivables. OC's policy is to write-off uncollectible receivables when management determines they will not be collected based on experience as well as management's analysis of specific receivables, including such factors as prior collection history, type of receivable, and nature of fundraising activity. At June 30, 2020 and 2019, no allowance was recorded as management believes that all grants and contributions receivable are fully collectible.

Bequests and Trusts Receivable

Bequests receivable represent amounts due to OC when probate courts declare a will valid and the proceeds are measurable. Trusts receivable represent amounts due to OC when trusts become irrevocable.

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.

Ocean Conservancy, Inc.

Notes to Financial Statements
June 30, 2020 and 2019

2. Summary of Significant Accounting Policies (continued)

Property and Equipment

Property and equipment acquisitions with a cost in excess of \$5,000 and a projected useful life exceeding one year are capitalized and recorded at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets, which range from 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. Donated furniture and equipment exceeding the capitalization threshold are recorded at their estimated fair value on the date received. Expenditures for repairs and maintenance are expensed as incurred.

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

OC recognizes contributions and grants when cash, securities, or other assets, or an unconditional promise to give is received. Conditional promises to give, that is, those with a measurable performance or other barrier, and a right of return, are not recognized until the conditions on which they depend have been substantially met.

Wills are recorded as bequest revenue when probate courts declare a will 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 trusts become irrevocable. Revenue under charitable gift annuity arrangements is reduced by the estimated annuities to be paid by OC over the beneficiary's lifetime.

Revenue from all other sources is recognized when earned.

Ocean Conservancy, Inc.

Notes to Financial Statements
June 30, 2020 and 2019

2. Summary of Significant Accounting Policies (continued)

In-Kind Contributions

The value of contributions that enhance a nonfinancial asset, which are considered specialized and can be estimated, and would have been purchased if not donated, are reflected in the accompanying statements of activities as in-kind contributions. In-kind contributions are recognized as revenue and expense in the accompanying statements of activities at their estimated fair value, as provided by the donor, at the date of receipt, or calculated fair value of use of property in the period the property is used.

Functional Allocation of Expenses

The costs of program and supporting services activities have been summarized on a functional basis in the statements of activities. The statements of functional expenses present the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

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 return.

Reclassifications

Certain amounts in the 2019 financial statements have been reclassified to conform to the 2020 presentation. These reclassifications have no effect on the change in net assets previously reported.

Change in Accounting Principles

Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers* (Topic 606), as amended, supersedes or replaces nearly all revenue recognition guidance under accounting principles generally accepted in the United States of America. These standards establish a new contract and control-based revenue recognition model, change the basis for deciding when revenue is recognized over time or at a point in time, and expand disclosures about revenue. OC has implemented Topic 606 and has adjusted, if applicable, the presentation in these financial statements accordingly. The amendments have been applied retrospectively to all periods presented. The implementation had no impact on the previously reported net assets.

Ocean Conservancy, Inc.

Notes to Financial Statements
June 30, 2020 and 2019

2. Summary of Significant Accounting Policies (continued)

Change in Accounting Principles (continued)

In June 2018, FASB issued ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This standard assists entities in evaluating whether transactions should be accounted for as contributions or exchange transactions and determining whether a contribution is conditional. OC has implemented ASU 2018-08, applicable to both contributions received and to contributions made in these financial statements under a modified prospective basis. The implementation had no impact on the previously reported net assets.

Recently Issued Accounting Pronouncement

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 27, 2020, the date the financial statements were available to be issued.

As a result of the spread of the COVID-19 coronavirus, economic uncertainties have arisen that are likely to impact OC. The extent of the impact of COVID-19 on OC's operational and financial performance will depend on certain developments, including the duration and spread of the outbreak, and its direct impact on OC, all of which are uncertain and cannot be predicted at this time. OC has determined that these events are non-adjusting subsequent events. Accordingly, the financial position and results of operations as of and for the year ended June 30, 2020 have not been adjusted to reflect their impact.

Ocean Conservancy, Inc.

Notes to Financial Statements June 30, 2020 and 2019

3. Liquidity and Availability

OC has a goal to maintain financial assets on hand to meet 60 days of normal operating expenses. As part of this liquidity management, OC invests cash in excess of daily requirements in various investments including money market funds, mutual funds, and other funds.

Financial assets available for general expenditures, that is, without donor or other restrictions limiting their use, within one year of the statements of financial position date, comprise the following at June 30:

	<u>2020</u>	<u>2019</u>
Cash	\$ 6,731,489	\$ 6,475,080
Investments	33,738,152	30,620,899
Accounts receivable	50,394	48,763
Grants receivable	1,545,537	372,187
Contributions receivable, net	5,003,190	7,221,930
Bequests and trusts receivable	3,822,549	1,538,408
Charitable remainder trusts receivable, net	<u>956,814</u>	<u>1,307,055</u>
Total financial assets	<u>51,848,125</u>	<u>47,584,322</u>
Less: designated cash	(200,000)	(200,000)
Less: charitable gift annuities	(1,015,471)	(964,333)
Less: Board-designated fund, net of 5% annual distribution	(24,943,961)	(22,300,412)
Less: restricted by donors for purpose and time	(8,270,997)	(4,218,312)
Less: restricted by donors in perpetuity	<u>(2,839,635)</u>	<u>(2,839,635)</u>
Total available for general expenditures	<u>\$ 14,578,061</u>	<u>\$ 17,061,630</u>

Ocean Conservancy, Inc.

Notes to Financial Statements
June 30, 2020 and 2019

3. Liquidity and Availability (continued)

The Board-designated fund is subject to an annual spending rate. Although OC does not intend to spend from this Board-designated fund, other than amounts appropriate for general expenditures as part of OC's annual budget approval and appropriation, these amounts could be made available through Board approval if necessary.

4. Concentrations of Risk

Credit Risk

Financial instruments that potentially subject OC to significant concentrations of credit risk consist of cash, investments, accounts receivable, grants receivable, contributions 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 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.

Ocean Conservancy, Inc.

Notes to Financial Statements
June 30, 2020 and 2019

5. Investments and Fair Value Measurements

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

	<u>2020</u>	<u>2019</u>
Interest and dividends	\$ 690,287	\$ 627,949
Realized (loss) gain	(93,438)	1,936,892
Unrealized gain (loss)	1,236,758	(879,360)
Less: investment management fees	<u>(89,156)</u>	<u>(74,827)</u>
Investment return, net	<u>\$ 1,744,451</u>	<u>\$ 1,610,654</u>

OC follows FASB Accounting Standards Codification 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. 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).

Ocean Conservancy, Inc.

Notes to Financial Statements
June 30, 2020 and 2019

5. Investments and 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, 2020:

	Level 1	Level 2	Level 3	Total
Investments:				
Money market accounts	\$ 2,256,188	\$ -	\$ -	\$ 2,256,188
Mutual funds:				
U.S. large cap	9,726,256	-	-	9,726,256
U.S. mid cap	1,989,073	-	-	1,989,073
U.S. small cap	2,680,497	-	-	2,680,497
International-developed	3,397,890	-	-	3,397,890
Emerging markets	1,042,090	-	-	1,042,090
Bond funds	12,506,492	-	-	12,506,492
U.S. Treasuries	130,965	-	-	130,965
Mortgage-backed securities	8,701	-	-	8,701
Total investments	33,738,152	-	-	33,738,152
Deferred compensation plan assets:				
Money market accounts	2,255	-	-	2,255
Fixed income	15,335	-	-	15,335
Mutual funds – real estate	5,380	-	-	5,380
Mutual funds – equities	65,186	-	-	65,186
Total deferred compensation plan assets	88,156	-	-	88,156
Total assets at fair value	\$ 33,826,308	\$ -	\$ -	\$ 33,826,308
Liabilities at fair value:				
Split-interest agreements	\$ -	\$ -	\$ 1,015,471	\$ 1,015,471

Ocean Conservancy, Inc.

Notes to Financial Statements
June 30, 2020 and 2019

5. Investments and 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, 2019:

	Level 1	Level 2	Level 3	Total
Investments:				
Money market accounts	\$ 1,679,445	\$ -	\$ -	\$ 1,679,445
Mutual funds:				
U.S. large cap	8,879,838	-	-	8,879,838
U.S. mid cap	1,911,771	-	-	1,911,771
U.S. small cap	2,612,952	-	-	2,612,952
International-developed	3,260,430	-	-	3,260,430
Emerging markets	1,164,889	-	-	1,164,889
Bond funds	11,000,550	-	-	11,000,550
U.S. Treasuries	99,243	-	-	99,243
Mortgage-backed securities	11,781	-	-	11,781
Total investments	30,620,899	-	-	30,620,899
Deferred compensation plan assets:				
Fixed income	16,445	-	-	16,445
Mutual funds – real estate	3,497	-	-	3,497
Mutual funds – equities	24,982	-	-	24,982
Total deferred compensation plan assets	44,924	-	-	44,924
Total assets at fair value	\$ 30,665,823	\$ -	\$ -	\$ 30,665,823
Liabilities at fair value:				
Split-interest agreements	\$ -	\$ -	\$ 964,333	\$ 964,333

Ocean Conservancy, Inc.

Notes to Financial Statements
June 30, 2020 and 2019

5. Investments and 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:

	<u>2020</u>	<u>2019</u>
Beginning balance	\$ 964,333	\$ 578,276
New gift annuities	175,349	770,740
Distributions	(212,253)	(460,502)
Change in value	<u>88,042</u>	<u>75,819</u>
Ending balance	<u>\$ 1,015,471</u>	<u>\$ 964,333</u>

6. Contributions Receivable

Contributions receivable consist of the following as of June 30:

	<u>2020</u>	<u>2019</u>
Receivable in less than one year	\$ 4,334,266	\$ 6,466,825
Receivable in one to five years	<u>681,833</u>	<u>790,000</u>
Total contributions receivable	5,016,099	7,256,825
Less: discount to present value (1.93% and 4.15%, respectively)	<u>(12,909)</u>	<u>(34,895)</u>
Contributions receivable, net	<u>\$ 5,003,190</u>	<u>\$ 7,221,930</u>

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 of 1.2% and 3.0% at June 30, 2020 and 2019, respectively. At June 30, 2020 and 2019, the estimated value of these receivables totaled \$956,814 and \$1,307,055, respectively. The estimated net present values of the charitable remainder trusts are considered to be net assets with donor restrictions until the funds are received.

Ocean Conservancy, Inc.

Notes to Financial Statements June 30, 2020 and 2019

8. Property and Equipment

Property and equipment consists of the following at June 30:

	<u>2020</u>	<u>2019</u>
Computers and equipment	\$ 938,588	\$ 938,588
Website development	408,516	408,516
Leasehold improvements	285,800	285,800
Furniture and fixtures	<u>5,847</u>	<u>5,847</u>
Total property and equipment	1,638,751	1,638,751
Less: accumulated depreciation and amortization	<u>(1,599,493)</u>	<u>(1,471,919)</u>
Property and equipment, net	<u><u>\$ 39,258</u></u>	<u><u>\$ 166,832</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 annuity payment obligations are based on donor life expectancies as presented in actuarial tables, discounted at rates ranging from 1.2% to 8.2%. The contributions are treated as contribution revenue when received and are included in net assets without donor restrictions in the accompanying financial statements. Contribution revenue related to charitable gift annuities for the years ended June 30, 2020 and 2019 totaled \$119,939 and \$272,721, respectively.

10. Net Assets With Donor Restrictions

Net assets with donor restrictions consist of the following at June 30:

	<u>2020</u>	<u>2019</u>
Purpose restricted	\$ 10,035,050	\$ 14,008,608
Time restricted	4,816,756	2,843,404
Unappropriated investment earnings on endowment	851,995	878,615
Perpetual in nature	<u>2,839,635</u>	<u>2,839,635</u>
Total net assets with donor restrictions	<u><u>\$ 18,543,436</u></u>	<u><u>\$ 20,570,262</u></u>

Ocean Conservancy, Inc.

Notes to Financial Statements
June 30, 2020 and 2019

11. Endowment Funds

OC holds its donor-restricted endowment funds in a separate investment account with Bank of America. Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions. Donor-restricted endowment funds have 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 District of Columbia's 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 retains in perpetuity (a) the original value of initial gift amounts donated to the endowment, (b) the original value of subsequent gift amounts donated to the endowment, and (c) any accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added. Donor-restricted amounts not retained in perpetuity are subject to appropriation for expenditure by OC in a manner consistent with the standard of prudence prescribed by 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 OC 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 or depreciation of investments; (6) other resources of OC; and (7) the 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.

Ocean Conservancy, Inc.

Notes to Financial Statements
June 30, 2020 and 2019

11. Endowment Funds (continued)

Spending Policy (continued)

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

OC follows a conservative investment policy for the endowment fund that attempts to preserve fully the original corpus and optimize returns. Should significant, new donations be made to the endowment fund, OC's investment policy would permit a strategy of long-term growth of the endowment fund. Under such a policy, the endowment fund 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 requires OC 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 net assets with donor restrictions. There were no fund deficiencies as of June 30, 2020 and 2019.

Composition of Endowment Funds

Endowment net asset composition was as follows at June 30, 2020:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Donor-restricted endowment funds	<u>\$ -</u>	<u>\$ 3,691,630</u>	<u>\$ 3,691,630</u>

Ocean Conservancy, Inc.

Notes to Financial Statements
June 30, 2020 and 2019

11. Endowment Funds (continued)

Composition of Endowment Funds (continued)

Endowment net asset composition was as follows at June 30, 2019:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Donor-restricted endowment funds	<u>\$ -</u>	<u>\$ 3,718,250</u>	<u>\$ 3,718,250</u>

Changes in Endowment Funds

Changes in endowment net assets were as follows for the year ended June 30, 2020:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment net assets, June 30, 2019	\$ -	\$ 3,718,250	\$ 3,718,250
Investment return:			
Investment income	-	72,436	72,436
Net appreciation	<u>-</u>	<u>35,418</u>	<u>35,418</u>
Total investment return	<u>-</u>	<u>107,854</u>	<u>107,854</u>
Appropriations	-	(125,292)	(125,292)
Management fees	<u>-</u>	<u>(9,182)</u>	<u>(9,182)</u>
Endowment net assets, June 30, 2020	<u>\$ -</u>	<u>\$ 3,691,630</u>	<u>\$ 3,691,630</u>

Ocean Conservancy, Inc.

Notes to Financial Statements
June 30, 2020 and 2019

11. Endowment Funds (continued)

Changes in Endowment Funds (continued)

Changes in endowment net assets were as follows for the year ended June 30, 2019:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
June 30, 2018	\$ -	\$ 3,655,468	\$ 3,655,468
Investment return:			
Investment income	-	64,679	64,679
Net appreciation	-	119,518	119,518
Total investment return	-	184,197	184,197
Contributions	-	1,100	1,100
Appropriations	-	(115,693)	(115,693)
Management fees	-	(6,822)	(6,822)
Endowment net assets, June 30, 2019	<u>\$ -</u>	<u>\$ 3,718,250</u>	<u>\$ 3,718,250</u>

12. Commitments and Contingencies

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.

Ocean Conservancy, Inc.

Notes to Financial Statements
June 30, 2020 and 2019

12. Commitments and Contingencies (continued)

Operating Leases (continued)

The unamortized portion of the cumulative difference between the actual rent paid and the straight-line rent is reflected as deferred rent in the accompanying statements of financial position.

In addition, OC leased office equipment under the terms of noncancelable operating leases that expired at various dates through March 2020.

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

2021	\$ 1,015,224
2022	929,838
2023	931,337
2024	923,820
2025	946,915
Thereafter	<u>5,735,703</u>
Total future minimum lease payments	<u>\$ 10,482,837</u>

Rent expense for the years ended June 30, 2020 and 2019 totaled \$1,239,011 and \$1,217,679, respectively.

Government Grants

Funds received from government agencies are subject to audit under the provisions of these grant agreements. The ultimate determination of amounts received under these grant agreements is based upon the allowance of costs reported to and accepted by the oversight agencies. Until such grant agreements are closed out, there exists a contingency to refund any amount received in excess of allowable costs. Management is of the opinion that no material liability exists.

Ocean Conservancy, Inc.

Notes to Financial Statements
June 30, 2020 and 2019

13. 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 2020 and 2019. OC recorded contributions to the plan of \$562,191 and \$508,144 for the years ended June 30, 2020 and 2019, 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, 2020 and 2019, the deferred compensation plan assets and corresponding liabilities held at fair value amounted to \$88,156 and \$44,924, respectively, and are included in the accompanying statements of financial position. OC contributed \$4,000 and \$3,000 to the plan for the years ended June 30, 2020 and 2019, respectively.

14. Methods Used for Allocation of Expenses from Management and General Activities

The financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. Expenses that are allocated include all overhead expenses reported on the accompanying statements of functional expenses, which are allocated on the basis of estimates of time and effort, except grants and contributions, interest, and in-kind expenses.

15. 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.

Ocean Conservancy, Inc.

Notes to Financial Statements
June 30, 2020 and 2019

15. Allocation of Joint Costs (continued)

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

	<u>2020</u>	<u>2019</u>
Program services	\$ 2,881,382	\$ 2,730,275
Fundraising and membership development	2,283,262	2,041,687
Management and administrative	<u>36,407</u>	<u>43,338</u>
Total joint costs	<u>\$ 5,201,051</u>	<u>\$ 4,815,300</u>

16. Related Party Transactions

During the years ended June 30, 2020 and 2019, OC recorded contributions from Board members totaling \$395,655 and \$283,907, respectively.

17. 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 IRC Section 509(a)(1). No tax expense is recorded in the accompanying financial statements for the years ended June 30, 2020 and 2019, 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.