AUDITED FINANCIAL STATEMENTS

OCEAN CONSERVANCY, INC.

JUNE 30, 2012 AND 2011

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CONTENTS

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying statements of financial position of Ocean Conservancy, Inc. (OC) as of June 30, 2012 and 2011, the related statements of activities and change in net assets, and of cash flows for the years then ended, and the statement of functional expenses for the year ended June 30, 2012. These financial statements are the responsibility of the OC's management. Our responsibility is to express an opinion on these financial statements based on our audits. The summarized comparative information included in the statement of functional expenses for the year ended June 30, 2011 has been derived from OC's June 30, 2011 financial statements, and, in our report dated October 19, 2011, we expressed an unqualified opinion on those financial statements.

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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Ocean Conservancy, Inc. as of June 30, 2012 and 2011 and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Argy, Wiltse & Robinson, P.C.

McLean, Virginia
October 17, 2012

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OCEAN CONSERVANCY

STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2012 AND 2011

	2012	2011
ASSETS		
Cash and cash equivalents	$ 1,232,512	$ 2,666,313
Investments	14,351,961	13,764,902
Accounts and grants receivable	344,204	283,901
Pledges receivable, net	4,481,848	1,305,505
Bequests receivable	188,275	360,006
Charitable remainder trusts receivable	665,058	664,804
Prepaid expenses	263,531	343,961
Property and equipment, net	532,182	330,295
Deposits	95,206	88,806
Other assets	35,928	40,614
Total assets	$22,190,705	$19,849,107
LIABILITIES AND NET ASSETS		
Accounts payable and accrued expenses	$ 1,376,172	$ 1,040,561
Charitable gift annuities	824,396	681,664
Note payable	2,047,110	2,222,210
Deferred rent	277,044	299,552
Total liabilities	4,524,722	4,243,987
Commitments		
Net assets		
Unrestricted		
Undesignated	2,453,330	3,018,625
Board-designated	6,166,926	5,476,425
Total unrestricted	8,620,256	8,495,050
Temporarily restricted	7,453,557	5,517,900
Permanently restricted	1,592,170	1,592,170
Total net assets	17,665,983	15,605,120
Total liabilities and net assets	$22,190,705	$19,849,107

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

OCEAN CONSERVANCY

STATEMENTS OF ACTIVITIES AND CHANGE IN NET ASSETS

YEARS ENDED JUNE 30, 2012 AND 2011

	Year ended June 30, 2012				Year ended June 30, 2011			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Changes in net assets:								
Revenues and support								
Contributions, grants, and bequests	$ 9,762,142	$ 11,294,515	$ 0	$ 21,056,657	$ 8,406,359	$ 5,711,412	$ 0	$ 14,117,771
List rental income	27,034	0	0	27,034	38,578	0	0	38,578
Other income	556,697	0	0	556,697	345,429	0	0	345,429
Net assets released from program restrictions	9,338,269	(9,338,269)	0	0	9,837,642	(9,837,642)	0	0
Total revenues and support	19,684,142	1,956,246	0	21,640,388	18,628,008	(4,126,230)	0	14,501,778
Expenses								
Program services								
Communications and outreach	4,185,149	0	0	4,185,149	3,008,704	0	0	3,008,704
Gulf of Mexico restoration	4,149,659	0	0	4,149,659	3,650,865	0	0	3,650,865
Ocean policy science and governance	2,961,577	0	0	2,961,577	3,604,659	0	0	3,604,659
Trash free seas	2,153,711	0	0	2,153,711	1,803,162	0	0	1,803,162
Marine wildlife and ecosystem protection	1,455,530	0	0	1,455,530	1,180,795	0	0	1,180,795
Total program services	14,905,626	0	0	14,905,626	13,248,185	0	0	13,248,185
Support services								
Fundraising and membership development	2,534,038	0	0	2,534,038	2,332,916	0	0	2,332,916
Management and administration	2,066,125	0	0	2,066,125	1,854,473	0	0	1,854,473
Total support services	4,600,163	0	0	4,600,163	4,187,389	0	0	4,187,389
Total expenses	19,505,789	0	0	19,505,789	17,435,574	0	0	17,435,574
Change in net assets before gains	178,353	1,956,246	0	2,134,599	1,192,434	(4,126,230)	0	(2,933,796)
(Losses) gains								
Investment (loss) income	(53,147)	(20,589)	0	(73,736)	2,193,070	404,563	0	2,597,633
Decrease in allowance on uncollectible promises to give	0	0	0	0	0	112,578	0	112,578
Change in net assets	125,206	1,935,657	0	2,060,863	3,385,504	(3,609,089)	0	(223,585)
Net assets at the beginning of the year	8,495,050	5,517,900	1,592,170	15,605,120	5,109,546	9,126,989	1,592,170	15,828,705
Net assets at the end of the year	$ 8,620,256	$ 7,453,557	$ 1,592,170	$ 17,665,983	$ 8,495,050	$ 5,517,900	$ 1,592,170	$ 15,605,120

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

OCEAN CONSERVANCY

STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2012 AND 2011

	2012	2011
Cash flows from operating activities:		
Change in net assets	$ 2,060,863	$ (223,585)
Adjustments to reconcile change in net assets to net cash and cash equivalents provided by operating activities:		
Decrease in allowance on uncollectible promises to give	0	(112,578)
Depreciation and amortization	170,705	201,256
Donation of marketable securities	(55,142)	(117,987)
Net realized and unrealized losses (gains) on investments	483,075	(2,152,220)
Change in deferred rent	(22,508)	192,799
Change in value of charitable remainder trusts receivable	(254)	(102,625)
Change in charitable gift annuities liability valuation	135,545	80,817
Changes in operating assets and liabilities:		
Accounts and grants receivable	(60,303)	(124,478)
Pledges receivable	(3,176,343)	4,229,826
Bequests receivable	171,731	59,556
Prepaid expenses	80,430	(138,656)
Other assets	4,686	3,161
Accounts payable and accrued expenses	335,611	64,151
Charitable gift annuities	7,187	(43,797)
Total adjustments	(1,925,580)	2,039,225
Net cash provided by operating activities	135,283	1,815,640
Cash flows from investing activities:		
Purchases of investments	(2,211,416)	(1,120,168)
Proceeds from sales of investments	1,196,424	1,502,150
Purchases of property and equipment	(372,592)	(175,374)
(Increase) decrease in deposits	(6,400)	116,235
Net cash (used in) provided by investing activities	(1,393,984)	322,843
Cash flows from financing activity:		
Principal payments under note payable	(175,100)	(155,524)
Net cash used in financing activity	(175,100)	(155,524)
Net (decrease) increase in cash and cash equivalents	(1,433,801)	1,982,959
Cash and cash equivalents at the beginning of the year	2,666,313	683,354
Cash and cash equivalents at the end of the year	$ 1,232,512	$ 2,666,313
Supplemental disclosure of cash flow information:		
Cash paid for interest	$ 121,394	$ 129,969

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

OCEAN CONSERVANCY, INC.

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2012, WITH COMPARATIVE TOTALS FOR 2011

	Program Services						Support Services				
	Communications and Outreach	Gulf of Mexico Restoration	Ocean Policy Science and Governance	Trash Free Seas	Marine Wildlife and Ecosystem Protection	Total program services	Fundraising and Membership Development	Management and Administration	Total support services	Total for the Year Ended June 30, 2012	Total for the Year Ended June 30, 2011
Salaries and wages	$ 692,387	$ 1,899,185	$ 1,244,802	$ 626,522	$ 607,830	$ 5,070,726	$ 718,195	$ 830,683	$ 1,548,878	$ 6,619,604	$ 5,993,141
Professional fees	509,582	495,417	625,898	446,252	149,649	2,226,798	203,007	273,654	476,661	2,703,459	2,315,512
Employee benefits	197,011	546,111	360,133	177,986	172,676	1,453,917	204,176	236,056	440,232	1,894,149	1,706,821
Delivery services	1,159,024	10,573	3,535	61,000	1,951	1,236,083	531,074	18,274	549,348	1,785,431	1,582,962
Rent, utilities and telephone	156,942	465,641	257,980	129,243	156,491	1,166,297	140,108	240,151	380,259	1,546,556	1,523,298
Printing	910,088	32,014	28,725	84,366	6,346	1,061,539	397,945	11,500	409,445	1,470,984	1,326,471
Travel and meetings	105,562	323,264	204,202	140,177	85,846	859,051	60,795	38,558	99,353	958,404	1,067,174
Grants and contributions	65	29,341	64,777	307,501	201,413	603,097	15	3,711	3,726	606,823	310,490
Office supplies	147,117	165,123	44,261	25,820	22,840	405,161	74,377	45,479	119,856	525,017	184,538
Advertising	118,365	19,482	87	33,129	5,010	176,073	49,826	1,816	51,642	227,715	197,790
Depreciation and amortization	17,381	47,676	31,249	15,728	15,259	127,293	18,029	30,996	49,025	176,318	201,256
List rental expenses	109,503	0	0	0	0	109,503	52,470	978	53,448	162,951	173,051
Computer expenses	34,294	20,934	18,635	37,673	6,584	118,120	26,121	7,413	33,534	151,654	160,214
Subscriptions	4,602	25,944	41,421	40,197	4,086	116,250	24,324	3,702	28,026	144,276	113,288
Interest expense	16	43	28	14	14	115	16	120,799	120,815	120,930	131,080
Miscellaneous	5,008	5,073	3,940	1,906	2,158	18,085	13,664	88,770	102,434	120,519	122,024
Repairs and maintenance	9,438	28,882	16,106	8,042	9,734	72,202	9,219	15,849	25,068	97,270	117,034
Bank fees	152	410	276	116	84	1,038	1,745	76,668	78,413	79,451	85,110
Insurance	5,840	24,943	10,499	5,284	5,126	51,692	6,057	10,414	16,471	68,163	59,905
Temporary help	2,772	9,603	5,023	12,755	2,433	32,586	2,875	10,654	13,529	46,115	25,752
In-kind other	0	0	0	0	0	0	0	0	0	0	38,663
Total for the years ended June 30, 2012 and 2011	$ 4,185,149	$ 4,149,659	$ 2,961,577	$ 2,153,711	$ 1,455,530	$ 14,905,626	$ 2,534,038	$ 2,066,125	$ 4,600,163	$ 19,505,789	$ 17,435,574

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

NOTE 1 - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Ocean Conservancy, Inc. (OC) was established in 1972 to promote healthy and diverse ocean ecosystems and to oppose practices that threaten ocean life and human life. Through research, education, and science-based advocacy, OC informs, inspires, and empowers people to speak and act on behalf of the oceans. In its work, OC strives to be the world's foremost advocate for the oceans. OC is headquartered in Washington, D.C. and has regional offices located in various coastal regions of the United States. OC seeks to achieve its objectives by conducting policy-oriented research, educating the public and policy makers, and encouraging the development and implementation of sound policies through citizen participation and oversight. OC eschews confrontational politics and favors establishing, supporting and using administrative processes that compel wise protection and conservation of marine wildlife, ecosystems, and resources.

OC is funded in part by small contributions, but also receives grants and contracts from individuals, foundations, government agencies, and corporations. OC is also funded by bequests and royalties.

The significant accounting policies followed by OC are described below.

Basis of accounting

The financial statements of OC have been prepared using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Such estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results may differ from estimates under different assumptions or conditions.

Revenue recognition

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

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

Donated materials and professional services are recorded as contribution revenues and support and expenses at their fair values at the date of the gift.

Revenue received under grants and contracts with the United States government and other governmental agencies is recorded as revenue when the related costs are incurred. Grants receivable represent amounts due for expenditures incurred prior to year-end.

All other revenues are recognized when earned.

Cash equivalents

OC considers all undesignated, unrestricted short-term investments with initial maturities of three months or less to be cash equivalents. Temporary cash positions in the investment portfolio are considered investments and are not included in cash and cash equivalents in the accompanying statement of financial position.

Investments

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

Charitable remainder trusts receivable

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

Property and equipment

Property and equipment is recorded at cost, and depreciated or amortized on the straight-line basis over the estimated useful lives of the assets of three to ten years. Leasehold improvements are recorded at cost and amortized on a straight-line basis over the shorter of the remaining lease term or the useful life of the improvement. OC's policy is to capitalize property and equipment purchases equal to or in excess of $5,000. Donated furniture and equipment exceeding the capitalization threshold is recorded at its estimated fair value on the date it is received.

Charitable gift annuities

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

Unrestricted net assets - undesignated

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

Unrestricted net assets - board-designated

OC's Board of Directors has segregated unrestricted amounts received from various donors as board-designated fund assets, and has implemented an investment policy that includes an annual discretionary transfer of amounts to undesignated net assets to support operations.

Temporarily restricted net assets

Temporarily restricted net assets represent revenue received that is restricted by the donor as to either time or purpose of expenditure for which the restrictions have not been substantially met as of the financial statement date. In addition, pledges, bequests, and charitable remainder trust receivables that are not otherwise restricted are considered to be temporarily restricted until the funds are received.

Permanently restricted net assets

Permanently restricted net assets are those net assets that are subject to donor-imposed stipulations that they be maintained permanently by OC. Generally, the donors of these assets permit OC to use the income earned on related investments for general or specific purposes. OC's donor-restricted endowment is subject to the authoritative guidance issued by the Financial Accounting Standards Board (the FASB) on net asset classifications of endowment funds, such that earnings on donor-restricted endowment funds for not-for-profit organizations that are subject to the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA) are classified as temporarily restricted net assets until such amounts are appropriated for expenditure.

Income taxes

The Internal Revenue Service has determined that OC is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code (IRC), except for taxes on unrelated business income. OC is not a private foundation under Section 509(a)(1) of the IRC.

In accordance with authoritative guidance on accounting for uncertainty in income taxes issued by the FASB, management has evaluated OC's tax positions and has concluded that OC has taken no uncertain tax positions that require adjustment to the financial statements to comply with the provisions of this guidance. With few exceptions, OC is no longer subject to income tax examinations by the U.S. federal, state or local tax authorities for years ended September 30, 2008 and prior.

Concentrations of credit risk

OC is subject to credit risk concentrations principally from cash and cash equivalents, investments, accounts and grants receivable, pledges receivable, bequests receivable, and charitable remainder trusts receivable. OC believes the risk of loss associated with cash and cash equivalents is very low since cash and cash equivalents are maintained in financial institutions. Investments are exposed to various risks such as interest rate, market, and credit risks. OC's charitable remainder trusts receivable are due from donor trusts that hold investments that are subject to the same types of investment risks. Due to the level of risk associated with certain investments, it is at least reasonably possible that changes in the values of investments will occur in the near term and that such changes could materially affect the investments and charitable remainder trusts receivable balances and the amounts reported in the statements of financial position. OC's grants receivable are due from agencies of the United States government and are subject to audit by the grantor agency. All other receivables are due from numerous corporations, non-profit organizations, and individuals. OC's management reviews the receivable balances as a whole to determine the necessity of its allowance for doubtful accounts.

Functional allocation of expenses

The costs of providing the program and other activities have been summarized on a functional basis in the statements of activities and change in net assets, and of functional expenses. Accordingly, certain costs have been allocated among the activities benefited.

Subsequent events

OC has evaluated its June 30, 2012 financial statements for subsequent events through October 17, 2012, the date the financial statements were available to be issued. OC is not aware of any subsequent events that would require recognition or disclosure in the financial statements.

Recent accounting pronouncement not yet adopted

In May 2011, the FASB issued guidance to amend the accounting and disclosure requirements on fair value measurements. The new guidance limits the highest-and-best-use measure to nonfinancial assets, permits certain financial assets and liabilities with offsetting positions in market or counterparty credit risks to be measured at a net basis, and provides guidance on the applicability of premiums and discounts. Additionally, the new guidance expands the disclosures on Level 3 inputs by requiring quantitative disclosure of the unobservable inputs and assumptions, as well as description of the valuation processes and the sensitivity of the fair value to changes in unobservable inputs. The new guidance will be effective for years beginning after December 15, 2011, and will be applied prospectively. Other than requiring additional disclosures, the adoption of this new guidance is not expected to have a material impact on the accompanying financial statements.

NOTE 2 - INVESTMENTS

Investments consist of the following as of June 30:

	2012		2011	
	Cost	Fair Value	Cost	Fair Value
Money market accounts	$ 1,007,797	$ 1,007,797	$ 1,244,737	$ 1,244,805
Equity securities	4,712,240	5,299,109	4,479,680	5,114,343
Mutual funds	4,981,301	4,913,793	4,533,983	4,717,081
Real estate investment trusts	622,170	744,904	610,342	656,914
U.S. Treasuries	705,317	751,758	481,624	481,165
Commodities	416,732	330,710	319,535	319,521
Mortgage-backed securities	1,300,431	1,303,890	1,207,111	1,231,073
	$ 13,745,988	$ 14,351,961	$ 12,877,012	$ 13,764,902

For the years ended June 30, 2012 and 2011, OC recorded net realized and unrealized (losses) gains on investments of $(483,075) and $2,152,220, respectively and interest and dividend income totaling $409,339 and $445,413, respectively.

NOTE 3 - PLEDGES RECEIVABLE

Pledges receivable consist of the following as of June 30:

	2012	2011
Receivable in less than one year	$ 4,437,212	$ 1,029,250
Receivable in one to five years	87,500	290,000
	4,524,712	1,319,250
Less: discount to present value	(42,864)	(13,745)
	$ 4,481,848	$ 1,305,505

NOTE 4 - CHARITABLE REMAINDER TRUSTS RECEIVABLE

OC is the remainder beneficiary in two irrevocable charitable remainder trusts, which are expected to be distributed upon termination of life interests retained by the donor. The amounts receivable from these trusts are revalued annually. The expected future cash flows from the trusts have been recorded at fair value using a present value approach with discount rates ranging from 1.6% to 3.0%. At June 30, 2012 and 2011, the estimated fair value of these receivables totaled $665,058 and $664,804, respectively, and is included in the charitable remainder trusts receivable in the accompanying statements of financial position. The estimated net present value of the charitable remainder trusts are considered to be temporarily restricted until the funds are received.

NOTE 5 - PROPERTY AND EQUIPMENT

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

	2012	2011
Computer equipment	$ 1,532,855	$ 1,449,228
Web development	270,577	7,639
Leasehold improvements	100,694	74,667
Furniture and fixtures	84,849	84,849
	1,988,975	1,616,383
Less: accumulated depreciation and amortization	(1,456,793)	(1,286,088)
	$ 532,182	$ 330,295

Depreciation and amortization expense on property and equipment for the years ended June 30, 2012 and 2011 totaled $170,705 and $188,100, respectively.

NOTE 6 - CHARITABLE GIFT ANNUITIES

OC has entered into charitable gift annuity arrangements with a number of donors. In exchange for contributions, these arrangements require OC to make annual fixed payments during the lives of the donors. The contributions are treated as contribution revenue when received and are included in unrestricted net assets in the accompanying financial statements. Contribution revenue related to charitable gift annuities for the years ended June 30, 2012 and 2011 totaled $236,284 and $105,103, respectively.

The annuity payment obligations are based on donor life expectancies as presented in actuarial tables, discounted at rates ranging from 1.4% to 8.2%.

NOTE 7 - LINE-OF-CREDIT

OC maintains a revolving line-of-credit facility with a securities broker under which OC may borrow up to a maximum of $2,000,000 during the years ended June 30, 2012 and 2011 and $1,000,000 as of July 1, 2012. The facility is payable on demand and provides for a variable interest rate equal to LIBOR plus 1.75% (1.99% at June 30, 2012). The line-of-credit is secured by a first priority lien on all cash and investments deposited with the securities broker, and expires, if not renewed, on December 31, 2013. At June 30, 2012 and 2011, OC had no outstanding balance under the facility.

NOTE 8 - NOTE PAYABLE

OC maintains a term loan with an original principal amount of $3,000,000. The term loan requires monthly principal and interest payments in the amount of $24,656, bears interest at 5.59% per annum, and is due on February 10, 2021. The outstanding balance at June 30, 2012 and 2011 was $2,047,110 and 2,222,210, respectively and is secured by OC's investment portfolio.

Scheduled maturities of the note payable as of June 30, 2012 are as follows:

Years ending June 30,	
2013	$ 187,218
2014	197,956
2015	209,310
2016	221,315
2017	234,008
Thereafter	997,303
	$ 2,047,110

NOTE 9 - TEMPORARILY RESTRICTED NET ASSETS

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

	2012	2011
Net assets with purpose restriction	$ 5,246,813	$ 3,892,533
Net assets with time restriction	1,806,524	1,095,561
Endowment net assets	400,220	529,806
	$ 7,453,557	$ 5,517,900

NOTE 10 - ENDOWMENT

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

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

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

Endowment-related activities in the donor-restricted endowment fund for the years ended June 30 are as follows:

	2012	2011
Investment return		
Investment income	$ 66,332	$ 66,351
Net (losses) gains	(86,920)	338,212
Total investment return	(20,588)	404,563
Appropriations	(97,672)	(101,995)
Investment management fees	(11,326)	(12,153)
Change in funds	$ (129,586)	$ 290,415

The following table presents the endowment-related balances and activities by net asset classification as of and for the years ended June 30, 2012 and 2011:

	Temporarily Restricted	Permanently Restricted
Endowment net assets, June 30, 2010	$ 239,391	$ 1,592,170
Investment return		
Investment income	66,351	0
Net gains	338,212	0
Total investment return	404,563	0
Appropriations	(101,995)	0
Investment management fees	(12,153)	0
Endowment net assets, June 30, 2011	529,806	1,592,170
Investment return		
Investment income	66,332	0
Net losses	(86,920)	0
Total investment return	(20,588)	0
Appropriations	(97,672)	0
Investment management fees	(11,326)	0
Endowment net assets, June 30, 2012	$ 400,220	$ 1,592,170

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

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

Annual spending	5%
Inflation	3%
Long-term target return	8%

From time to time, the fair value of assets associated with the individual donor-restricted endowment funds may fall below the level the donor or UPMIFA requires OC to retain as a fund of perpetual duration. When donor endowment deficits exist, they are classified as a reduction of unrestricted net assets. There were no such deficits as of June 30, 2012 and 2011.

NOTE 11 - ALLOCATION OF JOINT COSTS

OC conducts direct mail campaigns that incur joint costs for informational materials that include fundraising appeals. These joint costs are allocated on a basis that the management of OC determines to be appropriate based on its policies and practices and the content and purpose of the specific informational materials, in accordance with the provisions of the current authoritative guidance.

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

	2012	2011
Program services	$ 2,546,213	$ 2,367,656
Fundraising and membership development	1,220,061	984,004
Management and general	22,734	6,717
	$ 3,789,008	$ 3,358,377

NOTE 12 - FAIR VALUE MEASUREMENTS

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

OC's assets and liabilities recorded at fair value are categorized based on the priority of the inputs used to measure fair value. Fair value measurement standards require an entity to maximize the use of observable inputs (such as quoted prices in active markets) and minimize the use of unobservable inputs (such as appraisals or other valuation techniques) to determine fair value. The inputs used in measuring fair value are categorized into three levels, as follows:

- **Level 1** - Inputs that are based upon quoted prices for identical instruments traded in active markets.

- **Level 2 -** Inputs that are based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar investments in markets that are not active, or models based on valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the investment. Level 2 also includes practical expedient investments with notice periods for redemption of 90 days or less.

- **Level 3** - Inputs that are generally unobservable and typically reflect management's estimates of assumptions that market participants would use in pricing the asset. The fair values are therefore determined using model-based techniques that include option pricing models, discounted cash flow models, and similar techniques. Level 3 also includes practical expedient investments with notice periods for redemption of more than 90 days.

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

Investments

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

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

Charitable remainder trust agreements

Charitable remainder trust agreements, which are irrevocable, are administered by a trustee or fiscal agent. At the end of each term, a portion of the remaining trust assets, as defined in the trust agreements, is to be distributed to OC. The expected future cash inflows from the trusts are based on the fair value of the investments, future expected investment returns, and the life expectancy of the donor or donor's designee, and have been recorded at present value based on a discount rate of 1.6% and 3% for the years ended June 30, 2012 and 2011, respectively. The value of these trusts is based on unobservable inputs and OC's own assumptions and is therefore classified within Level 3.

Assets measured at fair value on a recurring basis are summarized below as of June 30, 2012:

	As of June 30, 2012			
	Level 1	Level 2	Level 3	Total
Investments:				
Money market accounts	$ 1,007,797	$ 0	$ 0	$ 1,007,797
Equity securities				
Consumer discretionary	924,656	0	0	924,656
Consumer supplies	303,181	0	0	303,181
Energy	518,732	0	0	518,732
Financials	804,366	0	0	804,366
Health care	924,286	0	0	924,286
Industrials	451,935	0	0	451,935
Information technology	973,154	0	0	973,154
Materials	132,313	0	0	132,313
Telecommunication services	110,454	0	0	110,454
Utilities	156,032	0	0	156,032
	5,299,109	0	0	5,299,109
Mutual funds				
U.S. large cap	331,280	0	0	331,280
U.S. mid cap	139,669	0	0	139,669
U.S. small cap	92,803	0	0	92,803
Internationally developed	896,958	0	0	896,958
Emerging markets	532,465	0	0	532,465
Bond funds	2,920,618	0	0	2,920,618
	4,913,793	0	0	4,913,793
Real estate investment trusts	744,904	0	0	744,904
U.S. Treasuries	751,758	0	0	751,758
Commodities	330,710	0	0	330,710
Mortgage-backed securities	1,303,890	0	0	1,303,890
Total investments	14,351,961	0	0	14,351,961
Charitable remainder trusts receivable	0	0	665,058	665,058
Total assets at fair value	$ 14,351,961	$ 0	$ 665,058	$ 15,017,019

	As of June 30, 2011			
	Level 1	Level 2	Level 3	Total
Investments:				
Money market accounts	1,244,805			1,244,805
Equity securities				
Consumer discretionary	725,333	0	0	725,333
Consumer supplies	308,363	0	0	308,363
Energy	447,483	0	0	447,483
Financials	653,844	0	0	653,844
Health care	934,852	0	0	934,852
Industrials	538,716	0	0	538,716
Information technology	1,029,087	0	0	1,029,087
Materials	250,863	0	0	250,863
Telecommunication services	95,437	0	0	95,437
Utilities	130,365	0	0	130,365
	5,114,343	0	0	5,114,343
Mutual funds				
U.S. large cap	$ 278,627	$ 0	$ 0	$ 278,627
U.S. mid cap	143,587	0	0	143,587
U.S. small cap	97,703	0	0	97,703
Internationally developed	896,382	0	0	896,382
Emerging markets	522,504	0	0	522,504
Bond funds	2,778,278	0	0	2,778,278
	4,717,081	0	0	4,717,081
Real estate investment trusts	656,914	0	0	656,914
U.S. Treasuries	481,165	0	0	481,165
Commodities	319,521	0	0	319,521
Mortgage-backed securities	1,231,073	0	0	1,231,073
Total investments	13,764,902	0	0	13,764,902
Charitable remainder trusts receivable	0	0	664,804	664,804
Total assets at fair value	$ 13,764,902	$ 0	$ 664,804	$ 14,429,706

A roll-forward of the fair value measurements using unobservable inputs (Level 3) for the years ended June 30, 2011 and 2012 is as follows:

	Alternative Investments	Charitable Remainder Trusts
Balance, June 30, 2010	$ 96,123	$ 562,179
Purchases, issuances, and settlements	(96,123)	0
Change in value in split-interest agreements	0	102,625
Balance, June 30, 2011	0	$ 664,804
Change in value in split-interest agreements	0	254
Balance, June 30, 2012	$ 0	$ 665,058

NOTE 13 - SELF-FUNDED INSURANCE PLAN

OC has a self-funded insurance plan for medical, dental, and disability insurance available to all employees scheduled to work 30 or more hours per week that includes co-insurance to minimize OC's annual financial risk. The maximum amount of medical claims that will be paid during the insurance provider's plan year is $35,000 per employee. Total expense for the years ended June 30, 2012 and 2011 of $1,077,398 and $955,884, respectively includes claims of $787,831 and $614,366, respectively and premiums and administrative fees of $289,567 and $341,518, respectively. As of June 30, 2012 and 2011, the accrued liability for incurred but not reported claims was $144,212 and $153,592.

NOTE 14 - DEFINED CONTRIBUTION PENSION PLAN

OC has a defined contribution pension plan (the Pension Plan) that covers all eligible employees of OC who are at least age 18, have completed one year of service and have worked 1,000 hours or more in the preceding 12-month period. Contributions to the Pension Plan, as determined by OC's Board of Directors, are 6.00% of qualifying compensation of the participants. OC recorded contributions to the Pension Plan of $293,844 and $248,521 for the years ended June 30, 2012 and 2011, respectively.

NOTE 15 - RELATED PARTY TRANSACTIONS

During the years ended June 30, 2012 and 2011, OC recorded contributions from board members totaling $251,817 and $164,696, respectively.

NOTE 16 - COMMITMENTS

OC leases office space for its headquarters office in Washington, D.C. and its regional offices throughout the United States under the terms of noncancelable operating leases that expire at various dates through September 2020. Certain leases provide for additional rent based on OC's pro-rata share of increases in real estate taxes and operating expenses as well as a percentage of any Consumer Price Index increases. In addition, OC leases office equipment under the terms of noncancelable operating leases that expire at various dates through March 2015.

As of June 30, 2012, the following is a schedule by year of approximate future minimum lease payments required under these operating leases:

Years ending June 30,	
2013	$ 917,000
2014	873,000
2015	671,000
2016	687,000
2017	663,000
Thereafter	2,275,000
	$ 6,086,000

In accordance with authoritative guidance issued by the FASB, OC is recognizing the total cost of its office leases ratably over the respective lease periods. The difference between rent paid and that expensed is reflected as deferred rent in the accompanying statement of financial position. Rent expense for the years ended June 30, 2012 and 2011 totaled $1,217,455 and $1,277,528 respectively.