

Ocean Conservancy, Inc.

Financial Statements
and Independent Auditors' Report

June 30, 2019 and 2018

Ocean Conservancy, Inc.

Financial Statements
June 30, 2019 and 2018

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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, 2019 and 2018; 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

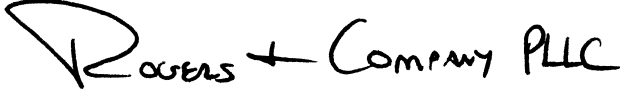
Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about 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, 2019 and 2018, 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 signature is written in a cursive, flowing style.

Vienna, Virginia
October 25, 2019

Ocean Conservancy, Inc.

Statements of Financial Position
June 30, 2019 and 2018

	2019	2018
Assets		
Cash	\$ 6,475,080	\$ 4,713,983
Investments	30,620,899	25,339,469
Accounts receivable	48,763	32,979
Grants receivable	372,187	139,448
Pledges receivable, net	7,221,930	13,494,899
Bequests receivable	1,538,408	2,342,191
Charitable remainder trusts receivable, net	1,307,055	1,235,719
Prepaid expenses	1,152,390	544,635
Deferred compensation plan assets	44,924	24,994
Property and equipment, net	166,832	313,967
Deposits	149,297	84,075
Other assets	92,802	92,802
	\$ 49,190,567	\$ 48,359,161
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	\$ 1,998,094	\$ 1,588,725
Charitable gift annuities	964,333	578,276
Deferred rent	194,600	68,649
Deferred compensation plan liabilities	44,924	24,994
	3,201,951	2,260,644
Net Assets		
Without donor restrictions:		
Undesignated	2,143,534	387,204
Board-designated	23,274,820	20,842,547
	25,418,354	21,229,751
With donor restrictions:		
Purpose and time restrictions	17,730,627	22,030,231
Perpetual in nature	2,839,635	2,838,535
	20,570,262	24,868,766
Total net assets	45,988,616	46,098,517
Total liabilities and net assets	\$ 49,190,567	\$ 48,359,161

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	\$ 12,754,558	\$ 28,564,855
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:			
Communications and outreach	5,251,252	-	5,251,252
Gulf of Mexico restoration	1,650,079	-	1,650,079
Ocean policy science and governance	5,351,623	-	5,351,623
Trash free seas	5,460,682	-	5,460,682
Marine wildlife and ecosystem protection	5,954,754	-	5,954,754
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 income, 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 Activities
For the Year Ended June 30, 2018

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and Support			
Contributions, grants, and bequests	\$ 13,267,532	\$ 23,703,333	\$ 36,970,865
List rental income	67,681	-	67,681
Royalties	236,760	-	236,760
Net assets released from restrictions	13,821,802	(13,821,802)	-
Total revenue and support	27,393,775	9,881,531	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	9,881,531	10,905,486
Investment income, net	1,482,440	186,000	1,668,440
Change in Net Assets	2,506,395	10,067,531	12,573,926
Net Assets, beginning of year	18,723,356	14,801,235	33,524,591
Net Assets, end of year	\$ 21,229,751	\$ 24,868,766	\$ 46,098,517

See accompanying notes.

Ocean Conservancy, Inc.

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

	Program Services						Supporting 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 Supporting Services	Total
Salaries and wages	\$ 771,951	\$ 796,456	\$ 2,086,823	\$ 1,785,682	\$ 2,264,685	\$ 7,705,597	\$ 1,459,487	\$ 1,102,376	\$ 2,561,863	\$ 10,267,460
Employee benefits	215,053	221,880	581,357	497,464	630,907	2,146,661	406,591	307,105	713,696	2,860,357
Professional fees	1,052,678	251,898	1,449,931	1,732,602	569,050	5,056,159	422,179	297,716	719,895	5,776,054
Printing	1,006,377	2,216	24,785	85,494	7,949	1,126,821	846,428	26,099	872,527	1,999,348
Rent, utilities, and telephone	93,415	176,184	246,296	212,993	320,544	1,049,432	171,890	197,168	369,058	1,418,490
Delivery services	645,551	722	1,828	76,852	2,278	727,231	516,507	14,773	531,280	1,258,511
Travel and meetings	138,926	168,054	521,912	689,528	305,297	1,823,717	156,028	62,662	218,690	2,042,407
Supplies	102,071	9,344	28,636	130,018	29,194	299,263	84,489	23,205	107,694	406,957
Depreciation and amortization	11,138	11,492	30,110	25,765	32,676	111,181	21,059	24,295	45,354	156,535
Computer expenses	724	747	1,956	1,674	2,123	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	486,761	-	60,100	23,028	4,576	574,465	133,502	2,875	136,377	710,842
Grants and contributions	53,500	-	259,219	133,198	1,751,446	2,197,363	-	-	-	2,197,363
Subscriptions	117,651	2,547	45,534	11,582	17,169	194,483	61,673	37,254	98,927	293,410
Miscellaneous	17,447	2,012	5,506	4,344	6,516	35,825	10,028	10,942	20,970	56,795
Interest	-	-	-	-	-	-	-	227	227	227
Repairs and maintenance	3,269	6,527	6,786	9,978	8,485	35,045	6,191	5,535	11,726	46,771
Bank fees	324	-	844	2,768	1,859	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 other	401,223	-	-	37,160	-	438,383	-	-	-	438,383
Total Expenses	\$ 5,251,252	\$ 1,650,079	\$ 5,351,623	\$ 5,460,682	\$ 5,954,754	\$ 23,668,390	\$ 4,376,381	\$ 2,380,668	\$ 6,757,049	\$ 30,425,439

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
Employee benefits	221,223	253,877	634,883	373,829	540,569	2,024,381	346,861	296,402	643,263	2,667,644
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
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
Depreciation and amortization	10,057	11,504	28,979	16,994	25,339	92,873	15,768	31,147	46,915	139,788
Computer expenses	814	931	2,346	1,376	2,051	7,518	1,276	5,338	6,614	14,132
List rental expenses	81,232	-	-	-	-	81,232	65,964	1,038	67,002	148,234
Advertising and telemarketing	301,934	-	60,806	2,097	864	365,701	80,311	1,271	81,582	447,283
Grants and contributions	-	500	670,839	35,750	1,517,385	2,224,474	-	-	-	2,224,474
Subscriptions	104,227	3,559	32,724	12,069	9,534	162,113	50,992	31,426	82,418	244,531
Miscellaneous	13,922	2,906	3,711	3,016	6,930	30,485	13,686	4,757	18,443	48,928
Repairs and maintenance	4,088	5,261	9,682	11,150	8,717	38,898	5,655	9,733	15,388	54,286
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
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.

Statements of Cash Flows
For the Years Ended June 30, 2019 and 2018

	2019	2018
Cash Flows from Operating Activities		
Change in net assets	\$ (109,901)	\$ 12,573,926
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	156,535	139,788
Donation of marketable securities	(141,341)	(116,885)
Change in pledges receivable discount	(154,586)	117,563
Net realized and unrealized gain on investments	(1,057,532)	(1,215,853)
Change in charitable gift annuities' liability valuation	75,819	(9,410)
Donor restricted funds to be held in perpetuity	(1,100)	(1,246,365)
Change in operating assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	(15,784)	20,425
Grants receivable	(232,739)	(34,022)
Pledges receivable, net	6,427,555	(9,646,951)
Bequests receivable	803,783	(850,354)
Charitable remainder trusts receivable, net	(71,336)	(4,734)
Prepaid expenses	(607,755)	109,748
Deferred compensation plan assets	(19,930)	16,387
Deposits	(65,222)	6,608
Increase (decrease) in:		
Accounts payable and accrued expenses	409,369	234,916
Charitable gift annuities	310,238	(346,072)
Deferred rent	125,951	(197,386)
Deferred compensation plan liabilities	19,930	(16,387)
Net cash provided by (used in) operating activities	5,851,954	(465,058)
Cash Flows from Investing Activities		
Purchases of property and equipment	(9,400)	(82,694)
Purchases of investments	(28,788,985)	(6,608,684)
Proceeds from sales of investments	24,706,428	4,735,897
Net cash used in investing activities	(4,091,957)	(1,955,481)
Cash Flows from Financing Activity		
Donor restricted funds to be held in perpetuity	1,100	1,246,365
Net cash provided by financing activity	1,100	1,246,365
Net Increase (Decrease) in Cash	1,761,097	(1,174,174)
Cash, beginning of year	4,713,983	5,888,157
Cash, end of year	\$ 6,475,080	\$ 4,713,983
Supplementary Disclosure of Cash Flow Information		
Cash paid for interest	\$ 227	\$ 320
Cash paid for unrelated business income taxes	\$ 5,177	\$ -

See accompanying notes.

Ocean Conservancy, Inc.

Notes to Financial Statements
June 30, 2019 and 2018

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. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

Ocean Conservancy, Inc.

Notes to Financial Statements
June 30, 2019 and 2018

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 investment income 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 receivables are fully collectible.

Grants Receivable

Grants receivable consists of amounts due to be reimbursed to OC for expenses incurred under grant agreements with government agencies. The entire amount is expected to be collected within one year, and is recorded at net realizable value. No allowance for doubtful accounts is recorded, as management believes that all grants receivable are fully collectible.

Pledges Receivable

Pledges receivable represent unconditional amounts committed to OC. Pledges 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 unconditional pledges receivable. OC's policy is to write-off uncollectible pledges when management determines the receivables will not be collected 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, 2019 and 2018, no allowance was recorded as management believes that all pledges are fully collectible.

Ocean Conservancy, Inc.

Notes to Financial Statements
June 30, 2019 and 2018

2. Summary of Significant Accounting Policies (continued)

Bequests Receivable

Donor bequests are recorded as bequest revenue when a probate court declares a will valid and the proceeds are measurable, and are recorded at their net present value.

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 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.

Ocean Conservancy, Inc.

Notes to Financial Statements
June 30, 2019 and 2018

2. Summary of Significant Accounting Policies (continued)

Revenue Recognition

Contributions, including unconditional promises to give, are considered to be available for unrestricted use unless specifically restricted by the donor. OC reports them as net assets with donor restrictions if they are received or promised with donor stipulations that limit the use of the donated assets to one of OC's programs or to a future year. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, 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. However, restrictions met in the same accounting period in which the related contribution was received are treated as net assets without donor restrictions.

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.

Grant revenues are generated from government agencies and are recognized when unconditionally promised to give. Amounts due to be reimbursed to OC for expenses incurred under grant agreements with government agencies are reflected as grants receivable in the accompanying statements of financial position.

In-kind contributions are recognized as revenue and expense 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.

Revenue from all other sources is recognized when earned.

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.

Ocean Conservancy, Inc.

Notes to Financial Statements
June 30, 2019 and 2018

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.

Advertising and Telemarketing Costs

Advertising and telemarketing costs are expensed as incurred, and totaled \$710,842 and \$447,283 for the years ended June 30, 2019 and 2018, respectively.

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 amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Change in Accounting Principle

On August 18, 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities* (Topic 958) – *Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. OC has implemented ASU 2016-14 and has adjusted the presentation in these financial statements accordingly. The ASU has been applied retrospectively to all periods presented, except for the liquidity and availability footnote, which is permitted by the ASU in the year of adoption. 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.

Ocean Conservancy, Inc.

Notes to Financial Statements
June 30, 2019 and 2018

2. Summary of Significant Accounting Policies (continued)

Subsequent Events

In preparing these financial statements, OC has evaluated events and transactions for potential recognition or disclosure through October 25, 2019OC-, the date the financial statements were available to be issued.

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 statement of financial position date, comprise the following at June 30, 2019:

Cash	\$ 6,475,080
Investments	30,620,899
Accounts receivable	48,763
Grants receivable	372,187
Pledges receivable, net	7,221,930
Bequests receivable	1,538,408
Charitable remainder trusts receivable, net	<u>1,307,055</u>
Total financial assets available	<u>47,584,322</u>
Less: designated cash	(200,000)
Less: charitable gift annuities	(964,333)
Less: Board-designated fund, net of 5% annual distribution	(22,300,412)
Less: restricted by donors for purpose and time	(4,218,312)
Less: restricted by donors in perpetuity	<u>(2,839,635)</u>
Total available for general expenditures	<u>\$ 17,061,630</u>

Ocean Conservancy, Inc.

Notes to Financial Statements
June 30, 2019 and 2018

3. Liquidity and Availability (continued)

The Board-designated fund of \$23,274,820 at June 30, 2019, 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, 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 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, 2019 and 2018

4. Concentrations of Risks (continued)

Revenue and Receivable Risk

OC did not have revenue and receivable risk for the year ended June 30, 2019. For the year ended June 30, 2018, one donor accounted for 29% of OC's total revenue. Amounts receivable from this donor accounted for 52% of OC's total pledges receivable as of June 30, 2018.

5. Investments and Fair Value Measurements

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
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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
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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, 2018:

	Level 1	Level 2	Level 3	Total
Investments:				
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
Total investments	25,339,469	-	-	25,339,469
Deferred compensation plan assets:				
Mutual funds - real estate	2,318	-	-	2,318
Mutual funds - equity	22,676	-	-	22,676
Total deferred compensation plan assets	24,994	-	-	24,994
Total assets at fair value	\$ 25,364,463	\$ -	\$ -	\$ 25,364,463
Liabilities at fair value:				
Split-interest agreements	\$ -	\$ -	\$ 578,276	\$ 578,276

Ocean Conservancy, Inc.

Notes to Financial Statements
June 30, 2019 and 2018

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>2019</u>	<u>2018</u>
Beginning balance	\$ 578,276	\$ 933,758
New gift annuities	770,740	77,303
Distributions	(460,502)	(423,375)
Change in value	<u>75,819</u>	<u>(9,410)</u>
Ending balance	<u>\$ 964,333</u>	<u>\$ 578,276</u>

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

	<u>2019</u>	<u>2018</u>
Interest and dividends	\$ 627,949	\$ 520,062
Realized gain	1,936,892	33,753
Unrealized (loss) gain	(879,360)	1,182,100
Less: investment management fees	<u>(74,827)</u>	<u>(67,475)</u>
Investment income, net	<u>\$ 1,610,654</u>	<u>\$ 1,668,440</u>

6. Pledges Receivable

Pledges receivable consist of the following as of June 30:

	<u>2019</u>	<u>2018</u>
Receivable in less than one year	\$ 6,466,825	\$ 9,362,439
Receivable in one to five years	<u>790,000</u>	<u>4,321,941</u>
Total pledges receivable	7,256,825	13,684,380
Less: discount to present value (4.15% and 3.80%, respectively)	<u>(34,895)</u>	<u>(189,481)</u>
Pledges receivable, net	<u>\$ 7,221,930</u>	<u>\$ 13,494,899</u>

Ocean Conservancy, Inc.

Notes to Financial Statements June 30, 2019 and 2018

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 of 3.0% and 3.4% at June 30, 2019 and 2018, respectively. At June 30, 2019 and 2018, the estimated value of these receivables totaled \$1,307,055 and \$1,235,719, respectively. The estimated net present value of the charitable remainder trusts are considered to be net assets with donor restrictions until the funds are received.

8. Property and Equipment

Property and equipment consists of the following at June 30:

	2019	2018
Computers and equipment	\$ 938,588	\$ 938,588
Website development	408,516	399,116
Leasehold improvements	285,800	285,800
Furniture and fixtures	5,847	5,847
Total property and equipment	1,638,751	1,629,351
Less: accumulated depreciation and amortization	(1,471,919)	(1,315,384)
Property and equipment, net	<u>\$ 166,832</u>	<u>\$ 313,967</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, 2019 and 2018 totaled \$272,721 and \$55,376, respectively.

Ocean Conservancy, Inc.

Notes to Financial Statements
June 30, 2019 and 2018

10. Net Assets With Donor Restrictions

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

	<u>2019</u>	<u>2018</u>
Purpose restricted	\$ 14,008,608	\$ 7,718,399
Time restricted	2,843,404	13,494,899
Unappropriated investment earnings on endowment	878,615	816,933
Perpetual in nature	<u>2,839,635</u>	<u>2,838,535</u>
Total net assets with donor restrictions	<u>\$ 20,570,262</u>	<u>\$ 24,868,766</u>

11. Endowment

OC holds its donor-restricted endowment 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. The donor-restricted endowment fund has no purpose restrictions, and was established to provide continuing support for general operations of the organization.

Interpretation of Relevant Law

The Board of Directors of OC has interpreted the 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.

Ocean Conservancy, Inc.

Notes to Financial Statements
June 30, 2019 and 2018

11. Endowment (continued)

Interpretation of Relevant Law (continued)

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. 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 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 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, 2019 and 2018.

Ocean Conservancy, Inc.

Notes to Financial Statements
June 30, 2019 and 2018

11. Endowment (continued)

Composition of Endowment Funds

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	<u>\$ -</u>	<u>\$ 3,718,250</u>	<u>\$ 3,718,250</u>

Endowment net asset composition was as follows at June 30, 2018:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Donor-restricted endowment	<u>\$ -</u>	<u>\$ 3,655,468</u>	<u>\$ 3,655,468</u>

Changes in Endowment Fund

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>
Endowment net assets, 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	<u>-</u>	<u>184,197</u>	<u>184,197</u>
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>

Ocean Conservancy, Inc.

Notes to Financial Statements
June 30, 2019 and 2018

11. Endowment (continued)

Changes in Endowment Fund (continued)

Changes in endowment net assets were as follows for the year ended June 30, 2018:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment net assets, June 30, 2017	\$ -	\$ 2,334,417	\$ 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	<u>\$ -</u>	<u>\$ 3,655,468</u>	<u>\$ 3,655,468</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.

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 leases office equipment under the terms of noncancelable operating leases that expire at various dates through March 2020.

Ocean Conservancy, Inc.

Notes to Financial Statements
June 30, 2019 and 2018

12. Commitments and Contingencies (continued)

Operating Leases (continued)

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

2020	\$ 1,034,187
2021	967,090
2022	929,838
2023	931,337
2024	923,820
Thereafter	<u>6,048,646</u>
Total future minimum lease payments	<u>\$ 10,834,918</u>

Rent expense for the years ended June 30, 2019 and 2018 totaled \$1,217,679 and \$977,903, 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.

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 2019 and 2018. OC recorded contributions to the plan of \$505,144 and \$431,207 for the years ended June 30, 2019 and 2018, respectively.

Ocean Conservancy, Inc.

Notes to Financial Statements
June 30, 2019 and 2018

13. Retirement Plans (continued)

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, 2019 and 2018, the deferred compensation plan assets and corresponding liabilities held at fair value amounted to \$44,924 and \$24,994, respectively, and are included in the accompanying statements of financial position. OC contributed \$3,000 and \$1,800 to the plan for the years ended June 30, 2019 and 2018, 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 natural 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.

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

	<u>2019</u>	<u>2018</u>
Program services	\$ 2,730,275	\$ 2,380,359
Fundraising and membership development	2,041,687	1,932,956
Management and administrative	<u>43,338</u>	<u>30,405</u>
Total joint costs	<u>\$ 4,815,300</u>	<u>\$ 4,343,720</u>

Ocean Conservancy, Inc.

Notes to Financial Statements
June 30, 2019 and 2018

16. Related Party Transactions

During the years ended June 30, 2019 and 2018, OC recorded contributions from Board members totaling \$283,907 and \$432,076, 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, 2019 and 2018, 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.