

**Ocean Conservancy, Inc.**

Financial Statements  
and Independent Auditors' Report

June 30, 2017 and 2016

**Ocean Conservancy, Inc.**

Financial Statements  
June 30, 2017 and 2016

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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, 2017 and 2016; 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, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Handwritten signature in black ink that reads "Rogers + Company PLLC". The "R" is large and stylized, with a long horizontal stroke that extends to the right and loops back under the "C".

Vienna, Virginia  
October 20, 2017

## Ocean Conservancy, Inc.

### Statements of Financial Position June 30, 2017 and 2016

	2017	2016
<b>Assets</b>		
Cash and cash equivalents	\$ 5,888,157	\$ 3,456,817
Investments	22,133,944	20,635,227
Accounts and grants receivable	158,830	213,104
Pledges receivable, net	3,965,511	6,553,785
Bequests receivable	1,491,837	904,860
Charitable remainder trusts receivable, net	1,230,985	832,260
Deferred compensation investments	41,381	3,525
Prepaid expenses	654,383	567,060
Property and equipment, net	371,061	333,055
Deposits	90,683	92,307
Other assets	92,802	92,802
Total assets	<u>\$ 36,119,574</u>	<u>\$ 33,684,802</u>
<b>Liabilities and Net Assets</b>		
<b>Liabilities</b>		
Accounts payable and accrued expenses	\$ 1,353,809	\$ 1,313,099
Charitable gift annuities	933,758	851,036
Deferred compensation	41,381	3,525
Deferred rent	266,035	309,211
Total liabilities	<u>2,594,983</u>	<u>2,476,871</u>
<b>Net Assets</b>		
Unrestricted:		
Undesignated	351,529	212,551
Board-designated	18,371,827	16,961,885
Total unrestricted	18,723,356	17,174,436
Temporarily restricted	13,209,065	12,441,325
Permanently restricted	1,592,170	1,592,170
Total net assets	<u>33,524,591</u>	<u>31,207,931</u>
Total liabilities and net assets	<u>\$ 36,119,574</u>	<u>\$ 33,684,802</u>

See accompanying notes.

**Ocean Conservancy, Inc.**

Statement of Activities  
For the Year Ended June 30, 2017

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

See accompanying notes.

**Ocean Conservancy, Inc.**

Statement of Activities  
For the Year Ended June 30, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Revenue and Support</b>				
Contributions, grants, and bequests	\$ 10,578,817	\$ 8,823,371	\$ -	\$ 19,402,188
List rental income	54,078	-	-	54,078
Other income	1,708	-	-	1,708
Net assets released from restrictions	12,084,977	(12,084,977)	-	-
<b>Total revenue and support</b>	<b>22,719,580</b>	<b>(3,261,606)</b>	<b>-</b>	<b>19,457,974</b>
<b>Expenses</b>				
Program services:				
Communications and outreach	4,423,175	-	-	4,423,175
Gulf of Mexico restoration	3,223,756	-	-	3,223,756
Ocean policy science and governance	3,941,089	-	-	3,941,089
Trash free seas	3,104,946	-	-	3,104,946
Marine wildlife and ecosystem protection	2,395,571	-	-	2,395,571
<b>Total program services</b>	<b>17,088,537</b>	<b>-</b>	<b>-</b>	<b>17,088,537</b>
Supporting services:				
Fundraising and membership development	3,562,353	-	-	3,562,353
Management and administration	2,145,085	-	-	2,145,085
<b>Total supporting services</b>	<b>5,707,438</b>	<b>-</b>	<b>-</b>	<b>5,707,438</b>
<b>Total expenses</b>	<b>22,795,975</b>	<b>-</b>	<b>-</b>	<b>22,795,975</b>
Change in net assets before gains	(76,395)	(3,261,606)	-	(3,338,001)
Investment income, net	422,395	50,171	-	472,566
<b>Change in Net Assets</b>	<b>346,000</b>	<b>(3,211,435)</b>	<b>-</b>	<b>(2,865,435)</b>
<b>Net Assets, beginning of year</b>	<b>16,828,436</b>	<b>15,652,760</b>	<b>1,592,170</b>	<b>34,073,366</b>
<b>Net Assets, end of year</b>	<b>\$ 17,174,436</b>	<b>\$ 12,441,325</b>	<b>\$ 1,592,170</b>	<b>\$ 31,207,931</b>

See accompanying notes.

**Ocean Conservancy, Inc.**

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

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

See accompanying notes.



**Ocean Conservancy, Inc.**

Statement of Functional Expenses  
For the Year Ended June 30, 2016

	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	\$ 474,944	\$ 1,569,656	\$ 1,747,521	\$ 841,968	\$ 1,029,541	\$ 5,663,630	\$ 1,041,846	\$ 997,199	\$ 2,039,045	\$ 7,702,675
Professional fees	1,058,791	313,546	937,013	1,068,803	452,135	3,830,288	343,633	271,659	615,292	4,445,580
Printing	1,044,062	20,780	2,503	67,579	15,231	1,150,155	763,100	9,729	772,829	1,922,984
Employee benefits	142,436	471,355	526,618	254,047	309,113	1,703,569	312,285	299,617	611,902	2,315,471
Rent, utilities, and telephone	72,808	412,091	271,645	136,610	174,552	1,067,706	160,559	266,884	427,443	1,495,149
Delivery services	796,393	4,147	2,535	41,031	1,851	845,957	558,157	7,123	565,280	1,411,237
Travel and meetings	34,882	322,097	293,878	203,884	253,413	1,108,154	96,790	58,387	155,177	1,263,331
Supplies	134,628	27,192	32,033	33,245	15,118	242,216	95,951	25,331	121,282	363,498
Advertising	86,070	3,274	1,633	7,574	39,831	138,382	29,315	295	29,610	167,992
Subscriptions	53,056	20,345	32,481	7,760	4,507	118,149	57,219	12,627	69,846	187,995
Depreciation and amortization	5,420	17,911	19,941	9,608	11,748	64,628	11,889	19,868	31,757	96,385
List rental expenses	95,222	-	-	-	-	95,222	63,853	159	64,012	159,234
Bank fees	332	51	53	25	27	488	2,124	130,865	132,989	133,477
Insurance	4,501	14,875	16,561	7,979	9,757	53,673	9,873	16,501	26,374	80,047
Grants and contributions	11	14,237	45,191	12,840	69,795	142,074	25	-	25	142,099
Repairs and maintenance	1,739	8,200	6,823	4,782	4,033	25,577	3,816	6,377	10,193	35,770
Miscellaneous	3,212	3,991	4,660	3,540	4,919	20,322	9,459	4,415	13,874	34,196
Computer expenses	580	8	-	-	-	588	-	10,870	10,870	11,458
Temporary help	1,311	-	-	-	-	1,311	2,459	7,179	9,638	10,949
In-kind other	412,777	-	-	403,671	-	816,448	-	-	-	816,448
<b>Total Expenses</b>	<b>\$ 4,423,175</b>	<b>\$ 3,223,756</b>	<b>\$ 3,941,089</b>	<b>\$ 3,104,946</b>	<b>\$ 2,395,571</b>	<b>\$ 17,088,537</b>	<b>\$ 3,562,353</b>	<b>\$ 2,145,085</b>	<b>\$ 5,707,438</b>	<b>\$ 22,795,975</b>

See accompanying notes.

**Ocean Conservancy, Inc.**

Statements of Cash Flows  
For the Years Ended June 30, 2017 and 2016

	2017	2016
<b>Cash Flows from Operating Activities</b>		
Change in net assets	\$ 2,316,660	\$ (2,865,435)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	90,584	96,385
Donation of marketable securities	(212,861)	(103,063)
Change in pledges receivable discount	(31,425)	(42,439)
Net realized and unrealized gains on investments	(1,654,933)	(29,475)
Change in charitable gift annuities' liability valuation	148,494	120,697
Change in operating assets and liabilities:		
(Increase) decrease in:		
Accounts and grants receivable	54,274	(88,246)
Pledges receivable	2,619,699	1,943,815
Bequests receivable	(586,977)	701,994
Charitable remainder trusts receivable, net	(398,725)	12,269
Deferred compensation investments	(37,856)	(3,525)
Prepaid expenses	(87,323)	193,158
Increase (decrease) in:		
Accounts payable and accrued expenses	40,710	(407,455)
Charitable gift annuities	(65,772)	(133,264)
Deferred compensation	37,856	3,525
Deferred rent	(43,176)	(34,844)
	<u>2,189,229</u>	<u>(635,903)</u>
<b>Net cash provided by (used in) operating activities</b>		
<b>Cash Flows from Investing Activities</b>		
Purchases of property and equipment	(128,590)	(191,726)
Purchases of investments	(2,254,164)	(1,848,947)
Proceeds from sales of investments	2,623,241	2,403,364
Decrease (increase) in deposits	1,624	(10,277)
	<u>242,111</u>	<u>352,414</u>
<b>Net cash provided by investing activities</b>		
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	2,431,340	(283,489)
<b>Cash and Cash Equivalents, beginning of year</b>	<u>3,456,817</u>	<u>3,740,306</u>
<b>Cash and Cash Equivalents, end of year</b>	<u>\$ 5,888,157</u>	<u>\$ 3,456,817</u>

*See accompanying notes.*

## Ocean Conservancy, Inc.

Notes to Financial Statements  
June 30, 2017 and 2016

### 1. Nature of Operations

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

OC is headquartered in Washington, D.C. and has offices located in various coastal regions of the United States. OC is funded in part by small contributions, but also receives grants and contracts from individuals, foundations, government agencies, and corporations. OC is also funded by bequests and royalties.

### 2. Summary of Significant Accounting Policies

#### Basis of Accounting and Presentation

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

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

- *Unrestricted net assets*: Represent funds that are not subject to donor-imposed stipulations and are available for support of operations. Unrestricted net assets include both undesignated and Board-designated amounts. OC's Board of Directors has segregated unrestricted amounts received from various donors as Board-designated fund assets, and has implemented an investment policy that includes an annual discretionary transfer of amounts to undesignated net assets to support operations.
- *Temporarily restricted net assets*: Represent funds subject to donor-imposed restrictions that are met either by actions of OC or through the passage of time. Pledges, bequests, and charitable remainder trusts receivables that are not otherwise restricted are considered to be temporarily restricted until the funds are received.

## Ocean Conservancy, Inc.

Notes to Financial Statements  
June 30, 2017 and 2016

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

#### Basis of Accounting and Presentation (continued)

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

#### Use of Estimates

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

#### Cash Equivalents

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

#### Investments

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

## Ocean Conservancy, Inc.

Notes to Financial Statements  
June 30, 2017 and 2016

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

#### Accounts and Grants Receivable

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

#### Pledges Receivable

Pledges receivable represent unconditional promises to give. OC uses the allowance method to determine uncollectible unconditional pledges receivable. The allowance is based on experience as well as management's analysis of specific pledges made, including such factors as prior collection history, type of contribution, and nature of fundraising activity. At June 30, 2017 and 2016, no allowance was recorded as management believes that all pledges are fully collectible.

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

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

#### Charitable Remainder Trusts Receivable

Charitable remainder trusts receivable are recorded at their net realizable value, as estimated based on various assumptions including the present value of estimated future lump-sum cash flows.

#### Property and Equipment

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

## Ocean Conservancy, Inc.

Notes to Financial Statements  
June 30, 2017 and 2016

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

#### Charitable Gift Annuities

Annuity obligations arising from split-interest gifts are recognized as charitable gift annuities in the accompanying statements of financial position. The initial liabilities resulting from these gifts are measured at fair value using the present value of the future payments to be made to beneficiaries.

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

#### Revenue Recognition

Contributions, including unconditional promises to give, are recognized in the period received. Contributions received are considered to be available for use unless specifically restricted by the donor. Amounts received that are designated for a future period, or are restricted by the donor for specific purposes, are reported as temporarily restricted or permanently restricted support that increase those net asset classes.

Unconditional promises to give, which do not state a due date, are presumed to be time-restricted by the donor until received and are reported as temporarily restricted net assets.

Wills are recorded as bequest revenue when the probate courts declare the wills valid and the proceeds are measurable. Irrevocable split-interest agreements, including charitable remainder trusts, charitable lead trusts, and perpetual trusts, are recorded as revenue when the trust agreements become irrevocable. Revenue under charitable gift annuity arrangements is reduced by the estimated annuities to be paid by OC over the beneficiary's lifetime.

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

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

All other revenues are recognized when earned.

## Ocean Conservancy, Inc.

Notes to Financial Statements  
June 30, 2017 and 2016

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

#### Measure of Operations

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

#### Functional Allocation of Expenses

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

#### Recently Issued Accounting Pronouncements

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

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

#### Subsequent Events

In preparing these financial statements, OC has evaluated events and transactions for potential recognition or disclosure through October 20, 2017, the date the financial statements were available to be issued.

## Ocean Conservancy, Inc.

Notes to Financial Statements  
June 30, 2017 and 2016

### 3. Concentrations

#### Credit Risk

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

Investments are exposed to various risks such as interest rate, market, and credit risks. OC's charitable remainder trusts receivable are due from donor trusts that hold investments that are subject to the same types of investment risks. Due to the level of risk associated with certain investments, it is at least reasonably possible that changes in the values of investments will occur in the near term and that such changes could materially affect the investments and charitable remainder trusts receivable balances and the amounts reported in the statements of financial position.

OC's grants receivable are due from agencies of the United States government and are subject to audit by the grantor agency. All other receivables are due from numerous corporations, nonprofit organizations, and individuals. OC's management reviews the receivable balances as a whole to determine the necessity of an allowance for doubtful accounts.

#### Revenue Risk

For the year ended June 30, 2017, two donors accounted for approximately 27% of total revenue. Amounts receivable from these donors accounted for 61% of OC's total pledges receivable as of June 30, 2017. For the year ended June 30, 2016, one donor accounted for 13% of total revenue. Amounts receivable from this donor accounted for 38% of OC's total pledges receivable as of June 30, 2016.



## Ocean Conservancy, Inc.

### Notes to Financial Statements June 30, 2017 and 2016

#### 4. Investments

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

	<u>2017</u>	<u>2016</u>
Mutual funds	\$ 20,590,914	\$ 17,977,938
Money market accounts	918,933	1,120,212
Real estate investment trusts	-	904,296
Commodities	510,054	484,683
Mortgage-backed securities	17,471	148,098
U.S. Treasuries	96,572	-
Total investments	<u>\$ 22,133,944</u>	<u>\$ 20,635,227</u>

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

	<u>2017</u>	<u>2016</u>
Interest and dividends	\$ 489,415	\$ 503,246
Realized and unrealized gains	1,654,933	29,475
Less: investment management fees	<u>(58,122)</u>	<u>(60,155)</u>
Total investment income, net	<u>\$ 2,086,226</u>	<u>\$ 472,566</u>

#### 5. Fair Value Measurements

OC follows FASB Accounting Standards Codification (ASC) 820, *Fair Value Measurements and Disclosures*, for its financial assets. This standard establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. Fair value measurement standards require an entity to maximize the use of observable inputs (such as quoted prices in active markets) and minimize the use of unobservable inputs (such as appraisals or other valuation techniques) to determine fair value. The categorization of a financial instrument within the hierarchy is based upon the pricing transparency of the instrument and does not necessarily correspond to the entity's perceived risk of that instrument.

The inputs used in measuring fair value are categorized into three levels. Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and liabilities and have the highest priority.

## Ocean Conservancy, Inc.

Notes to Financial Statements  
June 30, 2017 and 2016

### 5. Fair Value Measurements (continued)

Level 2 is based upon observable inputs other than quoted market prices, and Level 3 is based on unobservable inputs. Transfers between levels in the fair value hierarchy are recognized at the end of the reporting period.

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

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

The following table presents OC's fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis as of June 30, 2017:

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

**Ocean Conservancy, Inc.**

Notes to Financial Statements  
June 30, 2017 and 2016

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

The following table presents OC's fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis as of June 30, 2016:

	Level 1	Level 2	Level 3	Total
Assets at fair value:				
Money market accounts	\$ 1,120,212	\$ -	\$ -	\$ 1,120,212
Mutual funds:				
U.S. large cap	6,874,482	-	-	6,874,482
U.S. mid cap	958,291	-	-	958,291
U.S. small cap	664,771	-	-	664,771
International-developed	1,861,080	-	-	1,861,080
Emerging markets	785,837	-	-	785,837
Bond funds	6,833,477	-	-	6,833,477
Real estate investment trusts	904,296	-	-	904,296
Commodities	484,683	-	-	484,683
Mortgage-backed securities	148,098	-	-	148,098
Deferred compensation investments:				
Money market accounts	3,525	-	-	3,525
Total assets at fair value	<u>\$ 20,638,752</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 20,638,752</u>
Liabilities:				
Split-interest agreements	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 851,036</u>	<u>\$ 851,036</u>

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, 2017 and 2016:

Balance at June 30, 2015	\$ 863,603
New gift annuities	53,637
Distributions	(186,901)
Change in value	<u>120,697</u>
Balance at June 30, 2016	<u>851,036</u>
New gift annuities	41,589
Distributions	(107,361)
Change in value	<u>148,494</u>
Balance at June 30, 2017	<u>\$ 933,758</u>

**Ocean Conservancy, Inc.**

Notes to Financial Statements  
June 30, 2017 and 2016

**6. Pledges Receivable**

Pledges receivable consist of the following as of June 30:

	2017	2016
Receivable in less than one year	\$ 3,487,429	\$ 5,987,128
Receivable in one to five years	550,000	670,000
Total pledges receivable	4,037,429	6,657,128
Less: discount to present value (3.5% and 3.0%, respectively)	(71,918)	(103,343)
Pledges receivable, net	\$ 3,965,511	\$ 6,553,785

**7. Charitable Remainder Trusts Receivable**

OC is the remainder beneficiary in three irrevocable charitable remainder trusts, which are expected to be distributed upon termination of life interests retained by the donor. The amounts receivable from these trusts are revalued annually. The expected future cash flows from the trusts have been recorded at the estimated net realizable value using a present value approach with discount rates ranging from 2.0% to 2.4%. At June 30, 2017 and 2016, the estimated value of these receivables totaled \$1,230,985 and \$832,260, respectively. The estimated net present value of the charitable remainder trusts are considered to be temporarily restricted until the funds are received.

**8. Property and Equipment**

Property and equipment consists of the following at June 30:

	2017	2016
Computers and equipment	\$ 957,589	\$ 1,225,666
Web development	327,853	402,090
Leasehold improvements	285,800	288,914
Furniture and fixtures	5,847	5,847
Total property and equipment	1,577,089	1,922,517
Less: accumulated depreciation and amortization	(1,206,028)	(1,589,462)
Property and equipment, net	\$ 371,061	\$ 333,055

## Ocean Conservancy, Inc.

Notes to Financial Statements  
June 30, 2017 and 2016

### 9. Charitable Gift Annuities

OC has entered into charitable gift annuity arrangements with a number of donors. In exchange for contributions, these arrangements require OC to make annual fixed payments during the lives of the donors. The contributions are treated as contribution revenue when received and are included in unrestricted net assets in the accompanying financial statements. Contribution revenue related to charitable gift annuities for the years ended June 30, 2017 and 2016 totaled \$146,167 and \$53,637, respectively.

The annuity payment obligations are based on donor life expectancies as presented in actuarial tables, discounted at rates ranging from 1.0% to 8.2%.

### 10. Temporarily Restricted Net Assets

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

	2017	2016
Purpose restricted	\$ 8,501,307	\$ 9,379,670
Time restricted	3,965,511	2,434,078
Endowment	742,247	627,577
Total temporarily restricted net assets	<u>\$ 13,209,065</u>	<u>\$ 12,441,325</u>

### 11. Endowment

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

#### Interpretation of Relevant Law

The Board of Directors of OC has interpreted UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary.

As a result of this interpretation, OC classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

## Ocean Conservancy, Inc.

Notes to Financial Statements  
June 30, 2017 and 2016

### 11. Endowment (continued)

#### Interpretation of Relevant Law (continued)

The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by OC in a manner consistent with the standard of prudence prescribed by UPMIFA.

In accordance with UPMIFA, OC considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) duration and preservation of the fund; (2) purposes of OC and the donor-restricted endowment fund; (3) general economic conditions; (4) possible effect of inflation and deflation; (5) expected total return from income and the appreciation or depreciation of investments; (6) other resources of OC; and (7) investment policies of OC.

#### Spending Policy

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

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

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

#### Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA require the organization to retain as a fund of perpetual duration. In accordance with accounting principles generally accepted in the United States of America, deficiencies of this nature would be reported by OC in unrestricted net assets. There were no fund deficiencies as of June 30, 2017 and 2016.

**Ocean Conservancy, Inc.**

Notes to Financial Statements  
June 30, 2017 and 2016

**11. Endowment (continued)**

Composition of Funds

Endowment net asset composition was as follows at June 30:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<u>2017:</u>				
Donor-restricted endowment	\$ -	\$ 742,247	\$ 1,592,170	\$ 2,334,417
<u>2016:</u>				
Donor-restricted endowment	\$ -	\$ 627,577	\$ 1,592,170	\$ 2,219,747

Changes in Endowment Net Assets

Changes in endowment net assets were as follows for the year ended June 30, 2017:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, June 30, 2016	\$ -	\$ 627,577	\$ 1,592,170	\$ 2,219,747
Investment return:				
Investment income	-	55,553	-	55,553
Net appreciation	-	175,134	-	175,134
Total investment return	-	230,687	-	230,687
Appropriations	-	(110,294)	-	(110,294)
Management fees	-	(5,723)	-	(5,723)
Endowment net assets, June 30, 2017	\$ -	\$ 742,247	\$ 1,592,170	\$ 2,334,417

## Ocean Conservancy, Inc.

Notes to Financial Statements  
June 30, 2017 and 2016

### 11. Endowment (continued)

#### Changes in Endowment Net Assets (continued)

Changes in endowment net assets were as follows for the year ended June 30, 2016:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, June 30, 2015	\$ -	\$ 685,272	\$ 1,592,170	\$ 2,277,442
Investment return:				
Investment income	-	53,501	-	53,501
Net appreciation	-	2,203	-	2,203
Total investment return	-	55,704	-	55,704
Appropriations	-	(107,866)	-	(107,866)
Management fees	-	(5,533)	-	(5,533)
Endowment net assets, June 30, 2016	\$ -	\$ 627,577	\$ 1,592,170	\$ 2,219,747

### 12. Retirement Plans

#### Defined Contribution Plan

OC has a defined contribution plan that covers all eligible employees of OC who are at least age 18, have completed one year of service, and have worked 1,000 hours or more in the preceding 12-month period. Contributions to the plan, as determined annually by OC's Board of Directors, are 6% of qualifying compensation of the participants for 2017 and 2016. OC recorded contributions to the plan of \$409,213 and \$353,518 for the years ended June 30, 2017 and 2016, 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.



## Ocean Conservancy, Inc.

Notes to Financial Statements  
June 30, 2017 and 2016

### 12. Retirement Plans (continued)

#### Deferred Compensation Plan (continued)

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, 2017 and 2016, the deferred compensation assets and corresponding liabilities held at fair value amounted to \$41,381 and \$3,525, respectively, and are included in the accompanying statements of financial position. OC contributed \$4,100 and \$3,525 to the plan for the years ended June 30, 2017 and 2016, respectively.

### 13. Allocation of Joint Costs

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

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

	<u>2017</u>	<u>2016</u>
Program services	\$ 2,618,071	\$ 2,694,041
Fundraising and membership development	1,868,126	1,806,539
Management and administrative	<u>4,491</u>	<u>4,505</u>
Total joint costs	<u>\$ 4,490,688</u>	<u>\$ 4,505,085</u>

### 14. Related Party Transactions

During the years ended June 30, 2017 and 2016, OC recorded contributions from Board members totaling \$365,864 and \$475,730, respectively.

### 15. Operating Leases

OC leases office space for its headquarters in Washington, D.C. and its regional offices throughout the United States under the terms of noncancelable operating leases that expire at various dates through 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.

**Ocean Conservancy, Inc.**

Notes to Financial Statements  
June 30, 2017 and 2016

**15. Operating Leases (continued)**

In addition, OC leases office equipment under the terms of noncancelable operating leases that expire at various dates through March 2021.

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

2018	\$ 719,791
2019	709,107
2020	720,351
2021	<u>183,083</u>
Total	<u>\$ 2,332,332</u>

In accordance with authoritative guidance issued by FASB ASC, OC is recognizing the total cost of its office leases ratably over the respective lease periods. The difference between rent paid and expensed is reflected as deferred rent in the accompanying statements of financial position. Rent expense for the years ended June 30, 2017 and 2016 totaled \$1,278,708 and \$1,248,403, respectively.

**16. Income Taxes**

The Internal Revenue Service has determined that OC is exempt from federal income taxes under IRC Section 501(c)(3), except for taxes on unrelated business income. OC is not a private foundation under Section 509(a)(1) of the IRC. No tax expense is recorded in the accompanying financial statements for the years ended June 30, 2017 and 2016, 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.