AUDITED FINANCIAL STATEMENTS

OCEAN CONSERVANCY, INC.

JUNE 30, 2010

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ARGY, WILTSE & ROBINSON, P.C.

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying statement of financial position of Ocean Conservancy, Inc. (the Organization) as of June 30, 2010, the related statements of activities and change in net assets, of cash flows, and of functional expenses for the nine month period then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit 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 audit provides 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, 2010, and the results of its operations and its cash flows for the nine month period then ended in conformity with accounting principles generally accepted in the United States of America.

Argy, Wiltse & Robinson, P.C.

McLean, Virginia
October 15, 2010

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OCEAN CONSERVANCY, INC.

STATEMENT OF FINANCIAL POSITION

JUNE 30, 2010

ASSETS

Cash and cash equivalents	$ 683,354
Investments	11,876,677
Accounts and grants receivable	159,423
Prepaid expenses	205,305
Pledges receivable, net	5,422,753
Bequests receivable	419,562
Charitable remainder trusts receivable	562,179
Property and equipment, net	343,022
Deposits	205,041
Other assets	56,930
Total assets	$ 19,934,246

LIABILITIES AND NET ASSETS

Accounts payable and accrued expenses	$ 976,410
Charitable gift annuities	644,644
Line-of-credit	0
Note payable	2,377,734
Deferred rent	106,753
Total liabilities	4,105,541
Commitments	
Net assets	
Unrestricted	
Undesignated	1,456,902
Board-designated	3,652,644
Total unrestricted	5,109,546
Temporarily restricted	9,126,989
Permanently restricted	1,592,170
Total net assets	15,828,705
Total liabilities and net assets	$ 19,934,246

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

OCEAN CONSERVANCY, INC.

STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS

NINE MONTH PERIOD ENDED JUNE 30, 2010

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues and support				
Contributions, grants and bequests	$ 5,503,195	$ 5,504,820	$ 0	$ 11,008,015
Federal grants	195,683	0	0	195,683
List rental income	54,175	0	0	54,175
Other income	80,172	0	0	80,172
Net assets released from restrictions	6,840,983	(6,840,983)	0	0
Total revenues and support	12,674,208	(1,336,163)	0	11,338,045
Expenses				
Program services				
Sustainable fisheries	2,875,242	0	0	2,875,242
Citizen outreach	1,200,758	0	0	1,200,758
Ocean governance, international, and other	1,622,950	0	0	1,622,950
Conserve special places	828,704	0	0	828,704
Marine wildlife	679,461	0	0	679,461
Communications, marketing and publications	251,851	0	0	251,851
Total program services	7,458,966	0	0	7,458,966
Support services				
Fundraising and membership development	2,247,385	0	0	2,247,385
Management and administration	1,267,586	0	0	1,267,586
Total support services	3,514,971	0	0	3,514,971
Total expenses	10,973,937	0	0	10,973,937
Change in net assets before gains and losses	1,700,271	(1,336,163)	0	364,108
Gains and losses				
Investment gains and interest income	119,324	6,244	0	125,568
Decrease in allowances on uncollectible promises to give	0	41,403	0	41,403
Change in net assets	1,819,595	(1,288,516)	0	531,079
Net assets at the beginning of the period	3,289,951	10,415,505	1,592,170	15,297,626
Net assets at the end of the period	$ 5,109,546	$ 9,126,989	$ 1,592,170	$ 15,828,705

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

OCEAN CONSERVANCY, INC.

STATEMENT OF CASH FLOWS

NINE MONTH PERIOD ENDED JUNE 30, 2010

Cash flows from operating activities:	
Change in net assets	$ 531,079
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Decrease in allowances on uncollectible promises to give	(41,403)
Depreciation and amortization	128,551
Donation of marketable securities	(126,273)
Net realized and unrealized losses on investments	162,664
Change in value of charitable remainder trusts receivable	944
Change in charitable gift annuity liability valuation	94,933
Changes in operating assets and liabilities:	
Accounts and grants receivable	(2,259)
Pledges receivable	878,815
Bequests receivable	303,512
Prepaid expenses	(60,112)
Accounts payable and accrued expenses	(66,918)
Charitable gift annuities	(252,012)
Deferred rent	(8,574)
Total adjustments	1,011,868
Net cash provided by operating activities	1,542,947
Cash flows from investing activities:	
Purchases of investments	(1,110,318)
Proceeds from sales of investments	950,539
Purchases of property and equipment	(152,830)
Increase in deposits	(1,360)
Net cash used in investing activities	(313,969)
Cash flows from financing activities:	
Net repayments under line-of-credit	(700,000)
Principal payments under note payable	(118,307)
Net cash used in financing activities	(818,307)
Net increase in cash and cash equivalents	410,671
Cash and cash equivalents at the beginning of the period	272,683
Cash and cash equivalents at the end of the period	$ 683,354

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

OCEAN CONSERVANCY, INC.

STATEMENT OF FUNCTIONAL EXPENSES

NINE MONTH PERIOD ENDED JUNE 30, 2010

	Program Services							Support Services			
	Sustainable fisheries	Citizen outreach	Ocean governance, international, and other	Conserve special places	Marine wildlife	Communications, marketing and publications	Total program services	Fundraising and membership development	Management and administration	Total support services	Total for the nine month period ended June 30, 2010
Salaries and wages	$ 1,271,617	$ 334,786	$ 625,553	$ 403,431	$ 43,372	$ 4,810	$ 2,683,569	$ 601,043	$ 463,357	$ 1,064,400	$ 3,747,969
Professional fees	343,488	205,016	275,896	55,935	26,242	68,763	975,340	132,357	161,032	293,389	1,268,729
Employee benefits	408,158	106,867	210,810	127,643	14,047	1,543	869,068	192,169	145,405	337,574	1,206,642
Rent, utilities and telephone	312,075	85,023	170,004	113,478	9,740	3,144	693,464	135,720	174,898	310,618	1,004,082
Delivery services	5,351	63,264	1,302	1,963	329,127	40,071	441,078	594,661	1,932	596,593	1,037,671
Grants and contributions	0	521	174,537	0	0	0	175,058	0	80	80	175,138
Printing	39,279	119,932	1,664	10,819	228,591	93,576	493,861	405,623	234	405,857	899,718
Travel and meetings	315,306	123,957	82,728	65,357	4,766	15,601	607,715	13,546	15,367	28,913	636,628
In-kind other	0	1,400	0	0	13,158	15,950	30,508	350	0	350	30,858
Depreciation and amortization	40,372	10,629	19,860	12,808	1,377	153	85,199	19,082	24,270	43,352	128,551
Computer expenses	42,853	40,547	11,772	11,087	549	1,606	108,414	13,252	10,512	23,764	132,178
Interest expense	157	41	77	50	5	1	331	74	121,739	121,813	122,144
Repairs and maintenance	25,195	6,607	12,345	7,961	4,055	95	56,258	11,861	15,085	26,946	83,204
Advertising	20,347	31,209	1,875	3,576	0	5,000	62,007	53,461	0	53,461	115,468
Bank fees	285	1,115	107	125	5	91	1,728	338	62,027	62,365	64,093
Miscellaneous	2,540	1,931	12,581	806	87	10	17,955	1,230	51,884	53,114	71,069
Insurance	21,803	3,502	6,544	4,220	454	50	36,573	6,288	7,997	14,285	50,858
Subscriptions	11,673	9,368	5,780	2,448	72	458	29,799	3,185	1,459	4,644	34,443
Office supplies	12,385	4,500	6,500	5,767	1,315	520	30,987	4,390	5,169	9,559	40,546
Other materials/incentives	1,181	6,736	700	365	164	26	9,172	6,600	1,502	8,102	17,274
List rental expenses	0	28,158	0	0	0	0	28,158	49,512	0	49,512	77,670
Temporary help	1,141	6,871	2,140	258	2,184	183	12,777	434	3,015	3,449	16,226
Property taxes and other	36	8,778	175	607	151	200	9,947	2,209	622	2,831	12,778
Total for the nine month period ended June 30, 2010	$ 2,875,242	$ 1,200,758	$ 1,622,950	$ 828,704	$ 679,461	$ 251,851	$ 7,458,966	$ 2,247,385	$ 1,267,586	$ 3,514,971	$ 10,973,937

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.

On September 21, 2009, OC's Board of Directors authorized a change in OC's fiscal year end from September 30 to June 30. The change in fiscal year was made to remove timing conflicts and improve efficiency in planning, budgeting, and audit preparation across the organization. In accordance with this change, the statements of activities and change in net assets, cash flows, and functional expenses for the period ended June 30, 2010 cover a period of nine months. Because of seasonal and project-specific revenue receipts and expenditures, the results of operations for the nine months ended June 30, 2010 are not indicative of the results that might be expected for an equivalent portion of a full fiscal year.

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 are recognized as revenue when the donor makes an unconditional promise to give to OC. 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 from split-interest agreements is based on the present value of the expected cash flows to be received by OC. Revenue under charitable gift annuity arrangements is reduced by the estimated annuities to be paid by OC over the beneficiary's lifetime.

Contributions that are restricted by the donor as to how or when the funds are to be used are reported as increases in temporarily restricted net assets. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets. Donor-restricted contributions for which the donor has specified a permanent restriction are reported as increases in permanently restricted net assets.

OC uses the allowance method to determine uncollectible unconditional promises receivable. The allowance is based on prior years' experience and management's analysis of specific promises made. Conditional promises to give are recognized as revenue when the conditions on which they depend are substantially met.

Donated materials and professional services related to programs are recorded as contribution revenues 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 are 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

The Organization 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 on the accompanying statement of financial position.

Investments

Equity securities with readily determinable fair values and debt securities are presented at fair value in the financial statements based on quoted market prices. Alternative investments, which are not readily marketable, are carried at estimated fair values as provided by the investment managers. OC reviews and evaluates the values provided by the investment managers and agrees with the valuation methods and assumptions used in determining the fair value of the alternative investments. Those estimated fair values may differ significantly from the values that would have been used had a ready market for these securities existed.

Gains and losses on investments, including changes in market value, are reported in the statement 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 values of the charitable remainder trusts receivable are estimated based on various assumptions including the present value of estimated future lump-sum cash flows.

Property and equipment

Property and equipment are 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 in excess of $1,000. 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 statement 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 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 set aside 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 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. The Organization's donor-restricted endowment is subject to the authoritative guidance issued by the Financial Accounting Standards Board (the FASB) on net asset classification of endowment funds, such that earnings on donor-restricted endowment funds are reflected as temporarily restricted net assets until 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 509(a)(1) of the IRC.

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. However, as of June 30, 2010 and at various times throughout the year, OC had cash and cash equivalents on deposit with financial institutions that exceeded federally insured limits. Investments are subject to market fluctuations that may materially affect the balances. OC's grants receivable are due from agencies of the U.S. 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 adequacy 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 statement 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, 2010 financial statements for subsequent events through October 15, 2010, the date the financial statements were available to be issued. OC is not aware of any subsequent events which would require recognition or disclosure in the financial statements.

Recently adopted accounting pronouncements

Effective October 1, 2009, OC adopted the authoritative guidance issued by the FASB on accounting for uncertainty in income taxes recognized in OC's financial statements. Under this guidance, when tax returns are filed, it is highly certain that some positions taken would be sustained upon examination by the taxing authorities, while others are subject to uncertainty about the merits of the position taken or the amount of the position that would be ultimately sustained. The benefit of a tax position is recognized in the financial statements in the period during which, based on all available evidence, management believes it is more likely than not that the position will be sustained upon examination, including the resolution of appeals or litigation processes, if any. Tax positions taken are not offset or aggregated with other positions. Tax positions that meet the more-likely-than-not recognition threshold are measured as the largest amount of tax benefit that is more than 50% likely of being realized upon settlement with the applicable taxing authority. The portion of the benefits associated with tax positions taken that exceeds the amount measured as described above would be reflected as a liability for unrecognized tax benefits, along with any associated interest and penalties that would be payable to the taxing authorities upon examination. The adoption of this authoritative guidance had no effect on OC's beginning net assets.

NOTE 2 - INVESTMENTS

Investments consist of the following as of June 30, 2010:

	Cost	Fair Value
Money market accounts	$ 574,065	$ 574,065
Equity securities	4,354,543	4,242,782
Mutual funds	5,805,547	5,671,334
Real estate investment trusts	1,028,391	1,007,880
U.S. Treasuries	99,778	100,010
Alternative investments	96,123	96,123
Mortgage-backed securities	124,155	131,600
State and local government obligations	56,011	52,883
	$ 12,138,613	$ 11,876,677

For the nine month period ended June 30, 2010, OC recorded net realized and unrealized losses on investments of $162,664, and interest and dividend income totaling $288,232.

NOTE 3 - PLEDGES RECEIVABLE

Pledges receivable consist of the following as of June 30, 2010:

Receivable in less than one year	$ 4,690,884
Receivable in one to five years	938,000
	5,628,884
Less: discount to present value (at 3.0%)	(93,553)
Less: allowance for doubtful accounts	(112,578)
	$ 5,422,753

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 a discount rate of 3.4%. At June 30, 2010, the estimated fair value of these receivables totaled $562,179, and is included in the charitable remainder trusts receivable in the accompanying statement 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, 2010:

Computer equipment	$ 1,524,850
Furniture and fixtures	196,519
Leasehold improvements	44,575
Web Development	7,639
	1,773,583
Less: accumulated depreciation and amortization	(1,430,561)
	$ 343,022

Depreciation and amortization expense on property and equipment for the nine month period ended June 30, 2010 was $116,027.

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 for the nine month period ended June 30, 2010 was $3,848.

The annuity payment obligations are based on donor life expectancies as presented in actuarial tables discounted at rates ranging from 3.2% 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. The credit line is payable on demand and provides for a variable interest rate equal to LIBOR plus 1.75% (2.0971% at June 30, 2010). The line-of-credit is secured by a first priority lien on all cash and investments OC has deposited with the securities broker, and expires, if not renewed, on June 30, 2011. At June 30, 2010, 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 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, 2010 was $2,377,734 and is secured by OC's investment portfolio.

Scheduled maturities of the note payable as of June 30, 2010 are as follows:

Years ending June 30,	
2011	$ 167,458
2012	177,063
2013	187,218
2014	197,956
2015	209,310
Thereafter	1,438,729
	$ 2,377,734

Interest expense related to notes payable including the line-of-credit (see Note 7) was $122,144 for the nine month period ended June 30, 2010.

NOTE 9 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consist of the following at June 30, 2010:

Net assets with purpose restriction	$ 6,841,987
Net assets with time restriction	2,045,611
Endowment net assets	239,391
	$ 9,126,989

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, the organization 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 for the nine month period ended June 30, 2010 are as follows:

	Donor-Restricted Endowment Funds
Investment return	
Investment income	$ 50,890
Net losses	(44,646)
Total investment return	6,244
Appropriations	(78,370)
Investment management fees	(11,331)
Change in funds	$ (83,457)

The following table presents the endowment-related balances and activities by net asset classification as of and for the nine month period ended June 30, 2010:

	Temporarily Restricted	Permanently Restricted
Endowment net assets, beginning of the period	$ 322,848	$ 1,592,170
Investment return		
Investment income	50,890	0
Net losses	(44,646)	0
Total investment return	6,244	0
Appropriations	(78,370)	0
Investment management fees	(11,331)	0
Endowment net assets, end of the period	$ 239,391	$ 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% 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	5.00%
Inflation	3.00%
Long-term target return	8.00%

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 deficiencies as of June 30, 2010.

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 nine month period ended June 30, 2010:

Program services	$ 893,638
Fundraising and membership development	1,329,397
	$ 2,223,035

NOTE 12 - FAIR VALUE MEASUREMENTS

Certain assets are recorded at fair value. 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 recorded at fair value on a recurring basis are categorized based on the priority of the inputs used to measure 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 3** - Inputs that are generally unobservable and typically reflect management's estimates of assumptions that market participants would use in pricing the asset or liability. The fair values are therefore determined using model-based techniques that include option pricing models, discounted cash flow models, and similar techniques.

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

Investments

Investments include money market accounts, equity securities, mutual funds, real estate investment trusts, alternative investments, mortgage-backed securities, and state and local government obligations.

In general, and where applicable, OC uses quoted prices in active markets for identical assets or liabilities to determine fair value. This pricing methodology applies to Level 1 investments as scheduled below. If quoted prices in active markets for identical assets or liabilities are not available to determine fair value, then OC uses quoted prices for similar assets and liabilities or inputs other than the quoted prices that are observable either directly or indirectly. These investments are included in Level 2 and consist of state and local government obligations. OC's Level 3 asset is an investment in a hedge fund. OC values the Level 3 investment using internally-developed valuation models, whose inputs include interest rate curves, credit spreads, stock prices, and volatilities. Unobservable inputs used in these models are significant to the fair value of the investment.

Charitable remainder trust agreements

Charitable remainder trust agreements, which are irrevocable, are administered by a trustee or fiscal agent. At the end of the terms, a portion of the remaining trust assets, as defined in the trust agreements, are 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 donors designee and have been recorded at present value based on a discount rate of 3.4%. 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, 2010			
	Level 1	Level 2	Level 3	Total
Investments:				
Mutual funds				
U.S. large cap	$ 355,175	$ 0	$ 0	$ 355,175
U.S. mid cap	94,550	0	0	94,550
U.S. small cap	56,155	0	0	56,155
Internationally developed	297,810	0	0	297,810
Emerging markets	584,567	0	0	584,567
Bond funds	4,283,077	0	0	4,283,077
	5,671,334	0	0	5,671,334
Equity securities				
Consumer discretionary	676,132	0	0	676,132
Consumer supplies	213,171	0	0	213,171
Energy	386,985	0	0	386,985
Financials	820,753	0	0	820,753
Health care	326,128	0	0	326,128
Industrials	536,046	0	0	536,046
Information technology	567,772	0	0	567,772
Materials	362,569	0	0	362,569
Telecommunication services	240,201	0	0	240,201
Utilities	113,025	0	0	113,025
	4,242,782	0	0	4,242,782
Real estate investment trusts	1,007,880	0	0	1,007,880
Hedge funds	0	0	96,123	96,123
U.S. Treasuries	100,010	0	0	100,010
Mortgage-backed securities	131,600			131,600
State and local government obligations	0	52,883	0	52,883
Money market accounts	574,065	0	0	574,065
Total investments	11,727,671	52,883	96,123	11,876,677
Charitable remainder trusts receivable	0	0	562,179	562,179
Total assets at fair value	$ 11,727,671	$ 52,883	$ 658,302	$ 12,438,856

A roll forward of the fair value measurements using unobservable inputs (Level 3) for the nine month period ended June 30, 2010 is as follows:

	Alternative Investments	Charitable Remainder Trusts
Beginning balance, September 30, 2009	$ 96,123	$ 563,123
Total realized and unrealized losses	0	0
Purchases, issuances, and settlements	0	0
Change in value in split-interest agreements	0	(944)
Ending balance, June 30, 2010	$ 96,123	$ 562,179

NOTE 13 - SELF-FUNDED INSURANCE PLAN

OC has a self-funded insurance plan (the 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 Plan's calendar year is $25,000 per employee, up to an aggregate amount of $500,000. Total expense for the nine month period ended June 30, 2010 of $690,029 includes claims of $506,707 and premiums and administrative fees of $183,322. As of June 30, 2010, the accrued liability for incurred but not reported claims was $152,996.

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, are 6% of qualifying compensation of the participants. OC recorded contributions to the Pension Plan of $190,260 for the nine month period ended June 30, 2010.

NOTE 15 - RELATED PARTY TRANSACTIONS

During the nine month period ended June 30, 2010, OC recorded contributions from board members totaling $390,704.

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 January 2014.

As of June 30, 2010, the following is a schedule by year of approximate future minimum lease payments required under these operating leases:

Years ending June 30,	
2011	$ 631,000
2012	619,000
2013	602,000
2014	604,000
2015	611,000
Thereafter	3,585,000
	$ 6,652,000

Rent expense for the nine month period ended June 30, 2010 totaled $817,057.