

Ocean Conservancy, Inc.

Financial Statements
and Independent Auditors' Report

June 30, 2014 and 2013

Ocean Conservancy, Inc.

Financial Statements
June 30, 2014 and 2013

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Ocean Conservancy, Inc.

We have audited the accompanying financial statements of Ocean Conservancy, Inc. (OC), which comprise the statement of financial position as of June 30, 2014; the related statements of activities, functional expenses, and cash flows for the year 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 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 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, 2014, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

The financial statements of OC as of June 30, 2013, were audited by other auditors whose report, dated October 25, 2013, expressed an unmodified opinion on those statements.

Rogers & Company PLLC

Vienna, Virginia
October 24, 2014

Ocean Conservancy, Inc.

Statements of Financial Position June 30, 2014 and 2013

	2014	2013
Assets		
Cash and cash equivalents	\$ 1,435,037	\$ 722,086
Investments	17,500,314	16,094,970
Accounts and grants receivable	385,392	285,048
Pledges receivable, net	5,346,625	6,943,053
Bequests receivable	888,300	135,681
Charitable remainder trusts receivable	854,524	759,052
Prepaid expenses	601,178	614,773
Property and equipment, net	390,686	332,687
Deposits	96,281	95,346
Other assets	92,802	35,000
Total assets	<u>\$ 27,591,139</u>	<u>\$ 26,017,696</u>
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	\$ 1,111,215	\$ 997,675
Charitable gift annuities	873,899	901,094
Note payable	1,664,442	1,861,132
Deferred rent	332,440	315,087
Total liabilities	<u>3,981,996</u>	<u>4,074,988</u>
Net Assets		
Unrestricted:		
Undesignated	2,347,862	3,238,006
Board-designated	9,367,610	7,746,404
Total unrestricted	11,715,472	10,984,410
Temporarily restricted	10,301,501	9,366,128
Permanently restricted	1,592,170	1,592,170
Total net assets	<u>23,609,143</u>	<u>21,942,708</u>
Total liabilities and net assets	<u>\$ 27,591,139</u>	<u>\$ 26,017,696</u>

See accompanying notes.

Ocean Conservancy, Inc.

Statement of Activities
For the Year Ended June 30, 2014

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue and Support				
Contributions, grants, and bequests	\$ 9,173,941	\$ 9,309,528	\$ -	\$ 18,483,469
List rental income	31,928	-	-	31,928
Other income	283,890	-	-	283,890
Net assets released from restrictions	8,690,087	(8,690,087)	-	-
Total revenue and support	18,179,846	619,441	-	18,799,287
Expenses				
Program services:				
Communications and outreach	3,547,337	-	-	3,547,337
Gulf of Mexico restoration	3,474,352	-	-	3,474,352
Ocean policy science and governance	3,193,331	-	-	3,193,331
Trash free seas	1,715,315	-	-	1,715,315
Marine wildlife and ecosystem protection	1,947,792	-	-	1,947,792
Total program services	13,878,127	-	-	13,878,127
Supporting services:				
Fundraising and membership development	3,436,996	-	-	3,436,996
Management and administration	2,022,354	-	-	2,022,354
Total supporting services	5,459,350	-	-	5,459,350
Total expenses	19,337,477	-	-	19,337,477
Change in net assets before gains	(1,157,631)	619,441	-	(538,190)
Investment income, net	1,888,693	315,932	-	2,204,625
Change in Net Assets	731,062	935,373	-	1,666,435
Net Assets , beginning of year	10,984,410	9,366,128	1,592,170	21,942,708
Net Assets , end of year	\$ 11,715,472	\$ 10,301,501	\$ 1,592,170	\$ 23,609,143

See accompanying notes.

Ocean Conservancy, Inc.

Statement of Activities
For the Year Ended June 30, 2013

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue and Support				
Contributions, grants, and bequests	\$ 9,467,445	\$ 12,055,992	\$ -	\$ 21,523,437
List rental income	31,992	-	-	31,992
Other income	463,180	-	-	463,180
Net assets released from restrictions	10,376,563	(10,376,563)	-	-
Total revenue and support	20,339,180	1,679,429	-	22,018,609
Expenses				
Program services:				
Communications and outreach	4,379,967	-	-	4,379,967
Gulf of Mexico restoration	3,755,627	-	-	3,755,627
Ocean policy science and governance	2,954,144	-	-	2,954,144
Trash free seas	1,480,197	-	-	1,480,197
Marine wildlife and ecosystem protection	1,812,520	-	-	1,812,520
Total program services	14,382,455	-	-	14,382,455
Supporting services:				
Fundraising and membership development	2,831,006	-	-	2,831,006
Management and administration	2,014,420	-	-	2,014,420
Total supporting services	4,845,426	-	-	4,845,426
Total expenses	19,227,881	-	-	19,227,881
Change in net assets before gains	1,111,299	1,679,429	-	2,790,728
Investment income, net	1,252,855	233,142	-	1,485,997
Change in Net Assets	2,364,154	1,912,571	-	4,276,725
Net Assets , beginning of year	8,620,256	7,453,557	1,592,170	17,665,983
Net Assets , end of year	\$ 10,984,410	\$ 9,366,128	\$ 1,592,170	\$ 21,942,708

See accompanying notes.

Ocean Conservancy, Inc.

Statement of Functional Expenses
For the Year Ended June 30, 2014

	Program Services						Support Services			
	Communications and Outreach	Gulf of Mexico Restoration	Ocean Policy Science and Governance	Trash Free Seas	Marine Wildlife and Ecosystem Protection	Total Program Services	Fundraising and Membership Development	Management and Administration	Total Support Services	Total
Salaries and wages	\$ 578,956	\$ 1,772,081	\$ 1,351,992	\$ 764,666	\$ 936,278	\$ 5,403,973	\$ 1,004,055	\$ 897,964	\$ 1,902,019	\$ 7,305,992
Professional fees	418,368	197,916	867,128	270,736	393,892	2,148,040	275,626	247,415	523,041	2,671,081
Printing	984,309	33,348	2,554	65,068	7,719	1,092,998	801,187	10,281	811,468	1,904,466
Employee benefits	145,619	437,670	336,704	189,838	245,013	1,354,844	249,048	222,587	471,635	1,826,479
Rent, utilities, and telephone	96,685	461,236	228,779	130,766	171,522	1,088,988	167,939	265,192	433,131	1,522,119
Delivery services	663,601	4,964	2,676	52,834	1,624	725,699	548,649	8,425	557,074	1,282,773
Travel and meetings	59,241	368,887	268,742	129,331	109,144	935,345	97,500	46,394	143,894	1,079,239
Supplies	94,841	64,856	47,509	30,428	31,068	268,702	104,855	52,551	157,406	426,108
Advertising	205,793	455	988	3,000	-	210,236	34,654	350	35,004	245,240
Subscriptions	149,783	8,821	15,574	3,122	3,175	180,475	24,618	6,343	30,961	211,436
Depreciation and amortization	13,862	42,428	32,370	18,308	22,417	129,385	24,040	38,439	62,479	191,864
List rental expenses	71,371	-	-	-	-	71,371	64,166	408	64,574	135,945
Interest expense	-	-	-	92	-	92	-	99,878	99,878	99,970
Bank fees	342	288	284	94	152	1,160	1,570	82,019	83,589	84,749
Insurance	5,262	23,544	12,288	6,950	8,510	56,554	9,126	14,592	23,718	80,272
Grants and contributions	-	33,100	1,100	38,857	6,000	79,057	-	-	-	79,057
Repairs and maintenance	5,041	19,980	11,771	7,380	8,522	52,694	8,742	13,978	22,720	75,414
Miscellaneous	18,145	3,712	12,305	2,712	2,164	39,038	20,694	3,892	24,586	63,624
Computer expenses	36,047	1,066	94	53	592	37,852	104	3,298	3,402	41,254
Temporary help	71	-	473	-	-	544	423	8,348	8,771	9,315
In-kind other	-	-	-	1,080	-	1,080	-	-	-	1,080
Total Expenses	\$ 3,547,337	\$ 3,474,352	\$ 3,193,331	\$ 1,715,315	\$ 1,947,792	\$ 13,878,127	\$ 3,436,996	\$ 2,022,354	\$ 5,459,350	\$ 19,337,477

See accompanying notes.

Ocean Conservancy, Inc.

Statement of Functional Expenses
For the Year Ended June 30, 2013

	Program Services						Support Services			
	Communications and Outreach	Gulf of Mexico Restoration	Ocean Policy Science and Governance	Trash Free Seas	Marine Wildlife and Ecosystem Protection	Total Program Services	Fundraising and Membership Development	Management and Administration	Total Support Services	Total
Salaries and wages	\$ 784,306	\$ 1,808,625	\$ 1,308,926	\$ 637,545	\$ 748,937	\$ 5,288,339	\$ 791,028	\$ 898,560	\$ 1,689,588	\$ 6,977,927
Professional fees	544,979	426,157	673,493	180,779	431,187	2,256,595	207,078	230,904	437,982	2,694,577
Printing	1,259,097	22,455	4,620	54,294	8,797	1,349,263	682,044	20,384	702,428	2,051,691
Employee benefits	185,637	434,452	315,693	153,208	181,236	1,270,226	190,622	214,214	404,836	1,675,062
Rent, utilities, and telephone	191,055	502,839	242,014	113,962	167,516	1,217,386	139,050	240,133	379,183	1,596,569
Delivery services	814,660	6,314	3,460	56,418	3,142	883,994	439,603	18,691	458,294	1,342,288
Travel and meetings	86,220	309,498	269,250	108,216	141,401	914,585	92,642	72,979	165,621	1,080,206
Supplies	136,848	55,213	22,971	13,138	17,465	245,635	84,161	38,117	122,278	367,913
Depreciation and amortization	23,666	54,574	39,496	19,237	22,598	159,571	23,869	41,903	65,772	225,343
Computer expenses	80,179	9,776	7,485	19,048	11,137	127,625	36,369	4,728	41,097	168,722
List rental expenses	99,656	-	-	-	-	99,656	57,421	1,107	58,528	158,184
Advertising	68,775	24,265	-	13,118	11,114	117,272	34,686	873	35,559	152,831
Grants and contributions	14	16,653	12,000	61,533	42,557	132,757	75	448	523	133,280
Subscriptions	8,323	31,731	24,805	26,299	6,400	97,558	22,280	8,702	30,982	128,540
Interest expense	10	24	17	8	10	69	10	110,392	110,402	110,471
Repairs and maintenance	10,929	25,287	14,128	7,854	10,477	68,675	8,538	15,189	23,727	92,402
Bank fees	323	322	194	74	154	1,067	1,113	71,986	73,099	74,166
Insurance	6,883	24,443	11,487	5,595	6,573	54,981	6,942	12,187	19,129	74,110
In-kind other	62,341	-	-	1,653	-	63,994	-	-	-	63,994
Temporary help	11,324	-	-	6,514	-	17,838	5,427	7,402	12,829	30,667
Miscellaneous	4,742	2,999	4,105	1,704	1,819	15,369	8,048	5,521	13,569	28,938
Total Expenses	\$ 4,379,967	\$ 3,755,627	\$ 2,954,144	\$ 1,480,197	\$ 1,812,520	\$ 14,382,455	\$ 2,831,006	\$ 2,014,420	\$ 4,845,426	\$ 19,227,881

See accompanying notes.

Ocean Conservancy, Inc.

Statements of Cash Flows
For the Years Ended June 30, 2014 and 2013

	2014	2013
Cash Flows from Operating Activities		
Change in net assets	\$ 1,666,435	\$ 4,276,725
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	191,864	225,343
Donation of marketable securities	(118,678)	(158,259)
Net realized and unrealized gain on investments	(1,775,103)	(1,068,310)
Change in charitable gift annuities' liability valuation	122,457	(48,412)
Change in operating assets and liabilities:		
(Increase) decrease in:		
Accounts and grants receivable	(100,344)	59,156
Pledges receivable, net	1,596,428	(2,461,205)
Bequests receivable	(752,619)	52,594
Charitable remainder trusts receivable	(95,472)	(93,994)
Prepaid expenses	13,595	(351,242)
Other assets	(57,802)	928
Increase (decrease) in:		
Accounts payable and accrued expenses	113,540	(378,497)
Charitable gift annuities	(149,652)	125,110
Deferred rent	17,353	38,043
Net cash provided by operating activities	672,002	217,980
Cash Flows from Investing Activities		
Purchases of property and equipment	(249,863)	(25,848)
Purchases of investments	(1,643,863)	(1,870,194)
Proceeds from sales of investments	2,132,300	1,353,754
Decrease in deposits	(935)	(140)
Net cash provided by (used in) investing activities	237,639	(542,428)
Cash Flows from Financing Activity		
Principal payments under note payable	(196,690)	(185,978)
Net cash used in financing activity	(196,690)	(185,978)
Net Increase (Decrease) in Cash and Cash Equivalents	712,951	(510,426)
Cash and Cash Equivalents, beginning of year	722,086	1,232,512
Cash and Cash Equivalents, end of year	\$ 1,435,037	\$ 722,086
Supplemental Disclosure of Cash Flow Information		
Cash paid for interest	\$ 100,765	\$ 111,322

See accompanying notes.

Ocean Conservancy, Inc.

Notes to Financial Statements
June 30, 2014 and 2013

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 and are in accordance with generally accepted accounting principles for not-for-profit organizations. 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, 2014 and 2013

2. Summary of Significant Accounting Policies (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 of 2006 (UPMIFA) are classified as temporarily restricted net assets until such amounts are appropriated for expenditure.

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.

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, 2014 and 2013, no allowance was recorded as management believes that all pledges are fully collectible.

Ocean Conservancy, Inc.

Notes to Financial Statements
June 30, 2014 and 2013

2. Summary of Significant Accounting Policies (continued)

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 is recorded at its estimated fair value on the date it is received.

Charitable Gift Annuities

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

Ocean Conservancy, Inc.

Notes to Financial Statements
June 30, 2014 and 2013

2. Summary of Significant Accounting Policies (continued)

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.

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.

Ocean Conservancy, Inc.

Notes to Financial Statements
June 30, 2014 and 2013

2. Summary of Significant Accounting Policies (continued)

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.

Subsequent Events

In preparing these financial statements, OC has evaluated events and transactions for potential recognition or disclosure through October 24, 2014, the date the financial statements were available to be issued.

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.

Ocean Conservancy, Inc.

Notes to Financial Statements
June 30, 2014 and 2013

3. Concentrations (continued)

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, 2014, one donor accounted for 16% of total revenue. Amounts receivable from this donor accounted for 23% of OC's total pledges receivable as of June 30, 2014. For the year ended June 30, 2013, one donor accounted for 36% of total revenue. Amounts receivable from this donor accounted for 79% of OC's total pledges receivable as of June 30, 2013.

4. Investments and Fair Value Measurement

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. 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.

Ocean Conservancy, Inc.

Notes to Financial Statements
June 30, 2014 and 2013

4. Investments and Fair Value Measurement (continued)

The following table presents OC's fair value hierarchy for those investments measured on a recurring basis as of June 30, 2014:

	Level 1	Level 2	Level 3	Total
Money market accounts	\$ 1,029,849	\$ -	\$ -	\$ 1,029,849
Equity securities:				
Consumer discretionary	552,036	-	-	552,036
Consumer supplies	312,798	-	-	312,798
Energy	275,128	-	-	275,128
Financials	601,012	-	-	601,012
Health care	548,726	-	-	548,726
Industrials	494,153	-	-	494,153
Information technology	781,197	-	-	781,197
Materials	81,221	-	-	81,221
Telecommunication	58,606	-	-	58,606
Utilities	45,281	-	-	45,281
Mutual funds:				
U.S. large cap	2,993,236	-	-	2,993,236
U.S. mid cap	184,107	-	-	184,107
U.S. small cap	155,388	-	-	155,388
International-developed	1,835,270	-	-	1,835,270
Emerging markets	650,917	-	-	650,917
Bond funds	5,436,090	-	-	5,436,090
Real estate investment	875,425	-	-	875,425
U.S. Treasuries	125,040	-	-	125,040
Commodities	402,551	-	-	402,551
Mortgage-backed securities	62,283	-	-	62,283
Total investments	\$ 17,500,314	\$ -	\$ -	\$ 17,500,314

Ocean Conservancy, Inc.

Notes to Financial Statements
June 30, 2014 and 2013

4. Investments and Fair Value Measurement (continued)

The following table presents OC's fair value hierarchy for those investments measured on a recurring basis as of June 30, 2013:

	Level 1	Level 2	Level 3	Total
Money market accounts	\$ 910,076	\$ -	\$ -	\$ 910,076
Equity securities:				
Consumer discretionary	550,395	-	-	550,395
Consumer supplies	281,480	-	-	281,480
Energy	256,852	-	-	256,852
Financials	505,491	-	-	505,491
Health care	594,338	-	-	594,338
Industrials	506,413	-	-	506,413
Information technology	720,927	-	-	720,927
Materials	139,749	-	-	139,749
Telecommunication	55,008	-	-	55,008
Utilities	36,317	-	-	36,317
Mutual funds:				
U.S. large cap	2,900,970	-	-	2,900,970
U.S. mid cap	221,570	-	-	221,570
U.S. small cap	163,074	-	-	163,074
International-developed	1,434,033	-	-	1,434,033
Emerging markets	529,652	-	-	529,652
Bond funds	4,924,910	-	-	4,924,910
Real estate investment	774,576	-	-	774,576
U.S. Treasuries	125,135	-	-	125,135
Commodities	386,216	-	-	386,216
Mortgage-backed securities	77,788	-	-	77,788
Total investments	\$ 16,094,970	\$ -	\$ -	\$ 16,094,970

Ocean Conservancy, Inc.

Notes to Financial Statements
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4. Investments and Fair Value Measurement (continued)

Investment income consists of the following for the years ended June 30:

	<u>2014</u>	<u>2013</u>
Interest and dividends	\$ 505,705	\$ 499,668
Realized and unrealized gains	1,775,103	1,068,310
Less: investment management fees	<u>(76,183)</u>	<u>(81,981)</u>
Total investment income, net	<u>\$ 2,204,625</u>	<u>\$ 1,485,997</u>

5. Pledges Receivable

Pledges receivable consist of the following as of June 30:

	<u>2014</u>	<u>2013</u>
Receivable in less than one year	\$ 4,611,344	\$ 4,869,482
Receivable in one to five years	<u>800,000</u>	<u>2,162,500</u>
Total	5,411,344	7,031,982
Less: discount to present value (2.3%)	<u>(64,719)</u>	<u>(88,929)</u>
Total pledges receivable, net	<u>\$ 5,346,625</u>	<u>\$ 6,943,053</u>

6. Charitable Remainder Trusts Receivable

OC is the remainder beneficiary in two irrevocable charitable remainder trusts, which are expected to be distributed upon termination of life interests retained by the donor. The amounts receivable from these trusts are revalued annually. The expected future cash flows from the trusts have been recorded at the estimated net realizable value using a present value approach with discount rates ranging from 1.4% to 2.4%. At June 30, 2014 and 2013, the estimated value of these receivables totaled \$854,524 and \$759,052, respectively, and is included in the accompanying statements of financial position. The estimated net present value of the charitable remainder trusts are considered to be temporarily restricted until the funds are received.

Ocean Conservancy, Inc.

Notes to Financial Statements June 30, 2014 and 2013

7. Property and Equipment

Property and equipment consists of the following at June 30:

	2014	2013
Computers and equipment	\$ 1,381,016	\$ 1,300,455
Web development	290,578	290,578
Leasehold improvements	260,670	100,694
Furniture and fixtures	34,382	90,696
Total property and equipment	1,966,646	1,782,423
Less: accumulated depreciation and amortization	(1,575,960)	(1,449,736)
Property and equipment, net	\$ 390,686	\$ 332,687

Depreciation and amortization expense on property and equipment for the years ended June 30, 2014 and 2013 was \$191,864 and \$225,343, respectively.

8. 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, 2014 and 2013 totaled \$59,760 and \$178,213, respectively.

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%.

9. 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 \$1,000,000 during the years ended June 30, 2014 and 2013. The facility is payable on demand and provides for a variable interest rate equal to LIBOR plus 1.75% (1.90% at June 30, 2014). The line-of-credit is secured by a first priority lien on all cash and investments deposited with the securities broker, and expires, if not renewed, on December 31, 2014. At June 30, 2014 and 2013, OC had no outstanding balance under the facility.

Ocean Conservancy, Inc.

Notes to Financial Statements June 30, 2014 and 2013

10. Note Payable

OC maintains a term loan with an original principal amount of \$3,000,000. The term loan requires monthly principal and interest payments in the amount of \$24,656, bears interest at 5.59% per annum, and is due on February 10, 2021. The outstanding balance at June 30, 2014 and 2013 was \$1,664,442 and \$1,861,132, respectively, and is secured by OC's investment portfolio.

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

2015	\$	209,310
2016		221,315
2017		234,008
2018		247,430
2019		261,621
Thereafter		<u>490,758</u>
Total	\$	<u><u>1,664,442</u></u>

11. Temporarily Restricted Net Assets

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

	<u>2014</u>	<u>2013</u>
Purpose restricted	\$ 7,289,497	\$ 7,991,978
Time restricted	2,278,406	853,554
Endowment	<u>733,598</u>	<u>520,596</u>
Total temporarily restricted net assets	<u><u>\$ 10,301,501</u></u>	<u><u>\$ 9,366,128</u></u>

12. 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.

Ocean Conservancy, Inc.

Notes to Financial Statements
June 30, 2014 and 2013

12. Endowment (continued)

Interpretation of Relevant Law

The Board of Directors of OC has interpreted the UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, OC classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by OC in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, OC considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) 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 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.

Return Objectives, Risk Parameters, and Strategies

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

Annual spending	5%
Inflation	<u>3%</u>
Long-term target return	<u><u>8%</u></u>

Ocean Conservancy, Inc.

Notes to Financial Statements
June 30, 2014 and 2013

12. Endowment (continued)

Composition of Funds

Endowment net asset composition was as follows for the years ended June 30:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<u>2014:</u>				
Endowment net assets	\$ -	\$ 733,598	\$ 1,592,170	\$ 2,325,768
<u>2013:</u>				
Endowment net assets	\$ -	\$ 520,596	\$ 1,592,170	\$ 2,112,766

Changes in Endowment Net Assets

For the years ended June 30, changes in endowment net assets were as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, June 30, 2012	\$ -	\$ 400,220	\$ 1,592,170	\$ 1,992,390
Investment return:				
Investment income	-	78,132	-	78,132
Net appreciation	-	155,010	-	155,010
Total investment return	-	233,142	-	233,142
Appropriations	-	(101,973)	-	(101,973)
Management fees	-	(10,793)	-	(10,793)
Endowment net assets, June 30, 2013	-	520,596	1,592,170	2,112,766
Investment return:				
Investment income	-	74,197	-	74,197
Net appreciation	-	250,863	-	250,863
Total investment return	-	325,060	-	325,060
Appropriations	-	(102,930)	-	(102,930)
Management fees	-	(9,128)	-	(9,128)
Endowment net assets, June 30, 2014	\$ -	\$ 733,598	\$ 1,592,170	\$ 2,325,768

Ocean Conservancy, Inc.

Notes to Financial Statements
June 30, 2014 and 2013

12. Endowment (continued)

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 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, 2014 and 2013.

13. Related Party Transactions

During the years ended June 30, 2014 and 2013, OC recorded contributions from Board members totaling \$456,756 and \$431,800, respectively.

14. Retirement Plan

OC has a defined contribution 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 plan, as determined annually by OC's Board of Directors, are 6.00% of qualifying compensation of the participants for 2014 and 2013. OC recorded contributions to the plan of \$323,442 and \$328,686 for the years ended June 30, 2014 and 2013, respectively.

15. Self-Funded Insurance Plan

OC has a self-funded insurance plan for medical, dental, and disability insurance available to all employees scheduled to work 30 or more hours per week and includes coinsurance to minimize OC's annual financial risk. The maximum amount of medical claims that OC will pay during the insurance provider's plan year is \$35,000 per employee. The claims provider requires certain funds be paid in advance to cover future claims and premiums. At June 30, 2014 and 2013, prepaid health insurance costs under this arrangement totaled \$219,729 and \$93,093, respectively.

Total health insurance expense for the year ended June 30, 2014 was \$915,054, including claims of \$540,610, and premiums and administrative fees of \$374,444. Total health insurance expense for the year ended June 30, 2013 was \$771,419, including claims of \$621,839, and premiums and administrative fees of \$149,580.

Ocean Conservancy, Inc.

Notes to Financial Statements June 30, 2014 and 2013

16. 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:

	2014	2013
Program services	\$ 2,088,321	\$ 2,636,355
Fundraising and membership development	1,877,500	1,519,043
Management and general	11,933	29,293
Total joint costs	<u>\$ 3,977,754</u>	<u>\$ 4,184,691</u>

17. Commitments

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. In addition, OC leases office equipment under the terms of noncancelable operating leases that expire at various dates through March 2015.

As of June 30, 2014, the future minimum lease payments required under the operating leases are as follows for the years ending June 30:

2015	\$ 752,380
2016	780,079
2017	749,955
2018	694,594
2019	697,015
Thereafter	<u>897,675</u>
Total	<u>\$ 4,571,698</u>

Ocean Conservancy, Inc.

Notes to Financial Statements June 30, 2014 and 2013

17. Commitments (continued)

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, 2014 and 2013 totaled \$1,227,788 and \$1,285,658, respectively.

18. Income Taxes

The Internal Revenue Service has determined that OC is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code (IRC), except for taxes on unrelated business income. OC is not a private foundation under Section 509(a)(1) of the IRC. No tax expense is recorded in the accompanying financial statements for the years ended June 30, 2014 and 2013, 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. With few exceptions, OC is no longer subject to income tax examinations by the U.S. federal, state, or local tax authorities for years ended June 30, 2010 and prior.