



OCEANA, INC. AND AFFILIATE

Consolidated Financial Statements

For the Year Ended December 31, 2018

(With Summarized Financial Information for the Year Ended December 31, 2017)



**and
Report Thereon**



OCEANA, INC. AND AFFILIATE

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Oceana, Inc. and Affiliate

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Oceana, Inc. and Affiliate (collectively referred to as the Organization), which comprise the consolidated statement of financial position as of December 31, 2018, and the related consolidated statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Continued

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Opinion

In our opinion, the 2018 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Oceana, Inc. and Affiliate as of December 31, 2018, 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 Matters

Report on Summarized Comparative Information

The Organization's 2017 consolidated financial statements were audited by Raffa, P.C., whose practice was combined with Marcum LLP as of October 1, 2018, and whose report dated May 31, 2018, expressed an unmodified opinion on those consolidated financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2017, is consistent, in all material respects, with the consolidated financial statements from which it has been derived.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary consolidating information is presented for purposes of additional analysis and it is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Marcum LLP

Washington, DC
May 23, 2019

OCEANA, INC. AND AFFILIATE

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

December 31, 2018

(With Summarized Financial Information as of December 31, 2017)

	2018	2017
ASSETS		
Current assets		
Cash and cash equivalents	\$ 22,295,049	\$ 23,521,049
Short-term investments	2,706,326	11,123
Grants and contributions receivable, current portion	9,897,147	12,783,955
Accounts receivable	69,229	265,768
Prepaid expenses and other	51,100	38,433
Total Current Assets	35,018,851	36,620,328
Long-term investments	136,696	91,675
Grants and contributions receivable, net of current portion	16,107,435	1,917,850
Property and equipment, net	4,075,703	1,607,235
Deposits and other long-term assets	1,534,319	1,058,557
TOTAL ASSETS	\$ 56,873,004	\$ 41,295,645
LIABILITIES AND NET ASSETS		
Liabilities		
Current liabilities		
Accounts payable and accrued expenses	\$ 2,245,896	\$ 3,451,098
Deferred rent and lease incentive, current portion	217,285	122,867
Total Current Liabilities	2,463,181	3,573,965
Deferred rent and lease incentive, net of current portion	2,683,521	-
TOTAL LIABILITIES	5,146,702	3,573,965
Net Assets		
Without donor restrictions	11,564,997	13,497,585
With donor restrictions	40,161,305	24,224,095
TOTAL NET ASSETS	51,726,302	37,721,680
TOTAL LIABILITIES AND NET ASSETS	\$ 56,873,004	\$ 41,295,645

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

OCEANA, INC. AND AFFILIATE

CONSOLIDATED STATEMENT OF ACTIVITIES

For the Year Ended December 31, 2018

(With Summarized Financial Information for the Year Ended December 31, 2017)

	Without Donor Restrictions	With Donor Restrictions	2018 Total	2017 Total
REVENUE AND SUPPORT				
Grants and contributions	\$ 10,138,204	\$ 38,351,671	\$ 48,489,875	\$ 45,696,075
Special events	3,803,114	-	3,803,114	2,919,225
In-kind revenue	2,753,098	-	2,753,098	1,547,765
Miscellaneous	16,419	-	16,419	70,379
Investment income	17,066	-	17,066	92,891
Foreign currency transaction gains (losses)	98,000	-	98,000	(64,157)
Net assets released from restrictions:				
Satisfaction of time restrictions	3,697,500	(3,697,500)	-	-
Satisfaction of program restrictions	18,716,961	(18,716,961)	-	-
TOTAL REVENUE AND SUPPORT	39,240,362	15,937,210	55,177,572	50,262,178
EXPENSES				
Program Services:				
United States Oceans	8,922,369	-	8,922,369	11,741,871
International Activities	14,315,837	-	14,315,837	11,667,947
Communications	1,989,984	-	1,989,984	2,666,855
Law	3,571,497	-	3,571,497	2,338,589
Marine Science	1,820,578	-	1,820,578	1,434,236
Oceana Advocacy Resources, Inc.	13,026	-	13,026	12,659
Total Program Services	30,633,291	-	30,633,291	29,862,157
Supporting Services:				
General and administrative	6,978,281	-	6,978,281	6,689,431
Fundraising – cost of direct benefit to donors	678,388	-	678,388	146,461
Fundraising – other	2,882,990	-	2,882,990	2,926,825
Total Supporting Services	10,539,659	-	10,539,659	9,762,717
TOTAL EXPENSES	41,172,950	-	41,172,950	39,624,874
CHANGE IN NET ASSETS	(1,932,588)	15,937,210	14,004,622	10,637,304
NET ASSETS, BEGINNING OF YEAR	13,497,585	24,224,095	37,721,680	27,084,376
NET ASSETS, END OF YEAR	\$ 11,564,997	\$ 40,161,305	\$ 51,726,302	\$ 37,721,680

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

OCEANA, INC. AND AFFILIATE

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended December 31, 2018

(With Summarized Financial Information for the Year Ended December 31, 2017)

	Program Services						Supporting Services				2018 Total	2017 Total
	United States Oceans	International Activities	Communications	Law	Marine Science	Oceana Advocacy Resources, Inc.	Total Program Services	General and Administrative	Fundraising	Total Supporting Services		
Salaries and wages	\$ 5,132,099	\$ 5,849,546	\$ 1,032,591	\$ 455,971	\$ 1,025,716	\$ 2,314	\$ 13,498,237	\$ 2,998,739	\$ 851,929	\$ 3,850,668	\$ 17,348,905	\$ 15,074,287
Awards, grants and contributions	304,310	863,761	-	200	-	-	1,168,271	41,000	-	41,000	1,209,271	4,056,170
Consultants	492,115	2,392,587	165,789	115,024	189,296	5,702	3,360,513	733,629	111,402	845,031	4,205,544	3,969,458
Employee benefits	1,013,369	188,360	217,111	96,728	217,086	487	1,733,141	644,540	181,173	825,713	2,558,854	2,163,304
Travel	501,014	1,063,890	43,482	2,480	123,749	-	1,734,615	254,823	105,559	360,382	2,094,997	1,964,522
Occupancy	229,081	777,780	123,904	57,894	131,207	317	1,320,183	373,843	89,822	463,665	1,783,848	1,888,024
Payroll taxes	354,378	992,730	72,827	32,406	72,404	131	1,524,876	212,674	59,914	272,588	1,797,464	1,580,006
In-kind expenses	-	-	-	2,753,098	-	-	2,753,098	-	-	-	2,753,098	1,547,765
Marketing	21,494	97,062	111,483	-	60	-	230,099	16,114	1,158,248	1,174,362	1,404,461	1,523,017
Boat – rental, repairs and maintenance	9,801	396,462	385	1,559	49	-	408,256	3,959	205,435	209,394	617,650	1,382,087
Conferences and meetings	163,654	378,108	4,645	5,552	14,422	-	566,381	337,525	564,784	902,309	1,468,690	1,044,276
Advertising	109,937	254,890	114,940	-	-	-	479,767	4,916	8,060	12,976	492,743	834,444
Depreciation and amortization	-	142,663	-	-	-	-	142,663	414,079	-	414,079	556,742	501,250
Printing and publications	102,948	322,140	25,114	86	569	-	450,857	3,297	31,161	34,458	485,315	396,081
Telecommunications	102,457	166,307	15,264	5,817	14,189	41	304,075	57,519	9,956	67,475	371,550	389,099
Dues and subscriptions	76,153	50,113	22,752	22,554	4,925	2	176,499	157,677	18,206	175,883	352,382	343,726
Supplies	102,955	138,376	3,271	992	3,263	7	248,864	49,078	3,701	52,779	301,643	291,518
Bank fees and taxes	5,457	62,630	5,325	6,249	337	3,810	83,808	32,750	121,499	154,249	238,057	249,391
Insurance	141,216	91,903	11,897	6,259	13,325	18	264,618	84,226	9,221	93,447	358,065	135,870
Loss on disposal of property and equipment	-	-	-	-	-	-	-	505,436	-	505,436	505,436	-
Professional training and development	12,245	45,571	2,884	5,096	6,270	-	72,066	20,948	2,337	23,285	95,351	80,381
Postage and shipping	27,731	24,867	3,217	1,144	641	154	57,754	13,284	22,305	35,589	93,343	74,267
Equipment rental and maintenance	18,151	13,710	12,641	1,399	3,070	14	48,985	12,346	6,240	18,586	67,571	70,767
Miscellaneous	1,804	2,381	462	989	-	29	5,665	5,879	426	6,305	11,970	65,164
TOTAL EXPENSES	\$ 8,922,369	\$ 14,315,837	\$ 1,989,984	\$ 3,571,497	\$ 1,820,578	\$ 13,026	\$ 30,633,291	\$ 6,978,281	\$ 3,561,378	\$ 10,539,659	\$ 41,172,950	\$ 39,624,874

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

OCEANA, INC. AND AFFILIATE

CONSOLIDATED STATEMENT OF CASH FLOWS

For the Year Ended December 31, 2018

(With Summarized Financial Information for the Year Ended December 31, 2017)

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 14,004,622	\$ 10,637,304
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	556,742	501,250
Amortization of deferred lease incentive	151,141	94,634
Loss on disposal of property and equipment	505,436	-
Realized and unrealized investment losses (gains)	12,016	(75,918)
Change in the present value discount for contributions receivable	950,261	46,988
Changes in assets and liabilities:		
Grants and contributions receivable	(12,253,038)	(9,364,491)
Accounts receivable	196,539	(68,888)
Prepaid expenses and other	(12,667)	160,238
Deposits and other long-term assets	(475,762)	(915,869)
Accounts payable and accrued expenses	(1,205,202)	720,950
Deferred rent and lease incentive	2,626,798	(314,785)
NET CASH PROVIDED BY OPERATING ACTIVITIES	5,056,886	1,421,413
CASH FLOWS FROM INVESTING ACTIVITIES		
Sales of investments	52,240	5,701,186
Purchases of investments	(2,804,480)	(2,685,035)
Purchase of property and equipment	(3,530,646)	(274,194)
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	(6,282,886)	2,741,957
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(1,226,000)	4,163,370
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	23,521,049	19,357,679
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 22,295,049	\$ 23,521,049

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

OCEANA, INC. AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS For the Year Ended December 31, 2018

1. Organization and Summary of Significant Accounting Policies

Organization

Oceana, Inc. (Oceana) is a nonprofit organization incorporated under the laws of the District of Columbia on March 1, 2001. Oceana is the largest international advocacy organization focused solely on ocean conservation. Oceana's offices around the world work together to win strategic, directed campaigns that achieve measurable outcomes that will help make our oceans more biodiverse and abundant. These activities are funded primarily through grants and contributions.

Oceana Advocacy Resources, Inc. (OAR) is a nonprofit organization incorporated under the laws of the District of Columbia on December 4, 2001. OAR was formed to promote the design and effective implementation of policies at both the national and international levels, aimed at protecting and restoring marine fisheries and other living marine resources and the ecosystems in which they exist, and to engage the public in marine ecosystem advocacy efforts.

Principles of Consolidation

The consolidated financial statements include the accounts of Oceana and OAR (collectively referred to as the Organization). Oceana and OAR have been consolidated due to the presence of common control and economic interest, as required under accounting principles generally accepted in the United States of America (GAAP). All significant intercompany balances and transactions have been eliminated in the consolidation.

Oceana operates through branch offices that are formally part of the U.S. corporation in Chile, the Philippines, and Peru. In the European Union, Oceana operates through a locally incorporated independent entity established in Spain, which has branch offices in Belgium and Denmark, as well as through a separate, locally incorporated independent entity established in the United Kingdom. Oceana also operates through locally incorporated independent entities in Belize, Brazil, Mexico, and Switzerland. These entities are dependent on Oceana for funding; participate in Oceana's activities and decision-making; and carry out the general mission and international activities of Oceana. Accordingly, the activities of the branch entities and the independent entities are combined with Oceana's activities in the accompanying consolidated financial statements.

Basis of Accounting

The consolidated financial statements of the Organization have been prepared on the accrual basis of accounting. In accordance with this method of accounting, revenue is recognized in the period in which it is earned, and expenses are recognized in the period in which they are incurred.

Cash Equivalents

The Organization considers money market funds and certificates of deposit with an original maturity of three months or less or no penalty for early withdrawal to be cash equivalents. The Organization maintains cash accounts denominated in U.S. dollars, Chilean pesos, Belizean dollars, British pounds, Philippine pesos, Brazilian reais, Peruvian soles, Swiss francs, Euros, Mexican pesos and Danish kroner.

OCEANA, INC. AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS For the Year Ended December 31, 2018

1. Organization and Summary of Significant Accounting Policies (continued)

Grants and Contributions Receivable

The Organization uses the allowance method to record potentially uncollectible grants and contributions receivable. The allowance is based on management's analysis of specific accounts and promises to give. A provision for doubtful accounts is made when collection of the full amount is no longer probable.

Investments

Investments are composed of certificates of deposit with maturities of more than three months or an early termination penalty and fixed-income funds. Investments are reported in the accompanying consolidated financial statements at their fair value based upon quoted market prices. Investments with maturity dates of less than one year, as well as equities donated near the end of the year which the Organization sold shortly thereafter, are presented as short-term investments in the accompanying consolidated financial statements.

Fair Value Measurement

In accordance with the accounting standards for fair value measurement for those assets and liabilities that are measured at fair value on a recurring basis, the Organization has categorized its applicable financial instruments into a required fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the financial instruments fall within different levels of the hierarchy, the categorization is based on the lowest-level input that is significant to the fair value measurement of the instrument.

Applicable financial assets and liabilities are categorized on the basis of inputs to the valuation techniques as follows:

Level 1 – Financial assets and liabilities whose values are based on unadjusted quoted prices for identical assets or liabilities in an active market that the Organization has the ability to access.

Level 2 – Financial assets and liabilities whose values are based on quoted prices in markets that are not active or model inputs that are observable, either directly or indirectly, for substantially the full term of the asset or liability.

Level 3 – Financial assets and 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. These inputs reflect management's own assumptions about the assumptions a market participant would use in pricing the asset or liability.

As of December 31, 2018, only the Organization's investments, as described in Note 3 of these consolidated financial statements, were measured at fair value on a recurring basis.

OCEANA, INC. AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS For the Year Ended December 31, 2018

1. Organization and Summary of Significant Accounting Policies (continued)

Classification of Net Assets

The net assets of the Organization are reported as follows:

- Net assets without donor restrictions represent the portion of expendable funds that are available for any purpose in performing the primary objectives of the Organization at the discretion of the Organization's management and the Board of Directors (the Board).
- Net assets with donor restrictions represent funds that are specifically restricted by donors for use in various programs and/or for specific periods of time. These donor restrictions can be temporary in nature in that they will be met by actions of the Organization or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated that the funds be maintained in perpetuity. As of December 31, 2018, the Organization had no net assets with donor restrictions that are required to be maintained in perpetuity.

Property and Equipment and Related Depreciation and Amortization

Acquisitions of furniture and equipment and eligible internal-use software and website development with an estimated useful life greater than a year and a cost greater than \$500 are capitalized at cost. Furniture, equipment, internal-use software and website development are being depreciated using the straight-line method over estimated useful lives of three to five years. Leasehold improvements are amortized over the lesser of their estimated useful lives or the remaining life of the lease. Expenditures for major additions and improvements are capitalized; expenditures for maintenance and repairs are charged to expense when incurred. Costs incurred in the development of internal-use software are expensed during the preliminary and post-implementation operation stages, including data conversion, training and maintenance costs. Costs incurred during the application development stage of software development are capitalized. Upon the retirement or disposal of assets, the cost and accumulated depreciation are eliminated from the accounts and the resulting gain or loss is included in revenue or expenses, as appropriate.

Revenue Recognition

The Organization reports grants and contributions of cash and other assets as with donor restrictions if they are received with donor stipulations that limit the use of the donated assets to a particular purpose or to a specific period of time. When the stipulated time restriction ends or the purpose of the restriction is met, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the accompanying consolidated statement of activities as net assets released from restrictions.

Contributions and grants without donor restrictions are reported as revenue in the year in which payments are received and/or unconditional promises to give are made. Revenue recognized on contributions and grants for which the cash has not been received from the donor as of year-end is reflected as grants and contributions receivable in the accompanying consolidated statement of financial position.

OCEANA, INC. AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS For the Year Ended December 31, 2018

1. Organization and Summary of Significant Accounting Policies (continued)

Revenue Recognition (continued)

Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using interest rates appropriate for the expected term of the promise to give. Amortization of the discount is included in grants and contributions revenue in the accompanying consolidated statement of activities. Conditional promises to give are not recognized in the consolidated financial statements until the conditions are substantially met.

Revenue from grants and contracts treated as exchange transactions is recognized as costs are incurred on the basis of direct costs plus allowable indirect expenses. Revenue recognized on these grants and contracts for which billings have not been presented to or collected from the awarding agency is included in grants and contributions receivable in the accompanying consolidated statement of financial position.

Transactions in Foreign Currencies

Oceana, Inc. conducts many of its programs through offices in foreign countries and, accordingly, transacts in the local currencies of those countries. These foreign currency transactions are translated into U.S. dollars at the appropriate exchange rates when each transaction is executed. The resulting gain or loss is reflected in the accompanying consolidated statement of activities as net foreign currency transaction gains or losses. The U.S. dollar is considered the functional and reporting currency of Oceana, Inc.

Donated Services

The Organization's programs are furthered through the contribution of services by various organizations. Donated services are recorded at fair value as of the date of the donation and are included in in-kind revenue and expenses in the accompanying consolidated financial statements. For the year ended December 31, 2018, donated services consisted of pro-bono legal services relating to the law program.

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the accompanying consolidated statement of activities. Accordingly, certain costs have been allocated proportionately among the programs and supporting services based on salaries expense for each program or supporting service. Salaries and benefits are allocated on the basis of weekly timesheets. The Organization allocates shared costs which benefit multiple areas and include occupancy, legal fees and insurance based on direct labor hours.

Estimates

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

OCEANA, INC. AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended December 31, 2018

1. Organization and Summary of Significant Accounting Policies (continued)

New Accounting Pronouncement

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

2. Grants and Contributions Receivable

As of December 31, 2018, contributors to the Organization had unconditionally promised to give \$27,020,216 to be used for particular programs and general support in the coming years.

All amounts were considered fully collectible and were due as follows:

Due within one year	\$ 9,897,147
Due in one to five years	<u>17,123,069</u>
Total Grants and Contributions Receivable	27,020,216
Less: Present Value Component (2.95%)	<u>(1,015,634)</u>
Grants and Contributions Receivable, Net	<u><u>\$ 26,004,582</u></u>

3. Investments and Fair Value Measurement

The following table summarizes the Organization's investments measured at fair value on a recurring basis as of December 31, 2018, aggregated by the fair value hierarchy level with which those measurements were made:

	<u>Total Fair Value</u>	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Certificates of deposit	\$ 2,798,001	\$ -	\$ 2,798,001	\$ -
Fixed income – guaranteed mutual fund	<u>45,021</u>	<u>45,021</u>	<u>-</u>	<u>-</u>
Total	<u><u>\$ 2,843,022</u></u>	<u><u>\$ 45,021</u></u>	<u><u>\$ 2,798,001</u></u>	<u><u>\$ -</u></u>

Continued

OCEANA, INC. AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended December 31, 2018

3. Investments and Fair Value Measurement (continued)

Certificates of deposit – Certificates of deposit have original maturity dates in excess of 90 days. A yield-based matrix system was used to arrive at an estimated fair value for these instruments, which are classified within Level 2 of the valuation hierarchy.

Fixed income – Assets are mutual funds that are traded in an open market.

Investment income consisted of the following for the year ended December 31, 2018:

Interest and dividends	\$ 29,082
Realized and unrealized investment losses	<u>(12,016)</u>
Total Investment Income	<u>\$ 17,066</u>

4. Property and Equipment and Related Depreciation and Amortization

The Organization held the following property and equipment as of December 31, 2018:

Leasehold improvements	\$ 2,794,272
Computer equipment	604,856
Furniture and office equipment	1,743,616
Computer software	1,013,544
Website development	671,230
Vehicles	<u>305,470</u>
Total Property and Equipment	7,132,988
Less: Accumulated Depreciation and Amortization	<u>(3,057,285)</u>
Property and Equipment, Net	<u>\$ 4,075,703</u>

Depreciation and amortization expense was \$556,742 for the year ended December 31, 2018.

5. Net Assets With Donor Restrictions

As of December 31, 2018, net assets with donor restrictions were restricted as follows as to purpose or period:

Subject to expenditure for specified purpose:	
International activities	\$ 36,223,295
United States Oceans	<u>3,475,148</u>
Total Subject to Expenditure for Specified Purpose	<u>39,698,443</u>
Subject to passage of time:	
General operating support for future periods	<u>462,862</u>
Total Subject to Passage of Time	<u>462,862</u>
Total Net Assets With Donor Restrictions	<u>\$40,161,305</u>

Continued

OCEANA, INC. AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS For the Year Ended December 31, 2018

6. Commitments and Risks

Operating Leases

The Organization entered into a noncancelable operating lease for its office space in Washington, D.C., and the lease expired on July 15, 2018. During 2017, Oceana signed a new lease agreement for a different location effective July 2018 through October 2029. The new lease contains fixed increases in rent of 3.5% per annum for years one to five, and 3.8% thereafter, in addition to the payment of operating expenses. The Organization received rent abatement for the first 15 months of the original lease on 88.75% of the leased space and 38 months of abatement on the remaining 11.25% of the leased space. Under GAAP, abated rent and other concessions are recognized on a straight-line basis over the term of the lease, with the difference between the straight-line and cash basis rent being amortized ratably over the term of the lease. The lease also provided for a lease incentive for the build-out of the space totaling \$2,453,805. Lease incentives are amortized over the life of the lease on a straight-line basis as an offset to rent expense.

The Organization also leases its international office space in Spain; the Philippines; Brazil; Chile; Belize; Peru; Denmark; Mexico; the United Kingdom; and, Belgium, as well as its offices in New York City, New York; Portland, Oregon; Monterey, California; and Juneau, Alaska, under noncancelable operating leases, of which the latest expires in April 2024.

The future minimum rental payments required under the operating leases were as follows as of December 31, 2018:

For the Year Ending <u>December 31,</u>	
2019	\$ 769,395
2020	707,481
2021	801,972
2022	1,557,332
2023	1,562,396
Thereafter	<u>9,893,617</u>
Total	<u>\$ 15,292,193</u>

Rent expense, not including utilities, totaled \$1,435,777 for the year ended December 31, 2018.

Concentration of Credit Risk

The Organization's cash and cash equivalents are composed of amounts in accounts at various financial institutions. While the amount, at times, exceeds the amount guaranteed by the Federal Deposit Insurance Corporation (FDIC) and, therefore, bears some risk, the Organization has not experienced, nor does it anticipate, any loss of funds. As of December 31, 2018, the amount in excess of the FDIC insured limit was \$18,262,163. As of December 31, 2018, the Organization maintained \$2,735,366 in accounts at non-U.S. financial institutions.

Continued

OCEANA, INC. AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS For the Year Ended December 31, 2018

6. Commitments and Risks (continued)

Concentration of Risk

For the year ended December 31, 2018, the Organization received contributions of \$32,486,602 from three donors, which represents 59% of the total revenue and support recognized. As of December 31, 2018, these three donors owed the Organization \$21,336,602, which represents 82% of the grants and contributions receivable outstanding at year-end.

Foreign Operations

The Organization has offices in Spain, the United Kingdom, Denmark, Belgium, Belize, the Philippines, Brazil, Chile, Mexico and Peru for the purpose of building an international movement to save the oceans through public policy advocacy, science and economics, legal action, grassroots mobilization and public education. The future results of these programs could be adversely affected by a number of potential factors, such as currency devaluations or changes in the political climate.

As of December 31, 2018, the Organization had cash and net property and equipment in these countries totaling \$4,756,024, representing approximately 8% of the Organization's total consolidated assets as of December 31, 2018.

7. Availability and Liquidity

The Organization regularly monitors liquidity required to meet its annual operating needs and other contractual commitments, while also striving to preserve the principal and return on the investment of its funds. As of December 31, 2018, the Organization's financial assets available within one year of the consolidated statement of financial position date for general expenditures were as follows:

Cash and cash equivalents	\$ 22,295,049
Grants and contributions receivable, net	26,004,582
Accounts receivable	69,229
Investments	<u>2,843,022</u>
Total Financial Assets Available Within One Year	51,211,882
Less:	
Amounts unavailable for general expenditures within one year due to donor's restriction with purpose restriction	<u>(16,107,435)</u>
Financial Assets Available to Meet General Expenditures Within One Year	<u>\$ 35,104,447</u>

The Organization has various sources of liquidity at its disposal, including cash and cash equivalents and investments, which are available for general expenditures, liabilities and other obligations as they come due. Management is focused on sustaining the financial liquidity of the Organization throughout the year. This is accomplished through monitoring and reviewing the Organization's cash flow needs on a regular basis. As a result, management is aware of the

OCEANA, INC. AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS For the Year Ended December 31, 2018

7. Availability and Liquidity (continued)

Organization's cash flow needs and is, therefore, able to ensure that there is cash available to meet current liquidity needs. As part of its liquidity plan, excess cash is invested in certificates of deposit. The certificates of deposit have varying maturity dates throughout the year and are, therefore, available to meet any cash flow needs.

8. Retirement Plan

The Organization sponsors an elective deferral contribution retirement plan for all of its United States of America employees. Under the terms of the plan, the Organization may make elective deferral contributions based on each participant's annual compensation. For the year ended December 31, 2018, Oceana contributed 7% to participants who had completed at least six months of service. Additionally, the Organization will match dollar for dollar, up to 5% of compensation, its employees' elective deferral contributions. For the year ended December 31, 2018, employer contribution expense totaled \$1,142,490.

9. Income Taxes

Oceana and OAR are exempt from the payment of income taxes under Sections 501(c)(3) and 501(c)(4), respectively, of the Internal Revenue Code. As such, both organizations are taxed only on their net unrelated business income. No provision for income taxes is required for the year ended December 31, 2018, as neither organization had any significant net unrelated business income. In addition, some of the foreign operations of the Organization are subject to local income tax in the jurisdictions in which they operate.

The Organization follows the authoritative guidance relating to accounting for uncertainty in income taxes included in FASB Accounting Standards Codification Topic 740, *Income Taxes*. These provisions provide consistent guidance for the accounting for uncertainty in income taxes recognized in an entity's financial statements and prescribe a threshold of "more likely than not" for recognition and derecognition of tax positions taken or expected to be taken in a tax return. The Organization performed an evaluation of uncertainty in income taxes for the year ended December 31, 2018, and determined that there were no matters that would require recognition in the consolidated financial statements or that may have any effect on its tax-exempt status. As of December 31, 2018, the statute of limitations for tax years 2015 through 2017 remained open with the U.S. federal jurisdiction or the various states and local jurisdictions in which the Organization files tax returns. However, no examinations are currently in progress. It is the Organization's policy to recognize interest and/or penalties related to uncertainty in income taxes, if any, in income tax or interest expense.

10. Related Party

The Organization supports Oceana Canada, in furtherance of a shared purpose, joining forces to address the needs of the same programs in Canada as it supports throughout the world. Oceana Canada is an independent nonprofit organization incorporated under Canadian law.

OCEANA, INC. AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS For the Year Ended December 31, 2018

10. Related Party (continued)

The Organization has a service agreement with Oceana Canada to provide administrative and other services. The Organization's Board Chair also sits on Oceana Canada's all-volunteer Board. During the year ended December 31, 2018, the Organization donated \$536,234 in total cash contributions and performed services valued at \$167,661 in support of Oceana Canada's mission to preserve and protect Canada's oceans.

11. Sailors for the Sea

In December 2017, the Oceana Board voted to collaborate with Sailors for the Sea (SfS), a 501(c)(3) organization, with the intention of merging programmatic activities. SfS intends to cease operations during the summer of 2019. During the year ended December 31, 2018, Oceana fully assumed the programmatic activities of SfS. Oceana will support the operations, as necessary, while SfS operations cease. At the time of dissolution, any remaining equity of SfS will transfer to Oceana.

12. Prior Year Summarized Financial Information

The consolidated financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with GAAP. Accordingly, such information should be read in conjunction with the Organization's consolidated financial statements for the year ended December 31, 2017, from which the summarized information was derived.

13. Reclassifications

Certain 2017 amounts have been reclassified for comparative purposes to conform to the 2018 presentation.

14. Subsequent Events

In preparing these consolidated financial statements, the Organization has evaluated events and transactions, for potential recognition or disclosure, through May 23, 2019, the date the consolidated financial statements were available to be issued.

SUPPLEMENTARY INFORMATION

OCEANA, INC. AND AFFILIATE

CONSOLIDATING SCHEDULE OF FINANCIAL POSITION
December 31, 2018

	<u>Oceana</u>	<u>OAR</u>	<u>Eliminations</u>	<u>Total</u>
ASSETS				
Current assets				
Cash and cash equivalents	\$ 22,222,384	\$ 72,665	\$ -	\$ 22,295,049
Short-term investments	2,706,326	-	-	2,706,326
Grants and contributions receivable, current portion	9,847,147	50,000	-	9,897,147
Due from affiliate	7,523	-	(7,523)	-
Accounts receivable	69,229	-	-	69,229
Prepaid expenses and other	51,100	-	-	51,100
Total Current Assets	34,903,709	122,665	(7,523)	35,018,851
Long-term investments	136,696	-	-	136,696
Grants and contributions receivable, net of current portion	15,857,435	250,000	-	16,107,435
Property and equipment, net	4,075,703	-	-	4,075,703
Deposits and other long-term assets	1,534,319	-	-	1,534,319
TOTAL ASSETS	\$ 56,507,862	\$ 372,665	\$ (7,523)	\$ 56,873,004
LIABILITIES AND NET ASSETS				
Liabilities				
Accounts payable and accrued expenses	\$ 2,245,494	\$ 402	\$ -	\$ 2,245,896
Deferred rent and lease incentive, current portion	217,285	-	-	217,285
Due to affiliate	-	7,523	(7,523)	-
Total Current Liabilities	2,462,779	7,925	(7,523)	2,463,181
Deferred rent and lease incentive, net of current portion	2,683,521	-	-	2,683,521
TOTAL LIABILITIES	5,146,300	7,925	(7,523)	5,146,702
Net Assets				
Without donor restrictions	11,200,257	364,740	-	11,564,997
With donor restrictions	40,161,305	-	-	40,161,305
TOTAL NET ASSETS	51,361,562	364,740	-	51,726,302
TOTAL LIABILITIES AND NET ASSETS	\$ 56,507,862	\$ 372,665	\$ (7,523)	\$ 56,873,004

See independent auditors' report on supplementary information.

OCEANA, INC. AND AFFILIATE

**CONSOLIDATING SCHEDULE OF ACTIVITIES
For the Year Ended December 31, 2018**

	<u>Oceana</u>	<u>OAR</u>	<u>Eliminations</u>	<u>Total</u>
REVENUE AND SUPPORT				
Grants and contributions	\$ 48,239,875	\$ 250,000	\$ -	\$ 48,489,875
Special events	3,803,114	-	-	3,803,114
In-kind revenue	2,753,098	-	-	2,753,098
Miscellaneous	16,419	-	-	16,419
Investment income	17,066	-	-	17,066
Foreign currency transaction gains	98,000	-	-	98,000
	<u>54,927,572</u>	<u>250,000</u>	<u>-</u>	<u>55,177,572</u>
TOTAL REVENUE AND SUPPORT				
	<u>54,927,572</u>	<u>250,000</u>	<u>-</u>	<u>55,177,572</u>
EXPENSES				
Program Services:				
United States Oceans	8,922,369	-	-	8,922,369
International Activities	14,315,837	-	-	14,315,837
Communications	1,989,984	-	-	1,989,984
Law	3,571,497	-	-	3,571,497
Marine Science	1,820,578	-	-	1,820,578
Oceana Advocacy Resources, Inc.		13,026	-	13,026
	<u>30,620,265</u>	<u>13,026</u>	<u>-</u>	<u>30,633,291</u>
Total Program Services				
	<u>30,620,265</u>	<u>13,026</u>	<u>-</u>	<u>30,633,291</u>
Supporting Services:				
General and administrative	6,978,281	-	-	6,978,281
Fundraising – cost of direct benefit to donors	678,388	-	-	678,388
Fundraising – other	2,882,990	-	-	2,882,990
	<u>10,539,659</u>	<u>-</u>	<u>-</u>	<u>10,539,659</u>
Total Supporting Services				
	<u>10,539,659</u>	<u>-</u>	<u>-</u>	<u>10,539,659</u>
TOTAL EXPENSES	<u>41,159,924</u>	<u>13,026</u>	<u>-</u>	<u>41,172,950</u>
CHANGE IN NET ASSETS	13,767,648	236,974	-	14,004,622
NET ASSETS, BEGINNING OF YEAR	<u>37,593,914</u>	<u>127,766</u>	<u>-</u>	<u>37,721,680</u>
NET ASSETS, END OF YEAR	<u>\$ 51,361,562</u>	<u>\$ 364,740</u>	<u>\$ -</u>	<u>\$ 51,726,302</u>

See independent auditors' report on supplementary information.