

Ocean Conservancy, Inc.

Financial Statements
Including Uniform Guidance Reports
and Independent Auditor's Report

June 30, 2023 and 2022

Ocean Conservancy, Inc.

Financial Statements
June 30, 2023 and 2022

Contents

Independent Auditor's Report.....	1-3
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Financial Statements

Statements of Financial Position.....	4
Statements of Activities	5-6
Statements of Functional Expenses	7-8
Statements of Cash Flows.....	9
Notes to the Financial Statements.....	10-28

Supplementary Schedule and Reports Required by the Uniform Guidance

Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	29-30
Independent Auditor's Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by the Uniform Guidance	31-33
Schedule of Expenditures of Federal Awards.....	34
Notes to the Schedule of Expenditures of Federal Awards	35
Schedule of Findings and Questioned Costs.....	36-37
Corrective Action Plan.....	38
Schedule of Prior Audit Findings	39

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Ocean Conservancy, Inc.

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Ocean Conservancy, Inc. (OC), which comprise the statements of financial position as of June 30, 2023 and 2022; the related statements of activities, functional expenses, and cash flows for the years then ended; and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of OC as of June 30, 2023 and 2022, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of OC and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

Responsibilities of Management for the Financial Statements (continued)

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about OC's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 OC's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about OC's ability to continue as a going concern for a reasonable period of time.

Auditor's Responsibilities for the Audit of the Financial Statements (continued)

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Supplementary and Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 13, 2023, on our consideration of OC's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of OC's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering OC's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Rogers & Company PLLC". The signature is stylized, with the "R" being particularly large and the "&" symbol being clearly visible.

Vienna, Virginia
October 13, 2023

Ocean Conservancy, Inc.

Statements of Financial Position
June 30, 2023 and 2022

	2023	2022
Assets		
Cash	\$ 13,359,856	\$ 25,664,233
Investments	54,366,481	46,377,386
Accounts receivable	1,241,823	556,165
Grants receivable	989,257	931,155
Contributions receivable, net	13,367,429	8,742,868
Bequests and trusts receivable	1,765,321	1,690,872
Charitable remainder trusts receivable, net	1,016,837	985,430
Prepaid expenses	1,565,322	1,088,465
Deferred compensation plan assets	355,134	209,082
Property and equipment, net	1,427,282	1,080,483
Right-of-use assets – operating leases	6,517,889	7,191,831
Deposits	100,285	446,458
Other assets	57,802	57,802
Total assets	<u>\$ 96,130,718</u>	<u>\$ 95,022,230</u>
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	\$ 6,628,849	\$ 5,343,322
Charitable gift annuities	1,222,842	1,093,549
Lease liabilities – operating leases	6,953,062	7,627,004
Deferred compensation plan liabilities	355,134	209,082
Total liabilities	<u>15,159,887</u>	<u>14,272,957</u>
Net Assets		
Without donor restrictions:		
Undesignated	12,767,359	10,835,900
Board-designated	42,684,406	39,009,818
Total without donor restrictions	<u>55,451,765</u>	<u>49,845,718</u>
With donor restrictions:		
Purpose and time restrictions	22,179,431	27,563,920
Perpetual in nature	3,339,635	3,339,635
Total with donor restrictions	<u>25,519,066</u>	<u>30,903,555</u>
Total net assets	<u>80,970,831</u>	<u>80,749,273</u>
Total liabilities and net assets	<u>\$ 96,130,718</u>	<u>\$ 95,022,230</u>

See accompanying notes.

Ocean Conservancy, Inc.

Statement of Activities
For the Year Ended June 30, 2023

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and Support			
Contributions, grants, and bequests	\$ 23,999,396	\$ 23,087,134	\$ 47,086,530
In-kind contributions	-	471,290	471,290
List rental income	65,245	-	65,245
Royalties	791,637	-	791,637
Other income	32,626	-	32,626
Net assets released from restrictions	29,343,622	(29,343,622)	-
Total revenue and support	54,232,526	(5,785,198)	48,447,328
Expenses			
Program services:			
Science, policy, and outreach	15,130,698	-	15,130,698
Marine ecosystem protection	5,047,476	-	5,047,476
Trash free seas	13,607,430	-	13,607,430
Climate	6,632,341	-	6,632,341
Total program services	40,417,945	-	40,417,945
Supporting services:			
Fundraising and membership development	6,413,195	-	6,413,195
Management and administration	5,360,807	-	5,360,807
Total supporting services	11,774,002	-	11,774,002
Total expenses	52,191,947	-	52,191,947
Change in net assets before net investment return	2,040,579	(5,785,198)	(3,744,619)
Investment return, net	3,565,468	400,709	3,966,177
Change in Net Assets	5,606,047	(5,384,489)	221,558
Net Assets, beginning of year	49,845,718	30,903,555	80,749,273
Net Assets, end of year	\$ 55,451,765	\$ 25,519,066	\$ 80,970,831

See accompanying notes.

Ocean Conservancy, Inc.

Statement of Activities
For the Year Ended June 30, 2022

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and Support			
Contributions, grants, and bequests	\$ 24,939,334	\$ 23,157,059	\$ 48,096,393
In-kind contributions	-	459,908	459,908
List rental income	64,093	-	64,093
Royalties	205,750	-	205,750
Other income	117,513	-	117,513
Net assets released from restrictions	23,186,391	(23,186,391)	-
Total revenue and support	48,513,081	430,576	48,943,657
Expenses			
Program services:			
Science, policy, and outreach	12,841,965	-	12,841,965
Marine ecosystem protection	4,517,821	-	4,517,821
Trash free seas	9,414,035	-	9,414,035
Climate	5,083,049	-	5,083,049
Total program services	31,856,870	-	31,856,870
Supporting services:			
Fundraising and membership development	5,542,533	-	5,542,533
Management and administration	3,753,886	-	3,753,886
Total supporting services	9,296,419	-	9,296,419
Total expenses	41,153,289	-	41,153,289
Change in net assets before net investment return	7,359,792	430,576	7,790,368
Investment return, net	(6,129,134)	(680,998)	(6,810,132)
Change in Net Assets	1,230,658	(250,422)	980,236
Net Assets, beginning of year	48,615,060	31,153,977	79,769,037
Net Assets, end of year	\$ 49,845,718	\$ 30,903,555	\$ 80,749,273

See accompanying notes.

Ocean Conservancy, Inc.

Statement of Functional Expenses
For the Year Ended June 30, 2023

	Program Services					Supporting Services			
	Science, Policy, and Outreach	Marine Ecosystem Protection	Trash Free Seas	Climate	Total Program Services	Fundraising and Membership Development	Management and Administration	Total Supporting Services	Total
Salaries and wages	\$ 4,900,841	\$ 2,509,579	\$ 3,236,541	\$ 3,136,162	\$ 13,783,123	\$ 2,371,532	\$ 2,416,407	\$ 4,787,939	\$ 18,571,062
Employee benefits	1,187,924	608,302	784,511	760,180	3,340,917	574,840	576,468	1,151,308	4,492,225
Professional fees	2,473,142	754,201	5,947,899	1,038,002	10,213,244	582,029	837,698	1,419,727	11,632,971
Printing	1,830,397	771	36,027	7,031	1,874,226	1,222,272	25,031	1,247,303	3,121,529
Rent, utilities, and telephone	329,612	227,453	218,334	214,510	989,909	158,582	255,101	413,683	1,403,592
Delivery services	1,110,574	2,106	77,704	2,477	1,192,861	724,177	18,318	742,495	1,935,356
Travel and meetings	468,977	263,042	935,682	479,236	2,146,937	120,744	425,118	545,862	2,692,799
Supplies	295,014	84,944	297,566	106,394	783,918	164,392	118,337	282,729	1,066,647
Depreciation and amortization	37,574	19,241	107,647	24,045	188,507	18,182	29,635	47,817	236,324
Computer expenses	79,325	40,467	52,189	50,570	222,551	38,241	121,083	159,324	381,875
List rental expenses	264,425	-	-	-	264,425	101,863	1,069	102,932	367,357
Advertising	610,573	2,584	11,078	6,997	631,232	148,039	2,174	150,213	781,445
Grants and contributions	705,412	484,150	1,774,823	739,928	3,704,313	-	-	-	3,704,313
Subscriptions	333,438	31,094	68,542	43,247	476,321	143,644	156,283	299,927	776,248
Miscellaneous	17,547	9,372	32,973	8,300	68,192	7,177	8,887	16,064	84,256
Repairs and maintenance	12,049	8,659	19,033	13,196	52,937	6,119	9,458	15,577	68,514
Bank fees	2,116	1,511	5,900	1,850	11,377	2,331	213,535	215,866	227,243
Insurance	-	-	981	216	1,197	-	142,436	142,436	143,633
Temporary help	7,227	-	-	-	7,227	22,983	3,058	26,041	33,268
In-kind	464,531	-	-	-	464,531	6,048	711	6,759	471,290
Total Expenses	\$ 15,130,698	\$ 5,047,476	\$ 13,607,430	\$ 6,632,341	\$ 40,417,945	\$ 6,413,195	\$ 5,360,807	\$ 11,774,002	\$ 52,191,947

See accompanying notes.

Ocean Conservancy, Inc.

Statement of Functional Expenses
For the Year Ended June 30, 2022

	Program Services					Supporting Services			
	Science, Policy, and Outreach	Marine Ecosystem Protection	Trash Free Seas	Climate	Total Program Services	Fundraising and Membership Development	Management and Administration	Total Supporting Services	Total
Salaries and wages	\$ 4,040,578	\$ 2,701,478	\$ 2,547,050	\$ 2,258,288	\$ 11,547,394	\$ 2,026,804	\$ 1,643,617	\$ 3,670,421	\$ 15,217,815
Employee benefits	1,059,148	708,133	667,653	591,961	3,026,895	531,283	442,315	973,598	4,000,493
Professional fees	2,396,164	592,818	4,095,564	948,260	8,032,806	612,471	572,567	1,185,038	9,217,844
Printing	1,604,055	931	89,220	8,304	1,702,510	1,031,803	17,471	1,049,274	2,751,784
Rent, utilities, and telephone	338,818	288,325	215,634	192,051	1,034,828	171,711	223,363	395,074	1,429,902
Delivery services	936,278	4,604	53,415	3,326	997,623	580,617	12,929	593,546	1,591,169
Travel and meetings	156,969	81,477	456,135	149,384	843,965	72,064	18,801	90,865	934,830
Supplies	226,508	39,970	145,800	52,221	464,499	117,407	48,912	166,319	630,818
Depreciation and amortization	7,241	4,841	4,564	4,047	20,693	3,632	4,802	8,434	29,127
Computer expenses	44,465	17,520	16,518	14,646	93,149	23,669	19,527	43,196	136,345
List rental expenses	144,480	-	-	-	144,480	84,664	920	85,584	230,064
Advertising	690,608	5,421	1,380	20,534	717,943	128,259	2,070	130,329	848,272
Grants and contributions	424,000	19,698	1,023,486	790,977	2,258,161	-	-	-	2,258,161
Subscriptions	280,501	32,637	46,802	37,349	397,289	123,078	80,021	203,099	600,388
Miscellaneous	17,323	12,773	25,517	5,783	61,396	8,206	6,685	14,891	76,287
Interest	-	-	-	-	-	-	20	20	20
Repairs and maintenance	10,809	7,064	21,208	5,522	44,603	16,270	5,262	21,532	66,135
Bank fees	444	131	2,741	396	3,712	1,050	459,321	460,371	464,083
Insurance	-	-	1,348	-	1,348	9	146,155	146,164	147,512
Temporary help	3,668	-	-	-	3,668	9,536	49,128	58,664	62,332
In-kind	459,908	-	-	-	459,908	-	-	-	459,908
Total Expenses	\$ 12,841,965	\$ 4,517,821	\$ 9,414,035	\$ 5,083,049	\$ 31,856,870	\$ 5,542,533	\$ 3,753,886	\$ 9,296,419	\$ 41,153,289

See accompanying notes.

Ocean Conservancy, Inc.

Statements of Cash Flows
For the Years Ended June 30, 2023 and 2022

	2023	2022
Cash Flows from Operating Activities		
Change in net assets	\$ 221,558	\$ 980,236
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation and amortization	236,324	29,127
Donation of marketable securities	(206,984)	(1,695,531)
Change in contributions receivable discount	152,215	(97,217)
Net realized and unrealized (gain) loss on investments	(2,982,849)	7,586,760
Change in charitable gift annuities' liability valuation	155,241	97,091
Change in operating assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	(685,658)	(217,001)
Grants receivable	(58,102)	272,425
Contributions receivable	(4,776,776)	9,966,633
Bequests and trusts receivable	(74,449)	344,479
Charitable remainder trusts receivable	(31,407)	163,602
Prepaid expenses	(476,857)	(934,146)
Deferred compensation plan assets	(146,052)	(24,798)
Right-of-use assets – operating leases	673,942	(7,191,831)
Deposits	346,173	(69,783)
Other assets	-	35,000
Increase (decrease) in:		
Accounts payable and accrued expenses	1,285,527	2,558,472
Charitable gift annuities	(25,948)	(42,224)
Lease liabilities – operating leases	(673,942)	7,627,004
Deferred rent	-	(377,591)
Deferred compensation plan liabilities	146,052	24,798
Net cash (used in) provided by operating activities	<u>(6,921,992)</u>	<u>19,035,505</u>
Cash Flows from Investing Activities		
Purchases of property and equipment	(583,123)	(1,099,909)
Purchases of investments	(15,720,765)	(12,302,532)
Proceeds from sales of investments	<u>10,921,503</u>	<u>8,911,571</u>
Net cash used in investing activities	<u>(5,382,385)</u>	<u>(4,490,870)</u>
Net (Decrease) Increase in Cash	(12,304,377)	14,544,635
Cash, beginning of year	<u>25,664,233</u>	<u>11,119,598</u>
Cash, end of year	<u><u>\$ 13,359,856</u></u>	<u><u>\$ 25,664,233</u></u>

See accompanying notes.

Ocean Conservancy, Inc.

Notes to Financial Statements

June 30, 2023 and 2022

1. Nature of Operations

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

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

2. Summary of Significant Accounting Policies

Basis of Accounting and Presentation

The financial statements of OC are prepared on the accrual basis of accounting. Net assets are reported based on the presence or absence of donor-imposed restrictions, as follows:

- *Net Assets Without Donor Restrictions* – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions. Net assets without donor restrictions include both undesignated and Board-designated amounts. OC's Board of Directors has segregated amounts received without donor restrictions from various donors into a Board-designated fund, and has implemented an investment policy that includes an annual discretionary transfer of amounts to undesignated net assets to support operations.
- *Net Assets With Donor Restrictions* – Net assets subject to donor- (or certain grantor-) imposed restrictions. OC reports grants and contributions restricted by donors as increases in net assets without donor restrictions if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted grants and contributions are reported as increases in net assets with donor restrictions, depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions.

Ocean Conservancy, Inc.

Notes to Financial Statements June 30, 2023 and 2022

2. Summary of Significant Accounting Policies (continued)

Investments

Investments are recorded at fair value based on quoted market prices. All realized and unrealized gains and losses, net of investment management fees, are reported in net investment return in the accompanying statements of activities. Money market and short-term investment funds, held as a portion of OC's investment portfolio, are not considered to be cash equivalents for purposes of cash flows.

Accounts Receivable

OC's accounts receivable are all due in less than one year and are recorded at net realizable value. OC writes off accounts receivable when they become uncollectible. When necessary, an allowance for uncollectible accounts receivable is determined based on management's best estimate of the outstanding uncollectible accounts. No allowance for doubtful accounts is recorded, as management believes that all accounts receivable are fully collectible.

Grants and Contributions Receivable

Grants and contributions receivable represent unconditional amounts committed to OC. Grants and contributions receivable are reflected at either net realizable value, or at net present value based on projected cash flows. OC uses the allowance method to determine uncollectible receivables. OC's policy is to write-off uncollectible receivables when management determines they will not be collected based on experience, as well as management's analysis of specific receivables, including such factors as prior collection history, type of receivable, and nature of fundraising activity. At June 30, 2023 and 2022, no allowance was recorded as management believes that all grants and contributions receivable are fully collectible.

Bequests and Trusts Receivable

Bequests receivable represent amounts due to OC when probate courts declare a will valid and the proceeds are measurable. Trusts receivable represent amounts due to OC when trusts become irrevocable.

Ocean Conservancy, Inc.

Notes to Financial Statements June 30, 2023 and 2022

2. Summary of Significant Accounting Policies (continued)

Charitable Remainder Trusts Receivable

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

Property and Equipment

Property and equipment acquisitions with a cost in excess of \$5,000 and a projected useful life exceeding one year are capitalized and recorded at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets, which range from three to 10 years. Leasehold improvements are recorded at cost and amortized on a straight-line basis over the shorter of the remaining lease term or the useful life of the improvement. Donated furniture and equipment exceeding the capitalization threshold are recorded at their estimated fair value on the date received. Expenditures for repairs and maintenance are expensed as incurred.

Leases

OC determines if an arrangement is a lease at inception. Operating leases are included in right-of-use ("ROU") assets, which represent OC's right to use an underlying asset for the lease term, and lease obligations represent OC's obligation to make lease payments arising from the lease. Operating ROU lease assets and obligations are recognized at the commencement date based on the present value of lease payments over the lease term. As most of OC's leases do not provide an implicit rate, OC uses a risk-free rate based on the information available at the commencement date in determining the present value of lease payments.

The ROU assets also include any lease payments made and exclude lease incentives. OC's lease terms may include options to extend or terminate the lease when it is reasonably certain that OC will exercise that option. Lease expense for lease payments is recognized on a straight-line basis over the lease term.

Ocean Conservancy, Inc.

Notes to Financial Statements June 30, 2023 and 2022

2. Summary of Significant Accounting Policies (continued)

Charitable Gift Annuities

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

Revenue Recognition

Revenue Accounted for in Accordance with Contribution Accounting

OC recognizes contributions and grants when cash, securities, or other assets, or an unconditional promise to give, is received. Conditional promises to give, that is, those with a measurable performance or other barrier, and a right of return, are not recognized until the conditions on which they depend have been substantially met.

Wills are recorded as bequest revenue when probate courts declare a will 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 trusts become irrevocable. Revenue under charitable gift annuity arrangements is reduced by the estimated annuities to be paid by OC over the beneficiary's lifetime.

Revenue from all other sources is recognized when earned.

In-Kind Contributions

The value of contributions that enhance a nonfinancial asset, which are considered specialized and can be estimated, and would have been purchased if not donated, are reflected in the accompanying statements of activities as in-kind contributions. In-kind contributions consist of donated services that benefit program services. In-kind contributions are recognized as revenue and expense in the accompanying statements of activities at their estimated fair value, as provided by the donor, at the date of receipt, or calculated fair value of use of property in the period the property is used.

Ocean Conservancy, Inc.

Notes to Financial Statements June 30, 2023 and 2022

2. Summary of Significant Accounting Policies (continued)

Functional Allocation of Expenses

The costs of program and supporting services activities have been summarized on a functional basis in the statements of activities. The statements of functional expenses present the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

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 return.

Adopted Accounting Pronouncement

In September 2020, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2020-07, *Not-for-Profit Entities* (Topic 958): *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*, which requires a not-for-profit entity to present contributed nonfinancial assets in the statements of activities as a line item that is separate from contributions of cash or other financial assets. ASU 2020-07 also requires additional qualitative and quantitative disclosures about contributed nonfinancial assets received, disaggregated by category. OC adopted ASU 2020-07 during the year ended June 30, 2023. The adoption of ASU 2020-07 had no impact on the previously reported net assets.

Subsequent Events

In preparing these financial statements, OC has evaluated events and transactions for potential recognition or disclosure through October 13, 2023, the date the financial statements were available to be issued.

Ocean Conservancy, Inc.

Notes to Financial Statements June 30, 2023 and 2022

3. Liquidity and Availability

OC has a goal to maintain financial assets on hand to meet 60 days of normal operating expenses. As part of this liquidity management, the management periodically reviews OC's liquid asset needs and invests in various investments including money market funds, mutual funds, and other funds.

Financial assets available for general expenditures, that is, without donor or other restrictions limiting their use, within one year of the statements of financial position date, comprise the following at June 30:

	2023	2022
Cash	\$ 13,359,856	\$ 25,664,233
Investments	54,366,481	46,377,386
Accounts receivable	1,241,823	556,165
Grants receivable	989,257	931,155
Contributions receivable, net	13,367,429	8,742,868
Bequests and trusts receivable	1,765,321	1,690,872
Charitable remainder trusts receivable, net	1,016,837	985,430
Total financial assets	86,107,004	84,948,109
Less: designated cash	(200,000)	(200,000)
Less: charitable gift annuities	(1,222,842)	(1,093,549)
Less: Board-designated fund, net of annual spending rate	(36,477,525)	(38,135,689)
Less: restricted by donors for purpose and time	(15,845,008)	(26,403,769)
Less: restricted by donors in perpetuity	(3,339,635)	(3,339,635)
Total available for general expenditures	\$ 29,021,994	\$ 15,775,467

The Board-designated fund is subject to an annual spending rate, which varies from year to year. Although OC does not intend to spend from this Board-designated fund, other than amounts appropriate for general expenditures as part of OC's annual budget approval and appropriation, these amounts could be made available through Board approval if necessary.

Ocean Conservancy, Inc.

Notes to Financial Statements June 30, 2023 and 2022

4. Concentration of Credit Risk

Financial instruments that potentially subject OC to significant concentrations of credit risk consist of cash, investments, accounts receivable, grants receivable, contributions receivable, bequests and trusts 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 Deposit Insurance Corporation (FDIC) and Securities Investor Protection Corporation (SIPC). OC has not experienced any credit losses on its cash and investments to date as it relates to FDIC and SIPC insurance limits. Management periodically assesses the financial condition of these financial institutions and believes that the risk of any credit loss is minimal.

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

5. Investments and Fair Value Measurements

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

The inputs used in measuring fair value are categorized into three levels. Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and liabilities and have the highest priority. Level 2 is based upon observable inputs other than quoted market prices, and Level 3 is based on unobservable inputs. Transfers between levels in the fair value hierarchy are recognized at the end of the reporting period.

Ocean Conservancy, Inc.

Notes to Financial Statements June 30, 2023 and 2022

5. Investments and Fair Value Measurements (continued)

In general, and where applicable, OC uses quoted prices in active markets for identical assets to determine fair value. This pricing methodology applies to Level 1 investments. OC's Level 3 financial liabilities, whose values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement, consist of split-interest agreements.

The following table presents OC's fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis as of June 30, 2023:

	Level 1	Level 2	Level 3	Total
Investments:				
Money market accounts	\$ 2,532,210	\$ -	\$ -	\$ 2,532,210
Mutual funds:				
U.S. large cap	13,544,230	-	-	13,544,230
U.S. mid cap	3,302,277	-	-	3,302,277
U.S. small cap	4,173,134	-	-	4,173,134
International-developed	6,144,133	-	-	6,144,133
Emerging markets	2,337,636	-	-	2,337,636
Bond funds	22,176,198	-	-	22,176,198
U.S. Treasuries	152,966	-	-	152,966
Mortgage-backed securities	3,697	-	-	3,697
Total investments	54,366,481	-	-	54,366,481
Deferred compensation plan assets:				
Money market accounts	519	-	-	519
Mutual funds – real estate	11,452	-	-	11,452
Mutual funds – equities	343,163	-	-	343,163
Total deferred compensation plan assets	355,134	-	-	355,134
Total assets at fair value	\$ 54,721,615	\$ -	\$ -	\$ 54,721,615
Liabilities at fair value:				
Split-interest agreements	\$ -	\$ -	\$ 1,222,842	\$ 1,222,842

Ocean Conservancy, Inc.

Notes to Financial Statements June 30, 2023 and 2022

5. Investments and Fair Value Measurements (continued)

The following table presents OC's fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis as of June 30, 2022:

	Level 1	Level 2	Level 3	Total
Investments:				
Money market accounts	\$ 2,471,028	\$ -	\$ -	\$ 2,471,028
Mutual funds:				
U.S. large cap	10,713,316	-	-	10,713,316
U.S. mid cap	2,850,258	-	-	2,850,258
U.S. small cap	4,047,812	-	-	4,047,812
International-developed	5,333,928	-	-	5,333,928
Emerging markets	1,964,047	-	-	1,964,047
Bond funds	18,855,951	-	-	18,855,951
U.S. Treasuries	136,096	-	-	136,096
Mortgage-backed securities	4,950	-	-	4,950
Total investments	46,377,386	-	-	46,377,386
Deferred compensation plan assets:				
Money market accounts	505	-	-	505
Fixed income	19,218	-	-	19,218
Mutual funds – real estate	9,320	-	-	9,320
Mutual funds – equities	180,039	-	-	180,039
Total deferred compensation plan assets	209,082	-	-	209,082
Total assets at fair value	\$ 46,586,468	\$ -	\$ -	\$ 46,586,468
Liabilities at fair value:				
Split-interest agreements	\$ -	\$ -	\$ 1,093,549	\$ 1,093,549

Ocean Conservancy, Inc.

Notes to Financial Statements June 30, 2023 and 2022

5. Investments and Fair Value Measurements (continued)

The following table provides a summary of changes in fair value of OC's Level 3 split-interest liabilities for the years ended June 30:

	2023	2022
Beginning balance	\$ 1,093,549	\$ 1,038,682
New gift annuities	224,899	133,096
Distributions	(250,847)	(175,320)
Change in value	155,241	97,091
Ending balance	<u>\$ 1,222,842</u>	<u>\$ 1,093,549</u>

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

	2023	2022
Interest and dividends	\$ 1,123,863	\$ 914,696
Realized (loss) gain	(497,736)	253,401
Unrealized gain (loss)	3,480,585	(7,840,161)
Less: investment management fees	(140,535)	(138,068)
Total investment return, net	<u>\$ 3,966,177</u>	<u>\$ (6,810,132)</u>

6. Contributions Receivable

Contributions receivable consist of the following as of June 30:

	2023	2022
Receivable in less than one year	\$ 9,736,067	\$ 8,137,092
Receivable in one to five years	3,822,801	645,000
Total contributions receivable	13,558,868	8,782,092
Less: discount to present value (4.49% and 3.20%, respectively)	(191,439)	(39,224)
Contributions receivable, net	<u>\$ 13,367,429</u>	<u>\$ 8,742,868</u>

Ocean Conservancy, Inc.

Notes to Financial Statements June 30, 2023 and 2022

7. 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 a discount rate of 4.2% and 3.6% at June 30, 2023 and 2022, respectively. At June 30, 2023 and 2022, the estimated value of these receivables totaled \$1,016,837 and \$985,430, respectively. The estimated net present values of the charitable remainder trusts are considered to be net assets with donor restrictions until the funds are received.

8. Property and Equipment

Property and equipment consists of the following at June 30:

	2023	2022
Leasehold improvements	\$ 1,178,502	\$ 914,054
Computers and equipment	944,827	893,913
Website development	714,516	657,016
Furniture and fixtures	90,180	-
Total property and equipment	2,928,025	2,464,983
Less: accumulated depreciation and amortization	(1,500,743)	(1,384,500)
Property and equipment, net	<u>\$ 1,427,282</u>	<u>\$ 1,080,483</u>

9. Leases

OC leases office space for its headquarters in Washington, D.C. and its regional offices throughout the United States under the terms of noncancelable operating leases that expire at various dates through January 2031. Certain leases provide for additional rent based on OC's pro-rata share of increases in real estate taxes and operating expenses.

Ocean Conservancy, Inc.

Notes to Financial Statements June 30, 2023 and 2022

9. Leases (continued)

Supplemental qualitative information related to the office leases is as follows as of, and for the year ended, June 30:

	<u>2023</u>	<u>2022</u>
Cash paid for amounts included in the measurement of lease liabilities –		
operating cash flows	\$ 1,186,140	\$ 1,222,423
Right-of-use assets obtained in exchange for lease obligations	\$ 6,517,889	\$ 7,191,831
Weighted-average remaining lease term (in years)	7.03	9.40
Weighted-average discount rate	3.81%	2.98%

Maturities of the lease liabilities under OC's office leases are as follows for the years ending June 30:

2024	\$ 1,129,586
2025	1,001,111
2026	964,753
2027	964,765
2028	964,777
Thereafter	<u>2,862,254</u>
Total minimum lease payments	7,887,246
Less: discount to present value at 3.81%	<u>(934,184)</u>
Present value of operating lease liabilities	<u><u>\$ 6,953,062</u></u>

Rent expense for the years ended June 30, 2023 and 2022 totaled \$1,186,140 and \$1,222,423, respectively.

Ocean Conservancy, Inc.

Notes to Financial Statements June 30, 2023 and 2022

10. Charitable Gift Annuities

OC has entered into charitable gift annuity arrangements with a number of donors. In exchange for contributions, these arrangements require OC to make annual fixed payments during the lives of the donors. The annuity payment obligations are based on donor life expectancies as presented in actuarial tables, discounted at rates ranging from 0.4% to 7.4%. The contributions are treated as contribution revenue when received and are included in net assets without donor restrictions in the accompanying financial statements. Contribution revenue related to charitable gift annuities for the years ended June 30, 2023 and 2022 totaled \$128,386 and \$123,087, respectively.

11. Net Assets With Donor Restrictions

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

	2023	2022
Purpose restricted	\$ 17,996,623	\$ 23,777,165
Time restricted	2,832,460	2,626,605
Unappropriated earnings on endowments	1,350,348	1,160,150
Perpetual in nature	3,339,635	3,339,635
Total net assets with donor restrictions	<u>\$ 25,519,066</u>	<u>\$ 30,903,555</u>

12. Endowments

OC holds its endowment funds in a separate investment account with Bank of America. Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

OC's donor-restricted endowment funds consist of two funds:

- a) *General Fund* – \$2,839,635 of the endowment corpus has no purpose restrictions, and was established to provide continuing support for general operations of OC, the earnings of which can be used to fund either specific programs or to provide continuing support for general operations of OC
- b) *Caroline Macomber Fellowship Endowment Fund* – \$500,000 of the endowment corpus is restricted for the Caroline Macomber Fellowship Endowment Fund which is used to fund a fellowship position at the direction of the *International Coastal Cleanup* program

Ocean Conservancy, Inc.

Notes to Financial Statements June 30, 2023 and 2022

12. Endowments (continued)

Interpretation of Relevant Law

The Board of Directors of OC has interpreted the District of Columbia's Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds, absent explicit donor stipulations to the contrary. As a result of this interpretation, OC retains in perpetuity (a) the original value of initial gift amounts donated to the endowment, (b) the original value of subsequent gift amounts donated to the endowment, and (c) any accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added. Donor-restricted amounts not retained in perpetuity are subject to appropriation for expenditure by OC in a manner consistent with the standard of prudence prescribed by UPMIFA.

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

Spending Policies

Spending Policy for the General Fund – The donors' intent in contributing to the General 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. 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.

Spending Policy for the Caroline Macomber Fellowship Endowment Fund – Any income generated from this fund is to be used for the specified program.

Ocean Conservancy, Inc.

Notes to Financial Statements June 30, 2023 and 2022

12. Endowments (continued)

Return Objectives, Risk Parameters, and Strategies

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

Funds with Deficiencies

From time to time, certain donor-restricted endowment funds may have fair values that are less than the amount required to be maintained by donors or by law (underwater endowments). OC has interpreted UPMIFA to permit spending from underwater endowments in accordance with prudent measures required under law. In accordance with accounting principles generally accepted in the United States of America, deficiencies of this nature would be reported by OC in net assets with donor restrictions.

At June 30, 2023, the Caroline Macomber Fellowship Endowment Fund with original gift value of \$500,000, had a fair value of \$511,908. At June 30, 2022, the Caroline Macomber Fellowship Endowment Fund with original gift value of \$500,000, fair value of \$472,095, and deficiency of \$27,905, was reported in net assets with donor restrictions.

Composition of Endowment Net Assets

Endowment net assets composition was as follows at June 30, 2023:

	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds:			
Endowment corpus	\$ -	\$ 3,339,635	\$ 3,339,635
Unappropriated earnings on endowment	-	1,350,348	1,350,348
Total endowment net assets	<u>\$ -</u>	<u>\$ 4,689,983</u>	<u>\$ 4,689,983</u>

Ocean Conservancy, Inc.

Notes to Financial Statements June 30, 2023 and 2022

12. Endowments (continued)

Composition of Endowment Net Assets (continued)

Endowment net assets composition was as follows at June 30, 2022:

	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds:			
Endowment corpus	\$ -	\$ 3,339,635	\$ 3,339,635
Unappropriated earnings on endowment	-	1,160,150	1,160,150
Total endowment net assets	<u>\$ -</u>	<u>\$ 4,499,785</u>	<u>\$ 4,499,785</u>

Changes in Endowment Net Assets

Changes in endowment net assets were as follows for the year ended June 30, 2023:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, June 30, 2022	\$ -	\$ 4,499,785	\$ 4,499,785
Investment return, net:			
Interest and dividends	-	103,598	103,598
Realized loss	-	(76,074)	(76,074)
Unrealized gain	-	384,535	384,535
Investment management fees	-	(11,350)	(11,350)
Total investment return, net	-	400,709	400,709
Appropriation of endowment assets for expenditure	-	(210,511)	(210,511)
Endowment net assets, June 30, 2023	<u>\$ -</u>	<u>\$ 4,689,983</u>	<u>\$ 4,689,983</u>

Ocean Conservancy, Inc.

Notes to Financial Statements June 30, 2023 and 2022

12. Endowments (continued)

Changes in Endowment Net Assets (continued)

Changes in endowment net assets were as follows for the year ended June 30, 2022:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, June 30, 2021	\$ -	\$ 5,180,783	\$ 5,180,783
Investment return, net:			
Interest and dividends	-	81,577	81,577
Realized gain	-	31,572	31,572
Unrealized loss	-	(782,140)	(782,140)
Investment management fees	-	(12,007)	(12,007)
Total investment return, net	-	(680,998)	(680,998)
Endowment net assets, June 30, 2022	<u>\$ -</u>	<u>\$ 4,499,785</u>	<u>\$ 4,499,785</u>

13. Contingencies

Government Grants Contingency

Funds received from government agencies are subject to audit under the provisions of those grant agreements. The ultimate determination of amounts received under these grant agreements is based upon the allowance of costs reported to and accepted by the oversight agencies. Until such grant agreements are closed out, there exists a contingency to refund any amount received in excess of allowable costs. Management is of the opinion that no material liability exists.

Ocean Conservancy, Inc.

Notes to Financial Statements June 30, 2023 and 2022

14. Retirement Plans

Defined Contribution Plan

OC has a defined contribution plan that covers all eligible employees of OC who are at least age 18, have completed one year of service, and have worked 1,000 hours or more in the preceding 12-month period. Contributions to the plan, as determined annually by OC's Board of Directors, are 6% of qualifying compensation of the participants. OC recorded contributions to the plan of \$824,848 and \$740,422 for the years ended June 30, 2023 and 2022, respectively.

Deferred Compensation Plan

OC adopted a non-qualified deferred compensation plan under Section 457(b) of the Internal Revenue Code (IRC) for executive employees. Deferred compensation and investments designated for such deferrals are only available and taxable upon termination of employment, retirement, death, or an unforeseeable emergency. Until paid or made available to the participant or beneficiary, all deferred amounts, and investment earnings related thereto, are solely the property and rights of OC. At June 30, 2023 and 2022, the deferred compensation plan assets and corresponding liabilities held at fair value amounted to \$355,134 and \$209,082, respectively, and are included in the accompanying statements of financial position. OC contributed \$7,400 and \$3,400 to the plan for the years ended June 30, 2023 and 2022, respectively.

15. Methods Used for Allocation of Expenses from Management and General Activities

The financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. Expenses that are allocated include all overhead expenses reported on the accompanying statements of functional expenses, which are allocated on the basis of estimates of time and effort, except grants and contributions, interest, and in-kind expenses.

16. Related Party Transactions

During the years ended June 30, 2023 and 2022, OC recorded contributions from Board members totaling \$360,025 and \$195,000, respectively.

Ocean Conservancy, Inc.

Notes to Financial Statements June 30, 2023 and 2022

17. 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:

	2023	2022
Program services	\$ 4,660,495	\$ 4,063,994
Fundraising and membership development	2,887,234	2,381,449
Management and administrative	30,312	25,885
Total joint costs	<u>\$ 7,578,041</u>	<u>\$ 6,471,328</u>

18. Income Taxes

The Internal Revenue Service has determined that OC is exempt from federal income taxes under IRC Section 501(c)(3), except for taxes on unrelated business income. OC is not a private foundation under IRC Section 509(a)(1). No tax expense is recorded in the accompanying financial statements for the years ended June 30, 2023 and 2022, 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.

**SUPPLEMENTARY SCHEDULE AND REPORTS REQUIRED
BY THE UNIFORM GUIDANCE**

**INDEPENDENT AUDITOR’S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED
ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH *GOVERNMENT AUDITING STANDARDS***

To the Board of Directors of
Ocean Conservancy, Inc.

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Ocean Conservancy, Inc. (OC), which comprise the statement of financial position as of June 30, 2023; the related statements of activities, functional expenses, and cash flows for the year then ended; and the related notes to the financial statements, and have issued our report thereon dated October 13, 2023.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered OC’s internal control over financial reporting (“internal control”) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of OC’s internal control. Accordingly, we do not express an opinion on the effectiveness of OC’s internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements, on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Report on Internal Control over Financial Reporting (continued)

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether OC's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Rogers & Company PLLC". The signature is stylized, with the "R" being particularly large and the "&" symbol being clearly visible.

Vienna, Virginia
October 13, 2023

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY
THE UNIFORM GUIDANCE**

To the Board of Directors of
Ocean Conservancy, Inc.

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited Ocean Conservancy, Inc.'s (OC) compliance with the types of compliance requirements identified as subject to audit in the *OMB Compliance Supplement* that could have a direct and material effect on each of OC's major federal programs for the year ended June 30, 2023. OC's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, OC complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2023.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of OC and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of OC's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to OC's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on OC's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about OC's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding OC's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of OC's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of OC's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control over Compliance

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



Vienna, Virginia
October 13, 2023

Ocean Conservancy, Inc.

Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2023

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Assistance Listing Number	Agency or Pass- Through Grant Number	Amount Paid to Subrecipients	Total Federal Expenditures
<u>Department of Commerce</u>				
<u>Direct Awards:</u>				
Marine Debris Program	11.999	NA18NOS9990133	\$ -	\$ 150,000
Marine Debris Program	11.999	NA20NOS9990024	22,055	122,357
Marine Debris Program	11.999	NA21NOS9990119	-	211,060
Marine Debris Program	11.999	NA22NOS9990142	226,968	312,070
Total ALN 11.999			249,023	795,487
Total Department of Commerce Awards			249,023	795,487
<u>Department of State</u>				
<u>Direct Award:</u>				
Environmental and Scientific Partnerships and Programs	19.017	SLMAQM19GR2390	-	231,240
Total ALN 19.017			-	231,240
Total Department of State Award			-	231,240
Total Expenditures of Federal Awards			\$ 249,023	\$ 1,026,727

See accompanying notes to the schedule of expenditures of federal awards.

Ocean Conservancy, Inc.

Notes to the Schedule of Expenditures of Federal Awards For the Year Ended June 30, 2023

1. Basis of Presentation

The accompanying schedule of expenditures of federal awards (SEFA) includes the federal award activity of OC under the programs of the federal government for the year ended June 30, 2023. The information in the SEFA is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the SEFA presents only a selected portion of the operations of OC, it is not intended to, and does not, present the financial position, changes in net assets, or cash flows of OC.

2. Summary of Significant Accounting Policies

Expenditures reported on the SEFA are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

3. Indirect Cost Rate

OC has elected to use the 10% *de minimis* indirect cost rate as allowed under the Uniform Guidance.

Ocean Conservancy, Inc.

Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2023

Section I – Summary of Auditor’s Results

Financial Statements

Type of auditor’s report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? _____ Yes X No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? _____ Yes X None reported

Noncompliance material to financial statements noted? _____ Yes X No

Federal Awards

Internal control over the major program:

- Material weakness(es) identified? _____ Yes X No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? _____ Yes X None reported

Type of auditor’s report issued on compliance for the major program: Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR section 200.516(a)? _____ Yes X No

Identification of the major program:

<u>Assistance Listing Number</u>	<u>Name of Federal Program or Cluster Title</u>
11.999	Marine Debris Program

Dollar threshold used to distinguish between type A and type B programs: \$750,000

Auditee qualified as low-risk auditee? _____ Yes X No

Ocean Conservancy, Inc.

Schedule of Findings and Questioned Costs (continued)
For the Year Ended June 30, 2023

Section II – Findings – Financial Statement Audit

There were no financial statement findings reported during the 2023 audit.

Section III – Findings and Questioned Costs – Major Federal Award Programs Audit

There were no findings or questioned costs over major federal awards reported during the 2023 audit.

Ocean Conservancy, Inc.

Corrective Action Plan
For the Year Ended June 30, 2023

There were no findings for the year ended June 30, 2023, and therefore, a corrective action plan was not needed.

Ocean Conservancy, Inc.

Schedule of Prior Audit Findings
For the Year Ended June 30, 2023

There were no findings or questioned costs reported for the June 30, 2022 audit.