



OCEANA, INC. AND AFFILIATE

Consolidated Financial Statements

For the Year Ended December 31, 2017

(With Summarized Financial Information for the Year Ended December 31, 2016)



**and
Report Thereon**



OCEANA, INC. AND AFFILIATE

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Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

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

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, 2017, and the related consolidated statements of activities 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.

Auditor's 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 auditor's 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.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Oceana, Inc. and Affiliate as of December 31, 2017, 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.

Continued

Other Matters

Report on Summarized Comparative Information

We have previously audited the Organization's 2016 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated June 27, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2016, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

Report on Consolidating and Supplemental Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplemental consolidating information is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, changes in net assets, and cash flows of the individual entities, and it is not a required part of the consolidated financial statements. The consolidated schedule of functional expenses is also presented for purposes of additional analysis and 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 consolidating information and the consolidated schedule of functional expenses have 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 consolidating information and the consolidated schedule of functional expenses are fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Raffa, P.C.

Raffa, P.C.

Washington, DC
May 31, 2018

OCEANA, INC. AND AFFILIATE
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
December 31, 2017
(With Summarized Financial Information as of December 31, 2016)

	2017	2016
ASSETS		
Current assets		
Cash and cash equivalents	\$ 23,521,049	\$ 19,357,679
Short-term investments	11,123	2,947,697
Grants and contributions receivable, current portion	12,783,955	4,689,520
Accounts receivable	265,768	196,880
Prepaid expenses and other	38,433	198,671
Total Current Assets	36,620,328	27,390,447
Long-term investments	91,675	95,334
Grants and contributions receivable, net of current portion	1,917,850	694,782
Property and equipment, net	1,607,235	1,834,291
Deposits and other long-term assets	1,058,557	142,688
TOTAL ASSETS	\$ 41,295,645	\$ 30,157,542
LIABILITIES AND NET ASSETS		
Liabilities		
Current liabilities		
Accounts payable and accrued expenses	\$ 3,451,098	\$ 2,730,148
Deferred rent and lease incentive, current portion	122,867	220,151
Total Current Liabilities	3,573,965	2,950,299
Deferred rent and lease incentive, net of current portion	-	122,867
TOTAL LIABILITIES	3,573,965	3,073,166
Net Assets		
Unrestricted	13,497,585	11,868,893
Temporarily restricted	24,224,095	15,215,483
TOTAL NET ASSETS	37,721,680	27,084,376
TOTAL LIABILITIES AND NET ASSETS	\$ 41,295,645	\$ 30,157,542

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, 2017

(With Summarized Financial Information for the Year Ended December 31, 2016)

	Unrestricted	Temporarily Restricted	2017 Total	2016 Total
REVENUE AND SUPPORT				
Grants and contributions	\$ 13,846,694	\$ 31,849,381	\$ 45,696,075	\$ 22,840,913
Special events	2,919,225	-	2,919,225	2,095,281
In-kind revenue	1,547,765	-	1,547,765	1,370,362
Miscellaneous	70,379	-	70,379	49,668
Investment income	92,891	-	92,891	39,716
Foreign currency transaction losses	(64,157)	-	(64,157)	(88,259)
Net assets released from restrictions:				
Satisfaction of time restrictions	1,952,078	(1,952,078)	-	-
Satisfaction of program restrictions	20,888,691	(20,888,691)	-	-
	41,253,566	9,008,612	50,262,178	26,307,681
TOTAL REVENUE AND SUPPORT				
EXPENSES				
Program Services:				
United States Oceans	11,741,871	-	11,741,871	6,981,387
International Activities	11,667,947	-	11,667,947	14,346,531
Communications	2,666,855	-	2,666,855	2,244,866
Law	2,338,589	-	2,338,589	1,793,659
Marine Science	1,434,236	-	1,434,236	1,481,827
Oceana Advocacy Resources, Inc.	12,659	-	12,659	12,850
	29,862,157	-	29,862,157	26,861,120
Total Program Services				
Supporting Services:				
General and administrative	6,689,431	-	6,689,431	5,762,934
Fundraising – cost of direct benefit to donors	146,461	-	146,461	172,834
Fundraising – other	2,926,825	-	2,926,825	3,610,040
	9,762,717	-	9,762,717	9,545,808
Total Supporting Services				
TOTAL EXPENSES	39,624,874	-	39,624,874	36,406,928
CHANGE IN NET ASSETS	1,628,692	9,008,612	10,637,304	(10,099,247)
NET ASSETS, BEGINNING OF YEAR	11,868,893	15,215,483	27,084,376	37,183,623
NET ASSETS, END OF YEAR	\$ 13,497,585	\$ 24,224,095	\$ 37,721,680	\$ 27,084,376

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, 2017

(With Summarized Financial Information for the Year Ended December 31, 2016)

Increase (Decrease) in Cash and Cash Equivalents

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 10,637,304	\$ (10,099,247)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	501,250	522,969
Amortization of deferred lease incentive	94,634	83,551
Loss on disposal of land	-	88,595
Loss on impairment of long-lived asset	-	52,778
Realized and unrealized investment gains	(75,918)	(19,947)
Change in the present value discount for contributions receivable	46,988	(23,561)
Changes in assets and liabilities:		
Grants and contributions receivable	(9,364,491)	7,325,222
Accounts receivable	(68,888)	(159,755)
Prepaid expenses and other	160,238	78,655
Deposits and other long-term assets	(915,869)	(26,936)
Accounts payable and accrued expenses	720,950	1,034,695
Deferred rent and lease incentive	(314,785)	(171,246)
	1,421,413	(1,314,227)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES		
CASH FLOWS FROM INVESTING ACTIVITIES		
Sales of investments	5,701,186	11,595,989
Acquisition of investments	(2,685,035)	(11,757,395)
Sale of land	-	11,500
Acquisition of property and equipment	(274,194)	(639,549)
	2,741,957	(789,455)
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES		
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	4,163,370	(2,103,682)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	19,357,679	21,461,361
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 23,521,049	\$ 19,357,679

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, 2017

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 has offices in Madrid, Spain; the United Kingdom; Brussels, Belgium; Santiago, Chile; Copenhagen, Denmark; Brasilia, Brazil; Manila, Philippines; Belmopan, Belize; and Lima, Peru. The offices in Spain, Belize, Brazil and the United Kingdom follow the host country's regulations and, as a result, were incorporated as independent entities. However, 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. Therefore, their activities are combined with Oceana's activities in the accompanying consolidated financial statements. Oceana also opened a new office in Mexico in 2018.

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 and Danish kroner.

OCEANA, INC. AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS For the Year Ended December 31, 2017

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 based on the 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, 2017, 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, 2017**

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

Classification of Net Assets

The net assets of the Organization are reported as follows:

- Unrestricted net assets represent the portion of expendable funds that are available for support of the Organization's operations.
- Temporarily restricted amounts are specifically restricted by donors or grantors for various purposes or time periods.

Property and Equipment and Related Depreciation and Amortization

Acquisitions of furniture and equipment and eligible internal-use software and website development at 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 10 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 temporarily restricted 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, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the accompanying consolidated statement of activities as net assets released from restrictions.

Unrestricted contributions and grants 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.

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.

Continued

OCEANA, INC. AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS For the Year Ended December 31, 2017

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

Revenue Recognition (continued)

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. The Organization also receives contributed goods and services for which an estimate of the fair value is not determinable. For the year ended December 31, 2017, 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, employee headcount and allocable space used for each program or supporting service.

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.

2. Grants and Contributions Receivable

As of December 31, 2017, contributors to the Organization had unconditionally promised to give \$14,767,178 to be used for particular programs and general support in the coming years.

OCEANA, INC. AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended December 31, 2017

2. Grants and Contributions Receivable (continued)

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

Due within one year	\$ 12,783,955
Due in one to five years	<u>1,983,223</u>
Total Grants and Contributions Receivable	14,767,178
Less: Present Value Component (2.65%)	<u>(65,373)</u>
Grants and Contributions Receivable, Net	<u>\$ 14,701,805</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, 2017, aggregated by the fair value hierarchy level with which those measurements were made:

	Total Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Certificates of deposit	\$ 91,675	\$ -	\$ 91,675	\$ -
Fixed income – guaranteed mutual fund	<u>11,123</u>	<u>4,470</u>	<u>6,653</u>	<u>-</u>
Total	<u>\$ 102,798</u>	<u>\$ 4,470</u>	<u>\$ 98,328</u>	<u>\$ -</u>

Fixed income – The Level 2 assets are valued at net asset value on a daily basis. There is a penalty for redemption before the maturity date. The Level 1 assets are mutual funds that are traded in an open market.

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 market value for these instruments, which are classified within Level 2 of the valuation hierarchy.

Investment income consisted of the following for the year ended December 31, 2017:

Interest and dividends	\$ 16,973
Realized and unrealized investment gains	<u>75,918</u>
Total Investment Income	<u>\$ 92,891</u>

OCEANA, INC. AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended December 31, 2017

4. Property and Equipment and Related Depreciation and Amortization

The Organization held the following property and equipment as of December 31, 2017:

Leasehold improvements	\$ 2,488,277
Computer equipment	1,308,989
Furniture and office equipment	1,086,357
Computer software	995,057
Website development	663,757
Vehicles	<u>449,351</u>
Total Property and Equipment	6,991,788
Less: Accumulated Depreciation and Amortization	<u>(5,384,553)</u>
Property and Equipment, Net	<u>\$ 1,607,235</u>

Depreciation and amortization expense was \$501,250 for the year ended December 31, 2017.

5. Temporarily Restricted Net Assets

As of December 31, 2017, temporarily restricted net assets were available for the following:

International Activities	\$ 15,170,416
General operating support for future periods	4,213,499
United States Oceans	<u>4,840,180</u>
Total	<u>\$ 24,224,095</u>

6. Commitments and Risks

Operating Leases

The Organization entered a noncancelable operating lease for its office space in Washington, D.C., and the lease expires on July 15, 2018. During 2017, Oceana signed a new lease agreement for a different location effective July 2018 through September 2029. The new lease contains fixed increases in rent of 3.5% per annum for years 1-5, 7.6% for year 6 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.

OCEANA, INC. AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS For the Year Ended December 31, 2017

6. Commitments and Risks (continued)

Operating Leases (continued)

The Organization also leases its international office space in Madrid, Spain; Manila, Philippines; Brasilia, Brazil; Santiago, Chile; Belmopan, Belize; Lima, Peru; Copenhagen, Denmark; and Brussels, 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 December 2020.

The future minimum rental payments required under the operating leases are as follows as of December 31, 2017:

For the Year Ending <u>December 31,</u>	
2018	\$ 1,009,162
2019	305,133
2020	383,472
2021	555,826
2022	1,391,535
Thereafter	<u>11,153,373</u>
Total	<u>\$ 14,798,501</u>

Rent expense, not including utilities, totaled \$1,535,064 for the year ended December 31, 2017.

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, 2017, the amount in excess of the FDIC insured limit was \$18,592,428. As of December 31, 2017, the Organization maintained \$2,717,178 in accounts at non-U.S. financial institutions.

Concentration of Risk

For the year ended December 31, 2017, the Organization received contributions of \$22,529,000 from three donors, which represents 45% of the total revenue and support recognized. As of December 31, 2017, these three donors owed the Organization \$10,059,000, which represents 68% 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 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.

OCEANA, INC. AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS For the Year Ended December 31, 2017

6. Commitments and Risks (continued)

Foreign Operations (continued)

As of December 31, 2017, the Organization had cash and net property and equipment in these countries totaling \$3,609,282, representing approximately 8.7% of the Organization's total consolidated assets as of December 31, 2017.

7. 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 contribution based on each participant's annual compensation. For the year ended December 31, 2017, Oceana contributed 7% to participants who have 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, 2017, employer contribution expense totaled \$936,182.

8. 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, 2017, 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 Financial Accounting Standards Board 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, 2017, 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, 2017, the statute of limitations for tax years 2014 through 2016 remained open with the U.S. federal jurisdiction or the various states and local jurisdictions in which the Organization files tax returns. It is the Organization's policy to recognize interest and/or penalties related to uncertainty in income taxes, if any, in income tax expense.

9. 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. Oceana Canada is an independent nonprofit organization incorporated under Canadian law. The Organization has a service

OCEANA, INC. AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS For the Year Ended December 31, 2017

9. Related Party (continued)

agreement with Oceana Canada to provide administrative and other services. The Organization's Chairman of the Board also sits on Oceana Canada's all-volunteer Board. During the year ended December 31, 2017, the Organization donated \$994,624 in total cash contributions and performed services valued at \$230,029 in support of Oceana Canada's mission to preserve and protect Canada's oceans.

10. Operational Stand Up

Effective June 30, 2017, Oceana transferred operational control for its Global Fishing Watch program to Global Fishing Watch, Inc., a newly formed 501(c)(3) organization. Global Fishing Watch, Inc. operates and further develops the Global Fishing Watch web platform. Oceana utilizes the web platform and the enhancements to further its mission. In accordance with its operations and funding agreement with Global Fishing Watch, Inc., Oceana, Inc. made a grant totaling \$3,041,015. In July 2017, Oceana, Inc. made the first payment under this grant of \$1,612,982. Two additional payments of \$829,456 and \$598,577 will be paid by Oceana in 2018 and are included in accounts payable and accrued expenses in the accompanying consolidated statement of financial position.

11. Sailors for the Sea Acquisition

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 2018. During 2018, Oceana will fully assume the programmatic activities of SfS and further its goals. 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, 2016, from which the summarized information was derived.

13. Reclassifications

Certain 2016 amounts have been reclassified for comparative purposes to conform to the 2017 presentation.

OCEANA, INC. AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended December 31, 2017

14. Subsequent Events

In preparing these consolidated financial statements, the Organization has evaluated events and transactions, for potential recognition or disclosure, through May 31, 2018, the date the consolidated financial statements were available to be issued. Except for items noted in Notes 1, 6 and 11, there were no subsequent events that require recognition or disclosure in these consolidated financial statements.

SUPPLEMENTAL INFORMATION

OCEANA, INC. AND AFFILIATE

CONSOLIDATED SCHEDULE OF FUNCTIONAL EXPENSES

For the Year Ended December 31, 2017

(With Summarized Financial Information for the Year Ended December 31, 2016)

	Program Services						Supporting Services				2017 Total	2016 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	\$ 4,476,270	\$ 4,351,461	\$ 958,871	\$ 407,813	\$ 833,941	\$ 607	\$ 11,028,963	\$ 3,217,061	\$ 828,263	\$ 4,045,324	\$ 15,074,287	\$ 13,825,848
Awards, grants and contributions	3,797,559	28,456	-	-	-	-	3,826,015	30,155	200,000	230,155	4,056,170	1,974,530
Consultants	490,038	1,755,439	201,763	420	136,767	264	2,584,691	477,140	205,773	682,913	3,267,604	3,617,610
Employee benefits	822,356	170,495	208,978	150,677	164,994	199	1,517,699	523,473	122,132	645,605	2,163,304	2,157,275
Travel	438,466	962,336	44,449	3,138	100,097	-	1,548,486	272,306	143,730	416,036	1,964,522	1,908,382
Occupancy	502,418	645,094	124,789	45,747	93,841	116	1,412,005	381,583	94,436	476,019	1,888,024	1,848,168
Payroll taxes	349,496	698,370	65,597	27,018	55,107	65	1,195,653	292,192	92,161	384,353	1,580,006	1,419,608
In-kind expenses	-	-	-	1,547,765	-	-	1,547,765	-	-	-	1,547,765	1,370,362
Marketing	48,018	234,351	679,277	-	55	-	961,701	7,595	553,721	561,316	1,523,017	860,224
Boat – rental, repairs and maintenance	89,734	918,115	5,043	-	728	-	1,013,620	48,079	320,388	368,467	1,382,087	1,393,481
Conferences and meetings	275,661	361,588	2,125	1,662	12,048	-	653,084	93,035	298,157	391,192	1,044,276	1,494,872
Advertising	22,582	481,282	209,096	-	360	-	713,320	48,536	72,588	121,124	834,444	636,402
Professional fees	3,378	167,998	-	109,176	-	4,400	284,952	409,186	7,716	416,902	701,854	560,041
Depreciation and amortization	37,192	172,001	5,823	-	3,882	-	218,898	280,721	1,631	282,352	501,250	522,969
Printing and publications	48,015	225,973	57,336	173	79	-	331,576	14,274	50,231	64,505	396,081	554,962
Telecommunications	111,049	158,087	16,420	4,145	10,161	8	299,870	73,200	16,029	89,229	389,099	396,539
Dues and subscriptions	78,159	30,970	7,065	20,348	5,722	-	142,264	199,863	1,599	201,462	343,726	401,415
Supplies	54,867	138,882	3,874	1,721	3,081	2	202,427	79,731	9,360	89,091	291,518	311,088
Bank fees and taxes	11,153	47,961	25,668	10,931	228	6,702	102,643	111,931	34,817	146,748	249,391	202,386
Insurance	28,922	42,441	11,828	4,807	9,906	11	97,915	30,181	7,774	37,955	135,870	320,331
Professional training and development	7,358	7,284	8,735	-	-	-	23,377	56,335	669	57,004	80,381	93,333
Postage and shipping	24,707	15,922	9,244	2,069	1,134	285	53,361	10,145	10,761	20,906	74,267	106,808
Equipment rental and maintenance	24,473	18,409	20,874	979	2,105	-	66,840	2,577	1,350	3,927	70,767	229,412
Miscellaneous	-	35,032	-	-	-	-	35,032	30,132	-	30,132	65,164	200,882
TOTAL	\$ 11,741,871	\$ 11,667,947	\$ 2,666,855	\$ 2,338,589	\$ 1,434,236	\$ 12,659	\$ 29,862,157	\$ 6,689,431	\$ 3,073,286	\$ 9,762,717	\$ 39,624,874	\$ 36,406,928

OCEANA, INC. AND AFFILIATE

CONSOLIDATING STATEMENT OF FINANCIAL POSITION
December 31, 2017

	Oceana	OAR	Eliminations	Total
ASSETS				
Current assets				
Cash and cash equivalents	\$ 23,489,919	\$ 31,130	\$ -	\$ 23,521,049
Short-term investments	11,123	-	-	11,123
Grants and contributions receivable, current portion	12,683,955	100,000	-	12,783,955
Due from affiliate	-	1,008	(1,008)	-
Accounts receivable	265,768	-	-	265,768
Prepaid expenses and other	38,433	-	-	38,433
	36,489,198	132,138	(1,008)	36,620,328
Total Current Assets	36,489,198	132,138	(1,008)	36,620,328
Long-term investments	91,675	-	-	91,675
Grants and contributions receivable, net of current portion	1,917,850	-	-	1,917,850
Property and equipment, net	1,607,235	-	-	1,607,235
Deposits and other long-term assets	1,058,557	-	-	1,058,557
	41,164,515	132,138	(1,008)	41,295,645
TOTAL ASSETS	\$ 41,164,515	\$ 132,138	\$ (1,008)	\$ 41,295,645
LIABILITIES AND NET ASSETS				
Liabilities				
Accounts payable and accrued expenses	\$ 3,446,726	\$ 4,372	\$ -	\$ 3,451,098
Deferred rent and lease incentive	122,867	-	-	122,867
Due to affiliate	1,008	-	(1,008)	-
	3,570,601	4,372	(1,008)	3,573,965
TOTAL LIABILITIES	3,570,601	4,372	(1,008)	3,573,965
Net Assets				
Unrestricted	13,369,819	127,766	-	13,497,585
Temporarily restricted	24,224,095	-	-	24,224,095
	37,593,914	127,766	-	37,721,680
TOTAL NET ASSETS	37,593,914	127,766	-	37,721,680
TOTAL LIABILITIES AND NET ASSETS	\$ 41,164,515	\$ 132,138	\$ (1,008)	\$ 41,295,645

OCEANA, INC. AND AFFILIATE
CONSOLIDATING STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2017

	Oceana	OAR	Eliminations	Total
REVENUE AND SUPPORT				
Grants and contributions	\$ 45,496,075	\$ 200,000	\$ -	\$ 45,696,075
Special events	2,919,225	-	-	2,919,225
In-kind revenue	1,547,765	-	-	1,547,765
Miscellaneous	70,379	-	-	70,379
Investment income	92,863	28	-	92,891
Foreign currency transaction losses	(64,211)	54	-	(64,157)
TOTAL REVENUE AND SUPPORT	50,062,096	200,082	-	50,262,178
EXPENSES				
Program Services:				
United States Oceans	11,741,871	-	-	11,741,871
International Activities	11,667,947	-	-	11,667,947
Communications	2,666,855	-	-	2,666,855
Law	2,338,589	-	-	2,338,589
Marine Science	1,434,236	-	-	1,434,236
Oceana Advocacy Resources, Inc.	-	12,659	-	12,659
Total Program Services	29,849,498	12,659	-	29,862,157
Supporting Services:				
General and administrative	6,689,431	-	-	6,689,431
Fundraising – cost of direct benefit to donors	146,461	-	-	146,461
Fundraising – other	2,926,825	-	-	2,926,825
Total Supporting Services	9,762,717	-	-	9,762,717
TOTAL EXPENSES	39,612,215	12,659	-	39,624,874
CHANGE IN NET ASSETS	10,449,881	187,423	-	10,637,304
NET ASSETS, BEGINNING OF YEAR	27,144,033	(59,657)	-	27,084,376
NET ASSETS, END OF YEAR	\$ 37,593,914	\$ 127,766	\$ -	\$ 37,721,680