



OCEANA, INC. AND AFFILIATE

Consolidated Financial Statements

For the Year Ended December 31, 2019

(With Summarized Financial Information for the Year Ended December 31, 2018)



**and
Report Thereon**



OCEANA, INC. AND AFFILIATE

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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Oceana, Inc. and Affiliate (collectively referred to as the Organization), which comprise the consolidated statement of financial position as of December 31, 2019, and the related consolidated statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Continued

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Opinion

In our opinion, the 2019 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Oceana, Inc. and Affiliate as of December 31, 2019, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Report on Summarized Comparative Information

We have previously audited the Organization's 2018 consolidated financial statements, and in our report dated May 23, 2019, we expressed an unmodified opinion on those audited consolidated financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2018, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

Report on Supplementary Information

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

Marcum LLP

Washington, DC
May 22, 2020

OCEANA, INC. AND AFFILIATE

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

December 31, 2019

(With Summarized Financial Information as of December 31, 2018)

	2019	2018
ASSETS		
Current assets		
Cash and cash equivalents	\$ 22,149,149	\$ 22,295,049
Short-term investments	3,662,820	2,706,326
Grants and contributions receivable, current portion	13,442,052	9,897,147
Accounts receivable	67,041	69,229
Prepaid expenses and other	486,170	51,100
Total Current Assets	39,807,232	35,018,851
Long-term investments	131,503	136,696
Grants and contributions receivable, net of current portion	15,115,007	16,107,435
Property and equipment, net	3,532,443	4,075,703
Deposits and other long-term assets	1,993,235	1,534,319
TOTAL ASSETS	\$ 60,579,420	\$ 56,873,004
LIABILITIES AND NET ASSETS		
Liabilities		
Current liabilities		
Accounts payable and accrued expenses	\$ 2,260,043	\$ 2,245,896
Deferred rent and lease incentive, current portion	217,285	217,285
Total Current Liabilities	2,477,328	2,463,181
Deferred rent and lease incentive, net of current portion	3,718,740	2,683,521
TOTAL LIABILITIES	6,196,068	5,146,702
Net Assets		
Without donor restrictions	15,425,653	11,564,997
With donor restrictions	38,957,699	40,161,305
TOTAL NET ASSETS	54,383,352	51,726,302
TOTAL LIABILITIES AND NET ASSETS	\$ 60,579,420	\$ 56,873,004

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, 2019

(With Summarized Financial Information for the Year Ended December 31, 2018)

	Without Donor Restrictions	With Donor Restrictions	2019 Total	2018 Total
REVENUE AND SUPPORT				
Grants and contributions	\$ 17,316,539	\$ 17,662,300	\$ 34,978,839	\$ 48,489,875
Special events	3,804,142	-	3,804,142	3,803,114
In-kind revenue	1,598,334	-	1,598,334	2,753,098
Miscellaneous	293,778	-	293,778	16,419
Investment income	27,051	-	27,051	17,066
Foreign currency transaction gains (losses)	(13,141)	-	(13,141)	98,000
Net assets released from restrictions:				
Satisfaction of time restrictions	250,000	(250,000)	-	-
Satisfaction of program restrictions	18,615,906	(18,615,906)	-	-
 TOTAL REVENUE AND SUPPORT	 41,892,609	 (1,203,606)	 40,689,003	 55,177,572
 EXPENSES				
Program Services:				
United States Oceans	9,785,524	-	9,785,524	8,922,369
International Activities	13,250,351	-	13,250,351	14,315,837
Communications	1,774,510	-	1,774,510	1,989,984
Law	2,488,526	-	2,488,526	3,571,497
Marine Science	1,571,045	-	1,571,045	1,820,578
Oceana Advocacy Resources, Inc.	75,912	-	75,912	13,026
 Total Program Services	 28,945,868	 -	 28,945,868	 30,633,291
Supporting Services:				
General and administrative	5,712,301	-	5,712,301	6,978,281
Fundraising – cost of direct benefit to donors	352,507	-	352,507	678,388
Fundraising – other	3,021,277	-	3,021,277	2,882,990
 Total Supporting Services	 9,086,085	 -	 9,086,085	 10,539,659
 TOTAL EXPENSES	 38,031,953	 -	 38,031,953	 41,172,950
 CHANGE IN NET ASSETS	 3,860,656	 (1,203,606)	 2,657,050	 14,004,622
 NET ASSETS, BEGINNING OF YEAR	 11,564,997	 40,161,305	 51,726,302	 37,721,680
 NET ASSETS, END OF YEAR	 \$ 15,425,653	 \$ 38,957,699	 \$ 54,383,352	 \$ 51,726,302

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

OCEANA, INC. AND AFFILIATE

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended December 31, 2019

(With Summarized Financial Information for the Year Ended December 31, 2018)

	Program Services						Supporting Services				2019 Total	2018 Total
	United States Oceans	International Activities	Communications	Law	Marine Science	Oceana Advocacy Resources, Inc.	Total Program Services	General and Administrative	Fundraising	Total Supporting Services		
Salaries and wages	\$ 5,707,156	\$ 6,220,412	\$ 923,919	\$ 483,797	\$ 862,470	\$ 25,389	\$ 14,223,143	\$ 2,839,026	\$ 894,393	\$ 3,733,419	\$ 17,956,562	\$ 17,348,905
Employee benefits	1,046,175	325,338	192,017	98,149	174,964	5,274	1,841,917	607,081	187,283	794,364	2,636,281	2,558,854
Occupancy	683,990	750,056	118,431	70,262	122,461	2,370	1,747,570	416,395	99,322	515,717	2,263,287	1,783,848
Consultants	253,615	1,170,788	152,204	5,940	194,661	5,421	1,782,629	142,933	197,013	339,946	2,122,575	3,320,986
Travel	469,690	897,339	92,892	78	97,851	2,866	1,560,716	176,174	73,828	250,002	1,810,718	2,094,997
Payroll taxes	394,661	885,359	67,132	34,281	62,093	1,857	1,445,383	209,288	65,371	274,659	1,720,042	1,797,464
In-kind legal expenses	-	-	-	1,598,334	-	-	1,598,334	-	-	-	1,598,334	2,753,098
Conferences and meetings	96,506	326,293	2,985	2,385	12,286	714	441,169	142,100	622,447	764,547	1,205,716	1,468,690
Awards, grants and contributions	306,600	593,181	-	-	-	-	899,781	7,000	155,000	162,000	1,061,781	1,209,271
Marketing	22,122	202,763	108,558	-	-	-	333,443	13,883	475,435	489,318	822,761	1,404,461
Depreciation and amortization	-	342,843	-	-	-	-	342,843	460,080	-	460,080	802,923	556,742
Professional fees	32,709	418,592	2,608	147,454	-	-	601,363	142,657	-	142,657	744,020	884,558
Dues and subscriptions	181,739	46,449	19,804	23,643	14,395	382	286,412	272,421	23,579	296,000	582,412	352,382
Printing and publications	77,622	258,307	41,356	-	-	120	377,405	8,266	114,822	123,088	500,493	485,315
Insurance	238,761	56,636	15,036	6,036	12,943	985	330,397	55,598	26,446	82,044	412,441	358,065
Boat – rental, repairs and maintenance	10,680	167,343	123	1,539	-	-	179,685	8,887	214,657	223,544	403,229	617,650
Telecommunications	96,695	142,456	6,372	2,837	5,155	82	253,597	33,692	5,115	38,807	292,404	371,550
Bank fees and taxes	2,793	62,203	625	6,211	930	5,288	78,050	40,598	154,335	194,933	272,983	238,057
Supplies	69,256	120,444	17,021	1,815	3,604	176	212,316	37,881	9,788	47,669	259,985	301,643
Advertising	29,029	159,481	9,647	2,231	-	24,638	225,026	3,185	10,068	13,253	238,279	492,743
Professional training and development	25,411	55,955	-	396	3,794	-	85,556	53,634	2,360	55,994	141,550	95,351
Postage and shipping	17,795	18,131	1,747	2,016	653	309	40,651	19,588	20,753	40,341	80,992	93,343
Equipment rental and maintenance	18,792	3,712	2,033	1,110	1,979	41	27,667	13,761	20,141	33,902	61,569	67,571
Miscellaneous	3,727	22,589	-	12	806	-	27,134	8,173	1,628	9,801	36,935	11,970
Loss on disposal of property and equipment	-	3,681	-	-	-	-	3,681	-	-	-	3,681	505,436
TOTAL EXPENSES	\$ 9,785,524	\$ 13,250,351	\$ 1,774,510	\$ 2,488,526	\$ 1,571,045	\$ 75,912	\$ 28,945,868	\$ 5,712,301	\$ 3,373,784	\$ 9,086,085	\$ 38,031,953	\$ 41,172,950

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, 2019

(With Summarized Financial Information for the Year Ended December 31, 2018)

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 2,657,050	\$ 14,004,622
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	802,923	556,742
Amortization of deferred lease incentive	217,285	151,141
Loss on disposal of property and equipment	3,681	505,436
Realized and unrealized investment (gains) losses	(32,062)	12,016
Change in the present value discount for contributions receivable	(331,673)	(950,261)
Changes in assets and liabilities:		
Grants and contributions receivable	(2,220,804)	(10,352,516)
Accounts receivable	2,188	196,539
Prepaid expenses and other	(435,070)	(12,667)
Deposits and other long-term assets	(458,916)	(475,762)
Accounts payable and accrued expenses	14,147	(1,205,202)
Deferred rent and lease incentive	817,934	2,626,798
NET CASH PROVIDED BY OPERATING ACTIVITIES	1,036,683	5,056,886
CASH FLOWS FROM INVESTING ACTIVITIES		
Sales of investments	345,837	52,240
Purchases of investments	(1,265,076)	(2,804,480)
Purchase of property and equipment	(263,344)	(3,530,646)
NET CASH USED IN INVESTING ACTIVITIES	(1,182,583)	(6,282,886)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(145,900)	(1,226,000)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	22,295,049	23,521,049
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 22,149,149	\$ 22,295,049

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

OCEANA, INC. AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS For the Year Ended December 31, 2019

1. Organization and Summary of Significant Accounting Policies

Organization

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

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

Principles of Consolidation

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

Oceana operates through branch offices that are formally part of the U.S. corporation in Chile, the Philippines, and Peru. In the European Union, Oceana operates through a locally incorporated independent entity established in Spain, which has branch offices in Belgium and Denmark (closed during 2019), as well as through a separate, locally incorporated independent entity established in the United Kingdom. Oceana also operates through locally incorporated independent entities in Belize, Brazil, Mexico, and Switzerland. These entities are dependent on Oceana for funding; participate in Oceana's activities and decision-making; and carry out the general mission and international activities of Oceana. Accordingly, the activities of the branch entities and the independent entities are combined with Oceana's activities in the accompanying consolidated financial statements.

Basis of Accounting

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

Cash Equivalents

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

OCEANA, INC. AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS For the Year Ended December 31, 2019

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

Grants and Contributions Receivable

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

Investments

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

Fair Value Measurement

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

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

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

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

Level 3 – Financial assets and liabilities whose values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. These inputs reflect management's own assumptions about the assumptions a market participant would use in pricing the asset or liability.

As of December 31, 2019, 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, 2019

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

Classification of Net Assets

The net assets of the Organization are reported as follows:

- Net assets without donor restrictions represent the portion of expendable funds that are available for any purpose in performing the primary objectives of the Organization at the discretion of the Organization's management and the Board of Directors.
- Net assets with donor restrictions represent funds that are specifically restricted by donors for use in various programs and/or for specific periods of time. These donor restrictions can be temporary in nature in that they will be met by actions of the Organization or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated that the funds be maintained in perpetuity. As of December 31, 2019, the Organization had no net assets with donor restrictions that are required to be maintained in perpetuity.

Property and Equipment and Related Depreciation and Amortization

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

Revenue Recognition

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

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

OCEANA, INC. AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS For the Year Ended December 31, 2019

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

Revenue Recognition (continued)

Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using interest rates appropriate for the expected term of the promise to give. Amortization of the discount is included in grants and contributions revenue in the accompanying consolidated statement of activities. Conditional promises to give, 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.

Special events revenue consists of mainly contributions and ticket sales for gala events. Contributions are recorded as with or without donor restrictions based on whether they are restricted for a particular purpose or to a specific time as noted above. Ticket sales are treated as exchange transactions and are recognized at the point in time that the performance obligations are met, in this case at the time the gala event takes place.

Transactions in Foreign Currencies

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

Donated Services

The Organization's programs are furthered through the contribution of services by various organizations. Donated services are recorded at fair value as of the date of the donation and are included in in-kind revenue and expenses in the accompanying consolidated financial statements. For the year ended December 31, 2019, donated services consisted of pro-bono legal services relating to the law program.

Functional Allocation of Expenses

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

Estimates

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

OCEANA, INC. AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS For the Year Ended December 31, 2019

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

New Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which requires an entity to recognize revenue to depict the transfer of promised goods and services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. The Organization adopted ASU 2014-09 and related amendments on January 1, 2019, using the modified retrospective method and elected to apply the standard only to contracts that were not completed as of that date. The adoption of the standard did not impact the results of operations or change in net assets.

In June 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*. This ASU provides additional guidance to be used to determine whether a contribution is conditional and when a transaction should be accounted for as a contribution versus an exchange. The Organization adopted ASU 2018-08 as of January 1, 2019, and has applied the amendments of this standard on a modified prospective basis and elected to apply the standard only to agreements that were entered into after the effective date. This standard did not result in a material change to the consolidated financial statements or the timing of revenue recognition for the Organization's contributions.

2. Grants and Contributions Receivable

As of December 31, 2019, contributors to the Organization had unconditionally promised to give \$29,241,019 to be used for particular programs and general support in the coming years.

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

Due within one year	\$ 13,442,052
Due in one to five years	<u>15,798,967</u>
Total Grants and Contributions Receivable	29,241,019
Less: Present Value Component (2.31%)	<u>(683,960)</u>
Grants and Contributions Receivable, Net	<u>\$ 28,557,059</u>

Continued

OCEANA, INC. AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended December 31, 2019

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, 2019, 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	\$ 3,752,414	\$ -	\$ 3,752,414	\$ -
Fixed income – guaranteed mutual fund	41,909	41,909	-	-
Total	<u>\$ 3,794,323</u>	<u>\$ 41,909</u>	<u>\$ 3,752,414</u>	<u>\$ -</u>

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

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

4. Property and Equipment and Related Depreciation and Amortization

The Organization held the following property and equipment as of December 31, 2019:

Leasehold improvements	\$ 2,835,854
Computer equipment	677,522
Furniture and office equipment	1,809,177
Computer software	1,031,272
Website development	667,360
Vehicles	305,470
Total Property and Equipment	7,326,655
Less: Accumulated Depreciation and Amortization	(3,794,212)
Property and Equipment, Net	<u>\$ 3,532,443</u>

Depreciation and amortization expense was \$802,923 for the year ended December 31, 2019.

OCEANA, INC. AND AFFILIATE

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended December 31, 2019**

5. Net Assets With Donor Restrictions

As of December 31, 2019, net assets with donor restrictions were restricted as follows as to purpose or period:

Subject to expenditure for specified purpose:	
International activities	\$ 26,501,756
United States Oceans	<u>2,903,344</u>
Total Subject to Expenditure for Specified Purpose	<u>29,405,100</u>
Subject to passage of time:	
General operating support for future periods	<u>9,552,599</u>
Total Subject to Passage of Time	<u>9,552,599</u>
Total Net Assets With Donor Restrictions	<u>\$ 38,957,699</u>

6. Commitments and Risks

Operating Leases

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

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

The future minimum rental payments required under the operating leases were as follows as of December 31, 2019:

For the Year Ending	
<u>December 31,</u>	
2020	\$ 1,807,038
2021	1,511,793
2022	1,558,969
2023	1,580,222
2024	1,546,869
Thereafter	<u>8,339,341</u>
Total	<u>\$ 16,344,232</u>

Continued

OCEANA, INC. AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS For the Year Ended December 31, 2019

6. Commitments and Risks (continued)

Operating Leases (continued)

Rent expense, not including utilities, totaled \$2,002,184 for the year ended December 31, 2019.

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, 2019, the amount in excess of the FDIC insured limit was \$18,678,499. As of December 31, 2019, the Organization maintained \$2,697,889 in accounts at non-U.S. financial institutions.

Concentration of Risk

For the year ended December 31, 2019, the Organization received unconditional contributions of \$18,800,000 from 4 donors, which represents 46% of the total revenue and support recognized. As of December 31, 2019, 4 donors owed the Organization \$26,665,000, which represents 93% of the grants and contributions receivable outstanding at year-end.

Foreign Operations

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

As of December 31, 2019, the Organization had cash and net property and equipment in these countries totaling \$3,551,063, representing approximately 5.9% of the Organization's total consolidated assets as of December 31, 2019.

7. Availability and Liquidity

The Organization regularly monitors liquidity required to meet its annual operating needs and other contractual commitments, while also striving to preserve the principal and return on the investment of its funds. As of December 31, 2019, the Organization's financial assets available within one year of the consolidated statement of financial position date for general expenditures were as follows:

Cash and cash equivalents	\$ 22,149,149
Grants and contributions receivable, net	13,442,052
Accounts receivable	67,041
Investments	<u>3,662,820</u>
Total Financial Assets Available Within One Year	39,321,062

Continued

OCEANA, INC. AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS For the Year Ended December 31, 2019

7. Availability and Liquidity (continued)

Less:

Amounts unavailable for general expenditures within one year due
to donors' restriction with purpose restriction \$ (29,405,100)

Financial Assets Available to Meet
General Expenditures Within One Year \$ 9,915,962

The Organization has various sources of liquidity at its disposal, including cash and cash equivalents and investments, which are available for general expenditures, liabilities and other obligations as they come due. Management is focused on sustaining the financial liquidity of the Organization throughout the year. This is accomplished through monitoring and reviewing the Organization's cash flow needs on a regular basis. As a result, management is aware of the Organization's cash flow needs and is, therefore, able to ensure that there is cash available to meet current liquidity needs. As part of its liquidity plan, excess cash is invested in FDIC insured certificates of deposit. The certificates of deposit have varying maturity dates throughout the year and are, therefore, available to meet any cash flow needs.

8. Retirement Plan

The Organization sponsors an elective deferral contribution retirement plan for all of its United States of America employees. Under the terms of the plan, the Organization may make elective deferral contributions based on each participant's annual compensation. For the year ended December 31, 2019, Oceana contributed 7% to participants who had completed at least six months of service. Additionally, the Organization will match dollar for dollar, up to 5% of compensation, its employees' elective deferral contributions. For the year ended December 31, 2019, employer contribution expense totaled \$1,261,948.

9. Income Taxes

Oceana and OAR are exempt from the payment of income taxes under Sections 501(c)(3) and 501(c)(4), respectively, of the Internal Revenue Code. As such, both organizations are taxed only on their net unrelated business income. No provision for income taxes is required for the year ended December 31, 2019, 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. Any amounts owed as of December 31, 2019, are not significant to the consolidated financial statements.

The Organization follows the authoritative guidance relating to accounting for uncertainty in income taxes included in FASB Accounting Standards Codification Topic 740, *Income Taxes*. These provisions provide consistent guidance for the accounting for uncertainty in income taxes recognized in an entity's financial statements and prescribe a threshold of "more likely than not" for recognition and derecognition of tax positions taken or expected to be taken in a tax return. The Organization performed an evaluation of uncertainty in income taxes for the year ended December 31, 2019, 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.

Continued

OCEANA, INC. AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS For the Year Ended December 31, 2019

9. Income Taxes (continued)

As of December 31, 2019, the statute of limitations for certain tax years remained open with the U.S. federal jurisdiction or the various states and local jurisdictions in which the Organization files tax returns. However, no examinations are currently in progress. It is the Organization's policy to recognize interest and/or penalties related to uncertainty in income taxes, if any, in interest or income tax expense.

10. Related Party

The Organization supports Oceana Canada, in furtherance of a shared purpose, joining forces to address the needs of the same programs in Canada as it supports throughout the world. Oceana Canada is an independent nonprofit organization incorporated under Canadian law. The Organization has a service agreement with Oceana Canada to provide administrative and other services. The Organization's Board Chair also sits on Oceana Canada's all-volunteer Board. During the year ended December 31, 2019, the Organization donated \$375,768 in total cash contributions and performed services valued at \$185,691 in support of Oceana Canada's mission to preserve and protect Canada's oceans.

11. Sailors for the Sea

In December 2017, the Organization's Board voted to collaborate with Sailors for the Sea (SfS), a 501(c)(3) organization, with the intention of merging programmatic activities. During the year ended December 31, 2019, the Organization fully assumed the programmatic activities of SfS and SfS was dissolved as an entity effective July 17, 2019. SfS transferred cash of \$117,318 to the Organization as a contribution prior to dissolution.

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, 2018, from which the summarized information was derived.

13. Reclassifications

Certain 2018 amounts have been reclassified for comparative purposes to conform to the 2019 presentation.

OCEANA, INC. AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS For the Year Ended December 31, 2019

14. Subsequent Events

In preparing these consolidated financial statements, the Organization has evaluated events and transactions, for potential recognition or disclosure, through May 22, 2020, the date the consolidated financial statements were available to be issued. With the exception of the notes below, there were no subsequent events requiring disclosure.

The novel coronavirus (COVID-19) outbreak in the United States has caused business disruption through mandated and voluntary closings of businesses across the country for non-essential services. While the disruption is currently expected to be temporary, there is considerable uncertainty about the duration of closings. The Organization has been able to continue most of its operations in a remote environment; however, at this point, the extent to which COVID-19 may impact the Organization's financial condition or results of operations is uncertain.

On May 1, 2020, the Organization's Small Business Administration loan application under the Paycheck Protection Program (PPP) for the amount of \$2,731,729 has been approved by a financial institution. The loan will mature in April 2022 with a fixed interest rate at 1% per annum. The payments of principal and interest are deferred during the first six months of the loan, with the first monthly installment in November 2020, through the maturity. The loan amount may be eligible for forgiveness pursuant to the PPP, which minimally requires at least 75% of the loan proceeds cover payroll costs and the remainder be used for rent and utility costs over a period of eight weeks after the loan was made; and the number of employees and compensation levels are maintained. The PPP note includes events of default. Upon the occurrence of an event of default, the lender will have the right to exercise remedies against the Organization, including the right to require immediate repayments of all amounts due under the PPP note.

SUPPLEMENTARY INFORMATION

OCEANA, INC. AND AFFILIATE

CONSOLIDATING SCHEDULE OF FINANCIAL POSITION
December 31, 2019

	<u>Oceana</u>	<u>OAR</u>	<u>Eliminations</u>	<u>Total</u>
ASSETS				
Current assets				
Cash and cash equivalents	\$ 22,003,002	\$ 146,147	\$ -	\$ 22,149,149
Short-term investments	3,662,820	-	-	3,662,820
Grants and contributions receivable, current portion	13,392,052	50,000	-	13,442,052
Due from affiliate	34,634	-	(34,634)	-
Accounts receivable	67,041	-	-	67,041
Prepaid expenses and other	486,170	-	-	486,170
	<u>39,645,719</u>	<u>196,147</u>	<u>(34,634)</u>	<u>39,807,232</u>
Long-term investments	131,503	-	-	131,503
Grants and contributions receivable, net of current portion	14,986,692	128,315	-	15,115,007
Property and equipment, net	3,532,443	-	-	3,532,443
Deposits and other long-term assets	1,993,235	-	-	1,993,235
	<u>60,289,592</u>	<u>324,462</u>	<u>(34,634)</u>	<u>60,579,420</u>
LIABILITIES AND NET ASSETS				
Liabilities				
Accounts payable and accrued expenses	\$ 2,260,043	\$ -	\$ -	\$ 2,260,043
Deferred rent and lease incentive, current portion	217,285	-	-	217,285
Due to affiliate	-	34,634	(34,634)	-
	<u>2,477,328</u>	<u>34,634</u>	<u>(34,634)</u>	<u>2,477,328</u>
Deferred rent and lease incentive, net of current portion	3,718,740	-	-	3,718,740
	<u>6,196,068</u>	<u>34,634</u>	<u>(34,634)</u>	<u>6,196,068</u>
Net Assets				
Without donor restrictions	15,135,825	289,828	-	15,425,653
With donor restrictions	38,957,699	-	-	38,957,699
	<u>54,093,524</u>	<u>289,828</u>	<u>-</u>	<u>54,383,352</u>
	<u>\$ 60,289,592</u>	<u>\$ 324,462</u>	<u>\$ (34,634)</u>	<u>\$ 60,579,420</u>

See independent auditors' report on supplementary information.

OCEANA, INC. AND AFFILIATE

CONSOLIDATING SCHEDULE OF ACTIVITIES
For the Year Ended December 31, 2019

	<u>Oceana</u>	<u>OAR</u>	<u>Eliminations</u>	<u>Total</u>
REVENUE AND SUPPORT				
Grants and contributions	\$ 34,978,839	\$ -	\$ -	\$ 34,978,839
Special events	3,803,142	1,000	-	3,804,142
In-kind revenue	1,598,334	-	-	1,598,334
Miscellaneous	293,778	-	-	293,778
Investment income	27,051	-	-	27,051
Foreign currency transaction gains (losses)	(13,141)	-	-	(13,141)
TOTAL REVENUE AND SUPPORT	<u>40,688,003</u>	<u>1,000</u>	<u>-</u>	<u>40,689,003</u>
EXPENSES				
Program Services:				
United States Oceans	9,785,524	-	-	9,785,524
International Activities	13,250,351	-	-	13,250,351
Communications	1,774,510	-	-	1,774,510
Law	2,488,526	-	-	2,488,526
Marine Science	1,571,045	-	-	1,571,045
Oceana Advocacy Resources, Inc.	-	75,912	-	75,912
Total Program Services	<u>28,869,956</u>	<u>75,912</u>	<u>-</u>	<u>28,945,868</u>
Supporting Services:				
General and administrative	5,712,301	-	-	5,712,301
Fundraising – cost of direct benefit to donors	352,507	-	-	352,507
Fundraising – other	3,021,277	-	-	3,021,277
Total Supporting Services	<u>9,086,085</u>	<u>-</u>	<u>-</u>	<u>9,086,085</u>
TOTAL EXPENSES	<u>37,956,041</u>	<u>75,912</u>	<u>-</u>	<u>38,031,953</u>
CHANGE IN NET ASSETS	2,731,962	(74,912)	-	2,657,050
NET ASSETS, BEGINNING OF YEAR	<u>51,361,562</u>	<u>364,740</u>	<u>-</u>	<u>51,726,302</u>
NET ASSETS, END OF YEAR	<u>\$ 54,093,524</u>	<u>\$ 289,828</u>	<u>\$ -</u>	<u>\$ 54,383,352</u>

See independent auditors' report on supplementary information.