

MARINE CONSERVATION BIOLOGY INSTITUTE

Financial Statements

For the Years Ended
December 31, 2010 and 2009

Table of Contents

	<i>Page</i>
Independent Auditors' Report	1
Financial Statements:	
Statements of Financial Position	2
Statements of Activity	3 - 4
Statements of Functional Expenses	5 - 6
Statements of Cash Flows	7
Notes to Financial Statements	8 - 14

Independent Auditors' Report***The Board of Directors
Marine Conservation Biology Institute
Bellevue, Washington***Certified Public
Accountants
and Consultants

We have audited the accompanying statement of financial position of Marine Conservation Biology Institute (MCBI) (a nonprofit organization) as of December 31, 2010, and the related statements of activity, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of MCBI's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of MCBI as of December 31, 2009 were audited by other auditors whose report dated September 22, 2010, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of MCBI as of December 31, 2010 and the changes in its net assets and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Certified Public Accountants
July 11, 2011

MARINE CONSERVATION BIOLOGY INSTITUTE

Statements of Financial Position
December 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Assets		
Current Assets:		
Cash and cash equivalents	\$ 985,753	\$ 1,714,227
Cash held for others	70,213	292,590
Investments	66,500	50,536
Promises to give	1,122,375	83,889
Prepays and deposits	29,796	27,248
Total Current Assets	2,274,637	2,168,490
Promises to give, net of current portion	1,154,389	139,876
Property and equipment, net	18,604	35,432
Total Assets	\$ 3,447,630	\$ 2,343,798
Liabilities and Net Assets		
Current Liabilities:		
Accounts payable	\$ 20,216	\$ 41,714
Grants payable	9,700	51,965
Accrued vacation	77,749	76,178
Funds held for others	70,213	292,590
Total Liabilities	177,878	462,447
Net Assets:		
Unrestricted	900,349	832,096
Temporarily restricted	2,369,403	1,049,255
Total Net Assets	3,269,752	1,881,351
Total Liabilities and Net Assets	\$ 3,447,630	\$ 2,343,798

See accompanying notes.

MARINE CONSERVATION BIOLOGY INSTITUTE

Statement of Activity
For the Year Ended December 31, 2010

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Support and Revenue:			
Grants and contracts	\$ 507,241	\$ 2,849,992	\$ 3,357,233
Contributions	153,819		153,819
In-kind contributions	91,823		91,823
Administrative fees	19,804		19,804
Investment income	12,076		12,076
Other revenue	1,610		1,610
Net assets released from restriction	1,529,844	(1,529,844)	
Total Support and Revenue	2,316,217	1,320,148	3,636,365
Expenses:			
Program services	1,639,967		1,639,967
Management and administrative	374,814		374,814
Fundraising	233,183		233,183
Total Expenses	2,247,964		2,247,964
Change in Net Assets	68,253	1,320,148	1,388,401
Net assets, beginning of year	832,096	1,049,255	1,881,351
Net Assets, End of Year	\$ 900,349	\$ 2,369,403	\$ 3,269,752

See accompanying notes.

MARINE CONSERVATION BIOLOGY INSTITUTE

Statement of Activity
For the Year Ended December 31, 2009

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Support and Revenue:			
Grants and contracts	\$ 211,201	\$ 1,039,700	\$ 1,250,901
Contributions	58,747		58,747
In-kind contributions	37,589		37,589
Administrative fees	18,250		18,250
Investment income	16,895		16,895
Other revenue	1,319		1,319
Net assets released from restriction	1,674,899	(1,674,899)	
Total Support and Revenue	2,018,900	(635,199)	1,383,701
Expenses:			
Program services	1,826,813		1,826,813
Management and general	367,774		367,774
Fundraising	274,566		274,566
Total Expenses	2,469,153		2,469,153
Change in Net Assets	(450,253)	(635,199)	(1,085,452)
Net assets, beginning of year	1,282,349	1,684,454	2,966,803
Net Assets, End of Year	\$ 832,096	\$ 1,049,255	\$ 1,881,351

See accompanying notes.

MARINE CONSERVATION BIOLOGY INSTITUTE

**Statement Functional Expenses
For the Year Ended December 31, 2010**

	<i>Advancing the Science</i>	<i>Protecting Marine Ecosystems</i>	<i>Total Program Services</i>	<i>Management and Administrative</i>	<i>Fundraising</i>	<i>Total</i>
Salaries and wages	\$ 12,258	\$ 879,855	\$ 892,113	\$ 220,407	\$ 124,725	\$ 1,237,245
Payroll taxes	1,128	82,276	83,404	10,550	11,629	105,583
Employee benefits	3,126	204,617	207,743	54,994	29,970	292,707
Total Salaries and Related Expenses	16,512	1,166,748	1,183,260	285,951	166,324	1,635,535
Grants expense	36,956		36,956			36,956
Professional fees	2,405	70,745	73,150	32,997	24,170	130,317
Occupancy	1,259	87,849	89,108	27,889	15,717	132,714
Travel	112	58,785	58,897	5,899	3,439	68,235
Communications	393	28,856	29,249	8,173	4,584	42,006
In-kind		91,823	91,823			91,823
Miscellaneous	43	13,501	13,544	2,813	14,270	30,627
Printing and postage	93	4,873	4,966	656	765	6,387
Conferences and meetings		21,168	21,168	25		21,193
Supplies	93	9,931	10,024	1,730	864	12,618
Depreciation	164	11,528	11,692	3,474	1,662	16,828
Equipment and maintenance	101	14,138	14,239	2,522	1,060	17,821
Insurance	25	1,866	1,891	2,685	328	4,904
Total Expenses	\$ 58,156	\$1,581,811	\$1,639,967	\$ 374,814	\$ 233,183	\$ 2,247,964

See accompanying notes.

MARINE CONSERVATION BIOLOGY INSTITUTE

**Statement Functional Expenses
For the Year Ended December 31, 2009**

	<i>Advancing the Science</i>	<i>Protecting Marine Ecosystems</i>	<i>Total Program Services</i>	<i>Management and Administrative</i>	<i>Fundraising</i>	<i>Total</i>
Salaries and wages	\$ 13,033	\$ 837,443	\$ 850,476	\$ 212,388	\$ 158,628	\$1,221,492
Payroll taxes	1,149	70,029	71,178	14,255	13,154	98,587
Employee benefits	3,182	199,465	202,647	47,787	34,108	284,542
Total Salaries and Related Expenses	17,364	1,106,937	1,124,301	274,430	205,890	1,604,621
Grants expense	52,465	210,850	263,315			263,315
Professional fees	3,506	116,706	120,212	40,185	13,347	173,744
Occupancy	1,471	88,474	89,945	23,855	16,955	130,755
Travel	89	98,169	98,258	6,007	6,168	110,433
Communications	383	25,392	25,775	6,824	5,120	37,719
In-kind		22,237	22,237	385	4,600	27,222
Miscellaneous	38	7,697	7,735	4,247	14,734	26,716
Printing and postage	107	19,238	19,345	779	2,295	22,419
Conferences and meetings	2	18,843	18,845	93		18,938
Supplies	128	12,901	13,029	2,484	2,333	17,846
Depreciation	149	10,471	10,620	3,224	1,715	15,559
Equipment and maintenance	72	10,485	10,557	1,688	924	13,169
Insurance	42	2,597	2,639	3,573	485	6,697
Total Expenses	\$ 75,816	\$1,750,997	\$1,826,813	\$ 367,774	\$ 274,566	\$2,469,153

See accompanying notes.

MARINE CONSERVATION BIOLOGY INSTITUTE

Statements of Cash Flows

For the Years Ended December 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Cash Flows from Operating Activities:		
Change in net assets	\$ 1,388,401	\$ (1,085,452)
Adjustments to reconcile change in net assets to cash provided by operating activities-		
Depreciation	16,828	15,559
Gain on investments	(5,023)	(4,795)
Donated investments		(5,598)
Donated property and equipment		(10,367)
Changes in assets and liabilities-		
Promises to give	(2,052,999)	1,688,015
Prepays and deposits	(2,548)	975
Accounts payable	(21,498)	3,613
Grants payable	(42,265)	51,965
Accrued vacation	1,571	187
	<u>(717,533)</u>	<u>654,102</u>
Net Cash (Used) Provided in Operating Activities		
	(717,533)	654,102
Cash Flows from Investing Activities:		
Purchase of investments	(10,941)	
Purchase of property and equipment		(10,558)
	<u>(10,941)</u>	<u>(10,558)</u>
Net Cash Used in Investing Activities		
	(10,941)	(10,558)
Net Change in Cash	(728,474)	643,544
Cash, Beginning of Year	<u>1,714,227</u>	<u>1,070,683</u>
Cash, End of Year	<u>\$ 985,753</u>	<u>\$ 1,714,227</u>

See accompanying notes.

MARINE CONSERVATION BIOLOGY INSTITUTE

Notes to Financial Statements

Note 1 - Organization

Marine Conservation Biology Institute (MCBI) is a not-for-profit organization founded in 1996 to advance the science of marine conservation biology and secure protection for ocean ecosystems. MCBI's program activities include doing original field research, capacity building in marine conservation biology, and national and international conservation advocacy to protect biodiversity in the oceans. MCBI brings scientists together to address important questions and synthesize the results. Science is central to all we do. MCBI is registered as a not-for-profit corporation in the State of Washington. The Internal Revenue Service (IRS) has determined that MCBI is exempt from federal income taxes under Section 501(c)(3) of the U.S. Internal Revenue Code (IRC).

MCBI's Board of Directors is made up primarily of independent directors and officers. Dr. Elliott A. Norse, the founder and chief executive officer is the only non-independent director presently sitting on the Board of Directors, and he serves at the will of the Board. MCBI receives operational program grants, contracts and gifts from foundations, corporations, and individuals, as well as from multilateral institutions (such as agencies of the United Nations), foreign governments and foundations and the U.S. government.

Note 2 - Significant Accounting Policies

Basis of Presentation - MCBI's financial statements are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Accordingly, revenues are recognized when earned, and expenses are recognized when the obligation is incurred.

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and nature of any donor restrictions. Donor restrictions can be for specific purposes or for a specific time period. Support that is not restricted by the donor is reported as an increase in unrestricted net assets. All other donor restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires, that is when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statements of Activity as net assets released from restrictions.

Permanently restricted net assets are endowment gifts given with the intent that the principal will be maintained intact in perpetuity, and the income may be used for current operations. MCBI had no permanently restricted net assets as of December 31, 2010 and 2009.

Cash and Cash Equivalents - Short-term deposits and investments with original maturities of three months or less are reported as cash equivalents.

Investments - Investments in equity securities with readily determinable fair values and all investments in debt securities are stated at fair value based on published market quotations. Generally accepted accounting principles establish a framework for measuring fair value and expand disclosures about fair value measurements. Investment income is recorded when earned and considered available for unrestricted use unless otherwise restricted by the donor.

MARINE CONSERVATION BIOLOGY INSTITUTE

Notes to Financial Statements

Note 2 - Continued

Use of Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Promises to Give - In accordance with generally accepted accounting principles, unconditional promises to give are recognized as revenues in the period received and as assets, decreases in liabilities, or expenses depending on the form of the benefits received. Conditional promises to give are recognized when the conditions on which they depend are substantially met or when the likelihood of not meeting the condition becomes remote. MCBI had no unrecognized conditional promises to give as of December 31, 2010 and 2009.

In-Kind Goods and Services - Contributed materials have been recorded on the basis of rates that otherwise would have been paid for similar goods.

Donated services are recorded as in-kind contributions and are recognized as revenue at estimated values at the date of receipt if they (a) create or enhance non-financial assets, or (b) require specialized skills and would need to be purchased if not provided by donation. Corresponding expenses are recognized as the assets and services are utilized.

Gifts of equipment are reported as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support.

Absent explicit donor stipulations about how long those assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service. For the year ended December 31, 2010, in-kind services were \$91,823 with no in-kind goods or facilities. For the year ended December 31, 2009, in-kind services were \$12,601, in-kind goods were \$20,003, and in-kind facilities were \$4,985.

Concentration of Credit Risk - MCBI maintains cash and cash equivalents in four accounts at two financial institutions that may exceed federally insured limits at times during the year. MCBI has not experienced any losses in these accounts. At December 31, 2010, the amounts held in the two institutions in excess of Federal Deposit Insurance Corporation (FDIC) insurance were \$158,970 and \$0, respectively.

MCBI also maintains cash and cash equivalents in one account at one financial institution that is not insured or guaranteed by the FDIC or any other government agency. In 2010, MCBI did not experience any losses in this account. At December 31, 2010, the amount in the financial institution not insured or guaranteed by the FDIC was \$551,950.

Property and Equipment - Property and equipment are stated at cost or, if donated, at fair value at dates of donation. Property and equipment with an original cost of \$5,000 or greater are capitalized. Depreciation is provided using the straight-line method over the estimated useful lives of the assets, principally three to seven years.

MARINE CONSERVATION BIOLOGY INSTITUTE

Notes to Financial Statements

Note 2 - Continued

Functional Allocation of Expenses - The costs of providing the various programs and other activities have been summarized on a functional basis in the Statements of Activity and Statements of Functional Expenses. Accordingly, certain costs have been allocated among the program and supporting services benefited.

Federal Income Taxes - The IRS has determined that MCBI is exempt from federal income taxes on related income under Section 501(a) of the IRC of 1986, as amended, as an organization described in IRC Section 501(c)(3). Further, MCBI has been classified as an organization that is not a private foundation under IRC Section 509(a). Contributions to MCBI qualify for deduction as charitable contributions. However, income generated from activities unrelated to MCBI's exempt purpose is subject to tax under IRC Section 511. MCBI did not have any material unrelated business income tax liability for the years ended December 31, 2010 and 2009.

MCBI regularly reviews and evaluates its tax positions taken in previously filed information returns and as reflected in its financial statements, with regard to issues affecting its tax exempt status, unrelated business income and related matters. It believes that in the event of an examination by taxing authorities, its positions would prevail based upon the technical merits of such positions. Therefore, it has concluded that no tax benefits or liabilities are required to be recognized. MCBI's Information Return Form 990 is subject to review and examination by federal, state and local authorities. Information returns for fiscal years ended December 31, 2006 through 2009, are open to examination by those authorities. MCBI's Informational return Form 990 for fiscal year 2010 will be submitted in 3rd quarter 2011.

Grants Payable - In accordance with generally accepted accounting principles, grants authorized but unpaid at year end are reported as liabilities. All grants are expected to be paid in less than one year.

Note 3 - Promises to Give

Generally accepted accounting principles require promises to give to be reported at fair value at the date of donation. Promises to give that are expected to be received in one year or more are initially recorded at fair value. MCBI uses the income approach to initially value its long-term receivables. The resulting discount is amortized over the collection period. Management periodically evaluates its long-term contributions receivable for collectability. At December 31, 2010 and 2009, management believes that the promises to give are fully collectible. Promises to give were discounted to present value at rates up to 3.92%. Unconditional promises to give at December 31, 2010, are due as follows:

	<u>2010</u>
Receivable in less than one year	\$ 1,122,375
Receivable in one to five years	<u>1,160,000</u>
	2,282,375
Less discounts to net present value	<u>(5,611)</u>
	<u><u>\$ 2,276,764</u></u>

MARINE CONSERVATION BIOLOGY INSTITUTE

Notes to Financial Statements

Note 3 - Continued

During 2010, MCBI received a contribution that required certain matching requirements to be met in subsequent years. MCBI has evaluated the likelihood of not meeting this condition as remote and therefore has recorded a promise to give and contribution revenue of \$450,000 as of and for the year ended December 31, 2010.

Note 4 - Agency Transactions

MCBI receives certain grants that are designated for non-related specified beneficiaries. MCBI has no variance power over these funds, and accordingly, they are not reflected in the Statements of Activity, other than the portion received by MCBI for administrative fees. MCBI charges a negotiated administrative fee for this service. For the years ended December 31, 2010 and 2009, MCBI passed through \$282,378 and \$391,636, respectively, in grants and recognized \$19,804 and \$18,250, respectively, in administrative fees. As of December 31, 2010 and 2009, MCBI held \$70,213 and \$292,590, respectively, in cash to be passed through to other organizations.

Note 5 - Property and Equipment

A summary of property and equipment at December 2010 and 2009 is as follows:

	<u>2010</u>	<u>2009</u>
Furniture and equipment	\$ 154,589	\$ 154,589
Leasehold improvements	8,864	8,864
	<u>163,453</u>	<u>163,453</u>
Less accumulated depreciation	<u>(144,849)</u>	<u>(128,021)</u>
	<u>\$ 18,604</u>	<u>\$ 35,432</u>

Depreciation expense for the years ended December 31, 2010 and 2009 was \$16,828 and \$15,559, respectively.

MARINE CONSERVATION BIOLOGY INSTITUTE

Notes to Financial Statements

Note 6 - Investments

Investments are summarized as follows at December 31:

	<u>2010</u>	<u>2009</u>
Trading securities-		
Equity securities - commodities	\$ 19,318	\$ 5,288
Equity securities - materials	2,143	2,166
Equity securities - communications	3,061	2,281
Equity securities - financial services	6,908	7,012
Total trading securities	<u>31,430</u>	<u>16,747</u>
Debt securities-		
Corporate bonds and U.S. Treasury securities	<u>35,070</u>	<u>33,789</u>
	<u>\$ 66,500</u>	<u>\$ 50,536</u>

Generally accepted accounting principles establish a three-level fair value hierarchy for inputs used in measuring fair value that described the inputs that are used to measure the fair values of the entity's assets and liabilities required to be reported at fair value. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly market under current market conditions.

Level 1 - Fair values are based on quoted prices in active markets for identical assets and liabilities. MCBI's Level 1 assets include equity securities and fixed income securities.

Level 2 - Fair values are based on observable inputs that include: quoted market prices for similar assets or liabilities; quoted market prices that are not in an active market; or other inputs that are observable in the market and can be corroborated by observable market data for substantially the full term of the assets.

Level 3 - Fair values are based on unobservable inputs and are valued using pricing models and/or discounted cash flow methodologies. They may require significant management judgment or estimation.

All of MCBI's investments are based on quoted market prices for identical assets and accordingly are classified as Level 1. MCBI has no assets or liabilities required to be categorized as Levels 2 or 3.

Corresponding investment income consists of the following for the years ended December 31:

	<u>2010</u>	<u>2009</u>
Interest and dividend income	\$ 7,053	\$ 13,005
Net realized and unrealized gains	<u>5,023</u>	<u>3,890</u>
	<u>\$ 12,076</u>	<u>\$ 16,895</u>

MARINE CONSERVATION BIOLOGY INSTITUTE

Notes to Financial Statements

Note 7 - Retirement Plan

MCBI offers a tax-deferred retirement plan under IRC Section 403(b). All employees working more than 20 hours per week are eligible to make elective deferrals under the plan. After one year of service, MCBI provides a 20% matching contribution of gross pay, contingent on an elective deferral of 5% of gross pay. Elective deferrals of less than 5% of gross pay receive a pro-rated matching contribution.

Employees are fully vested in the employer contribution after working 1000 hours or more per calendar year for four years of service. For the years ended December 31, 2010 and 2009, MCBI contributed \$203,591 and \$199,501, respectively, to the plan which is included in employee benefits expense.

Note 8 - Lease Commitments

MCBI leases certain office space under a non-cancelable operating lease expiring July 31, 2011. Related minimum future rental commitments for the year ending December 31, 2011 are \$30,282. Rental expense incurred for this lease for the years ended December 31, 2010 and 2009 was \$49,968 and \$48,529, respectively, which is included in occupancy expense.

Note 9 - Concentrations

During the year ended December 31, 2010, MCBI received three significant multi-year grants from one funder, which represented 55% of total support and revenue recognized in 2010. At December 31, 2010, 77% of total promises to give are due from one donor.

Note 10 - Temporarily Restricted Net Assets

Temporarily restricted net assets are restricted by the donor to be used for certain purposes or future periods. At December 31, 2010 and 2009, MCBI had temporarily restricted net assets as follows:

	<u>2010</u>	<u>2009</u>
Subsequent years' operations	\$ 1,825,000	\$ 685,000
Protecting marine ecosystems	464,403	364,255
Advancing the science	80,000	
	<u>\$ 2,369,403</u>	<u>\$ 1,049,255</u>

Note 11 - Exit or Disposal Activities

On June 30, 2010, MCBI closed its office in Honolulu, Hawaii, and withdrew as a foreign corporation in the State of Hawaii after management re-aligned programs in the region. As of June 30, 2010, MCBI terminated its sole employee and was no longer an employer in the State of Hawaii. No additional costs were accrued or associated with this exit activity, including lease termination costs, one-time termination benefits, or loss of security or other deposits.

MARINE CONSERVATION BIOLOGY INSTITUTE

Notes to Financial Statements

Note 12 - Subsequent Events

Management has evaluated events occurring subsequent to December 31, 2010, through July 11, 2011, which is the date the financial statements were available to be issued for potential recognition and/or disclosure. No events occurred subsequent to December 31, 2010 that are required to be recognized or disclosed.