



Financial Statements

For the Years Ended December 31, 2011 and 2010

Table of Contents

	<i>Page</i>
Independent Auditors' Report	1
Financial Statements:	
Statements of Financial Position	2
Statements of Activities	3 - 4
Statements of Functional Expenses	5 - 6
Statements of Cash Flows	7
Notes to Financial Statements	8 - 13

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

We have audited the accompanying statement of financial position of Marine Conservation Biology Institute dba Marine Conservation Institute (the Organization) (a non-profit organization) as of December 31, 2011 and 2010, and the related statements of activities, functional expenses and cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits 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 audits provide 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 the Organization as of December 31, 2011 and 2010, and the changes in its net assets and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Certified Public Accountants
June 4, 2012

**MARINE CONSERVATION BIOLOGY INSTITUTE
DBA MARINE CONSERVATION INSTITUTE**

**Statements of Financial Position
December 31, 2011 and 2010**

	<u>2011</u>	<u>2010</u>
Assets		
Current Assets:		
Cash and cash equivalents	\$ 1,225,221	\$ 985,753
Cash held for others	66,781	70,213
Investments	75,235	66,500
Promises to give	794,233	1,122,375
Prepays and deposits	31,551	29,796
	<u>2,193,021</u>	<u>2,274,637</u>
Total Current Assets	2,193,021	2,274,637
Promises to give, net of current portion	562,158	1,154,389
Property and equipment, net	10,755	18,604
	<u>572,913</u>	<u>1,172,993</u>
Total Assets	<u>\$ 2,765,934</u>	<u>\$ 3,447,630</u>
Liabilities and Net Assets		
Current Liabilities:		
Accounts payable	\$ 79,431	\$ 20,216
Grants payable		9,700
Accrued vacation	86,224	77,749
Funds held for others	66,781	70,213
	<u>232,436</u>	<u>177,878</u>
Total Liabilities	232,436	177,878
Net Assets:		
Unrestricted	757,532	900,349
Temporarily restricted	1,775,966	2,369,403
	<u>2,533,498</u>	<u>3,269,752</u>
Total Net Assets	2,533,498	3,269,752
Total Liabilities and Net Assets	<u>\$ 2,765,934</u>	<u>\$ 3,447,630</u>

See accompanying notes.

MARINE CONSERVATION BIOLOGY INSTITUTE
DBA MARINE CONSERVATION INSTITUTE

Statement of Activities
For the Year Ended December 31, 2011

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Support and Revenue:			
Grants and contracts	\$ 639,247	\$ 1,077,000	\$ 1,716,247
Contributions	45,342		45,342
In-kind contributions	76,000		76,000
Administrative fees	22,996		22,996
Investment income	3,145		3,145
Other revenue	4,609		4,609
Net assets released from restriction	<u>1,670,437</u>	<u>(1,670,437)</u>	
Total Support and Revenue	2,461,776	(593,437)	1,868,339
Expenses:			
Program services	1,896,133		1,896,133
Management and administrative	356,345		356,345
Fundraising	<u>352,115</u>		<u>352,115</u>
Total Expenses	2,604,593		2,604,593
Change in Net Assets	(142,817)	(593,437)	(736,254)
Net assets, beginning of year	<u>900,349</u>	<u>2,369,403</u>	<u>3,269,752</u>
Net Assets, End of Year	\$ 757,532	\$ 1,775,966	\$ 2,533,498

See accompanying notes.

MARINE CONSERVATION BIOLOGY INSTITUTE
DBA MARINE CONSERVATION INSTITUTE

Statement of Activities
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 general	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
DBA MARINE CONSERVATION INSTITUTE

Statement of Functional Expenses
For the Year Ended December 31, 2011

	<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	\$ 5,943	\$ 965,512	\$ 971,455	\$ 204,414	\$ 119,292	\$1,295,161
Payroll taxes	541	82,751	83,292	9,569	11,014	103,875
Employee benefits	1,887	254,802	256,689	39,972	28,309	324,970
Total Salaries and Related Expenses	8,371	1,303,065	1,311,436	253,955	158,615	1,724,006
Grants expense	35,250		35,250			35,250
Professional fees	1,267	171,773	173,040	39,185	93,334	305,559
Occupancy	782	91,210	91,992	29,622	17,791	139,405
Travel	62	78,125	78,187	8,774	39,873	126,834
Communications	225	30,305	30,530	8,926	5,370	44,826
In-kind legal		76,000	76,000			76,000
Miscellaneous	123	6,673	6,796	4,150	5,466	16,412
Printing and postage	40	4,438	4,478	1,096	24,908	30,482
Conferences and meetings	4	53,508	53,512	700	1,250	55,462
Supplies	56	9,011	9,067	1,928	1,614	12,609
Depreciation	48	5,521	5,569	1,405	875	7,849
Equipment and maintenance	66	17,451	17,517	3,963	2,492	23,972
Insurance	24	2,735	2,759	2,641	527	5,927
Total Expenses	\$ 46,318	\$1,849,815	\$1,896,133	\$ 356,345	\$ 352,115	\$2,604,593

See accompanying notes.

MARINE CONSERVATION BIOLOGY INSTITUTE
DBA MARINE CONSERVATION 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 legal		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
DBA MARINE CONSERVATION INSTITUTE

Statements of Cash Flows
For the Years Ended December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Cash Flows from Operating Activities:		
Change in net assets	\$ (736,254)	\$ 1,388,401
Adjustments to reconcile change in net assets to cash provided by operating activities-		
Depreciation	7,849	16,828
Gain on investments	(199)	(5,023)
Changes in assets and liabilities-		
Promises to give	920,373	(2,052,999)
Prepays and deposits	(1,755)	(2,548)
Accounts payable	59,215	(21,498)
Grants payable	(9,700)	(42,265)
Accrued vacation	8,475	1,571
Net Cash Provided by (Used in) Operating Activities	248,004	(717,533)
Cash Flows from Investing Activities:		
Purchase of investments	(8,536)	(10,941)
Net Cash Used in Investing Activities	(8,536)	(10,941)
Net Change in Cash	239,468	(728,474)
Cash, Beginning of Year	985,753	1,714,227
Cash, End of Year	\$ 1,225,221	\$ 985,753

See accompanying notes.

MARINE CONSERVATION BIOLOGY INSTITUTE
DBA MARINE CONSERVATION INSTITUTE

Notes to Financial Statements
For the Years Ended December 31, 2011 and 2010

Note 1 - Organization

Marine Conservation Biology Institute dba Marine Conservation Institute (the Organization) is a not-for-profit organization founded in 1996 to advance the science of marine conservation biology and secure protection for ocean ecosystems. The Organization'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. The Organization brings scientists together to address important questions and synthesize the results. Science is central to all we do. The Organization is registered as a not-for-profit corporation in the State of Washington.

The Organization'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. The Organization 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 - The Organization'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 activities 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. The Organization had no permanently restricted net assets as of December 31, 2011 and 2010.

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
DBA MARINE CONSERVATION INSTITUTE

Notes to Financial Statements
For the Years Ended December 31, 2011 and 2010

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. The Organization had no unrecognized conditional promises to give as of December 31, 2011 and 2010.

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, 2011, in-kind services were \$76,000 with no in-kind goods or facilities. For the year ended December 31, 2010, in-kind services were \$91,823, with no in-kind goods or facilities.

Concentration of Credit Risk - The Organization maintains cash and cash equivalents in accounts that may exceed federally insured limits at times during the year. The Organization 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.

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.

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 activities and statements of functional expenses. Accordingly, certain costs have been allocated among the program and supporting services benefited.

MARINE CONSERVATION BIOLOGY INSTITUTE
DBA MARINE CONSERVATION INSTITUTE

Notes to Financial Statements
For the Years Ended December 31, 2011 and 2010

Note 2 - Continued

Federal Income Taxes - The IRS has determined that the Organization 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, the Organization has been classified as an organization that is not a private foundation under IRC Section 509(a). Contributions to the Organization qualify for deduction as charitable contributions to the extent allowed by law. However, income generated from activities unrelated to the Organization's exempt purpose is subject to tax under IRC Section 511. The Organization did not have any material unrelated business income tax liability for the years ended December 31, 2011 and 2010.

The Organization 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. The Organization Informational Return Form 990 is subject to review and examination by federal, state and local authorities. Informational returns for fiscal years ended December 31, 2007 through 2010, are open to examination by those authorities. The Organization's Informational Return Form 990 for fiscal year 2011 will be submitted in 3rd quarter 2012.

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. The Organization 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, 2011 and 2010, 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, 2011, are due as follows:

Receivable in less than one year	\$ 794,233
Receivable in one to five years	<u>565,000</u>
	1,359,233
Less discounts to net present value	<u>(2,842)</u>
	<u><u>\$ 1,356,391</u></u>

During 2010, the Organization received a contribution that required certain matching requirements to be met in subsequent years. The Organization has since made these matching requirements.

MARINE CONSERVATION BIOLOGY INSTITUTE
DBA MARINE CONSERVATION INSTITUTE

Notes to Financial Statements
For the Years Ended December 31, 2011 and 2010

Note 4 - Agency Transactions

The Organization receives certain grants that are designated for non-related specified beneficiaries. The Organization has no variance power over these funds, and accordingly, they are not reflected in the statements of activities, other than the portion received by the Organization for administrative fees. The Organization charges a negotiated administrative fee for this service. For the years ended December 31, 2011 and 2010, the Organization passed through \$302,392 and \$282,378, respectively, in grants and recognized \$22,996 and \$19,804, respectively, in administrative fees. As of December 31, 2011 and 2010, the Organization held \$66,781 and \$70,213, respectively, in cash to be passed through to other organizations.

Note 5 - Property and Equipment

A summary of property and equipment at December 2011 and 2010, is as follows:

	<u>2011</u>	<u>2010</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>(152,698)</u>	<u>(144,849)</u>
	<u>\$ 10,755</u>	<u>\$ 18,604</u>

Depreciation expense for the years ended December 31, 2011 and 2010, was \$7,849 and \$16,828, respectively.

Note 6 - Investments

Investments are summarized as follows at December 31:

	<u>2011</u>	<u>2010</u>
Trading securities-		
Equity securities - commodities	\$ 24,995	\$ 19,318
Equity securities - materials	5,525	2,143
Equity securities - communications	2,227	3,061
Equity securities - financial services	<u>6,793</u>	<u>6,908</u>
Total trading securities	39,540	31,430
Debt securities-		
Corporate bonds and U.S. Treasury securities	<u>35,695</u>	<u>35,070</u>
	<u>\$ 75,235</u>	<u>\$ 66,500</u>

MARINE CONSERVATION BIOLOGY INSTITUTE
DBA MARINE CONSERVATION INSTITUTE

Notes to Financial Statements
For the Years Ended December 31, 2011 and 2010

Note 6 - Continued

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. The Organization'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 the Organization's investments are based on quoted market prices for identical assets and accordingly are classified as Level 1. The Organization 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>2011</u>	<u>2010</u>
Interest and dividend income	\$ 2,946	\$ 7,053
Net realized and unrealized gains	<u>199</u>	<u>5,023</u>
	<u><u>\$ 3,145</u></u>	<u><u>\$ 12,076</u></u>

Note 7 - Retirement Plan

The Organization 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, the Organization 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, 2011 and 2010, the Organization contributed \$228,826 and \$203,591, respectively, to the plan which is included in employee benefits expense.

MARINE CONSERVATION BIOLOGY INSTITUTE
DBA MARINE CONSERVATION INSTITUTE

Notes to Financial Statements
For the Years Ended December 31, 2011 and 2010

Note 8 - Lease Commitments

The Organization leases certain office space under various non-cancelable operating leases expiring in 2012. Related minimum future rental commitments for the year ending December 31, 2012, are \$63,311. Rental expense incurred for these leases for the years ended December 31, 2011 and 2010, was \$139,405 and \$132,310, respectively, which is included in occupancy expense.

Note 9 - Concentrations

During the year ended December 31, 2011, the Organization received three significant multi-year grants from one funder, which represented 39% of total support and revenue recognized in 2011. During the year ended December 31, 2010, the Organization received three significant multi-year grants from one funder, which represented 55% of total support and revenue recognized in 2010. At December 31, 2011 and 2010, 74% and 77% of total promises to give are due from one donor, respectively.

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, 2011 and 2010, the Organization had temporarily restricted net assets as follows:

	<u>2011</u>	<u>2010</u>
Subsequent years' operations	\$ 1,120,000	\$ 1,825,000
Protecting marine ecosystems	615,966	464,403
Advancing the science	40,000	80,000
	<u>\$ 1,775,966</u>	<u>\$ 2,369,403</u>

Note 11 - Exit or Disposal Activities

On June 30, 2010, the Organization 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, the Organization 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.

Note 12 - Subsequent Events

Management has evaluated events occurring subsequent to December 31, 2011 through June 4, 2012, 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, 2011, that are required to be recognized or disclosed.