

MARINE CONSERVATION BIOLOGY INSTITUTE

FINANCIAL STATEMENTS
With Independent Auditor's Report

YEARS ENDED DECEMBER 31, 2008 AND 2007

MARINE CONSERVATION BIOLOGY INSTITUTE
FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2008 AND 2007

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INDEPENDENT AUDITOR'S REPORT

July 8, 2009

Board of Directors
Marine Conservation Biology Institute
Bellevue, Washington

We have audited the accompanying statements of financial position of Marine Conservation Biology Institute, a nonprofit corporation, as of December 31, 2008 and 2007 and the related statements of activity, functional expenses, and cash flows for the years then ended. These financial statements are the responsibility of the management of Marine Conservation Biology Institute. Our responsibility is to express an opinion on these financial statements based on our audits.

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 Marine Conservation Biology Institute, as of December 31, 2008 and 2007, and the change in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.



Jacobson Jarvis & Co, PLLC

MARINE CONSERVATION BIOLOGY INSTITUTE

STATEMENTS OF FINANCIAL POSITION

YEARS ENDED DECEMBER 31, 2008 AND 2007

	<u>2008</u>	<u>2007</u>
<u>ASSETS</u>		
Current Assets		
Cash and cash equivalents	\$ 1,070,683	\$ 1,531,187
Cash held for others	204,438	92,599
Equity and fixed income securities	40,143	47,954
Promise to give - current	1,743,519	1,023,474
Prepays and deposits	<u>28,223</u>	<u>31,843</u>
Total Current Assets	3,087,006	2,727,057
Promises to Give - long-term	168,261	920,231
Property and Equipment, net	<u>30,066</u>	<u>44,596</u>
	<u>\$ 3,285,333</u>	<u>\$ 3,691,884</u>
 <u>LIABILITIES AND NET ASSETS</u>		
Current Liabilities		
Accounts payable	\$ 38,101	\$ 53,345
Accrued vacation	75,991	42,919
Grants payable - current	-	94,629
Funds held for others	<u>204,438</u>	<u>92,599</u>
Total Liabilities	<u>318,530</u>	<u>283,492</u>
Net Assets		
Unrestricted	1,282,349	1,250,365
Temporarily restricted	<u>1,684,454</u>	<u>2,158,027</u>
Total Net Assets	<u>2,966,803</u>	<u>3,408,392</u>
	<u>\$ 3,285,333</u>	<u>\$ 3,691,884</u>

MARINE CONSERVATION BIOLOGY INSTITUTE

STATEMENTS OF ACTIVITY

YEARS ENDED DECEMBER 31, 2008 AND 2007

	2008			2007		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Public Support and Revenue						
Foundations	\$ 206,896	\$ 1,283,000	\$ 1,489,896	\$ 170,127	\$ 2,730,000	\$ 2,900,127
Contributions	93,735	-	93,735	91,167	-	91,167
In-kind contributions	80,068		80,068			
Administrative fees	51,058		51,058	51,809		51,809
Investment income	28,032		28,032	61,033		61,033
Other revenue	1,445		1,445	3,155		3,155
Total Public Support and Revenue	461,234	1,283,000	1,744,234	377,291	2,730,000	3,107,291
Net Assets Released from Restrictions						
Satisfaction of purpose restriction	876,573	(876,573)	-	787,353	(787,353)	-
Satisfaction of time restriction	880,000	(880,000)	-	700,000	(700,000)	-
Total Net Assets Released from Restrictions	1,756,573	(1,756,573)	-	1,487,353	(1,487,353)	-
Total Public Support, Revenue, and Other Support	2,217,807	(473,573)	1,744,234	1,864,644	1,242,647	3,107,291
Expenses						
Program services	1,638,635		1,638,635	1,181,114		1,181,114
Management and general	393,710		393,710	251,619		251,619
Fundraising	153,478		153,478	64,479		64,479
Total Expenses	2,185,823		2,185,823	1,497,212		1,497,212
Change in Net Assets	31,984	(473,573)	(441,589)	367,432	1,242,647	1,610,079
Net Assets - beginning of year	1,250,365	2,158,027	3,408,392	882,933	915,380	1,798,313
Net Assets - end of year	\$ 1,282,349	\$ 1,684,454	\$ 2,966,803	\$ 1,250,365	\$ 2,158,027	\$ 3,408,392

MARINE CONSERVATION BIOLOGY INSTITUTE

STATEMENTS OF FUNCTIONAL EXPENSES

YEARS ENDED DECEMBER 31, 2008 AND 2007

	2008						2007					
	Advancing The Science	Protecting Marine Ecosystems	Total Program Services	Management and General	Fundraising	Total	Advancing The Science	Protecting Marine Ecosystems	Total Program Services	Management and General	Fundraising	Total
Salaries and wages	\$ 15,942	\$ 822,983	\$ 838,925	\$ 223,336	\$ 87,211	\$ 1,149,472	\$ 12,074	\$ 578,466	\$ 590,540	\$ 139,216	\$ 36,385	\$ 766,141
Payroll taxes	1,486	69,292	70,778	14,192	7,185	92,155	1,013	53,861	54,874	4,471	2,911	62,256
Employee benefits	3,018	175,121	178,139	43,915	11,296	233,350	2,289	132,014	134,303	23,265	7,789	165,357
	20,446	1,067,396	1,087,842	281,443	105,692	1,474,977	15,376	764,341	779,717	166,952	47,085	993,754
Travel	533	125,117	125,650	17,343	11,560	154,553	122	85,206	85,328	10,607	2,589	98,524
Professional fees	4,445	64,625	69,070	37,287	5,995	112,352	6,589	36,438	43,027	23,370	2,658	69,055
Occupancy	1,451	76,148	77,599	21,296	7,677	106,572	1,175	63,184	64,359	16,858	4,399	85,616
Grants expense	73,241	9,000	82,241	-	-	82,241	98,955	8,158	107,113	-	-	107,113
In-kind	-	69,682	69,682	8,886	1,500	80,068	-	-	-	-	-	-
Communications	852	26,646	27,498	5,626	2,147	35,271	330	19,331	19,661	7,406	1,057	28,124
Equipment and maintenance	270	24,552	24,822	3,918	1,247	29,987	108	7,130	7,238	3,773	290	11,301
Conferences and meetings	-	26,391	26,391	804	215	27,410	14	39,097	39,111	1,185	-	40,296
Miscellaneous	312	9,678	9,990	6,373	9,835	26,198	195	7,093	7,288	11,872	52	19,212
Supplies	223	12,442	12,665	3,086	2,250	18,001	84	6,093	6,177	2,068	305	8,550
Depreciation	248	12,957	13,205	3,453	1,268	17,926	172	13,417	13,589	2,708	538	16,835
Printing and postage	106	10,131	10,237	964	3,924	15,125	89	6,806	6,895	301	325	7,521
Insurance	34	1,709	1,743	3,231	168	5,142	53	1,558	1,611	4,519	181	6,311
Bad debt expense	-	-	-	-	-	-	-	-	-	-	5,000	5,000
Total Expenses	\$ 102,161	\$1,536,474	\$1,638,635	\$ 393,710	\$ 153,478	\$ 2,185,823	\$ 123,262	\$1,057,852	\$1,181,114	\$ 251,619	\$ 64,479	\$ 1,497,212

MARINE CONSERVATION BIOLOGY INSTITUTE

STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2008 AND 2007

	<u>2008</u>	<u>2007</u>
Cash Flows from Operating Activities		
Cash received from:		
Foundations	\$ 1,496,821	\$ 1,542,681
Donors	118,735	116,167
Fees	51,058	51,809
Investment income	35,843	58,720
Other	1,445	3,155
Cash paid for:		
Personnel	(1,441,905)	(994,026)
Services and supplies	(513,905)	(378,830)
Grantees	(176,870)	(228,272)
Net Cash (Used) Provided by Operating Activities	<u>(428,778)</u>	<u>171,404</u>
Cash Flows from Investing Activities		
Purchases of property and equipment	(31,726)	(1,941)
Sale of investments	-	12,648
Net Cash (Used) Provided by Investing Activities	<u>(31,726)</u>	<u>10,707</u>
Change in Cash and Cash Equivalents	(460,504)	182,111
Cash and Cash Equivalents - beginning of year	<u>1,531,187</u>	<u>1,349,076</u>
Cash and Cash Equivalents - end of year	<u>\$ 1,070,683</u>	<u>\$ 1,531,187</u>

MARINE CONSERVATION BIOLOGY INSTITUTE

STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2008 AND 2007

	<u>2008</u>	<u>2007</u>
Reconciliation of Change in Net Assets to Net Cash Flows from Operating Activities		
Change in net assets	\$ (441,589)	\$ 1,610,079
Adjustments to reconcile change in net assets to net cash (used) provided by operating activities		
Depreciation	17,926	16,835
Reinvested earnings	(1,289)	(1,536)
Net loss (gain) on investments	9,100	(777)
Decrease (increase) in		
Promises to give	31,925	(1,332,446)
Prepays and deposits	3,620	(9,979)
Increase (decrease) in		
Accounts payable	13,086	10,659
Accrued vacation	33,072	(272)
Grants payable	<u>(94,629)</u>	<u>(121,159)</u>
Net Cash (Used) Provided by Operating Activities	<u>\$ (428,778)</u>	<u>\$ 171,404</u>

MARINE CONSERVATION BIOLOGY INSTITUTE

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2008 AND 2007

NOTE A - ORGANIZATION

Marine Conservation Biology Institute (MCBI) began in 1996 with a new approach: to encourage scientists who want to safeguard the oceans' web of life. Our mission: To advance the science of marine conservation biology and secure protection for ocean ecosystems.

We advocate for the new multidisciplinary science of marine conservation biology, and for actions that natural and social scientists tell us are essential to maintain the integrity of life in the sea. Science is central to all we do.

We bring scientists together to examine the most important issues in marine conservation. If something isn't both true and important, we don't advocate for it. That's not a constraint; it's what makes us truly effective. We cooperate with researchers, fishermen, conservationists, business people, legislators, government officials, educators, reporters, whoever will help us conserve the oceans' biodiversity. We believe that marine ecosystem-based management is the way to protect, recover and sustainably use the living sea.

MCBI has been instrumental in making the impacts of destructive fishing methods and protection of places in the sea the leading issues on the world's marine conservation agenda. Our work has already catalyzed protection of vast areas of ocean. And we've only just begun to see the consequences of our years of investments.

MCBI uses just one measure to gauge our success: Are we making a difference in the sea, where it counts? The answer is "yes." We are very proud of what we've achieved. But there is still much more that needs to be done!

NOTE B - SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

The organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. The net assets of MCBI are classified as follows:

Unrestricted net assets are available without restriction for support of the MCBI's operations.

Temporarily restricted net assets are restricted by the donor to be used for certain purposes or future periods. Temporarily restricted net assets are available as follows as of December 31:

	<u>2008</u>	<u>2007</u>
Subsequent years' operations	\$ 1,045,000	\$ 1,675,000
Protecting marine ecosystems	589,454	382,969
Advancing the science	50,000	100,058
	<u>\$ 1,684,454</u>	<u>\$ 2,158,027</u>

MARINE CONSERVATION BIOLOGY INSTITUTE

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2008 AND 2007

NOTE B - SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2008 and 2007.

Fair Value Measurements

On January 1, 2008, MCBI adopted the provisions of Statement of Financial Accounting Standards No. 157, Fair Value Measurements (SFAS 157), for fair value measurements of financial assets and financial liabilities, and for fair value measurements of non-financial items that are recognized and disclosed at fair value in the financial statements on a recurring basis. SFAS 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

FASB Staff Position 157-2, Effective Date of FASB Statement No.157, delays the effective date of SFAS 157 until fiscal years beginning after November 15, 2008 for all nonfinancial assets and nonfinancial liabilities that are recognized or disclosed at fair value in the financial statements on a nonrecurring basis. MCBI will be required to apply these provisions beginning on January 1, 2009, and is in the process of evaluating their impact. As of December 31, 2008 MCBI has no non-financial assets or liabilities that are recorded at fair value on a nonrecurring basis.

SFAS 157 establishes a three-level fair value hierarchy that describes the inputs that are used to measure the fair values of respective assets and liabilities:

Level 1: Fair values are based on quoted prices in active markets for identical assets and liabilities. MCBI's Level 1 assets include cash and cash equivalents, equity 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. As of December 31, 2008, MCBI has no Level 2 assets.

Level 3: Fair values are calculated by the use of pricing models and/or discounted cash flow methodologies, and may require significant management judgment or estimation. These methodologies may result in a significant portion of the fair value being derived from unobservable data. At December 31, 2008, MCBI has no Level 3 assets.

Cash and cash equivalents

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

MARINE CONSERVATION BIOLOGY INSTITUTE

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2008 AND 2007

NOTE B - SIGNIFICANT ACCOUNTING POLICIES (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.

Investments

Investments are stated at fair value based on quoted market prices (Level 1) on a recurring basis and consist of the following as of December 31:

	<u>2008</u>	<u>2007</u>
Bonds	\$ 31,477	\$ 32,673
Stocks	<u>8,666</u>	<u>15,281</u>
Total equity and fixed income securities	40,143	47,954
Cash held for others	204,438	92,599
Cash and cash equivalents	<u>1,070,683</u>	<u>1,531,187</u>
	<u>\$ 1,315,264</u>	<u>\$ 1,671,740</u>

MCBI's investments are classified as follows, under the definitions noted above, at December 31, 2008:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments	<u>\$1,315,264</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,315,264</u>

Corresponding investment income (loss) consists of the following for the year ended December

	<u>2008</u>	<u>2007</u>
Interest and dividend income	\$ 37,132	\$ 60,256
Net realized and unrealized (losses) gains	<u>(9,100)</u>	<u>777</u>
	<u>\$ 28,032</u>	<u>\$ 61,033</u>

Promises to give

In accordance with financial accounting standards, unconditional promises to give are recognized as revenues in the period received and as assets, decreases of 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.

MARINE CONSERVATION BIOLOGY INSTITUTE

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2008 AND 2007

NOTE B - SIGNIFICANT ACCOUNTING POLICIES (Continued)

MCBI had no conditional promises to give as of December 31, 2008 and 2007. Unconditional promises to give at December 31, 2008 are due as follows:

Receivable in less than one year	\$ 1,743,519
Receivable in one to five years	<u>185,000</u>
	1,928,519
Less discounts to net present value	<u>(16,739)</u>
	<u>\$ 1,911,780</u>

Promises to give are reduced upon receipt by any amount deemed to be uncollectible, then discounted using risk free rates ranging from 3.00% - 3.92%. Management believes that the promises to give are fully collectible.

Concentration of credit risk

MCBI maintains its cash and cash equivalents in two 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, 2008, the amounts held in two accounts in excess of FDIC insurance were \$363,459 and \$726,864, respectively.

Property and equipment

Property and equipment are stated at cost or, if donated, at market value at date of donation. Property and equipment with an original cost of \$1,000 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. Property and equipment consist of the following as of December 31:

	<u>2008</u>	<u>2007</u>
Furniture and equipment	\$ 133,664	\$ 130,268
Leasehold improvements	<u>8,864</u>	<u>8,864</u>
	142,528	139,132
Less accumulated depreciation and amortization	<u>(112,462)</u>	<u>(94,536)</u>
	<u>\$ 30,066</u>	<u>\$ 44,596</u>

Grants payable

In accordance with financial accounting standards, grants authorized but unpaid at year end are reported as liabilities. As of December 31, 2008, there were no outstanding grants payable.

In-kind goods and services

Contributed materials have been recorded on the basis of rates that otherwise would have been paid for similar goods.

MARINE CONSERVATION BIOLOGY INSTITUTE

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2008 AND 2007

NOTE B - SIGNIFICANT ACCOUNTING POLICIES (Continued)

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. For the year ended December 31, 2008, in-kind goods and services amounted to \$80,068 and are included in the accompanying statements of activities. No in-kind goods or services were recorded for the year ended December 31, 2007.

Restricted and unrestricted support

Support that is restricted by the donor is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When restrictions expire (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 as net assets released from restrictions.

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.

Functional allocation of expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activity and of functional expenses. Accordingly, certain costs have been allocated among the program and supporting services benefited.

Federal income taxes

MCBI is exempt from federal income taxes on related income under Section 501(a) of the Internal Revenue Code (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) and, as such, 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, 2008 and 2007.

In December 2008, the Financial Accounting Standards Board issued FASB Staff Position (FSP) FIN 48-3, Effective Date of FASB Interpretation No. 48 for Certain Nonpublic Enterprises.

MARINE CONSERVATION BIOLOGY INSTITUTE

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2008 AND 2007

NOTE B - SIGNIFICANT ACCOUNTING POLICIES (Continued)

FSP FIN 48-3 permits an entity within its scope to defer the effective date of FASB Interpretation 48 (Interpretation 48), Accounting for Uncertainty in Income Taxes, to its annual financial statements for fiscal years beginning after December 15, 2008. The Organization has elected to defer the application of Interpretation 48 for the year ending December 31, 2008.

The Organization evaluates its uncertain tax positions using the provisions of FASB Statement 5, Accounting for Contingencies. Accordingly, a loss contingency is recognized when it is probable that a liability has been incurred as of the date of the financial statements and the amount of the loss can be reasonably estimated. The amount recognized is subject to estimate and management judgment with respect to the likely outcome of each uncertain tax position. The amount that is ultimately sustained for an individual uncertain tax position or for all uncertain tax positions in the aggregate could differ from the amount recognized. MCBI does not expect the adoption of FIN 48-3 to have a material impact on its financial statements.

NOTE C – AGENCY TRANSACTION

MCBI receives certain grants which it passes through to other organizations. MCBI has no variance power over these funds and accordingly they are not reflected in the statement of activity, other than the portion received by MCBI for administrative fees. For the years ended December 31, 2008 and 2007, MCBI passed through \$479,912 and \$876,060, respectively, in grants and recognized \$51,058 and \$51,809, respectively, in administrative fees. As of December 31, 2008 and 2007, MCBI held \$204,438 and \$92,599, respectively, in cash to be passed through to other organizations.

NOTE D – RETIREMENT PLAN

MCBI offers a tax-deferred retirement plan under Section 403(b) of the Internal Revenue Code. 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 4 years of service. For the years ended December 31, 2008 and 2007, MCBI contributed \$139,395 and \$107,591, respectively, to the plan which is included in employee benefits expense.

NOTE E – LEASE COMMITMENTS

MCBI leases an office space under non-cancelable lease with remaining lease terms greater than one year. The future minimum rental commitments are included below. Rental expense incurred for this lease for the years ended December 31, 2008 and 2007 were \$45,100 and \$40,865, respectively, which are included in occupancy expense.

MARINE CONSERVATION BIOLOGY INSTITUTE

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2008 AND 2007

NOTE E – LEASE COMMITMENTS (Continued)

Related minimum future rental commitments on this lease are:

2009	\$ 47,998
2010	50,470
2011	<u>30,282</u>
	<u>\$ 128,750</u>

NOTE F – CONCENTRATION

During the year ended December 31, 2007, MCBI received a significant promise to give from one funder, payable over three years, which represented 48% of total support and revenue recognized in 2007, and 51% of total pledges due as of December 31, 2007. This gift represents 52% of total pledges due as of December 31, 2008.