

MARINE CONSERVATION BIOLOGY INSTITUTE

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED

DECEMBER 31, 2017

MARINE CONSERVATION BIOLOGY INSTITUTE

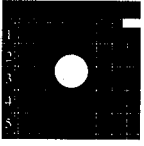
AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED

DECEMBER 31, 2017

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Dave Bembridge, CPA PS

Certified Public Accountants

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Independent Auditor's Report

Board of Directors
Marine Conservation Biology Institute
Seattle, Washington

Report on the Financial Statements

We have audited the accompanying statements of financial position of Marine Conservation Biology Institute (a not-for-profit organization) as of December 31, 2017, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 financial statements.

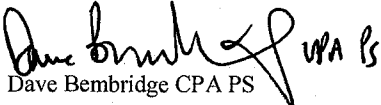
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Marine Conservation Biology Institute as of December 31, 2017, and the results of their operations and cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

The prior year summarized comparative information has been derived from the organization's 2016 financial statements. The financial statements of Marine Conservation Biology Institute, as of December 31, 2016, were audited by other auditors whose report dated July 13, 2017 expressed an unqualified opinion on those statements. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.



Dave Bembridge CPA PS
Certified Public Accountant

July 18, 2018

MARINE CONSERVATION BIOLOGY INSTITUTE
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2017

ASSETS

	<u>2017</u>	<u>2016</u>
<u>Current Assets</u>		
Cash and Cash Equivalents	\$198,768	\$429,003
Investments (Note 5)	106,482	91,075
Promises to Give	69,734	164,862
Pre-paid Expenses and Deposits	<u>13,471</u>	<u>18,391</u>
Total Current Assets	388,455	703,331
 <u>Property and Equipment, Net (Note 4)</u>	 <u>7,778</u>	 <u>21,111</u>
 <u>Other Assets</u>		
Long Term Security Deposit	<u>2,000</u>	<u>2,000</u>
 TOTAL ASSETS	 <u>\$398,233</u>	 <u>\$726,442</u>

LIABILITIES AND NET ASSETS

<u>Current Liabilities</u>		
Accounts Payable	\$1,925	\$4,649
Credit Card Payable	1,511	2,997
Accrued Vacation	<u>38,906</u>	<u>37,261</u>
Total Current Liabilities	42,342	44,907
 TOTAL LIABILITIES	 <u>42,342</u>	 <u>44,907</u>
 <u>Net Assets</u>		
Temporarily Restricted (Note 10)	128,366	325,324
Unrestricted	<u>227,525</u>	<u>356,211</u>
Total Net Assets	<u>355,891</u>	<u>681,535</u>
 TOTAL LIABILITIES & NET ASSETS	 <u>\$398,233</u>	 <u>\$726,442</u>

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

MARINE CONSERVATION BIOLOGY INSTITUTE
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2017

	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	<u>Total</u> 2017	<u>Total</u> 2016
REVENUE:				
Contributions	\$175,519	\$ -	\$175,519	\$152,080
Grants	206,055	316,000	522,055	795,055
Contracts	31,243	-	31,243	124,909
Events	-	-	-	33,903
Other Revenue	340	-	340	4,343
Dividends & Interest	2,565	-	2,565	1,621
Unrealized Gain/Loss on Investments	<u>10,832</u>	<u>-</u>	<u>10,832</u>	<u>4,949</u>
TOTAL REVENUE	426,554	316,000	742,554	1,116,860
Net Assets Released from Restrictions	<u>512,958</u>	<u>(512,958)</u>	<u>-</u>	<u>-</u>
	939,512	(196,958)	742,554	1,116,860
EXPENSES:				
Program Services	772,916		772,916	680,387
Management & Administration	144,980		144,980	156,223
Fundraising & Development	<u>150,302</u>	<u>-</u>	<u>150,302</u>	<u>174,849</u>
TOTAL EXPENSES	<u>1,068,198</u>	<u>-</u>	<u>1,068,198</u>	<u>1,011,459</u>
CHANGE IN NET ASSETS	(128,686)	(196,958)	(325,644)	105,401
NET ASSETS, BEGINNING	<u>356,211</u>	<u>325,324</u>	<u>681,535</u>	<u>576,134</u>
NET ASSETS, ENDING	<u>\$227,525</u>	<u>\$128,366</u>	<u>\$355,891</u>	<u>\$681,535</u>

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

MARINE CONSERVATION BIOLOGY INSTITUTE
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2017

	Establishing a Global Ocean Refuge System	Conserving Marine Life and Ecosystems	Total Program	Administration	Fundraising	Total 2017	Total 2016
Employment Cost							
Salaries and Wages	\$ 405,931	\$ 16,860	\$ 422,791	\$ 87,105	\$ 102,152	\$ 612,048	\$ 291,446
Payroll Taxes	37,379	1,668	39,047	5,267	8,856	53,170	52,023
Employee Benefits	66,102	3,926	70,028	9,933	16,660	96,621	106,232
Total Employment Cost	509,412	22,454	531,866	102,305	127,668	761,839	749,701
Professional Fees	28,785	38,171	66,956	23,426	370	90,752	61,550
Occupancy	39,597	1,451	41,048	9,479	11,926	62,453	56,535
Travel	13,106	9,253	22,359	2,927	421	25,707	41,983
Communications	18,759	357	19,116	1,878	4,383	25,377	25,986
Special Events			0			0	32,488
Depreciation	13,333		13,333			13,333	13,333
Supplies	6,681	27	6,708	109	2,450	9,267	7,216
Insurance	3,258	121	3,379	2,957	991	7,327	7,010
Conferences and Meetings	41,141		41,141	1,488		42,629	6,641
Miscellaneous Expenses	1,314	174	1,488	288	1,780	3,556	5,547
Equipment and Maintenance	2,531	11	2,542	33	47	2,622	1,868
Printing and Postage	2,401	79	2,480	90	266	2,836	1,601
Bad Debt Expense	20,000	500	20,500			20,500	
Total Expenses	\$ 700,318	\$ 72,598	\$ 772,916	\$ 144,980	\$ 150,302	\$ 1,068,198	\$ 1,011,459

The accompanying notes are an integral part
of these financial statements

MARINE CONSERVATION BIOLOGY INSTITUTE
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2017

	<u>2017</u>	<u>2016</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>		
Receipts from Contributions, Grants, Contracts and Events	\$820,193	\$965,406
Dividends and Interest Received	2,565	1,621
Payments to Employees and Suppliers	<u>(1,052,510)</u>	<u>(1,003,423)</u>
Net Cash Flow from Operating Activities	(229,752)	(36,396)
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>		
Interest and Dividends Reinvested	<u>(483)</u>	<u>(369)</u>
Net Cash Used by Investing Activities	(483)	(369)
NET (DECREASE) INCREASE IN CASH	(230,235)	(36,765)
CASH AT BEGINNING OF YEAR	<u>429,003</u>	<u>465,768</u>
CASH AT END OF YEAR	<u>\$198,768</u>	<u>\$429,003</u>
RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$(325,644)	\$105,401
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities		
Depreciation	13,333	13,333
In-Kind Stock Contributions	(4,092)	-
Gain (Loss) on Investments	(10,832)	(5,318)
Changes in:		
Promises to Give	95,128	(144,884)
Prepaid Expenses and Deposits	4,920	(371)
Accounts Payable	(4,210)	1,197
Accrued Vacation	<u>1,645</u>	<u>(6,123)</u>
Net Cash Provided by Operating Activities	<u>\$(229,752)</u>	<u>\$(36,765)</u>

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

MARINE CONSERVATION BIOLOGY INSTITUTE
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017

Note 1 - Organization

Marine Conservation Biology Institute dba as 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 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 the Organization does.

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. Lance E. Morgan, President, is the only non-independent director presently sitting on the Board of Directors, and he serves at the will of the Board. Dr. Elliott A. Norse, the Organization's founder and former chief scientist, retired as an employee of the Organization as of December 31, 2015. Dr. Norse continues to serve on the Organization's Board of Directors.

The Organization receives funding from 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 (U.S. GAAP). 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, 2017 and 2016.

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
FOR THE YEAR ENDED DECEMBER 31, 2017

(continued)

Note 2 - Significant Accounting Policies (continued)

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. Investment income is recorded when earned and considered available for unrestricted use unless otherwise restricted by the donor.

Use of Estimates - The preparation of financial statements in conformity with U.S. GAAP 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 U.S. GAAP, 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. At December 31, 2017 and 2016, there were no unrecognized conditional promises to give.

Grants and Contracts - Grants and contracts revenue on the statements of activities consists of contributions, cost reimbursable government grants, and program service fees.

In-Kind Goods and Services - Contributed goods 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 nonfinancial 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. There were no donated goods and services during the year ended December 31, 2017. For the year ended December 31, 2016, donated goods and services totaled \$18,184, which is included in net special event revenue on the statements of activities.

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. There were no donated assets for the year ended December 31, 2017 or 2016.

MARINE CONSERVATION BIOLOGY INSTITUTE
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017

(continued)

Note 2 - Significant Accounting Policies (continued)

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 cash reserves for years ended December 31, 2017 and 2016 are \$126,289 and \$249,281, respectively.

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.

Federal Income Taxes - The Internal Revenue Service (IRS) has determined that the Organization 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, the Organization has been classified as an organization that is not a private foundation under IRC Section 509(a).

Management has considered the tax positions taken in its tax returns and believes that all of the positions taken by the organization in its federal and state tax returns are more likely than not to be sustained upon examination. The organization's federal tax returns could be subject to examination for three years after they are filed.

Contributions to the Organization qualify for deduction as charitable contributions to the extent allowed by law.

Note 3 - Promises to Give

U.S. GAAP 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, 2017 management determined that a \$20,500 promise to give was uncollectible and was recorded as a bad debt expense as of that date. Promises to give at December 31, 2017 and 2016 of \$69,734 and \$164,862 respectively, scheduled to be paid in 2017 and 2018, respectively.

MARINE CONSERVATION BIOLOGY INSTITUTE
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017

(continued)

Note 4 - Property and Equipment

Property and equipment is summarized as follows at December 31:

	<u>2017</u>	<u>2016</u>
Furniture and Equipment	\$111,843	\$111,843
Less Accumulated Depreciation	(104,065)	(90,732)
Net Property and Equipment	<u>\$ 7,778</u>	<u>\$ 21,111</u>

Depreciation expense for the years ended December 31, 2017 and 2016, was \$13,333 and \$13,333 respectively.

Note 5 - Investments

Investments are summarized as follows at December 31:

	<u>2017</u>	<u>2016</u>
Trading Securities:		
Equity Securities - Materials	\$17,067	\$10,635
Equity Securities - Financial Services	7,072	8,080
Equity Securities - Communications	11,409	7,129
Equity Securities - Social	32,616	27,350
Fixed Income Securities - Short Term Bond Fund	<u>38,318</u>	<u>37,881</u>
Total Investments	<u>\$106,482</u>	<u>\$91,075</u>

U.S. GAAP 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 Organization'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.

MARINE CONSERVATION BIOLOGY INSTITUTE
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017

(continued)

Note 5 - Investments (continued)

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 consisted of the following for the years ended December 31:

	<u>2017</u>	<u>2016</u>
Interest and Dividend Income	\$2,491	\$1,252
Net Realized and Unrealized Gains (Losses)	<u>10,832</u>	<u>5,318</u>
	<u>\$13,323</u>	<u>\$6,570</u>

Note 6 - Retirement Plan

The Organization has a 401(k) plan (the plan) to provide retirement benefits for its eligible employees. All employees working 20 or more hours per week are eligible to make elective deferrals under the plan. After one year of service, the Organization provides a matching contribution of a variable percentage of employee gross pay, which is contingent on an elective employee deferral of a plan specified percentage of gross pay. Elective deferrals of less than the specified percentage of gross pay receive a pro-rated matching contribution. Effective January 1, 2016, the Organization increased its discretionary match from 5% to 10%. In the 4th quarter of 2017, the Organization suspended its 10% matching contribution.

Employees are fully vested in the employer contribution after working 1,000 hours or more per calendar year for four years of service. For the years ended December 31, 2017 and 2016, the Organization contributed \$41,162 and \$55,712, respectively, to the plan which is included in employee benefits expense.

Note 7 - Lease Commitments

The Organization leases office space under various operating leases including one non-cancellable operating lease expiring in 2018. Renewal consideration for that lease will occur in the fall of 2018. Occupancy expense incurred for operating leases for the years ended December 31, 2017 and 2016, was \$62,453 and \$56,535, respectively.

Future minimum payments required under existing operating leases, are as follows:

For the Year Ending December 31,	
2018	<u>\$24,267</u>

MARINE CONSERVATION BIOLOGY INSTITUTE
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017

(continued)

Note 8 - Concentrations

During the years ended December 31, 2017 and 2016, the Organization received two significant grants from two funders, which represented 24% and 37% of total support and revenue recognized, respectively. At December 31, 2017, 72% of total promises to give are due from one donor. At December 31, 2016, 73% of total promises to give were due from one donor.

Note 9 - Special Events

The Organization did not host any special events in 2017. In the year ended December 31, 2016 the Organization hosted a 20th anniversary fundraising gala. Total gross revenue and direct expenses for the year ended December 31, 2016:

	<u>2016</u>
Gross Proceeds and Support	\$33,903
Direct Benefit to Donors	<u>(19,728)</u>
Net Special Event Revenue	<u>\$14,175</u>

Note 10 - Temporarily Restricted Net Assets

Temporarily restricted net assets are restricted by the donor to be used for certain purposes or future periods. The Organization had temporarily restricted net assets as follows at December 31:

	<u>2017</u>	<u>2016</u>
Protecting Marine Ecosystems	\$128,366	\$325,324
Time Restrictions	<u>-</u>	<u>-</u>
	<u>\$128,366</u>	<u>\$325,324</u>

Note 11 - Comparative Financial Information

The financial statements include certain prior year summarized comparative information. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended December 31, 2016, from which the summarized information was derived.

Note 12 - Subsequent Events

Management has evaluated events occurring subsequent to December 31, 2017 through June 21, 2018, 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, 2017, that are required to be recognized or disclosed in these financial statements.