

# **Monterey Bay Aquarium Research Institute**

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

**Monterey Bay Aquarium Research Institute**  
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**December 31, 2011 and 2010**

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## Report of Independent Auditors

To the Board of Directors of the  
Monterey Bay Aquarium Research Institute

In our opinion, the accompanying statements of financial position and the related statements of activities and changes in net assets and of cash flows present fairly, in all material respects, the financial position of the Monterey Bay Aquarium Research Institute (the "Institute") at December 31, 2011 and 2010, and the changes 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. These financial statements are the responsibility of the Institute's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements 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, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

*PricewaterhouseCoopers LLP*

May 17, 2012

**Monterey Bay Aquarium Research Institute**  
**Statements of Financial Position**  
**December 31, 2011 and 2010**

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<i>(in thousands of dollars)</i>	<b>2011</b>	<b>2010</b>
<b>Assets</b>		
Cash and cash equivalents	\$ 6,320	\$ 27,579
Receivables		
The David and Lucile Packard Foundation	45,732	27,006
Federal awards and other	1,522	1,454
Prepaid expenses and other assets	3,257	3,015
Property and equipment - net	<u>61,475</u>	<u>61,554</u>
Total assets	<u>\$ 118,306</u>	<u>\$ 120,608</u>
<b>Liabilities and Net Assets</b>		
Liabilities		
Accounts payable	\$ 965	\$ 774
Accrued expenses and other liabilities	5,814	6,114
Postretirement benefit liabilities	<u>17,284</u>	<u>12,893</u>
Total liabilities	<u>24,063</u>	<u>19,781</u>
Net assets		
Unrestricted	57,517	64,821
Temporarily restricted	<u>36,726</u>	<u>36,006</u>
Total net assets	<u>94,243</u>	<u>100,827</u>
Total liabilities and net assets	<u>\$ 118,306</u>	<u>\$ 120,608</u>

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

**Monterey Bay Aquarium Research Institute**  
**Statements of Activities and Changes in Net Assets**  
**Years Ended December 31, 2011 and 2010**

	2011			2010		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
<i>(in thousands of dollars)</i>						
<b>Revenues</b>						
Contributions						
The David and Lucile Packard Foundation	\$ -	\$ 36,726	\$ 36,726	\$ -	\$ 36,006	\$ 36,006
Individual gifts	64		64	15	-	15
Federal awards	8,446		8,446	7,957	-	7,957
Interest income	33		33	28	-	28
Other	1,908		1,908	1,589	-	1,589
Net assets released from restrictions	36,006	(36,006)	-	35,300	(35,300)	-
Total revenues	<u>46,457</u>	<u>720</u>	<u>47,177</u>	<u>44,889</u>	<u>706</u>	<u>45,595</u>
<b>Expenses</b>						
Research	42,596	-	42,596	40,897	-	40,897
Management and general	10,633	-	10,633	11,265	-	11,265
Total expenses	<u>53,229</u>	<u>-</u>	<u>53,229</u>	<u>52,162</u>	<u>-</u>	<u>52,162</u>
(Decrease) increase in net assets before change in net assets from actuarial gains and amortization	(6,772)	720	(6,052)	(7,273)	706	(6,567)
Change in net assets from actuarial gains and amortization	<u>(532)</u>	<u>-</u>	<u>(532)</u>	<u>1,189</u>	<u>-</u>	<u>1,189</u>
(Decrease) increase in net assets	(7,304)	720	(6,584)	(6,084)	706	(5,378)
<b>Net assets</b>						
Beginning of year	64,821	36,006	100,827	70,905	35,300	106,205
End of year	<u>\$ 57,517</u>	<u>\$ 36,726</u>	<u>\$ 94,243</u>	<u>\$ 64,821</u>	<u>\$ 36,006</u>	<u>\$ 100,827</u>

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

**Monterey Bay Aquarium Research Institute**  
**Statements of Cash Flows**  
**Years Ended December 31, 2011 and 2010**

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*(in thousands of dollars)*

	2011	2010
<b>Cash flows from operating activities</b>		
Decrease in net assets	\$ (6,584)	\$ (5,378)
Adjustments to reconcile decrease in net assets to net cash provided by operating activities		
Change in net assets from actuarial gains and amortization	532	(1,189)
Depreciation	8,784	9,606
Loss on disposal of property and equipment	152	715
Changes in operating assets and liabilities		
Receivables	(18,794)	15,225
Prepaid expenses and other assets	(242)	(421)
Accounts payable	216	(104)
Accrued expenses and other liabilities	(300)	1,078
Postretirement benefit liabilities	3,859	3,482
Net cash (used in) provided by operating activities	<u>(12,377)</u>	<u>23,014</u>
<b>Cash flows from investing activities</b>		
Purchase of property and equipment	<u>(8,882)</u>	<u>(3,361)</u>
Net cash used in investing activities	<u>(8,882)</u>	<u>(3,361)</u>
Net (decrease) increase in cash and cash equivalents	(21,259)	19,653
Cash and cash equivalents, beginning of year	<u>27,579</u>	<u>7,926</u>
Cash and cash equivalents, end of year	<u>\$ 6,320</u>	<u>\$ 27,579</u>
<b>Supplemental disclosures</b>		
Cash paid for federal excise taxes	\$ 12	\$ 5
Noncash acquisitions of capital equipment	-	25

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

# Monterey Bay Aquarium Research Institute

## Notes to Financial Statements

### December 31, 2011 and 2010

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*(in thousands of dollars)*

#### 1. **Organization and Summary of Significant Accounting Policies**

##### **Organization**

The Monterey Bay Aquarium Research Institute (the "Institute") is a not-for-profit organization founded in 1987 for the purpose of conducting scientific research in marine biology, oceanography, underwater geology, and other kinds of marine research in and around the Monterey Bay and elsewhere and to educate the scientific community and the general public in regard to such research. The Institute's primary facilities are located in Moss Landing, California.

Since 1994, The David and Lucile Packard Foundation (the "Foundation") has been the Institute's only member, with the power to elect the Board of Directors. In 2011 and 2010, approximately 78% and 79%, respectively, of the Institute's revenues came from the Foundation. In addition, certain trustees and officers of the Foundation are also directors or officers of the Institute.

##### **Basis of Presentation**

The financial statements are presented on the accrual basis of accounting and in conformity with accounting principles generally accepted in the United States of America ("generally accepted accounting principles").

##### **Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosure 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. Significant estimates include the expected useful lives of property and equipment, and the accrual for postretirement benefit liabilities.

##### **Unrestricted Net Assets**

Unrestricted net assets represent unrestricted resources available to support the Institute's operations.

##### **Temporarily and Permanently Restricted Net Assets**

Temporarily restricted net assets represent gifts that are limited in use by the Institute in accordance with donor-imposed stipulations. These stipulations may expire with time or may be satisfied and removed by the actions of the Institute according to the terms of the gifts. At December 31, 2011 and 2010, temporarily restricted net assets consist entirely of gifts from the Foundation restricted to subsequent year's operations. Temporarily restricted net assets of \$36,006 and \$35,300 were released from restriction due to the expiration of time restrictions during the years ended December 31, 2011 and 2010, respectively. Permanently restricted net assets are those net assets whose uses are restricted in perpetuity, such as endowments. The Institute has no permanently restricted net assets.

# Monterey Bay Aquarium Research Institute

## Notes to Financial Statements

### December 31, 2011 and 2010

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*(in thousands of dollars)*

#### **Concentrations of Credit Risk**

Financial instruments that potentially subject the Institute to credit risk consist primarily of cash and cash equivalents and receivables. Cash and cash equivalents are maintained by major financial institutions and include investments in money market funds. At times, such amounts may exceed Federal Deposit Insurance Corporation limits. Receivables consist primarily of funds due from the Foundation (see Note 3). The Institute closely monitors receivables and has not experienced significant credit losses to date.

#### **Cash and Cash Equivalents**

Cash and cash equivalents consist of cash on hand and in banks, and highly liquid investments purchased with an original maturity of three months or less.

#### **Property and Equipment**

Property and equipment are stated at cost or at the fair market value at the date of donation and are depreciated on the straight-line basis over the estimated useful lives of the assets (3 to 30 years). Capitalized costs for self-constructed assets include direct labor and benefits for employees specifically identified with the project. Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

#### **Revenue Recognition**

Contributions are recognized as revenues when they are received or unconditionally pledged. The Institute reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor 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 accompanying statements of activities and changes in net assets as net assets released from restrictions. Temporarily restricted contributions are reported as unrestricted support when the restriction is met in the same period as the contribution is received.

#### **Income Taxes**

The Institute is a not-for-profit corporation as described in Section 501(c) (3) of the Internal Revenue Code (the "Code") and is exempt from federal and state income taxes pursuant to Section 501(a) of the Code and Section 23701(d) of the California Tax Code. To the extent that the Institute carries out activities that are subject to the unrelated business income tax, it is subject to income taxation.

The Institute is a private operating foundation within the meaning of Section 509(a) of the Code that makes its required charitable expenditures by sponsoring and managing its own programs. Pursuant to Section 4940(a) of the Code, the Institute's investment income, reduced by certain allowable expenses, is subject to excise tax at a rate of 2% of investment income. The Institute's status as an operating foundation is determined annually by satisfying the income test and certain other numerical tests. Generally, a private operating foundation must make qualifying distributions of 4.25% of the average fair value of the foundation's investment assets directly for the active conduct of the activities for which it is organized and operating. The Institute has met the requirements for private operating foundation status through December 31, 2011 and 2010.



**Monterey Bay Aquarium Research Institute**  
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(in thousands of dollars)

**2. Property and Equipment**

Property and equipment at December 31, 2011 and 2010 consist of the following:

	2011	2010
Land	\$ 4,246	\$ 4,246
Buildings	50,186	50,124
Research vessels	36,953	36,839
Remotely operated vehicles	16,920	15,094
Ocean Deployed Equipment	26,445	24,742
General equipment, furniture, and fixtures	22,913	23,281
Capital projects in progress	<u>5,754</u>	<u>2,356</u>
Total	163,417	156,682
Less accumulated depreciation	<u>(101,942)</u>	<u>(95,128)</u>
Property and equipment, net	<u>\$ 61,475</u>	<u>\$ 61,554</u>

**3. Related-Party Transactions**

In December of each year, the Institute receives a grant from the Foundation to support the subsequent year's operations. The Institute received grants of \$36,726 and \$36,006 in 2011 and 2010, to be used in 2012 and 2011, respectively. The receivable from the Foundation was \$45,732 and \$27,006 as of December 31, 2011 and 2010, respectively.

**4. Commitments and Contingencies**

The Institute leases certain land and facilities under noncancelable operating leases. The terms of these leases expire in 2011 through 2039, with certain options to renew. Certain rental rates are subject to adjustment based on increases in the consumer price index. Future minimum lease payments under noncancelable operating leases as of December 31, 2011, are approximately as follows:

**Year Ending December 31**

2012	\$ 169
2013	73
2014	73
2015	26
2016	27
Thereafter	<u>890</u>
Total	<u>\$ 1,258</u>

Rent expense was \$156 and \$153 for the years ended December 31, 2011 and 2010, respectively.

# Monterey Bay Aquarium Research Institute

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*(in thousands of dollars)*

As of December 31, 2011 and 2010, the Institute has \$500, on deposit as collateral to guarantee that the Institute will comply with the provisions of a land lease entered into with the State of California, California State Lands Commission to obtain right-of-way use needed for the construction of one of the Institute's projects, the MARS Project. This amount is included in prepaid expenses and other assets in the statements of financial position.

The Institute derives a portion of its revenues from various federally funded programs that are subject to review and audit by governmental oversight agencies. Institute management believes that the Institute is in material compliance with the standards set forth by the federal governmental agencies and that the outcome of reviews and audits conducted by such agencies will not have a significant effect on the financial position or changes in net assets of the Institute.

#### **Claims**

Claims are filed from time to time against the Institute in the ordinary course of business. The Institute is not aware of any such matters that would have a material adverse effect on the Institute's financial position.

#### **5. Minimum Future Rental Revenues**

The Institute leases land and facilities to others under noncancelable leases with lease terms expiring in 2012, with options to renew. Certain rental rates are subject to annual increases ranging up to 3%.

Minimum future rental receipts from operating leases having noncancelable lease terms in excess of one year as of December 31, 2011, are as follows:

##### **Year Ending December 31**

2012	\$	199
2013		202
Thereafter		226
Total	\$	<u>627</u>

#### **6. Retirement Plans**

The Institute sponsors defined contribution plans under both IRC Section 401(a) and 403(b). The plans cover all employees who meet eligibility requirements. Contributions to the 401(a) plan are made by the Institute at 10% of an employee's annual salary. Under the 403(b) plan and subject to statutory limits, employees make voluntary deferred salary contributions to the plan. Total expenses related to such plans were \$1,981 and \$1,854 in 2011 and 2010, respectively.

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The Institute sponsors a Section 457(b) Qualified Eligible Salary Deferral Plan (the "Salary Deferral Plan") primarily for the purpose of providing deferred compensation for a select group of management or highly compensated employees to accumulate retirement assets. The Salary Deferral Plan enables participants to defer income on a pre-tax basis. At December 31, 2011 and 2010, the Institute held other assets of \$1,352 and \$1,213, respectively, that are included in prepaid expenses and other assets. These assets are designated by the Institute to pay future Salary Deferral Plan liabilities of \$1,352 and \$1,213, respectively, as of December 31, 2011 and 2010. These liabilities are included in accrued expenses and other liabilities.

The Institute also sponsors a Nonqualified Deferred Compensation Restoration Plan (the "Compensation Restoration Plan") primarily for the purpose of providing deferred compensation for a select group of management or highly compensated employees to accumulate retirement assets. The Compensation Restoration Plan provides for the Institute to make contributions to a participant's account equal to the amount in excess of IRC limits which the participant would otherwise have been eligible for in accordance with the Institute's 401(a) plan. At December 31, 2011 and 2010, the Institute held other assets of \$0 and \$35, respectively, that are included in prepaid expenses and other assets, which are designated by the Institute to pay future Deferred Compensation Restoration Plan liabilities of \$0 and \$35, as of December 31, 2011 and 2010, respectively. These liabilities are included in accrued expenses and other liabilities.

Effective July 1, 2007, the Institute adopted a contributory retiree health insurance program (the "Plan") which covers substantially all employees who meet the eligibility requirements. The Institute will pay 50% of the insurance premium for eligible retired employees with a minimum age of 55 and a combination of years of service and age equal to 65 or greater. The Plan can be amended at any time upon Board approval.

Effective March 1, 2009, the plan was amended such that retired employees are no longer eligible to participate in MBARI's insured medical plan. Instead, each August 1st, MBARI makes a contribution on behalf of each retired employee to a healthcare savings account (HSA). The amount of the contribution is 50% of the annual premium that is charged by MBARI's health insurer for an employee with the same family status (single or two-party coverage) as the retiree. The retiree may then spend the amount in the HSA on any medical expenses that are tax-deductible, including premiums for health insurance. However, the retiree cannot participate in MBARI's insured plan.

The following information presents the Plan's unfunded status and the amounts recognized in the statements of financial position as of December 31, 2011 and 2010, based on a measurement date of December 31:

	<b>2011</b>	<b>2010</b>
Benefit obligation	\$ (17,284)	\$ (12,893)
Fair value of plan assets	-	-
Unfunded status	<u>\$ (17,284)</u>	<u>\$ (12,893)</u>
Amount recognized in the statements of financial position as postretirement benefit liabilities	<u>\$ (17,284)</u>	<u>\$ (12,893)</u>

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(in thousands of dollars)

Amounts recognized in unrestricted net assets at December 31, 2011 and 2010 were as follows:

	<b>2011</b>	<b>2010</b>
Prior year service cost	\$ 2,977	\$ 6,032
Net gain	<u>(65)</u>	<u>(3,653)</u>
Total	<u>\$ 2,912</u>	<u>\$ 2,379</u>

Changes in postretirement benefit liabilities recognized in unrestricted net assets were as follows:

	<b>2011</b>	<b>2010</b>
Net loss	\$ 3,180	\$ 1,135
Prior service cost (credit)	-	-
Amortization of net gain	407	731
Amortization of prior service costs	<u>(3,055)</u>	<u>(3,055)</u>
Total recognized in unrestricted net assets	532	(1,189)
Net periodic postretirement benefit cost	<u>3,887</u>	<u>3,510</u>
Total recognized in net periodic benefit cost and unrestricted net assets	<u>\$ 4,419</u>	<u>\$ 2,321</u>

Total contributions paid by the institute to the Plan for the years ended December 31, 2011 and 2010 were \$28 and \$28, respectively. Total benefit payments made from the Plan for the years ended December 31, 2011 and 2010 were \$28 and \$28, respectively.

The weighted-average discount rate used in determining the accumulated postretirement benefit liabilities was 4.42% and 5.60% as of December 31, 2011 and 2010, respectively, and in determining the net periodic postretirement benefit cost was 5.60% and 6.00% for the years ended December 31, 2011 and 2010, respectively.

The estimated prior service cost and net gain for the Plan that will be amortized from unrestricted net assets into the net periodic postretirement benefit cost in 2012 is as follows:

Amortization of prior service cost (credit)	\$ 2,761
Amortization of net loss (gain)	<u>-</u>
	<u>\$ 2,761</u>

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*(in thousands of dollars)*

The Plan is fully insured, and is funded on a pay-as-you-go basis. The estimated minimum benefit payments by year that reflect expected future service, as appropriate; to be paid by the Institute are as follows:

2012	109
2013	190
2014	286
2015	357
2016	443
2017-2021	3,545

The annual rate of increase in the per capita cost of medical benefits (i.e. health care cost trend rate) was assumed to be 9% and 10% in 2011 and 2010, respectively, declining by 1% per year through 2014, and then remaining at 5% thereafter. A 1% point increase or decrease in this rate would increase or decrease the accumulated postretirement benefit liabilities by \$3,804 and (\$2,987), respectively, and increase or decrease the service cost plus interest cost component of the net periodic postretirement benefit cost by \$281 and (\$220), respectively, for the year ended December 31, 2011.

**7. Research Expenses**

The Institute's research expenses are classified within the following divisions:

**Division of Marine Operations**

Division of Marine Operations is responsible for operating and maintaining the research vessels and remotely operative vehicles.

**Research and Development**

Research and Development encompasses scientists and engineers who develop and manage oceanographic research programs.

**Information and Technology Dissemination**

Information and Technology Dissemination is responsible for internal and external communication efforts.

Research expenses, by division, for the years ended December 31, 2011 and 2010, are as follows:

	<b>2011</b>	<b>2010</b>
Division of Marine Operations	\$ 4,032	\$ 6,023
Research and Development	36,775	33,155
Information and Technology Dissemination	<u>1,789</u>	<u>1,719</u>
Total	<u>\$ 42,596</u>	<u>\$ 40,897</u>

**8. Subsequent Events**

Management has evaluated subsequent events through May 17, 2012, which is the date the financial statements were available to be issued.