

**Monterey Bay Aquarium
Research Institute**

E.I.N. # 770150580

**Reports on Financial Statements and Federal Award
Programs in Accordance with OMB Circular A-133
For the Year Ended December 31, 2013**

Monterey Bay Aquarium Research Institute

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December 31, 2013 and 2012

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Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the Monterey Bay Aquarium Research Institute ("the Institute"), which comprise the statements of financial position as of December 31, 2013 and 2012, and the related statements of activities and changes in net assets and of cash flows for the years 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 the 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 the financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from 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 our 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, we consider internal control relevant to the Institute'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 Institute'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 the Monterey Bay Aquarium Research Institute as of December 31, 2013 and 2012 and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 15, 2014 on our consideration of the Monterey Bay Aquarium Research Institute's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters for the year ended December 31, 2013. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Monterey Bay Aquarium Research Institute's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "PricewaterhouseCoopers LLP". The signature is written in a cursive, flowing style.

May 15, 2014

Monterey Bay Aquarium Research Institute
Statements of Financial Position
December 31, 2013 and 2012

(in thousands of dollars)

	2013	2012
Assets		
Cash and cash equivalents	\$ 9,129	\$ 7,441
Receivables		
The David and Lucile Packard Foundation	47,575	47,187
Federal awards and other	1,333	1,341
Prepaid expenses and other assets	4,309	3,670
Property and equipment - net	54,312	57,700
Total assets	<u>\$ 116,658</u>	<u>\$ 117,339</u>
Liabilities and Net Assets		
Liabilities		
Accounts payable	\$ 1,852	\$ 1,427
Accrued expenses and other liabilities	8,136	5,732
Postretirement benefit liabilities	20,674	19,875
Total liabilities	<u>30,662</u>	<u>27,034</u>
Net assets		
Unrestricted	47,786	52,844
Temporarily restricted	38,210	37,461
Total net assets	<u>85,996</u>	<u>90,305</u>
Total liabilities and net assets	<u>\$ 116,658</u>	<u>\$ 117,339</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, 2013 and 2012

	2013			2012		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
<i>(in thousands of dollars)</i>						
Revenues						
Contributions						
The David and Lucile Packard Foundation	\$ -	\$ 38,210	\$ 38,210	\$ -	\$ 37,461	\$ 37,461
Individual gifts	54	-	54	38	-	38
Federal awards	6,383	-	6,383	6,973	-	6,973
Non-Federal awards	976	-	976	1,052	-	1,052
Interest income	10	-	10	12	-	12
Rental income	290	-	290	227	-	227
Royalties	134	-	134	168	-	168
Other	130	-	130	1,042	-	1,042
Net assets released from restrictions	37,461	(37,461)	-	36,726	(36,726)	-
Total revenues	<u>45,438</u>	<u>749</u>	<u>46,187</u>	<u>46,238</u>	<u>735</u>	<u>46,973</u>
Expenses						
Research	42,806	-	42,806	41,835	-	41,835
Management and general	8,598	-	8,598	10,719	-	10,719
Total expenses	<u>51,404</u>	<u>-</u>	<u>51,404</u>	<u>52,554</u>	<u>-</u>	<u>52,554</u>
(Decrease) increase in net assets before change in net assets from actuarial gains and amortization	(5,966)	749	(5,217)	(6,316)	735	(5,581)
Change in net assets from actuarial gains and amortization	908	-	908	1,643	-	1,643
Increase (decrease) in net assets	<u>(5,058)</u>	<u>749</u>	<u>(4,309)</u>	<u>(4,673)</u>	<u>735</u>	<u>(3,938)</u>
Net assets						
Beginning of year	52,844	37,461	90,305	57,517	36,726	94,243
End of year	<u>\$ 47,786</u>	<u>\$ 38,210</u>	<u>\$ 85,996</u>	<u>\$ 52,844</u>	<u>\$ 37,461</u>	<u>\$ 90,305</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, 2013 and 2012

(in thousands of dollars)

	2013	2012
Cash flows from operating activities		
Decrease in net assets	\$ (4,309)	\$ (3,938)
Adjustments to reconcile (decrease) increase in net assets to net cash provided by operating activities		
Change in net assets from actuarial gains and amortization	(908)	(1,643)
Depreciation	8,006	9,027
Gain on disposal of property and equipment	(23)	(153)
Changes in operating assets and liabilities		
Receivables	(380)	(1,274)
Prepaid expenses and other assets	(639)	(413)
Accounts payable	425	462
Accrued expenses and other liabilities	2,404	(82)
Postretirement benefit liabilities	1,707	4,234
Net cash provided by operating activities	<u>6,283</u>	<u>6,220</u>
Cash flows from investing activities		
Purchase of property and equipment	(4,695)	(5,339)
Proceeds from sale of property and equipment	100	240
Net cash used in investing activities	<u>(4,595)</u>	<u>(5,099)</u>
Net increase in cash and cash equivalents	1,688	1,121
Cash and cash equivalents, beginning of year	<u>7,441</u>	<u>6,320</u>
Cash and cash equivalents, end of year	<u>\$ 9,129</u>	<u>\$ 7,441</u>

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

Monterey Bay Aquarium Research Institute

Notes to Financial Statements

December 31, 2013 and 2012

(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 2013 and 2012, approximately 83% and 80%, 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"). Certain reclassifications to the prior year financial statements were made to conform them to the current period's presentation. These reclassifications had no effect on net assets or the total change in net assets as previously presented.

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 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, 2013 and 2012, temporarily restricted net assets consist entirely of gifts from the Foundation restricted to subsequent year's operations. Temporarily restricted net assets of \$37,461 and \$36,726 were released from restriction due to the expiration of time restrictions during the years ended December 31, 2013 and 2012, 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, 2013 and 2012

(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, 2013 and 2012.

Monterey Bay Aquarium Research Institute
Notes to Financial Statements
December 31, 2013 and 2012

(in thousands of dollars)

2. Property and Equipment

Property and equipment at December 31, 2013 and 2012 consist of the following:

	2013	2012
Land	\$ 4,246	\$ 4,246
Buildings	50,240	50,213
Research vessels	42,181	43,001
Remotely operated vehicles	18,819	18,415
Ocean Deployed Equipment	25,032	24,867
General equipment, furniture, and fixtures	19,843	22,436
Capital projects in progress	4,054	1,724
Total	<u>164,415</u>	<u>164,902</u>
Less accumulated depreciation	<u>(110,103)</u>	<u>(107,202)</u>
Property and equipment, net	<u>\$ 54,312</u>	<u>\$ 57,700</u>

As of December 31, 2013, the carrying value of the leased property for which MBARI is the lessor is as follows:

Land	\$ 165
Buildings	1397
Accumulated Depreciation	645

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 \$38,210 and \$37,461 in 2013 and 2012, to be used in 2014 and 2013, respectively. The receivable from the Foundation was \$47,575 and \$47,187 as of December 31, 2013 and 2012, respectively.

Monterey Bay Aquarium Research Institute

Notes to Financial Statements

December 31, 2013 and 2012

(in thousands of dollars)

4. Commitments and Contingencies

The Institute leases certain land and facilities under noncancelable operating leases. The terms of these leases expire in 2014 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, 2013, are approximately as follows:

Year Ending December 31

2014	\$	125
2015		26
2016		27
2017		28
2018		28
Thereafter		781
Total	\$	<u>1,015</u>

Rent expense was \$156 and \$152 for the years ended December 31, 2013 and 2012, respectively.

As of December 31, 2013 and 2012, 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 2014 and 2015, with options to renew. Certain rental rates are subject to annual increases ranging up to 3%.

Monterey Bay Aquarium Research Institute
Notes to Financial Statements
December 31, 2013 and 2012

(in thousands of dollars)

Minimum future rental receipts from operating leases having noncancelable lease terms in excess of one year as of December 31, 2013, are approximately as follows:

Year Ending December 31

2014	\$	150
2015		34
Total	\$	<u>184</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 \$1,949 and \$1,874 in 2013 and 2012, respectively.

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, 2013 and 2012, the Institute held other assets of \$2,269 and \$1,717, 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 \$2,269 and \$1,717, respectively, as of December 31, 2013 and 2012. 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, 2013 and 2012, the Institute held other assets of \$5 and \$2, 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 \$5 and \$2 as of December 31, 2013 and 2012. These liabilities are included in accrued expenses and other liabilities.

The Institute has a contributory retiree health insurance program (the "Plan") which covers substantially all employees who meet the eligibility requirements. 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.

As a result of a plan amendment, the accumulated plan benefit obligation was re-measured on March 1, 2009. On that date, the discount rate was set as 6.68%. The accumulated plan benefit obligation on March 1, 2009 was \$7,051 before the plan amendment and \$7,635 after the plan

Monterey Bay Aquarium Research Institute
Notes to Financial Statements
December 31, 2013 and 2012

(in thousands of dollars)

amendment. The difference of \$584 was added to the unrecognized prior service cost and is being amortized in periods after March 1, 2009.

The following information presents the Plan's unfunded status and the amounts recognized in the statements of financial position as of December 31, 2013 and 2012, based on a measurement date of December 31:

	2013	2012
Benefit obligation	\$ (20,674)	\$ (19,875)
Fair value of plan assets	-	-
Unfunded status	<u>\$ (20,674)</u>	<u>\$ (19,875)</u>
Amount recognized in the statements of financial position as postretirement benefit liabilities	<u>\$ (20,674)</u>	<u>\$ (19,875)</u>

Amounts recognized in unrestricted net assets at December 31, 2013 and 2012 were as follows:

	2013	2012
Prior year service cost	\$ 120	\$ 216
Net gain	240	1,052
Total	<u>\$ 360</u>	<u>\$ 1,268</u>

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

	2013	2012
Net loss (gain)	\$ (812)	\$ 1,118
Prior service cost (credit)	-	-
Amortization of net gain	-	-
Amortization of prior service costs	(96)	(2,761)
Total recognized in unrestricted net assets	<u>(908)</u>	<u>(1,643)</u>
Net periodic postretirement benefit cost	<u>1,736</u>	<u>4,260</u>
Total recognized in net periodic benefit cost and unrestricted net assets	<u>\$ 828</u>	<u>\$ 2,617</u>

Total contributions paid by the Institute to the Plan for the years ended December 31, 2013 and 2012 were \$29 and \$26, respectively. Total benefit payments made from the Plan for the years ended December 31, 2013 and 2012 were \$29 and \$26, respectively.

The weighted-average discount rate used in determining the accumulated postretirement benefit liabilities was 5.04% and 4.14% as of December 31, 2013 and 2012, respectively, and in determining the net periodic postretirement benefit cost was 4.14% and 4.42% for the years ended December 31, 2013 and 2012, respectively.

Monterey Bay Aquarium Research Institute
Notes to Financial Statements
December 31, 2013 and 2012

(in thousands of dollars)

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 2014 is as follows:

	2014
Amortization of prior service cost (credit)	\$ 96
Amortization of net loss (gain)	-
	<u>\$ 96</u>

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 to be paid by the Institute are as follows:

2014	\$ 140
2015	219
2016	315
2017	404
2018	496
2019-2023	3,940

The annual rate of increase in the per capita cost of medical benefits (i.e. health care cost trend rate) was assumed to be 8% in 2013 and 9% in 2012, declining by 1% per year through 2016, 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 \$4,755 and \$(3,695), respectively, and increase or decrease the service cost plus interest cost component of the net periodic postretirement benefit cost by \$461 and \$(346), respectively, for the year ended December 31, 2013.

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.

Monterey Bay Aquarium Research Institute
Notes to Financial Statements
December 31, 2013 and 2012

(in thousands of dollars)

Research expenses, by division, for the years ended December 31, 2013 and 2012, are as follows:

	2013	2012
Division of Marine Operations	\$ 4,478	\$ 4,030
Research and Development	36,283	35,878
Information and Technology Dissemination	<u>2,045</u>	<u>1,927</u>
Total	<u>\$ 42,806</u>	<u>\$ 41,835</u>

8. Subsequent Events

Management has evaluated subsequent events through May 15, 2014, which is the date the financial statements were available to be issued.

Monterey Bay Aquarium Research Institute

Schedule of Expenditures of Federal Awards

December 31, 2013 and 2012

(in thousands of dollars)

Federal Grantor/Pass-through Grantor/Program Title	Federal CFDA #	Award Number	Pass-through Number	Federal Expenditures
Research and Development - Cluster				
National Science Foundation				
Direct Programs				
Geosciences	47.050	OCE-0962032		\$ 337,928
Geosciences	47.050	OCE-1337601		11,810
Geosciences	47.050	OCE-0962391		8,689
Geosciences	47.050	OCE-1220412		88,492
Polar Programs	47.078	ARC-1022773		47,914
Geosciences	47.050	OCE-1041075		16,139
Geosciences	47.050	OCE-1060515		16,777
Geosciences	47.050	OCE-1114794		176,259
Computer and Information Science and Engineering	47.070	IIS-1124975		21,767
Polar Programs via Geosciences	47.050	PLR-1353177		100,596
Geosciences	47.050	OCE-1260295		10,843
Biological Sciences	47.074	IOS-0843119		60,057
Subtotal Direct Awards - National Science Foundation (NSF)				<u>897,271</u>
Pass-through from WHOI - ARRA - Trans-NSF Recovery Act Research Support	47.082	OCE-0958877	A100721	91,839
Pass-through from UC San Diego - Geosciences	47.050	OCE-1005697	SA9-08 10313756	109,355
Pass-through from University of Hawaii - Biological Sciences	47.074	EF-0424599	Z793036	83,928
Total National Science Foundation				<u>1,182,392</u>
U.S. Department of Defense - Office of Naval Research				
Direct Programs				
Basic & Applied Scientific Research	12.300	N00014-09-1-0405		45,206
Basic & Applied Scientific Research	12.300	N00014-10-1-0424		165,366
Basic & Applied Scientific Research	12.300	N00014-10-1-0206		150,632
Subtotal Direct Awards - Office of Naval Research				<u>361,204</u>
Pass-through from Naval Postgraduate School	12.300	N00244-12-2-0008	N6227112RCF5701	2,328
Pass-through from Naval Postgraduate School	12.300	N00244-13-2-0007	N6227113RCGP502	6,567
Total U.S. Department of Defense - Office of Naval Research				<u>370,099</u>
National Aeronautics and Space Administration				
Direct Programs				
Earth Science Enterprise	43.unknown	NNX09AB78G		762,290
Earth Science Enterprise	43.unknown	NNX09AU39G		54,409
Subtotal Direct Awards - Office of Naval Research				<u>816,700</u>
Pass-through from UC Santa Cruz	43.001	NNX11AG11G	S0183665	92,103
Pass-through from Stanford - Science	43.001	NNX11AR62G	28679320-50404-A	788,531
Total National Aeronautics and Space Administration				<u>1,697,333</u>
National Oceanic and Atmospheric Administration				
Direct Programs				
Integrated Ocean Observing System (IOOS)	11.012	NA11NOS0120032		1,828,154
Coastal Ocean Program in the Center for Sponsored Coastal Ocean Research	11.478	NA11NOS4780055		123,411
Total National Oceanic and Atmospheric Administration				<u>1,951,565</u>
Department of Energy				
Direct Program - Office of Science Financial Assistance Program	81.049	DE-SC0004765		712,970
Total Department of Energy				<u>712,970</u>
Defense Advanced Research Projects Agency				
Direct Programs - Research and Technology Development	12.910	HR0011-09-2-0002		324,357
Total Defense Advanced Research Projects Agency				<u>324,357</u>
U.S. Department of Health and Human Services				
National Institutes of Health				
Direct Program - Biomedical Research and Research Training	93.859	1 RO1 GM087198		170,579
Total National Institutes of Health				<u>170,579</u>
Total Research and Development - Cluster				<u>6,409,295</u>
Total Expenditures of Federal Awards				<u>\$ 6,409,295</u>

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

Monterey Bay Aquarium Research Institute
Notes to Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2013

1. Basis of Presentation

The accompanying schedule of expenditures of federal awards presents the federal grant activity of the Institute and is presented on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from the presentation of the amounts in the financial statements. All federal awards passed through from other governmental agencies are included in the schedule of expenditures of federal awards. During the year ended December 31, 2013, no noncash awards were received by the Institute. Full CFDA number and pass-through numbers are included when available.

2. Subrecipients

Of the federal expenditures presented in the accompanying schedule, the Institute provided federal awards to subrecipients as follows:

Program Title/Subrecipient	Prime award/Subaward No.	Federal CFDA #	Amount
National Science Foundation			
University of Maine	OCE-1220412/PO-1211270	47.05	\$ 13,278
			<u>13,278</u>
Integrated Ocean Observing System			
Axiom Consulting & Design	NA11NOS0120032/PO-1311053	11.012	96,028
Board of Trustees of the Leland Stanford Junior University	NA11NOS0120032/PO-1311281	11.012	7,624
Science Applications International Corporation	NA11NOS0120032/PO-1111267	11.012	153,857
Sonoma State University	NA11NOS0120032/PO-1111289	11.012	572,068
University of California, Davis	NA11NOS0120032/PO-1111340	11.012	185,268
University of California, Santa Cruz	NA11NOS0120032/PO-1111252	11.012	67,071
University of California, Los Angeles	NA11NOS0120032/PO-1111249	11.012	60,478
Subtotal Integrated Ocean Observing System			<u>1,142,394</u>
Coastal Services Center			
Naval Postgraduate School	NA08NOS4730382/PO-0911829	11.473	(33)
Subtotal Coastal Services Center			<u>(33)</u>
Space and Earth Sciences			
California Institute of Technology	NNX09AB78G/PO-0910171	43.unknown	193,772
University of Maine	NNX09AU39G/PO-0911695	43.unknown	47,171
President and Fellows of Harvard University	NNX09AB78G/PO-0910170	43.unknown	201,065
Subtotal Space and Earth Sciences			<u>442,008</u>
Basic & Applied Scientific Research			
Honeywell Inc.	N00014-10-1-0206/PO-1010603	12.300	22,103
University of California, San Diego	N00014-10-1-0206/PO-1010543	12.300	20,835
University of Washington	N00014-10-1-0206/PO-1010542	12.300	107,695
Subtotal Basic & Applied Scientific Research			<u>150,632</u>
Office of Science Financial Assistance Program			
University of California, Santa Cruz	DE-SC0004765/PO-1110725	81.049	186,490
Subtotal Office of Science Financial Assistance Program			<u>186,490</u>
Biomedical Research and Research Training			
University of Texas at Austin	1 RO1 GM087198/PO-0911094	93.859	39,745
Subtotal Biomedical Research and Research Training			<u>39,745</u>
Total Subrecipients			\$ <u>1,974,515</u>



**Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance
and Other Matters Based on an Audit of Financial Statements Performed in
Accordance with Government Auditing Standards**

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Monterey Bay Aquarium Research Institute (the "Institute") which comprise the statements of financial position as of December 31, 2013 and 2012, and the related statements of activities and changes in net assets and of cash flows for the years then ended and the related notes to the financial statements, and have issued our report thereon dated May 15, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Institute's internal control over financial reporting ("internal control") to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Institute's internal control. Accordingly, we do not express an opinion on the effectiveness of the Institute's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Institute's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express



such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Princeton University Cooper LLP

May 15, 2014



**Independent Auditor's Report on Compliance with Requirements
That Could Have a Direct and Material Effect on Each Major Program and on Internal Control
Over Compliance in Accordance with OMB Circular A-133**

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

Report on Compliance for Each Major Federal Program

We have audited the Monterey Bay Aquarium Research Institute's ("the Institute") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Institute's major federal programs for the year ended December 31, 2013. The Institute's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Institute's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Institute's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Institute's compliance.

Opinion on Each Major Federal Program

In our opinion, the Monterey Bay Aquarium Research Institute complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2013.

Report on Internal Control Over Compliance

Management of the Institute is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Institute's internal control over compliance with



the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Institute's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

PricewaterhouseCoopers LLP

May 15, 2014

Monterey Bay Aquarium Research Institute
Schedule of Findings and Questioned Costs
Year Ended December 31, 2013

I. Summary of Auditors' Results

1. Financial Statements

Type of auditor's report issued: *Unmodified*

Yes **No**

Internal control over financing reporting:

- Material weakness(es) identified? X
- Significant deficiencies identified that are not considered to be material weakness(es)? None Reported

Noncompliance material to financial statements noted? X

2. Federal Awards

Yes **No**

Internal control over major programs:

- Material weakness (es) identified? X
- Significant deficiencies identified that are not considered to be material weakness (es)? None Reported

Type of auditors' report issued on compliance for major programs: *Unmodified*

Yes **No**

- Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? X

3. Identification of Major Programs

CFDA Numbers **Name of Federal Program or Cluster**

Various Research and Development Cluster

Dollar threshold used to distinguish between Type A and Type B programs: \$300,000

Yes **No**

Auditee qualified as low-risk auditee? X

Monterey Bay Aquarium Research Institute
Schedule of Findings and Questioned Costs
Year Ended December 31, 2013

II. Financial Statement Findings

None

III. Federal Award Findings and Questioned Costs

None

Monterey Bay Aquarium Research Institute
Summary of Status of Prior Audit Findings
Year Ended December 31, 2013

There were no prior year findings which require an update in this report.