

**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, 2014**

Monterey Bay Aquarium Research Institute

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December 31, 2014 and 2013

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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, 2014 and 2013, 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, 2014 and 2013 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 April 30, 2015 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, 2014. 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.

PricewaterhouseCoopers LLP

San Francisco, California
April 30, 2015

Monterey Bay Aquarium Research Institute
Statements of Financial Position
December 31, 2014 and 2013

(in thousands of dollars)

| | 2014 | 2013 |
|---|-------------------|-------------------|
| Assets | | |
| Cash and cash equivalents | \$ 8,844 | \$ 9,129 |
| Receivables | | |
| The David and Lucile Packard Foundation | 48,527 | 47,575 |
| Federal awards and other | 1,265 | 1,333 |
| Prepaid expenses and other assets | 4,713 | 4,309 |
| Property and equipment - net | <u>52,049</u> | <u>54,312</u> |
| Total assets | <u>\$ 115,398</u> | <u>\$ 116,658</u> |
| Liabilities and Net Assets | | |
| Liabilities | | |
| Accounts payable | \$ 1,298 | \$ 1,852 |
| Accrued expenses and other liabilities | 8,941 | 8,136 |
| Postretirement benefit liabilities | <u>31,646</u> | <u>20,674</u> |
| Total liabilities | <u>41,885</u> | <u>30,662</u> |
| Net assets | | |
| Unrestricted | 34,539 | 47,786 |
| Temporarily restricted | <u>38,974</u> | <u>38,210</u> |
| Total net assets | <u>73,513</u> | <u>85,996</u> |
| Total liabilities and net assets | <u>\$ 115,398</u> | <u>\$ 116,658</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, 2014 and 2013

| | 2014 | | | 2013 | | |
|---|------------------|------------------------|------------------|------------------|------------------------|------------------|
| | Unrestricted | Temporarily Restricted | Total | Unrestricted | Temporarily Restricted | Total |
| <i>(in thousands of dollars)</i> | | | | | | |
| Revenues | | | | | | |
| Contributions | | | | | | |
| The David and Lucile Packard Foundation | \$ - | \$ 38,974 | \$ 38,974 | \$ - | \$ 38,210 | \$ 38,210 |
| Individual gifts | 14 | - | 14 | 54 | - | 54 |
| Federal awards | 5,804 | - | 5,804 | 6,383 | - | 6,383 |
| Non-Federal awards | 1,764 | - | 1,764 | 976 | - | 976 |
| Other | 468 | - | 468 | 564 | - | 564 |
| Net assets released from restrictions | 38,210 | (38,210) | - | 37,461 | (37,461) | - |
| Total revenues | <u>46,260</u> | <u>764</u> | <u>47,024</u> | <u>45,438</u> | <u>749</u> | <u>46,187</u> |
| Expenses | | | | | | |
| Research | 41,880 | - | 41,880 | 42,806 | - | 42,806 |
| Management and general | 8,456 | - | 8,456 | 8,598 | - | 8,598 |
| Total expenses | <u>50,336</u> | <u>-</u> | <u>50,336</u> | <u>51,404</u> | <u>-</u> | <u>51,404</u> |
| (Decrease) increase in net assets before change in net assets from actuarial gains and amortization | (4,076) | 764 | (3,312) | (5,966) | 749 | (5,217) |
| Change in net assets from actuarial gains (losses) and amortization | (9,171) | - | (9,171) | 908 | - | 908 |
| Increase (decrease) in net assets | <u>(13,247)</u> | <u>764</u> | <u>(12,483)</u> | <u>(5,058)</u> | <u>749</u> | <u>(4,309)</u> |
| Net assets | | | | | | |
| Beginning of year | 47,786 | 38,210 | 85,996 | 52,844 | 37,461 | 90,305 |
| End of year | <u>\$ 34,539</u> | <u>\$ 38,974</u> | <u>\$ 73,513</u> | <u>\$ 47,786</u> | <u>\$ 38,210</u> | <u>\$ 85,996</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, 2014 and 2013

| <i>(in thousands of dollars)</i> | 2014 | 2013 |
|---|-----------------|-----------------|
| Cash flows from operating activities | | |
| Decrease in net assets | \$ (12,483) | \$ (4,309) |
| Adjustments to reconcile (decrease) increase in net assets to net cash provided by operating activities | | |
| Change in net assets from actuarial gains (losses) and amortization | 9,171 | (908) |
| Depreciation | 6,751 | 8,006 |
| Loss (gain) on disposal of property and equipment | 17 | (23) |
| Changes in operating assets and liabilities | | |
| Receivables | (884) | (380) |
| Prepaid expenses and other assets | (404) | (639) |
| Accounts payable | (554) | 425 |
| Accrued expenses and other liabilities | 805 | 2,404 |
| Postretirement benefit liabilities | 1,801 | 1,707 |
| Net cash provided by operating activities | <u>4,220</u> | <u>6,283</u> |
| Cash flows from investing activities | | |
| Purchase of property and equipment | (4,505) | (4,695) |
| Proceeds from sale of property and equipment | - | 100 |
| Net cash used in investing activities | <u>(4,505)</u> | <u>(4,595)</u> |
| Net (decrease) increase in cash and cash equivalents | (285) | 1,688 |
| Cash and cash equivalents, beginning of year | <u>9,129</u> | <u>7,441</u> |
| Cash and cash equivalents, end of year | <u>\$ 8,844</u> | <u>\$ 9,129</u> |

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

Monterey Bay Aquarium Research Institute

Notes to Financial Statements

December 31, 2014 and 2013

(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 both 2014 and 2013, approximately 83% 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 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, 2014 and 2013, temporarily restricted net assets consist entirely of gifts from the Foundation restricted to subsequent year's operations. Temporarily restricted net assets of \$38,210 and \$37,461 were released from restriction due to the expiration of time restrictions during the years ended December 31, 2014 and 2013, 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, 2014 and 2013

(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, money market funds 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.

Deferred Grant Revenue

Deferred grant revenue represents funds which have been received for programs which have not yet been completed or taken place, and therefore have not yet been earned.

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 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

Monterey Bay Aquarium Research Institute
Notes to Financial Statements
December 31, 2014 and 2013

(in thousands of dollars)

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, 2014 and 2013.

2. Property and Equipment

Property and equipment at December 31, 2014 and 2013 consist of the following:

| | 2014 | 2013 |
|--|------------------|------------------|
| Land | \$ 4,236 | \$ 4,246 |
| Buildings | 50,312 | 50,240 |
| Research vessels | 42,635 | 42,181 |
| Remotely operated vehicles | 19,739 | 18,819 |
| Ocean deployed equipment | 25,752 | 25,032 |
| General equipment, furniture, and fixtures | 20,169 | 19,843 |
| Capital projects in progress | 5,421 | 4,054 |
| Total | <u>168,264</u> | <u>164,415</u> |
| Less: Accumulated depreciation | <u>(116,215)</u> | <u>(110,103)</u> |
| Property and equipment, net | <u>\$ 52,049</u> | <u>\$ 54,312</u> |

As of December 31, 2014, the carrying value of the leased property for which MBARI is the lessor is as follows:

| | |
|--------------------------|---------------|
| Land | \$ 165 |
| Buildings | 1,397 |
| Accumulated depreciation | <u>(692)</u> |
| Leased property, net | <u>\$ 870</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 \$38,974 and \$38,210 in 2014 and 2013, to be used in 2015 and 2014, respectively. The receivable from the Foundation was \$48,527 and \$47,575 as of December 31, 2014 and 2013, respectively.

Monterey Bay Aquarium Research Institute

Notes to Financial Statements

December 31, 2014 and 2013

(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 2017 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, 2014, are approximately as follows:

| Year Ending December 31 | |
|-------------------------|-----------------|
| 2015 | \$ 164 |
| 2016 | 169 |
| 2017 | 137 |
| 2018 | 28 |
| 2019 | 29 |
| Thereafter | <u>749</u> |
| Total | <u>\$ 1,276</u> |

Rent expense was \$162 and \$156 for the years ended December 31, 2014 and 2013, respectively.

As of December 31, 2014 and 2013, 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 2015 and 2017, 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, 2014 and 2013

(in thousands of dollars)

Minimum future rental receipts from operating leases having noncancelable lease terms in excess of one year as of December 31, 2014, are approximately as follows:

| Year Ending December 31 | | |
|--------------------------------|--|---------------|
| 2015 | | \$ 154 |
| 2016 | | 119 |
| 2017 | | <u>61</u> |
| Total | | <u>\$ 334</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 \$2,058 and \$1,949 in 2014 and 2013, 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, 2014 and 2013, the Institute held other assets of \$2,670 and \$2,269, 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 \$2,670 and \$2,269, respectively, as of December 31, 2014 and 2013. 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, 2014 and 2013, the Institute held other assets of \$8 and \$5, 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 \$8 and \$5 as of December 31, 2014 and 2013. 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.

Monterey Bay Aquarium Research Institute
Notes to Financial Statements
December 31, 2014 and 2013

(in thousands of dollars)

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 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, 2014 and 2013, based on a measurement date of December 31:

| | 2014 | 2013 |
|---|--------------------|--------------------|
| Benefit obligation | \$ (31,646) | \$ (20,674) |
| Fair value of plan assets | - | - |
| Unfunded status | <u>\$ (31,646)</u> | <u>\$ (20,674)</u> |
| Amount recognized in the statements of financial position as postretirement benefit liabilities | <u>\$ (31,646)</u> | <u>\$ (20,674)</u> |

Amounts recognized in unrestricted net assets at December 31, 2014 and 2013 were as follows:

| | 2014 | 2013 |
|-------------------------|-----------------|---------------|
| Prior year service cost | \$ 24 | \$ 120 |
| Net loss | <u>9,507</u> | <u>240</u> |
| Total | <u>\$ 9,531</u> | <u>\$ 360</u> |

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

| | 2014 | 2013 |
|---|------------------|---------------|
| Net loss (gain) | \$ 9,267 | \$ (812) |
| Prior service cost (credit) | - | - |
| Amortization of net gain | - | - |
| Amortization of prior service costs | <u>(96)</u> | <u>(96)</u> |
| Total recognized in unrestricted net assets | 9,171 | (908) |
| Net periodic postretirement benefit cost | <u>1,844</u> | <u>1,736</u> |
| Total recognized in net periodic benefit cost and unrestricted net assets | <u>\$ 11,015</u> | <u>\$ 828</u> |

Total contributions paid by the Institute to the Plan for the years ended December 31, 2014 and 2013 were \$43 and \$29, respectively. Total benefit payments made from the Plan for the years ended December 31, 2014 and 2013 were \$43 and \$29, respectively.

Monterey Bay Aquarium Research Institute
Notes to Financial Statements
December 31, 2014 and 2013

(in thousands of dollars)

The weighted-average discount rate used in determining the accumulated postretirement benefit liabilities was 4.00% and 5.04% as of December 31, 2014 and 2013, respectively, and in determining the net periodic postretirement benefit cost was 5.04% and 4.14% for the years ended December 31, 2014 and 2013, 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 2015 is as follows:

| | 2015 |
|---|---------------|
| Amortization of prior service cost (credit) | \$ 24 |
| Amortization of net loss (gain) | 881 |
| | <u>\$ 905</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:

| | |
|-----------|--------|
| 2015 | \$ 165 |
| 2016 | 291 |
| 2017 | 408 |
| 2018 | 521 |
| 2019 | 624 |
| 2020-2024 | 4,870 |

The annual rate of increase in the per capita cost of medical benefits (i.e. health care cost trend rate) was assumed to be 10% in 2014 and 12% in 2015, declining by 2% per year through 2018, 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 \$7,852 and \$(6,006), respectively, and increase or decrease the service cost plus interest cost component of the net periodic postretirement benefit cost by \$455 and \$(345), respectively, for the year ended December 31, 2014.

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, 2014 and 2013

(in thousands of dollars)

Research expenses, by division, for the years ended December 31, 2014 and 2013, are as follows:

| | 2014 | 2013 |
|--|------------------|------------------|
| Division of Marine Operations | \$ 4,282 | \$ 4,478 |
| Research and Development | 35,697 | 36,283 |
| Information and Technology Dissemination | 1,901 | 2,045 |
| Total | <u>\$ 41,880</u> | <u>\$ 42,806</u> |

8. Subsequent Events

Management has evaluated subsequent events through April 30, 2015, which is the date the financial statements were available to be issued.

Monterey Bay Aquarium Research Institute

Schedule of Expenditures of Federal Awards

For the Year Ended December 31, 2014

(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 | | \$ 267,604 |
| Geosciences | 47.050 | OCE-1337601 | | 638,979 |
| Geosciences | 47.050 | OCE-0962391 | | 20,022 |
| Geosciences | 47.050 | OCE-1220412 | | 98,839 |
| Polar Programs | 47.078 | ARC-1022773 | | 43,918 |
| Geosciences | 47.050 | OCE-1041075 | | 32,526 |
| Geosciences | 47.050 | OCE-1060515 | | 17,484 |
| Geosciences | 47.050 | OCE-1440346 | | 11,289 |
| Geosciences | 47.050 | OCE-1114794 | | 418,258 |
| Geosciences | 47.050 | OCE-1357042 | | 76,832 |
| Geosciences | 47.050 | OCE-1342734 | | 50,340 |
| Polar Programs via Geosciences | 47.050 | PLR-1353177 | | 33,356 |
| Geosciences | 47.050 | OCE-1260295 | | 41,923 |
| Biological Sciences | 47.074 | IOS-0843119 | | 37,645 |
| Biological Sciences | 47.080 | OCI-1148213 | | 6,031 |
| Subtotal Direct Awards - National Science Foundation (NSF) | | | | 1,795,046 |
| Pass-through from Princeton University - Geosciences | 47.050 | PLR-1425989 | SUB0000010 | 53,899 |
| Pass-through from UC San Diego - Geosciences | 47.050 | OCE-1005697 | SA9-08 10313756 | 46,490 |
| Pass-through from University of Hawaii - Biological Sciences | 47.074 | EF-0424599 | Z793036 | 90,572 |
| Total National Science Foundation | | | | 1,986,007 |
| U.S. Department of Defense - Office of Naval Research | | | | |
| Direct Programs | | | | |
| Basic & Applied Scientific Research | 12.300 | N00014-14-1-0199 | | 117,064 |
| Basic & Applied Scientific Research | 12.300 | N00014-10-1-0424 | | 158,153 |
| Basic & Applied Scientific Research | 12.300 | N00014-10-1-0206 | | 2,091 |
| Subtotal Direct Awards - Office of Naval Research | | | | 277,308 |
| Pass-through from Naval Postgraduate School | 12.300 | N00244-13-2-0007 | N6227113RCGP502 | 40,289 |
| Total U.S. Department of Defense - Office of Naval Research | | | | 317,597 |
| National Aeronautics and Space Administration | | | | |
| Direct Programs | | | | |
| Earth Science Enterprise | 43.unknown | NNX09AB78G | | 28,791 |
| Subtotal Direct Awards - National Aeronautics and Space Administration | | | | 28,791 |
| Pass-through from UC Santa Cruz | 43.001 | NNX11AG11G | S0183665 | 36,506 |
| Pass-through from Stanford University | 43.001 | NNX11AR62G | 28679320-50404-A | 479,083 |
| Pass-through from UC Santa Cruz | 43.001 | NNX14AC42G | S0184246 | 34,349 |
| Total National Aeronautics and Space Administration | | | | 578,729 |
| National Oceanic and Atmospheric Administration | | | | |
| Direct Programs | | | | |
| Integrated Ocean Observing System (IOOS) | 11.012 | NA11NOS0120032 | | 2,306,509 |
| Coastal Ocean Program in the Center for Sponsored Coastal Ocean Research | 11.478 | NA11NOS4780055 | | 176,356 |
| Total National Oceanic and Atmospheric Administration | | | | 2,482,865 |
| Department of Energy | | | | |
| Direct Program - Office of Science Financial Assistance Program | 81.049 | DE-SC0004765 | | 348,067 |
| Total Department of Energy | | | | 348,067 |
| U.S. Department of Health and Human Services | | | | |
| National Institutes of Health | | | | |
| Direct Program - Biomedical Research and Research Training | 93.859 | 1 RO1 GM087198 | | 94,907 |
| Total National Institutes of Health | | | | 94,907 |
| Total Research and Development - Cluster | | | | 5,808,172 |
| Total Expenditures of Federal Awards | | | | \$ 5,808,172 |

The accompanying notes are an integral part of this schedule.

Monterey Bay Aquarium Research Institute
Notes to Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2014

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, 2014, no noncash awards were received by the Institute. Full CFDA numbers 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 | \$ 39,800 |
| University of Hawaii | OCE-1337601/PO-1410379 | 47.05 | 25,985 |
| Subtotal Geosciences | | | <u>65,785</u> |
| Integrated Ocean Observing System | | | |
| Axiom Consulting & Design | NA11NOS0120032/PO-1311053 | 11.012 | 209,874 |
| Board of Trustees of the Leland Stanford Junior University | NA11NOS0120032/PO-1311281 | 11.012 | 37,073 |
| Science Applications International Corporation | NA11NOS0120032/PO-1111267 | 11.012 | 45,441 |
| Sonoma State University | NA11NOS0120032/PO-1111289 | 11.012 | 507,871 |
| University of California, Davis | NA11NOS0120032/PO-1111340 | 11.012 | 473,964 |
| University of California, Santa Cruz | NA11NOS0120032/PO-1111252 | 11.012 | 134,267 |
| University of California, Los Angeles | NA11NOS0120032/PO-1111249 | 11.012 | 110,676 |
| CODAR Ocean Sensors | NA11NOS0120032/PO-1411314 | 11.012 | 68,917 |
| Cal Poly Corporation | NA11NOS0120032/PO-1411311 | 11.012 | 12,507 |
| Humboldt State University | NA11NOS0120032/PO-1411313 | 11.012 | 7,108 |
| San Jose State University | NA11NOS0120032/PO-1411342 | 11.012 | 12,588 |
| Subtotal Integrated Ocean Observing System | | | <u>1,620,286</u> |
| Earth Science Enterprise | | | |
| California Institute of Technology | NNX09AB78G/PO-0910171 | 43.unknown | 496 |
| President and Fellows of Harvard University | NNX09AB78G/PO-0910170 | 43.unknown | 11,787 |
| Subtotal Space and Earth Sciences | | | <u>12,283</u> |
| Basic & Applied Scientific Research | | | |
| Oregon State University | N00014-14-1-0199/PO-1410457 | 12.300 | 81,476 |
| University of Washington | N00014-10-1-0206/PO-1010542 | 12.300 | 2,107 |
| Subtotal Basic & Applied Scientific Research | | | <u>83,583</u> |
| Total Subrecipients | | | <u>\$ 1,781,937</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, 2014 and 2013, 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 April 30, 2015.

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.

PricewaterhouseCoopers LLP

San Francisco, California
April 30, 2015



**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, 2014. 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, 2014.

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.

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

San Francisco, California
April 30, 2015

Monterey Bay Aquarium Research Institute
Schedule of Findings and Questioned Costs
For the Year Ended December 31, 2014

I. Summary of Auditors' Results

1. *Financial Statements*

| | |
|--|-------------------|
| Type of auditor's report issued: | <i>Unmodified</i> |
| Internal control over financing reporting: | |
| <ul style="list-style-type: none"> Material weakness(es) identified? | No |
| <ul style="list-style-type: none"> Significant deficiencies identified that are not considered to be material weakness(es)? | None Reported |
| Noncompliance material to financial statements noted? | No |

2. *Federal Awards*

| | |
|--|-------------------|
| Internal control over major programs: | |
| <ul style="list-style-type: none"> Material weakness (es) identified? | No |
| <ul style="list-style-type: none"> Significant deficiencies identified that are not considered to be material weakness (es)? | None Reported |
| Type of auditors' report issued on compliance for major programs: | <i>Unmodified</i> |
| <ul style="list-style-type: none"> Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? | No |

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 |
| Auditee qualified as low-risk auditee? | | Yes |

Monterey Bay Aquarium Research Institute
Schedule of Findings and Questioned Costs
For the Year Ended December 31, 2014

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
For the Year Ended December 31, 2014

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