

Marine Aquarium Council, Inc. and Subsidiary

(A Nonprofit Organization)

Consolidated Financial Statements

December 31, 2007 and 2006

Marine Aquarium Council, Inc. and Subsidiary

(A Nonprofit Organization)

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December 31, 2007 and 2006

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Report of Independent Auditor

To the Board of Directors of
Marine Aquarium Council, Inc.

I have audited the accompanying consolidated statements of financial position of Marine Aquarium Council, Inc. and subsidiary as of December 31, 2007 and 2006, and the related consolidated statements of activities and cash flows for the years then ended. These financial statements are the responsibility of Marine Aquarium Council, Inc.'s management. My responsibility is to express an opinion on these financial statements based on my audits.

Except as discussed in the following paragraph, I conducted my audits of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audits provide a reasonable basis for my opinion.

I was unable to examine supporting documentation relating to expenses incurred by one of the organization's subcontractors under the organization's major grant. Such expenses amounted to approximately \$123,000 in 2007.

In my opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had I been able to examine evidence relating to expenses incurred by the subcontractor referred to above, the financial statements referred to in the first paragraph above present fairly, in all material respects, the assets, liabilities, and net assets Marine Aquarium Council, Inc. and subsidiary as of December 31, 2007 and 2006, and the changes in their net assets and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

James P. Hasselman, CPA, LLC

Honolulu, Hawai'i
March 26, 2009

Marine Aquarium Council, Inc. and Subsidiary
(A Nonprofit Organization)
Consolidated Statements of Financial Position
December 31, 2007 and 2006

	2007	2006
Assets		
Current assets		
Cash	\$ 138,370	\$ 185,042
Grant and contract receivables	62,094	224,246
Advances to subcontractors	6,749	190,907
Employee and other receivables	9,998	6,426
Total current assets	<u>217,211</u>	<u>606,621</u>
Other assets	3,582	794
Total assets	<u>\$ 220,793</u>	<u>\$ 607,415</u>
Liabilities and Net Assets		
Current liabilities		
Accounts payable and accrued expenses	\$ 50,204	\$ 68,320
Accrued payroll and related expenses	29,117	67,302
Advance funding on grants and contracts	123,963	468,846
Total current liabilities	<u>203,284</u>	<u>604,468</u>
Commitments and contingencies		
Net assets		
Unrestricted	<u>17,509</u>	<u>2,947</u>
Total net assets	<u>17,509</u>	<u>2,947</u>
Total liabilities and net assets	<u>\$ 220,793</u>	<u>\$ 607,415</u>

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

Marine Aquarium Council, Inc. and Subsidiary
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Consolidated Statements of Activities
Years Ended December 31, 2007 and 2006

	2007	2006
Change in unrestricted net assets		
Revenue and income		
Grant and contract revenues	\$ 2,162,254	\$ 2,699,487
Other income	9,184	8,817
Total revenue and income	<u>2,171,438</u>	<u>2,708,304</u>
Costs and expenses		
Grant and contract costs		
Direct	1,889,196	2,447,697
Allocated general and administrative	267,680	253,624
Total costs and expenses	<u>2,156,876</u>	<u>2,701,321</u>
Increase in net assets	14,562	6,983
Net assets		
Beginning of year	<u>2,947</u>	<u>(4,036)</u>
End of year	<u>\$ 17,509</u>	<u>\$ 2,947</u>

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

Marine Aquarium Council, Inc. and Subsidiary
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Consolidated Statements of Cash Flows
Years Ended December 31, 2007 and 2006

	2007	2006
Increase (Decrease) In Cash		
Cash flows from operating activities		
Increase in net assets	\$ 14,562	\$ 6,983
Adjustments to reconcile increase in net assets to net cash used in operating activities		
Effect of exchange rate changes on cash	7,679	3,560
Decrease (increase) in assets		
Grant and contract receivables	162,152	79,455
Advances to subcontractors	184,158	(177,927)
Other receivables	(3,572)	13,480
Other assets	(2,788)	(567)
Increase (decrease) in liabilities		
Accounts payable and accrued expenses	(18,116)	(31,042)
Accrued payroll and related expenses	(38,185)	19,019
Advance funding on grants and contracts	(344,883)	(1,081,620)
Net cash used in operating activities	<u>(38,993)</u>	<u>(1,168,659)</u>
Exchange rates		
Effect of exchange rate changes on cash	<u>(7,679)</u>	<u>(3,560)</u>
Net decrease in cash	<u>(46,672)</u>	<u>(1,172,219)</u>
Cash		
Beginning of year	<u>185,042</u>	<u>1,357,261</u>
End of year	<u>\$ 138,370</u>	<u>\$ 185,042</u>
 Supplemental Information		
Interest received	\$ 5,674	\$ 6,022

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

Marine Aquarium Council, Inc. and Subsidiary

(A Nonprofit Organization)

Notes to Consolidated Financial Statements

December 31, 2007 and 2006

1. Organization and Operations

The Marine Aquarium Council, Inc. (the “Company”) is a not-for-profit corporation established in Delaware. The Company’s mission is to conserve coral reefs and other marine ecosystems by creating standards and certification for those engaged in the collection and care of ornamental marine life from reef to aquarium. The Company has three Core Standards which outline the requirements for third-party certification of quality and sustainability in the marine aquarium industry from reef to retail:

- The Ecosystem and Fishery Management Core Standard addresses in-situ habitat, stock and species management and conservation by verifying that the collection area is managed according to principles that ensure ecosystem health and the sustainable use of the marine aquarium fishery.
- The Collection, Fishing and Holding Core Standard addresses harvesting of fish, coral, live rock and other coral reef organisms, handling prior to export, holding, plus packaging and transport to ensure the health of the collection area, sustainable use of the marine aquarium fishery and optimal health of the harvested organisms.
- The Handling, Husbandry and Transport Core Standard addresses the handling of marine life during export, import and retail to ensure their optimal health, their segregation from uncertified organisms and proper documentation to show that they pass only from one certified industry operator to another.

The Company’s administrative office is located in Honolulu, Hawai‘i. The Company has an inactive subsidiary in the United Kingdom and also conducts operations in the Republic of the Philippines, the Republic of Indonesia, and to a lesser extent, in the Republic of the Fiji Islands (a British Commonwealth).

The Company is a tax-exempt organization for United States Federal and State income tax purposes, under Internal Revenue Code Section 501(c)(3).

2. Summary of Significant Accounting Policies

Financial Statement Presentation

The financial statements of the Company are presented on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America established for not-for-profit organizations.

The Company classifies net assets, support and revenues, and expenses based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Company and changes therein are classified and reported as follows:

- **Unrestricted net assets** – Net assets not subject to donor-imposed stipulations or received with restrictions that were satisfied in the same period.

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- **Temporarily restricted net assets** – Net assets subject to donor-imposed stipulations that may or will be met either by actions of the Company and/or the passage of time. At December 31, 2007 and 2006 there were no temporarily restricted net assets.
- **Permanently restricted net assets** – Net assets subject to donor-imposed stipulations that must be maintained permanently by the Company. At December 31, 2007 and 2006 there were no permanently restricted net assets.

Consolidation

The consolidated financial statements present the accounts of the Company – including the combined accounts of foreign operations – and the accounts of a subsidiary entity consolidated under AICPA Statement of Position 94-3: Reporting of Related Entities by Not-for-Profit Organizations (“SOP 94-3”). SOP 94-3 dictates consolidation when one not-for-profit entity has both control over, and an economic interest in, another not-for-profit entity. Intercompany accounts and transactions have been eliminated in consolidation.

Foreign Currency Translation and Transactions

Assets and liabilities of foreign operations and subsidiaries, where the local currency is the functional currency, have been translated at year end exchange rates and statement of activity accounts have been translated using weighted average yearly exchange rates. Adjustments resulting from translation have been recorded as other income or expense in unrestricted net assets within the statement of activities. The cumulative translation adjustments are a component of unrestricted net assets.

Assets, liabilities and transactions that are denominated in currencies other than the Company’s functional currency are remeasured into the functional currency using period end and weighted average exchange rates commensurate with the remeasurement date or period. Adjustments resulting from transaction remeasurement have been recorded as incurred as increases or decreases in unrestricted net assets within the statement of activities.

Use of Estimates in Financial Statements

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and 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. Significant items subject to such estimates and assumptions include the allowance for doubtful accounts, liabilities related to close-out audits, the carrying value and useful lives of property and equipment and liabilities related to loss contingencies. Actual results could differ from those estimates.

Grant and Contract Receivables

Year end grant and contract receivable balances represent billed and unbilled amounts due to the Company from grantors and contractors for reimbursable expenditures incurred by the Company prior to year end. Management analyzes the collectability of these receivables and establishes an allowance for doubtful accounts when the receivable is deemed uncollectible.

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Advances to Subcontractors

The Company engages subcontractors to assist in the performance of programmatic activity. For subcontractors who are advanced funds, the Company reduces the advance balance and recognizes grant and contract expenses as those expenses are incurred by the subcontractor and reported to the Company. Any balance of funds advanced to subcontractors, but not expended in the current year, is recognized as advances to subcontractors, which is a current asset on the statement of financial position.

Furniture, Fixtures and Equipment

Furniture, fixtures and equipment are stated at cost or, in the case of donated assets, at fair value at date of donation. Purchased or donated assets in excess of \$1,000 are capitalized. Renewals, betterments, and major maintenance activities that materially extend the asset lives are capitalized. Capitalized items are depreciated or amortized using the straight-line method over the estimated useful lives of the assets. Repairs and maintenance expenditures are generally expensed. Gains or losses on asset retirement or disposition are reflected in the statement of activities.

Furniture, fixtures and equipment purchased with grant or contract proceeds are expensed as the donor retains an interest in and control over the furniture, fixtures and equipment. At the conclusion of the grant period, the furniture, fixtures and equipment may be utilized by the Company in support of continued activities, may be purchased from the donor or may be reverted back to the donor, depending on the donor's instructions.

Revenue Recognition

A substantial percentage of the Company's revenue is from reimbursable grants and contracts. Revenue is deemed earned and recorded when expenditures are incurred in compliance with specific contract or grant restrictions. Amounts received but not yet earned from grants and contracts are recorded as advance funding on grants and contracts in the statement of financial position.

Grant and contract amounts presented in the statements of activities consist of grants and contracts awarded to the Company from the government or other organizations that require compliance with grant and contract restrictions. Expenditures under a number of the Company's grant and contract programs are subject to final audits that could result in adjustments to revenue previously recognized and the recognition of liabilities to the grantors and contractors. Management believes that liabilities, if any, resulting from such audits will not have a material effect on the financial statements.

Contributions received for which restrictions are satisfied during the same reporting period are reported as unrestricted revenue.

Allocated General and Administrative Expenses

Allocated general and administrative expenses consists of non-project and non-program expenses including support, communication, administration and other general expenses.

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Concentrations of Risk

The Company maintains cash with various financial institutions in the State of Hawai'i and other countries. Cash balances maintained in the State of Hawai'i accounts may at times exceed Federally insured limits of \$100,000 per bank. Balances in foreign accounts may not be covered by insurance.

Significant portions of the Company's grant and contract revenue are derived from concentrated sources. Disruptions in funding from these sources could have a material adverse affect on the Company's future ability to operate. See note 6 for more information.

Significant portions of the Company's operations are performed in foreign locations and transacted in foreign currencies. However, most of the Company's grants and contracts are denominated in U.S. Dollars. The Company does not hedge against foreign currency fluctuations and is exposed to the risk that fluctuations in exchange rates may cause assets, liabilities or commitments denominated in foreign currencies to be settled in amounts different from those previously reported or budgeted.

Reclassifications

Certain reclassifications were made to prior year balances to conform with the current year presentation. Such reclassifications had no effect on the change in net assets as previously reported.

3. Grants and Contracts Receivable

Grants and contracts receivable at December 31, 2007 and 2006 consisted of the following:

	2007	2006
Billed	\$ 61,663	\$ 124,777
Unbilled	24,357	132,164
Other	10,090	1,321
Allowance for doubtful accounts	(34,016)	(34,016)
	<u>\$ 62,094</u>	<u>\$ 224,246</u>

The allowance for doubtful accounts pertains to a specific receivable and represented management's best estimate as of December 31, 2007 and 2006 as to the net realizable balance of that receivable. Subsequent to year end the receivable was collected substantially in full. Management expects to adjust the allowance down to zero in fiscal 2008.

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4. Advance Funding on Grants and Contracts

Advance funding on contracts were held from the following grantors and contractors at December 31, 2007 and 2006:

	2007	2006
International Finance Corporation	\$ 14,224	\$ 330,784
The David and Lucile Packard Foundation	65,430	126,877
The John D. and Catherine T. MacArthur Foundation	34,072	4,884
Others	10,237	6,301
	<u>\$ 123,963</u>	<u>\$ 468,846</u>

5. Lease Commitments

The Company has certain operating leases, primarily for leased building space in various locations, with noncancelable portions through November 2008. The Company also has month-to-month leases or leases with prepaid rent balances.

Total lease rent expense amounted to \$66,970 and \$78,588 in 2007 and 2006, respectively.

6. Concentration of Revenues

Significant portions of the Company's grant and contract revenue earned in 2007 and 2006 were derived from concentrated sources, summarized as follows:

	2007	2006
International Finance Corporation	\$ 1,716,496	\$ 1,741,994
The David and Lucile Packard Foundation	268,647	53,923
The John D. and Catherine T. MacArthur Foundation	65,928	113,349
U.S. Agency for International Development	26,427	281,062
Academy for Educational Development	-	210,107
Ministry of Foreign Affairs - The Netherlands	-	155,090
Others	84,756	143,962
	<u>\$ 2,162,254</u>	<u>\$ 2,699,487</u>

In April 2008, the International Finance Corporation's Marine Aquarium Market Transformation Initiative (MAMTI) grant was cancelled under Section 3.06 of the Grant Agreement. The grant was formally closed out on October 31, 2008.

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7. Foreign Currency Translations and Transactions

The cumulative translation adjustment resulting from the Company's operations where a foreign currency was the functional currency is summarized as a component of unrestricted net assets as follows:

	Cumulative Translation Adjustment	Other Unrestricted Net Assets	Total Unrestricted Net Assets
Balance, January 1, 2006	\$ -	\$ (4,036)	\$ (4,036)
2006 increase in net assets	<u>(1,835)</u>	<u>8,818</u>	<u>6,983</u>
Balance, December 31, 2006	(1,835)	4,782	2,947
2007 increase in net assets	<u>(3,395)</u>	<u>17,957</u>	<u>14,562</u>
Balance, December 31, 2007	<u>\$ (5,230)</u>	<u>\$ 22,739</u>	<u>\$ 17,509</u>

Increases or decreases in the cumulative translation adjustment are included in other income or expense, respectively, in the statement of activities.

Foreign currency gains and losses resulting from transactions denominated in currencies other than the Company's functional currencies are included in the statement of activities as reductions or increases in grant and contract costs. The Company had a 7,120 loss and a 1,763 gain from foreign currency transactions in 2007 and 2006, respectively.

8. Functional Allocation of Expenses

Grant and contract costs were comprised of the following expenses:

	2007 Grant and Contract Costs		
	Direct	Allocated General and Administrative	Total
Salary and benefits	\$ 486,638	\$ 91,208	\$ 577,846
Travel	112,489	44,015	156,504
Supplies and equipment	22,972	1,567	24,539
Contractual services	1,169,517	77,104	1,246,621
Communication	24,349	9,893	34,242
Workshops and meetings	16,809	614	17,423
Rent and maintenance - office and equipment	44,577	22,987	67,564
Miscellaneous	<u>11,845</u>	<u>20,292</u>	<u>32,137</u>
	<u>\$ 1,889,196</u>	<u>\$ 267,680</u>	<u>\$ 2,156,876</u>

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2006 Grant and Contract Costs

	Direct	Allocated General and Administrative	Total
Salary and benefits	\$ 576,510	\$ 63,281	\$ 639,791
Travel	179,631	8,215	187,846
Supplies and equipment	124,815	2,582	127,397
Contractual services	1,428,479	127,890	1,556,369
Communication	58,739	13,862	72,601
Workshops and meetings	22,548	390	22,938
Rent and maintenance - office and equipment	52,918	25,771	78,689
Miscellaneous	4,057	11,633	15,690
	<u>\$ 2,447,697</u>	<u>\$ 253,624</u>	<u>\$ 2,701,321</u>

9. Related Parties

The Company is governed by a board of directors consisting of individuals representing the industry, conservation organizations and other stakeholders in the regions that the Company serves. Much of the Company's grant and contract activity is incurred in support of programs that benefit local industry operators (e.g. fishers, companies) and local communities. The directors have positions of leadership in the areas and/or among the industry, conservation organizations and other stakeholders critical to the mission of the Company.

10. Defined Contribution Retirement Plans

The Company sponsors two defined contribution plans for its United States employees. A 403(b) plan, completely funded by employee contributions, is available to all employees upon the start of their employment. A SEP IRA plan, available to employees after their second employment anniversary, is completely funded by monthly Company contributions equal to 10% of an employee's monthly salary. Employees are fully vested at the start of their participation in the SEP IRA plan. Company contributions to the SEP IRA plan amounted to \$13,196 and \$21,697 for the years ended December 31, 2007 and 2006, respectively.

11. Contingent Liabilities

At December 31, 2007, certain asserted and unasserted claims by former employees had been made against the organization for severance and separation payments they claim are owed to them as a result of their separation from the Company. No liabilities have been established for any of these claims. Subsequent to year end, two of the claims were settled and paid under the organization's insurance policy.