



GULF OF MAINE RESEARCH INSTITUTE AND ITS AFFILIATE Consolidating Financial Statements

December 31, 2013

(with comparative consolidated total for December 31, 2012)



**Gulf of Maine
Research Institute**

Science. Education. Community.



Certified Public Accountants and Business Consultants

Independent Auditor's Report

To the Board of Directors
of the Gulf of Maine Research Institute
and its affiliate

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of the Gulf of Maine Research Institute (a nonprofit organization) and its affiliate, Gulf of Maine Properties, Inc. (collectively referred to as the Institute) which comprise the consolidated statements of financial position as of December 31, 2013, and the related consolidated statements of activities and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated 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 consolidated 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 the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of

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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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Gulf of Maine Research Institute and its affiliate as of December 31, 2013, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the Gulf of Maine Research Institute's 2012 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated June 20, 2013. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2012, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 11, 2014, on our consideration of the 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. 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 the 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 Institute's internal control financial reporting and compliance.



June 11, 2014
South Portland, Maine

Consolidated Statement of Financial Position
December 31, 2013
(with comparative consolidated totals at December 31, 2012)

	2013			2012	
	Gulf of Maine Research Institute	Gulf of Maine Properties, Inc.	Eliminations	Consolidated totals	Consolidated totals
ASSETS					
Current assets:					
Cash and cash equivalents	\$ 958,901	134,068	-	1,092,969	455,389
Investments	1,948,175	-	-	1,948,175	1,942,356
Accrued interest and dividend receivable	11,935	174	-	12,109	18,230
Pledges receivable, current, net of reserve for bad debt	673,409	-	-	673,409	597,746
Accounts receivable	401,041	9,631	-	410,672	679,078
Intercompany receivable (payable)	(4,216)	4,216	-	-	-
Prepaid expenses	44,439	1,822	-	46,261	56,031
Total current assets	4,033,684	149,911	-	4,183,595	3,748,830
Property and equipment:					
Property and equipment	6,170,850	14,174,559	-	20,345,409	20,486,793
Less accumulated depreciation / amortization	(1,799,942)	(2,789,905)	-	(4,589,847)	(4,277,196)
Net property and equipment	4,370,908	11,384,654	-	15,755,562	16,209,597
Other non-current assets:					
Development and site acquisition costs	-	6,241	-	6,241	-
Escrows	20,473	184,471	-	204,944	201,841
Long-term investments:					
Designated for capital and operations	741,462	342,438	-	1,083,900	1,803,074
Designated for endowment	1,606,724	-	-	1,606,724	1,373,018
Beneficial interest in pooled investments held by others	106,551	-	-	106,551	-
Pledges receivable, non-current, net of amortized discount	625,360	-	-	625,360	334,860
Capitalized financing costs, net of accumulated amortization	-	104,915	-	104,915	118,163
Beneficial interest in charitable remainder trust	99,839	-	-	99,839	94,373
Total other non-current assets	3,200,409	638,065	-	3,838,474	3,925,329
Total assets	\$ 11,605,001	12,172,630	-	23,777,631	23,883,756
LIABILITIES AND NET ASSETS					
Current liabilities:					
Bank lines of credit	128,530	-	-	128,530	735,930
Current portion of long-term debt	13,455	103,219	-	116,674	112,620
Accounts payable	313,323	26,765	-	340,088	526,253
Accrued vacation	43,842	-	-	43,842	44,357
Accrued payroll liabilities	103,987	-	-	103,987	99,026
Deferred revenue	-	2,230	-	2,230	-
Total current liabilities	603,137	132,214	-	735,351	1,518,186
Long-term liabilities:					
Long-term debt, net of current portion	438,602	3,594,161	-	4,032,763	4,149,229
Security deposit payable	-	11,839	-	11,839	11,943
Total long-term liabilities	438,602	3,606,000	-	4,044,602	4,161,172
Total liabilities	1,041,739	3,738,214	-	4,779,953	5,679,358
Net assets:					
Unrestricted:					
Undesignated	813	184,679	-	185,492	71,541
Board-designated	2,991,457	369,061	-	3,360,518	2,696,499
Investment in property, equipment and site acquisition cost	4,275,619	7,880,676	-	12,156,295	12,604,054
Total unrestricted net assets	7,267,889	8,434,416	-	15,702,305	15,372,094
Temporarily restricted:					
Program and support	2,422,748	-	-	2,422,748	2,832,304
Total temporarily restricted net assets	2,422,748	-	-	2,422,748	2,832,304
Permanently restricted	872,625	-	-	872,625	-
Total net assets	10,563,262	8,434,416	-	18,997,678	18,204,398
Total liabilities and net assets	\$ 11,605,001	12,172,630	-	23,777,631	23,883,756

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

GULF OF MAINE RESEARCH INSTITUTE AND ITS AFFILIATE - Consolidating Financial Statements

Consolidated Statement of Activities
Year Ended December 31, 2013
 (with comparative consolidated totals for year ended December 31, 2012)

	Gulf of Maine Research Institute						Gulf of Maine Properties, Inc.					2013 Consolidated totals	2012 Consolidated totals
	Unrestricted			Temporarily Restricted	Permanently Restricted	Total	Unrestricted			Eliminations			
	Programs & support	Property & equipment	Board designated	Program & support	Endowment Held by Others		Operations	Property & equipment	Board designated		Total		
Support and revenue:													
Federal and state income	\$ 2,129,217	16,385	-	-	-	2,145,602	-	-	-	-	-	2,145,602	3,344,050
Contributions	2,686,214	44,697	369,698	1,433,319	871,074	5,405,002	-	-	-	-	-	5,405,002	3,772,391
Investment income	27,531	-	281,492	-	1,551	310,574	-	-	1,516	1,516	-	312,090	187,668
In-kind income	246,804	-	-	-	-	246,804	-	-	-	-	-	246,804	71,818
Contract income	378,131	-	-	27,536	-	405,667	-	-	-	-	-	405,667	387,988
Rental income	4,620	-	-	-	-	4,620	680,853	-	-	680,853	(472,486)	212,987	226,618
Property management fee	86,100	-	-	-	-	86,100	-	-	-	-	(86,100)	-	5,535
Conferences & Consulting income	117,331	-	16,351	18,500	-	152,182	-	-	-	-	-	152,182	89,888
Other income (expense)	(78,609)	(7,028)	79,716	6,154	-	233	-	-	-	-	-	233	(4,115)
Net assets released from restrictions	1,933,262	11,885	(50,082)	(1,895,065)	-	-	-	-	-	-	-	-	-
Total support and revenue	7,530,601	65,939	697,175	(409,556)	872,625	8,756,784	680,853	-	1,516	682,369	(558,586)	8,880,567	8,081,841
Expenses:													
Program expenses:													
Research	2,905,237	-	-	-	-	2,905,237	-	-	-	-	-	2,905,237	2,677,543
Education	1,950,468	-	-	-	-	1,950,468	-	-	-	-	-	1,950,468	1,842,952
Community	1,611,924	-	-	-	-	1,611,924	-	-	-	-	-	1,611,924	2,218,870
Support services:													
Development	1,018,262	-	-	-	-	1,018,262	-	-	-	-	-	1,018,262	895,784
Management, general & facilities	(2,504)	282,393	-	-	-	279,889	567,555	312,538	-	880,093	(558,586)	601,396	686,425
Total expenses	7,483,387	282,393	-	-	-	7,765,780	567,555	312,538	-	880,093	(558,586)	8,087,287	8,321,574
Change in net assets before transfers	47,214	(216,454)	697,175	(409,556)	872,625	991,004	113,298	(312,538)	1,516	(197,724)	-	793,280	(239,733)
Other transfers	(46,561)	43,001	3,560	-	-	-	-	38,232	(38,232)	-	-	-	-
Total transfers	(46,561)	43,001	3,560	-	-	-	-	38,232	(38,232)	-	-	-	-
Change in net assets	653	(173,453)	700,735	(409,556)	872,625	991,004	113,298	(274,306)	(36,716)	(197,724)	-	793,280	(239,733)
Net assets, beginning of year	160	4,449,072	2,290,722	2,832,304	-	9,572,258	71,381	8,154,982	405,777	8,632,140	-	18,204,398	18,444,131
Net assets, end of year	\$ 813	4,275,619	2,991,457	2,422,748	872,625	10,563,262	184,679	7,880,676	369,061	8,434,416	-	18,997,678	18,204,398

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

Consolidated Statement of Cash Flows
Year Ended December 31, 2013
(with comparative consolidated totals for year ended December 31, 2012)

	2013			2012
	Gulf of Maine Research Institute	Gulf of Maine Properties, Inc.	Consolidated totals	Consolidated totals
Cash flows from operating activities:				
Change in net assets	\$ 991,004	(197,724)	793,280	(239,733)
Adjustment to reconcile change in net assets to net cash and cash equivalents provided by operating activities:				
Depreciation and amortization	282,393	325,786	608,179	643,860
Loss on disposal of fixed assets	7,028	-	7,028	7,175
Realized/unrealized (gain)loss on investments	(250,260)	1,517	(248,743)	(109,292)
Non-cash contributions	(143,822)	-	(143,822)	(83,285)
Interest in charitable remainder trust	(5,466)	-	(5,466)	(9,135)
(Increase) decrease in assets:				
Net pledges receivable	(366,163)	-	(366,163)	8,942
Accounts receivable	272,776	(4,370)	268,406	(78,540)
Intercompany receivable (payable)	(9,286)	9,286	-	-
Prepaid expenses	11,592	(1,822)	9,770	9,134
Accrued interest and dividend receivable	5,884	237	6,121	1,372
Increase (decrease) in liabilities:				
Accounts payable	(170,212)	(15,953)	(186,165)	185,297
Accrued vacation	(515)	-	(515)	10,571
Accrued payroll liabilities	4,961	-	4,961	(30,817)
Deferred revenue	-	2,230	2,230	(9,694)
Security deposits	-	(104)	(104)	(420)
Net cash and cash equivalents provided by operating activities	629,914	119,083	748,997	305,435
Cash flows from investing activities:				
Purchase of fixed assets	(115,933)	(38,232)	(154,165)	(264,457)
Purchase of investments	(2,262,752)	(3,270)	(2,266,022)	(3,235,628)
Proceeds from sale of investments	3,028,583	-	3,028,583	2,610,999
Net cash and cash equivalents provided by (used in) investing activities	649,898	(41,502)	608,396	(889,086)
Cash flows from financing activities:				
Proceeds from lines of credit, net of repayments	(607,400)	-	(607,400)	614,267
Proceeds from (repayments of) long-term debt, net	(13,052)	(99,360)	(112,412)	(95,282)
Net cash and cash equivalents provided by (used in) financing activities	(620,452)	(99,360)	(719,812)	518,985
Net change in cash and cash equivalents	659,360	(21,779)	637,581	(64,666)
Cash and cash equivalents, beginning of year	299,541	155,847	455,388	520,055
Cash and cash equivalents, end of year	\$ 958,901	134,068	1,092,969	455,389
Supplemental disclosures of cash flow information:				
Cash paid during the year for interest	\$ 31,845	142,630	174,475	179,717

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

NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities - Gulf of Maine Research Institute (GMRI) was incorporated in 1994 under the laws of the State of Maine as a not-for-profit corporation committed to (i) educate the public about the Gulf of Maine and its watershed, (ii) facilitating and conducting marine research; and (iii) undertaking the financing, siting, design, and construction of facilities to support its education and research interests. In 2004, Gulf of Maine Properties, Inc. (GMPInc) was incorporated as a not-for-profit corporation and a wholly owned subsidiary of GMRI under the laws of the State of Maine to acquire, hold, manage, maintain, develop, or dispose of real property for the benefit of and in connection with GMRI.

Basis of Accounting - The financial statements of GMRI and GMPInc have been prepared on the accrual basis of accounting and, accordingly, reflect all significant receivables, payables, and other liabilities.

Basis of Presentation - Financial statement presentation follows the provisions of the *Not-for-Profit Entities: Revenue Recognition* topic and the *Presentation of Financial Statements* topic of the FASB Accounting Standards Codification. Accordingly, contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence or nature of any donor restrictions. GMRI and GMPInc are required to report information regarding its financial position and activities according to three classes of net assets as follows:

- Unrestricted net assets - Net assets that are not subject to donor imposed stipulations.
- Temporarily restricted net assets - Net assets subject to donor imposed stipulations that may or will be met either by specific actions and/or the passage of time.
- Permanently restricted net assets - Net assets subject to donor imposed stipulations that they be maintained permanently by the Institute. Generally, the donors of the assets permit the Institute to use all or part of the income earned on related investments for general or specific purposes.

All inter-entity balances and activities have been eliminated in presenting the consolidated financial statement amounts. The consolidated financial statements include certain prior year summarized comparative information in total but not by net asset class or individual organization in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Institute's consolidated financial statements for the year ended December 31, 2012, from which the summarized information is derived.

Revenue Recognition - Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of donor restrictions.

NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Contributions with Restrictions met in the Same Year - All donor restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are re-classified to unrestricted net assets and reported in the consolidated statement of activities as net assets released from restrictions.

Income Taxes - GMRI and GMPInc have been determined to be exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code, and have both been classified as publicly supported organizations that are not private foundations under Section 509(a) of the Code.

GMRI and GMPInc follow the provisions of *Accounting for Uncertainty in Income Taxes* as provided for in the *Income Taxes* topic of the FASB Accounting Standards Codification. The implementation of these provisions in 2009 had no material impact on GMRI and GMPInc's financial statements. This statement clarifies the criteria that an individual tax position must satisfy for some or all of the benefits of that position to be recognized in an entity's financial statements. It also prescribes a recognition threshold of more-likely-than-not, and a measurement attribute for all tax positions taken or expected to be taken on a tax return, in order for those tax positions to be recognized in the financial statements. There has been no cumulative effect on GMRI and GMPInc's financial statements related to these provisions, and no interest or penalties related to uncertain tax positions were accrued. GMRI and GMPInc are currently open to audit under the statute of limitations by the Internal Revenue Service and state taxing authorities for years ended December 31, 2010 through 2013.

Cash and Cash Equivalents - For financial statement purposes, both GMRI and GMPInc consider all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents, other than those balances held as a portion of investments. Cash equivalents are carried at cost, which approximates fair value.

Investments - Under the *Not-for-Profit Entities: Investments – Debt and Equity Securities* topic of the FASB Accounting Standards Codification, investments in marketable securities with readily determinable fair market values and all investments in debt securities are valued at their fair market values in the consolidated statement of financial position. Unrealized gains and losses are included in the change in net assets. GMRI and GMPInc have adopted the provisions of the *Fair Value Measurements and Disclosure* topic of the FASB Accounting Standards Codification and have provided the necessary disclosures regarding fair value measurements elsewhere in these footnotes.

Pledges Receivable - Pledges receivable (unconditional promises to give) that are expected to be collected within one year are recorded at net realizable value. Pledges receivable that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk-free interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in contribution revenue. Conditional promises to give are not included as support until the conditions are substantially met.

NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Development and Site Acquisition Costs - Fixed assets purchased but not yet in service are capitalized as development and site acquisition costs. Development costs represent costs incurred in the development of research laboratory facilities, which will be amortized over their useful life, once put in service. Site acquisition costs represent costs incurred to acquire the land.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 in the reporting period. Actual results could differ from these estimates.

Expense Allocation - The costs of providing program and other activities have been summarized on a functional basis in the consolidated statement of activities. Accordingly, certain costs have been allocated among the program and supporting services benefited. Expenses which cannot be specifically identified to programs (indirect costs) are allocated on the basis of modified total direct costs for each program. Management distributes these costs based on a cost allocation plan using a federally negotiated indirect cost rate. Expenses which have been allocated using this method include, but are not limited to administrative salaries and wages, occupancy, supplies, telephone, and accounting.

Accounts Receivable - Accounts receivable consist of amounts due from funders under various grants and contracts. No reserve for uncollectable amounts is deemed necessary as management views all such balances, which are primarily from governmental entities, to be fully collectible.

CONCENTRATIONS OF CREDIT RISK ARISING FROM CASH DEPOSITS IN EXCESS OF INSURED LIMITS

Cash balances were held in various checking and money market accounts in one financial institution at December 31, 2013 and 2012, respectively. These accounts are all considered cash and cash equivalents for determining the change in cash in the accompanying consolidated statement of cash flows. At December 31, 2013, account balances were insured up to \$250,000. At December 31, 2012, interest bearing accounts at the institution were insured up to \$250,000, while non-interest bearing accounts were fully insured. At December 31, 2013 and 2012, GMRI had uninsured cash balances of \$858,139 and \$0, respectively.

INVESTMENTS

Following is a summary of GMRI's and GMPInc's investment securities at December 31, 2013:

	<u>GMRI</u>		<u>GMPInc</u>	
	<u>Cost</u>	<u>Market value</u>	<u>Cost</u>	<u>Market value</u>
U.S. Treasury and government agencies	\$ 722,985	694,680	239,675	241,118
Equity	907,347	1,283,243	-	-
Government fixed income	153,818	147,719	-	-
Non-government fixed income	79,340	79,306	5,216	5,495
Foreign fixed income	32,375	31,732	-	-
Cash and cash equivalents	2,080,154	2,080,154	280,296	280,296
Totals	\$ 3,976,019	4,316,834	525,187	526,909

Following is a summary of GMRI's and GMPInc's investment securities at December 31, 2012:

	<u>GMRI</u>		<u>GMPInc</u>	
	<u>Cost</u>	<u>Market value</u>	<u>Cost</u>	<u>Market value</u>
U.S. Treasury and government agencies	\$ 1,130,659	1,109,782	239,675	242,062
Equity	971,427	1,075,757	-	-
Non-government fixed income	337,701	340,000	5,216	6,070
Foreign fixed income	237,412	237,672	-	-
Cash and cash equivalents	2,031,922	2,031,922	277,024	277,024
Totals	\$ 4,709,121	4,795,133	521,915	525,156

GMRI's investment income for fiscal years 2013 and 2012 include investment earnings (dividend and interest) of \$60,314 and \$75,544, respectively, and realized and unrealized gains of \$250,260 and \$105,652, respectively. GMPInc's investment income for fiscal years 2013 and 2012 include investment earnings (dividend and interest) of \$3,033 and \$4,568, respectively, and realized and unrealized gains (losses) of \$(1,517) and \$1,904, respectively.

BENEFICIAL INTEREST IN POOLED INVESTMENTS HELD BY OTHERS

In 2013 GMRI established an endowment fund held by the Maine Community Foundation (the Foundation). Pursuant to the terms of the resolution establishing this fund, property contributed to the Foundation is held as a separate fund designated for the benefit of the Institute. In accordance with its spending policy the Foundation makes distributions from the fund to the GMRI. The estimated value of the future distributions from the fund is included in these financial statements as required under *Not-for profit Entities: Revenue Recognition* topic of the FASB Accounting Standards Codification, and amounted to \$106,551 and \$0 at December 31, 2013 and 2012, respectively.

PLEDGES RECEIVABLE AND CONDITIONAL PROMISES RECEIVED

Pledges receivable, net of unamortized discount, are summarized as follows at December 31. The U.S. Treasury with discount rates ranging from 0.12% to 4.99% is used to discount the future payments of each respective year's pledges.

	<u>2013</u>	<u>2012</u>
Pledges receivable, net of reserve for bad debt, expected to be collected in:		
Less than one year	\$ 698,410	735,146
One year to five years:		
Restricted for future program expenses	237,500	296,000
Restricted for endowments	360,000	-
Unrestricted	30,000	40,000
Total one to five years	627,500	336,000
Over five years	-	-
	1,325,910	1,071,146
Less allowance for uncollectible accounts	(25,000)	(137,400)
Less unamortized discount	(2,141)	(1,140)
Pledges receivable, net	1,298,769	932,606
Less current portion, net	(673,409)	(597,746)
<u>Pledges receivable, net of current portion</u>	<u>\$ 625,360</u>	<u>334,860</u>

Management estimates a reserve for uncollectible pledges based on a review of specific pledges outstanding. At December 31, 2013 and 2012, respectively, the reserve amounted to \$25,000 and \$137,400. This reserve has been netted against pledges receivable as shown above.

In addition, at December 31, 2013, GMRI holds several conditional pledges receivable in the total amount of \$1,953,852 which have not been reflected in these financial statements. These are due to be received from the donors in future years upon the satisfaction of certain conditions.

PROPERTY AND EQUIPMENT

Property and equipment is carried at cost if purchased or fair market value if donated. GMRI and GMPInc depreciate property and equipment using the straight-line method over the following estimated useful lives of the respective assets:

Land	N/A
Artwork	N/A
Building	40 years
Site improvements	15 years
Leasehold improvements	15 years
Exhibits (permanent)	10 years
Equipment, furniture, and fixtures	5 to 7 years
Vehicles	5 years
Computer hardware and software	3 to 5 years

The Institute uses the following thresholds in determining the capitalization of assets. An individual purchase of equipment, furniture and fixtures, greater than or equal to \$5,000, will be capitalized and depreciated. A purchase of such that is less than \$5,000 will be expensed. If a purchase is funded by a project and not in the Institute's care and control, then regardless of the cost, the purchase will be expensed. Soft costs of design consulting, software development, and content development for educational programs will be expensed. Given market valuation uncertainties and unknown future value of the educational content, this policy takes the most conservative approach by assigning no future value to these assets.

Property and equipment consisted of the following at December 31:

		<u>2013</u>		<u>2012</u>	
	<u>GMRI</u>	<u>GMPInc</u>	<u>GMRI</u>	<u>GMPInc</u>	
Land	\$ 1,521,336	2,384,426	1,521,336	2,384,426	
Building	-	11,130,721	-	11,130,721	
Site improvements	2,387,314	377,124	2,387,314	377,124	
Artwork	-	6,345	-	6,345	
Leasehold improvements	308,867	41,736	281,740	41,736	
Furniture and fixtures	175,896	120,928	165,810	120,928	
Computer hardware and software	141,463	-	107,973	-	
Equipment and vehicles	806,919	113,279	942,446	167,495	
Exhibits	829,055	-	851,399	-	
Totals	\$ 6,170,850	14,174,559	6,258,018	14,228,775	

BENEFICIAL INTEREST IN CHARITABLE REMAINDER TRUST

During the year ended December 31, 2008, GMRI was notified that it had been named a remainderman of a charitable remainder trust established by a particular donor who passed away during that year. Under the terms of this trust, a specified life tenant is to receive an annual distribution equal to 6% of the fair market value of the trust assets, as measured annually. Upon the death of this life tenant, the remaining trust assets are then to be distributed to various charitable beneficiaries; GMRI's share is to be one-third of such assets. At December 31, 2013, the fair value of GMRI's interest in this trust was estimated to be \$99,839, and in accordance with generally accepted accounting principles is recorded as an asset within the consolidated statement of financial position. This fair value estimate is based on the readily-determinable market value of the underlying trust assets as of December 31, 2013, an assumed remaining life expectancy of the life tenant of 16.5 years from that date, assumed annualized rates of return for the trust assets ranging from 4.3% to 5.5%, and a discount rate of 4.13%. The current year's change in the value of GMRI's interest in this trust is included in contributions, in the amount of \$5,466.

BOARD-DESIGNATED ENDOWMENT

As noted elsewhere in the financial statements, at December 31, 2013 and 2012, the Board of Directors had designated \$1,606,724 and \$1,373,018, respectively, of GMRI's unrestricted net assets for long-term investment purposes. The purpose of these assets is to serve as a board designated endowment, the income from which is to be used to help meet the operating costs of GMRI and, if necessary, the balance of which is to provide a last-resort source of funds in the case of serious financial need.

GMRI has adopted the provisions of the *Not-for-Profit Entities: Reporting Endowment Funds* topic of the FASB Accounting Standards Codification. Under this guidance, GMRI is required to provide the following disclosures relating to its endowment activities.

Relevant Law - GMRI maintains offices and conducts its activities primarily in Portland, Maine, and accordingly considers itself bound by the version of the Uniform Prudent Management of Institutional Funds Act ("UPMIFA") adopted by the State of Maine's legislature. Under that statute, GMRI's board designated investments described above are not considered to constitute an endowment from a legal perspective under UPMIFA, though they do constitute a board designated endowment from a financial accounting and reporting perspective under the FASB Codification topic noted above. For the years ended December 31, 2013 and 2012, GMRI did not hold any donor restricted endowments subject to UPMIFA.

Board Designated Endowment Spending Policy - The Board of Directors has approved an annual distribution of 5% of the trailing 12-quarter average value of the endowment fund to support current operations. No other withdrawals, expenditures or transfers from the board designated endowment may be made without prior approval by the Board of Directors.

Board Designated Endowment Investment Policy - GMRI has adopted a policy under which its board designated endowment fund investments shall be comprised of 40-80% equities, 20-50% debt securities, and 0-10% cash and cash equivalents with a strategic target asset allocation of 70% equities and 30% debt securities. The fund is to be managed to achieve a moderate degree of risk, neither seeking the highest possible returns nor avoiding all risk of loss, managing volatility in endowment asset value through an

BOARD-DESIGNATED ENDOWMENT, CONTINUED

investment portfolio diversified by market geography, investment style, and asset class. GMRI believes that these parameters serve to appropriately guide the management of this fund to achieve the purposes stated earlier.

The Institute's endowment balances were comprised of the following as of December 31, 2013:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Board-designated endowment funds	\$ 1,606,724	-	-	1,606,724
Totals	\$ 1,606,724	-	-	1,606,724

The changes in the Institute's endowment balances for the year ending December 31, 2013 were as follows:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 1,373,018	-	-	1,373,018
Contributions	-	-	-	-
Investment return:				
Investment income	32,407	-	-	32,407
Net appreciation	236,625	-	-	236,625
Total investment return	269,032	-	-	269,032
Amounts appropriated for expenditure	(35,326)	-	-	(35,326)
Endowment net assets, end of year	\$ 1,606,724	-	-	1,606,724

BOARD-DESIGNATED ENDOWMENT, CONTINUED

The Institute's endowment balances were comprised of the following as of December 31, 2012:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Board-designated endowment funds	\$ 1,373,018	-	-	1,373,018
Totals	\$ 1,373,018	-	-	1,373,018

The changes in the Institute's endowment balances for the year ending December 31, 2012 were as follows:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 1,272,859	-	-	1,272,859
Contributions	-	-	-	-
Investment return:				
Investment income	33,237	-	-	33,237
Net appreciation	129,372	-	-	129,372
Total investment return	162,609	-	-	162,609
Amounts appropriated for expenditure	(62,450)	-	-	(62,450)
Endowment net assets, end of year	\$ 1,373,018	-	-	1,373,018

ASSETS MEASURED AT FAIR VALUE ON A RECURRING BASIS

In accordance with the *Fair Value Measurements and Disclosure* topic of the FASB Accounting Standards Codification, the Institute is required to disclose, for its assets and liabilities measured at fair value on a recurring basis, the sources and types of information, known as inputs, used to determine those fair value measurements.

ASSETS MEASURED AT FAIR VALUE ON A RECURRING BASIS, CONTINUED

Level 1: Level 1 inputs are quoted prices in active markets for identical assets and liabilities that an entity has the ability to access at a measurement date. *Level 2:* Level 2 inputs are inputs other than quoted prices that are observable for the specific asset or liability, either directly or indirectly. *Level 3:* Level 3 inputs are unobservable inputs for the asset or liability in which little or no market activity is available for the asset or liability at the measurement date. All assets of the Institute presented at fair value were measured using Level 1 inputs (i.e., readily available prices for actively and publicly traded securities), except for the beneficial interests in charitable remainder trust and pooled investments held by others, which were valued using the information described earlier, and are thus characterized as based on Level 3 and Level 2 inputs, respectively. This information is summarized as follows:

	<u>Fair value measurements at 12/31/13 using:</u>				
	<u>12/31/13</u>	<u>Quoted prices in</u> <u>active markets for</u> <u>identical assets</u>		<u>Significant</u> <u>other</u> <u>observable</u> <u>inputs</u> <u>(Level 2)</u>	<u>Significant</u> <u>unobservable</u> <u>inputs</u> <u>(Level 3)</u>
	<u>Totals</u>	<u>GMRI</u> <u>(Level 1)</u>	<u>GMPInc</u> <u>(Level 1)</u>		
U.S. Treasury and government agencies					
Short-term	\$ 773,931	532,813	241,118	-	-
Medium-term	309,586	309,586	-	-	-
Domestic equities					
Exchange traded funds	853,822	853,822	-	-	-
Index funds	-	-	-	-	-
Other mutual funds	429,421	429,421	-	-	-
Non-government fixed income					
Short-term	10,654	5,159	5,495	-	-
Medium-term	74,147	74,147	-	-	-
Foreign fixed income					
Short-term	-	-	-	-	-
Medium-term	31,732	31,732	-	-	-
Cash and cash equivalents	2,360,450	2,080,154	280,296	-	-
Interest in pooled investments	106,551	-	-	106,551	-
Charitable remainder trust	99,839	-	-	-	99,839
Totals	\$ 5,050,133	4,316,834	526,909	106,551	99,839

ASSETS MEASURED AT FAIR VALUE ON A RECURRING BASIS, CONTINUED

	12/31/12 <u>Totals</u>	Fair value measurements at 12/31/12 using:			
		<u>GMRI</u> (Level 1)	<u>GMPInc</u> (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
		Quoted prices in active markets for identical assets			
U.S. Treasury and government agencies					
Short-term	\$ 242,062	-	242,062	-	-
Medium-term	1,109,782	1,109,782	-	-	-
Domestic equities					
Exchange traded funds	642,696	642,696	-	-	-
Index funds	244,858	244,858	-	-	-
Other mutual funds	188,203	188,203	-	-	-
Non-government fixed income					
Short-term	11,139	5,069	6,070	-	-
Medium-term	334,931	334,931	-	-	-
Foreign fixed income					
Short-term	130,687	130,687	-	-	-
Medium-term	106,985	106,985	-	-	-
Cash and cash equivalents	2,308,946	2,031,922	277,024	-	-
Charitable remainder trust	94,373	-	-	-	94,373
Totals	\$ 5,414,662	4,795,133	525,156	-	94,373

ASSETS MEASURED AT FAIR VALUE ON A RECURRING BASIS, CONTINUED

A reconciliation of fair value measurements using significant unobservable inputs (Level 3) for the years ended December 31, 2013 and 2012 is provided as follows:

	Charitable remainder <u>trust</u>
Beginning balance, December 31, 2011	\$ 85,238
Total gains (realized and unrealized, all included in contributions and changes in net assets within the consolidated statement of activities)	9,135
Purchases, issuances, sales, and settlements	-
<u>Transfers in and/or out of Level 3</u>	<u>-</u>
Balance, December 31, 2012	94,373
Total gains (realized and unrealized, all included in contributions and changes in net assets within the consolidated statement of activities)	5,466
Purchases, issuances, sales, and settlements	-
<u>Transfers in and/or out of Level 3</u>	<u>-</u>
<u>Ending balance, December 31, 2013</u>	<u>\$ 99,839</u>
The amount of total gains or losses included in changes in net assets attributable to the change in unrealized gains or losses relating to assets still held at December 31, 2013:	<u>\$ 5,466</u>

DEFERRED REVENUE

GMRI recognizes revenue on grant awards and contracts that are exchange transactions when the related services are performed. GMRI's deferred revenue represents unexpended award funds received for exchange transactions and amounted to \$0 at both December 31, 2013 and 2012, respectively. GMPInc's deferred revenue represents prepaid rental payments received. GMPInc had deferred revenue balances of \$2,330 and \$0 at December 31, 2013 and 2012, respectively.

TEMPORARILY RESTRICTED AND PERMANENTLY RESTRICTED NET ASSETS

Temporarily restricted net assets consisted of the following at December 31:

	<u>2013</u>	<u>2012</u>
Gifts and other unexpended revenues and gains restricted to:		
Future program expenses	\$ 2,422,748	2,832,304
Totals	\$ 2,422,748	2,832,304

Permanently restricted net assets consisted of the following at December 31:

	<u>2013</u>	<u>2012</u>
Gifts and other unexpended revenues and gains restricted to:		
Pooled investments held by others	\$ 872,625	-
Totals	\$ 872,625	-

NET ASSETS RELEASED FROM RESTRICTIONS

The sources of net assets released from temporary donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of events specified by the donors as of December 31 were as follows:

	<u>2013</u>	<u>2012</u>
Future program expenses	\$ 1,895,065	1,458,482
Totals	\$ 1,895,065	1,458,482

UNRESTRICTED BOARD-DESIGNATED NET ASSETS

This fund is being used for unrestricted gifts received which GMRI reserves for special purposes. The balance of this fund consisted of the following at December 31:

	<u>2013</u>	<u>2012</u>
Waldron reserve fund	\$ 733,918	753,866
Endowment funds	1,697,613	1,352,474
Reserved for research and scientist guarantee surpluses	140,572	47,109
Reserved for capital projects and equipment and other	119,086	42,900
Capacity building	300,268	94,373
Totals	\$ 2,991,457	2,290,722

Additionally, at December 31, 2013 and 2012, respectively, GMPInc held \$369,061 and \$405,777 in board-designated net assets, set aside for purposes of long-term investment in capital assets and operating reserves.

OPERATING LEASES

As of December 31, 2013, GMRI leased 15,062 square feet plus its share in common areas, for a total of 72.44% of the rentable area of the research laboratory from GMPInc. As of December 31, 2013, GMRI's rent was \$30,754 per month plus GMRI's pro-rata share of utilities, telephone system, and internet costs, as defined in the lease. The lease expires February 28, 2015 and may be renewed for up to ten additional five-year periods.

For the periods from January 1 through December 31, 2013 and 2012, total rent incurred by GMRI was \$369,408 and \$333,868, respectively, plus \$103,438 and \$122,690 in utility costs, respectively. Following is a schedule of future base rent payments required or anticipated under this lease:

Years ending <u>December 31,</u>	
2014	\$ 387,500
2015	426,250
2016	468,875
2017	515,763
2018	567,339
Total	<u>\$ 2,365,727</u>

Additionally, during 2013 and 2012, GMRI leased a mailing system under the terms of an operating lease, which is cancelable on a short-term basis. Total lease expense for this equipment was \$840 for both the years ended December 31, 2013 and 2012.

FORMATION OF CONDOMINIUM ASSOCIATION

During 2011, GMPInc formed a condominium association, Gulf of Maine Properties I, through which all rentable space in the building described above has been converted into condominium units. As of December 31, 2013 and 2012, GMPInc was the sole unit owner of the units thus created. As of and for the years ended December 31, 2013 and 2012, Gulf of Maine Properties I had no financial activity or balances.

LINES OF CREDIT

At December 31, 2013 and 2012, GMRI held two lines of credit with local banks. The first of these bears a maximum credit limit currently set at \$750,000 with interest payable monthly at Wall Street Journal prime less 0.25%, is payable on demand, and is secured by collateral comprising certain investments whose combined market value as of December 31, 2013 amounted to \$1,606,724. Outstanding balances on this credit line at December 31, 2013 and 2012 were \$128,530 and \$735,930, respectively. The second line of credit bears interest at prime and is payable monthly, and is subject to a maximum credit limit of \$400,000. There was no balance outstanding on this credit line at December 31, 2013 or December 31, 2012.

LONG-TERM DEBT

GMPInc obtained a \$4,000,000 construction loan in September 2004 under the federal New Markets Tax Credit Program. The lender was CCM Loan Fund I LLC, which had been formed by CEI Capital Management LLC to admit TD Banknorth as an investor to make the loan. The loan had a term of seven years and carried a fixed interest rate of 3%. In the first two years interest only was paid, and then interest and principal payments were payable based on a 26 year amortization schedule for the remainder of the term, with a balloon payment at the end of the seven year term. During 2009, the parties to this borrowing agreed to modify the repayment terms such that all remaining principal payments were deferred until the expiration of the original seven year term of the loan. The building and the portion of the land on which the building is sited were pledged as collateral, and the loan was guaranteed by GMRI.

In 2011, this loan was refinanced through a tax-exempt revenue bond issued by the Finance Authority of Maine and held by a local bank. The face amount of this bond is \$3,900,000. Monthly payments of principal and interest at a fixed rate of 3.75% are payable based on a twenty-five year amortization, with all principal and interest due in full on November 30, 2021. The balance outstanding on this bond at December 31, 2013 and 2012 was \$3,697,380 and \$3,796,740, respectively.

During 2011, GMRI obtained an additional working capital loan from the same bank referred to in the preceding paragraph. This term loan is subject to a maximum draw limit of \$472,500 and bears interest at prime less 0.25% on amounts drawn and outstanding, payable on a monthly basis. Draws were available to be made against this facility through May 31, 2012 after which time monthly principal and interest is payable based on a twenty-five year amortization, with all interest and principal due in full on November 30, 2021. Balances outstanding on this loan amounted to \$452,057 and \$465,109 at December 31, 2013 and 2012, respectively.

The term loan, lines of credit and tax-exempt bond described above carry certain financial covenants which must be satisfied in order for GMRI to not be in default under these agreements. Among these covenants is a debt service coverage requirement under which GMRI's debt service coverage ratio must be maintained at a level of at least 1.20 to 1. For the year ended December 31, 2013 GMRI satisfied this requirement. For the year ended December 31, 2012 GMRI did not meet this requirement; however, the bank granted a waiver of this covenant for 2012.

LONG-TERM DEBT, CONTINUED

Following is a schedule of future minimum loan payments, based on balances outstanding at December 31, 2013:

Years ending <u>December 31,</u>	Tax-exempt <u>bond</u>
2014	\$ 116,674
2015	121,083
2016	125,249
2017	130,393
2018	135,322
<u>Thereafter</u>	<u>3,520,716</u>
<u>Total</u>	<u>\$ 4,149,437</u>

DONATED GOODS AND SERVICES

For the years ended December 31, 2013 and 2012, certain professional services were donated to GMRI under cost-share agreements in relation to equipment grants from the Maine Research Fund. Other in-kind contributions were for media and promotion services, travel expenses, catering services, accounting and legal fees, photography, acoustical receivers for marine research, and GMRI mugs. GMRI would have had to pay the fair market value of these goods and services had they not been donated. The estimated fair value of these goods and services totaled \$246,804 and \$71,818 for the years ended December 31, 2013 and 2012, respectively, and has been reflected in the accompanying consolidated financial statements as in-kind income with a corresponding in-kind expense.

PENSION PLAN

GMRI sponsors a Section 401(k) plan for its employees. Under the 401(k) plan, participant eligibility is established upon the completion of one year of employment constituted by at least 1,000 hours of service. Total retirement expense under this plan for the years ended December 31, 2013 and 2012 was \$109,200 and \$93,933, respectively.

DEVELOPMENT AND SITE ACQUISITION COSTS

GMRI owns the title to a 4.17 acre piece of waterfront property in Portland Maine, formerly owned by the U.S. Coast Guard and adjacent to the lot on which the new laboratory has been built. The site has 40 feet of frontage on Commercial Street and 321 feet of straight-line frontage on the Fore River. Pursuant to its agreement with the Coast Guard, GMRI was required to provide for the rebuilding of this parcel’s bulkhead pier. Original terms required that the bulkhead be rebuilt, in majority, by the end of 2006; however in 2006 this was extended to December 31, 2009. In 2009, legislation passed the U.S. House of Representatives to further extend this date to December 31, 2011. As work progressed, GMRI capitalized the costs relating to design, permitting, and rebuilding the bulkhead pier as the cost of the property. This project was completed and placed in service in 2011, with final project costs of \$3,908,650 being capitalized as property costs within the statement of financial position.

MANAGEMENT, GENERAL, AND FACILITY EXPENSES

As a Federal contractor, GMRI has a Federally negotiated indirect rate which is used to allocate allowable administrative and facility costs to programs and other departments. Allowable costs include depreciation expense of capital assets which were purchased with non-Federal funding.

GMRI’s reports its management, general and facility expense net of all indirect cost recovery in the Programs and Support Fund, and this recovery includes a partial recovery of depreciation expense. However, depreciation expense is reported in the Property and Equipment Fund.

In 2013, GMRI’s net management, general and facility expenses under the Programs and Support Fund are negative, which reflects indirect costs recovered exceeded costs in that fund. The surplus is more than offset by depreciation expense, resulting in a total GMRI management, general and facility expense of \$279,889, as shown below.

	Unrestricted		Temporarily restricted			
	Programs & support	Property & equipment	Board designated	Programs & support	Capital	GMRI Total
Management, general and facility expenses	\$ 1,852,634	282,393	-	-	-	2,135,027
Indirect recovered, including allowable depreciation	(1,855,138)	-	-	-	-	(1,855,138)
Total expenses	\$ (2,504)	282,393	-	-	-	279,889

SUBSEQUENT EVENTS

In accordance with the *Subsequent Events* topic of the FASB Accounting Standards Codification, management has evaluated subsequent events for possible recognition or disclosure through June 11, 2014 which is the date the financial statements were available to be issued.