

**GULF OF MAINE RESEARCH INSTITUTE
AND ITS AFFILIATE**

Consolidated Financial Statements

**December 31, 2014
(with comparative consolidated totals for
December 31, 2013)**

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, 2014, 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

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, 2014, 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 and its affiliate's 2013 consolidated financial statements, and we expressed an unmodified opinion on those audited consolidated financial statements in our report dated June 11, 2014. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2013, 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 17, 2015, 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 17, 2015
South Portland, Maine

GULF OF MAINE RESEARCH INSTITUTE AND ITS AFFILIATE
Consolidated Statement of Financial Position
December 31, 2014
(with comparative consolidated totals at December 31, 2013)

	2014			2013	
	Gulf of Maine Research Institute	Gulf of Maine Properties, Inc.	Eliminations	Consolidated totals	Consolidated totals
ASSETS					
Current assets:					
Cash and cash equivalents	\$ 1,052,716	218,224	-	1,270,940	1,092,969
Investments	688,947	-	-	688,947	1,948,175
Accrued interest and dividend receivable	8,954	170	-	9,124	12,109
Pledges receivable, current, net of reserve for bad debt	806,709	-	-	806,709	673,409
Accounts receivable	406,311	4,977	-	411,288	410,672
Intercompany receivable (payable)	(249)	249	-	-	-
Prepaid expenses	48,878	-	-	48,878	46,261
Total current assets	3,012,266	223,620	-	3,235,886	4,183,595
Property and equipment:					
Property and equipment	6,605,572	14,201,742	-	20,807,314	20,345,409
Less accumulated depreciation / amortization	(2,037,687)	(3,102,004)	-	(5,139,691)	(4,589,847)
Net property and equipment	4,567,885	11,099,738	-	15,667,623	15,755,562
Other non-current assets:					
Development and site acquisition costs	-	-	-	-	6,241
Escrows	20,545	185,101	-	205,646	204,944
Long-term investments:					
Designated for capital and operations	727,076	343,900	-	1,070,976	1,083,900
Designated for endowment	1,728,218	-	-	1,728,218	1,606,724
Beneficial interest in pooled investments held by others	580,748	-	-	580,748	106,551
Pledges receivable, non-current, net of amortized discount	452,801	-	-	452,801	625,360
Capitalized financing costs, net of accumulated amortization	-	91,667	-	91,667	104,915
Beneficial interest in charitable remainder trust	134,764	-	-	134,764	99,839
Total other non-current assets	3,644,152	620,668	-	4,264,820	3,838,474
Total assets	\$ 11,224,303	11,944,026	-	23,168,329	23,777,631
LIABILITIES AND NET ASSETS					
Current liabilities:					
Bank lines of credit	-	-	-	-	128,530
Current portion of long-term debt	13,870	107,213	-	121,083	116,674
Accounts payable	44,200	26,807	-	71,007	340,088
Accrued vacation	47,650	-	-	47,650	43,842
Accrued payroll liabilities	177,077	-	-	177,077	103,987
Deferred revenue	-	3,576	-	3,576	2,230
Total current liabilities	282,797	137,596	-	420,393	735,351
Long-term liabilities:					
Long-term debt, net of current portion	424,731	3,486,957	-	3,911,688	4,032,763
Security deposit payable	980	13,239	-	14,219	11,839
Total long-term liabilities	425,711	3,500,196	-	3,925,907	4,044,602
Total liabilities	708,508	3,637,792	-	4,346,300	4,779,953
Net assets:					
Unrestricted:					
Undesignated	41,461	280,274	-	321,735	185,492
Board-designated	3,521,321	338,901	-	3,860,222	3,360,518
Investment in property, equipment and site acquisition cost	4,472,597	7,687,059	-	12,159,656	12,156,295
Total unrestricted net assets	8,035,379	8,306,234	-	16,341,613	15,702,305
Temporarily restricted:					
Program and support	1,477,317	-	-	1,477,317	2,422,748
Total temporarily restricted net assets	1,477,317	-	-	1,477,317	2,422,748
Permanently restricted:					
Investment in property, equipment and site acquisition cost	1,003,099	-	-	1,003,099	872,625
Total net assets	10,515,795	8,306,234	-	18,822,029	18,997,678
Total liabilities and net assets	\$ 11,224,303	11,944,026	-	23,168,329	23,777,631

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

GULF OF MAINE RESEARCH INSTITUTE AND ITS AFFILIATE
Consolidated Statement of Activities
Year Ended December 31, 2014
(with comparative consolidated totals for year ended December 31, 2013)

	Gulf of Maine Research Institute						Gulf of Maine Properties, Inc.					2014 Consolidated totals	2013 Consolidated totals
	Unrestricted			Temporarily Restricted	Permanently Restricted		Unrestricted			Eliminations			
	Programs & support	Property & equipment	Board designated	Program & support	Endowment Held by Others	Total	Operations	Property & equipment	Board designated		Total		
Support and revenue:													
Federal and state income	\$ 1,808,015	1,130	-	48,775	-	1,857,920	-	-	-	-	-	1,857,920	2,145,602
Contributions	2,973,831	451,151	660,883	771,695	132,323	4,989,883	-	-	-	-	-	4,989,883	5,405,002
Net investment income	17,957	-	111,820	-	16,561	146,338	-	-	2,088	2,088	-	148,426	312,090
In-kind income	37,355	-	-	-	-	37,355	-	-	-	-	-	37,355	246,804
Contract income	324,093	-	-	-	-	324,093	-	-	-	-	-	324,093	405,667
Rental income	-	-	-	-	-	-	762,301	-	-	762,301	(490,213)	272,088	212,987
Property management fee	107,180	-	-	-	-	107,180	-	-	-	-	(86,100)	21,080	-
Loss on disposal of fixed assets	-	(6,150)	-	-	-	(6,150)	-	-	-	-	-	(6,150)	(7,028)
Conferences & Consulting income	83,845	-	-	35,981	-	119,826	-	-	-	-	-	119,826	152,182
Other income (expense)	(6,963)	-	16,109	-	-	9,146	1,225	-	-	1,225	-	10,371	7,261
Net assets released from restrictions	2,086,392	6,048	(272,148)	(1,801,882)	(18,410)	-	-	-	-	-	-	-	-
Total support and revenue	7,431,705	452,179	516,664	(945,431)	130,474	7,585,591	763,526	-	2,088	765,614	(576,313)	7,774,892	8,880,567
Expenses:													
Program expenses:													
Research	2,510,483	-	-	-	-	2,510,483	-	-	-	-	-	2,510,483	2,905,237
Education	1,706,460	-	-	-	-	1,706,460	-	-	-	-	-	1,706,460	1,950,468
Community	1,836,482	-	-	-	-	1,836,482	-	-	-	-	-	1,836,482	1,611,924
Support services:													
Development	1,345,796	-	-	-	-	1,345,796	-	-	-	-	-	1,345,796	1,018,262
Management, general & facilities	(28,961)	262,798	-	-	-	233,837	577,448	316,348	-	893,796	(576,313)	551,320	601,396
Total expenses	7,370,260	262,798	-	-	-	7,633,058	577,448	316,348	-	893,796	(576,313)	7,950,541	8,087,287
Change in net assets before transfers	61,445	189,381	516,664	(945,431)	130,474	(47,467)	186,078	(316,348)	2,088	(128,182)	-	(175,649)	793,280
Other transfers	(20,797)	7,597	13,200	-	-	-	(90,483)	122,731	(32,248)	-	-	-	-
Total transfers	(20,797)	7,597	13,200	-	-	-	(90,483)	122,731	(32,248)	-	-	-	-
Change in net assets	40,648	196,978	529,864	(945,431)	130,474	(47,467)	95,595	(193,617)	(30,160)	(128,182)	-	(175,649)	793,280
Net assets, beginning 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
Net assets, end of year	\$ 41,461	4,472,597	3,521,321	1,477,317	1,003,099	10,515,795	280,274	7,687,059	338,901	8,306,234	-	18,822,029	18,997,678

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

GULF OF MAINE RESEARCH INSTITUTE AND ITS AFFILIATE
Consolidated Statement of Cash Flows
Year Ended December 31, 2014
(with comparative consolidated totals for year ended December 31, 2013)

	2014			2013
	Gulf of Maine Research Institute	Gulf of Maine Properties, Inc.	Consolidated totals	Consolidated totals
Cash flows from operating activities:				
Change in net assets	\$ (47,467)	(128,182)	(175,649)	793,280
Adjustment to reconcile change in net assets to net cash and cash equivalents provided by (used in) operating activities:				
Depreciation and amortization	262,798	329,596	592,394	608,179
Loss on disposal of fixed assets	6,150	-	6,150	7,028
Realized/unrealized (gain)loss on investments	(89,284)	602	(88,682)	(248,743)
Non-cash contributions	(862,666)	-	(862,666)	(143,822)
Change in pledge discount	258	-	258	1,001
Change in pledge allowance	2,250	-	2,250	(112,400)
Interest in charitable remainder trust	(34,925)	-	(34,925)	(5,466)
(Increase) decrease in assets:				
Net pledges receivable	36,751	-	36,751	(254,764)
Accounts receivable	(5,270)	4,654	(616)	268,406
Intercompany receivable (payable)	(3,967)	3,967	-	-
Prepaid expenses	(4,439)	1,822	(2,617)	9,770
Accrued interest and dividend receivable	2,981	4	2,985	6,121
Increase (decrease) in liabilities:				
Accounts payable	(269,123)	42	(269,081)	(186,165)
Accrued vacation	3,808	-	3,808	(515)
Accrued payroll liabilities	73,090	-	73,090	4,961
Deferred revenue	-	1,346	1,346	2,230
Security deposits	980	1,400	2,380	(104)
Net cash and cash equivalents provided by (used in) operating activities	(928,075)	215,251	(712,824)	748,997
Cash flows from investing activities:				
Purchase of fixed assets	(43,426)	(25,199)	(68,625)	(154,165)
Purchase of investments	(1,556,044)	(2,686)	(1,558,730)	(2,266,022)
Proceeds from sale of investments	2,763,346	-	2,763,346	3,028,583
Net cash and cash equivalents provided by (used in) investing activities	1,163,876	(27,885)	1,135,991	608,396
Cash flows from financing activities:				
Proceeds from lines of credit, net of repayments	-	-	-	(607,400)
Proceeds from (repayments of) long-term debt, net	(141,986)	(103,210)	(245,196)	(112,412)
Net cash and cash equivalents used in financing activities	(141,986)	(103,210)	(245,196)	(719,812)
Net change in cash and cash equivalents	93,815	84,156	177,971	637,581
Cash and cash equivalents, beginning of year	958,901	134,068	1,092,969	455,388
Cash and cash equivalents, end of year	\$ 1,052,716	218,224	1,270,940	1,092,969
Supplemental disclosures of cash flow information:				
Cash paid during the year for interest	\$ 14,484	138,780	153,264	174,475

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

**GULF OF MAINE RESEARCH INSTITUTE
AND ITS AFFILIATE
Notes to Consolidated 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; (iii) enabling informed decisions about the stewardship and use of the Gulf of Maine; (iv) applying lessons learned in the Gulf of Maine to other marine communities worldwide; and (v) 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, 2013, 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.

**GULF OF MAINE RESEARCH INSTITUTE
AND ITS AFFILIATE
Notes to Consolidated Financial Statements, Continued**

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, 2011 through 2014.

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. The carrying value of pledges receivable is reduced by a reserve for estimated uncollectible amounts based on periodic review of outstanding pledges by management. Conditional promises to give are not included as support until the conditions are substantially met.

**GULF OF MAINE RESEARCH INSTITUTE
AND ITS AFFILIATE
Notes to Consolidated Financial Statements, Continued**

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, 2014 and 2013, 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, 2014 and 2013, account balances were insured up to \$250,000. At December 31, 2014 and 2013, GMRI had uninsured cash balances of \$927,653 and \$858,139, respectively. GMPInc had no uninsured cash balances at either December 31, 2014 or 2013.

**GULF OF MAINE RESEARCH INSTITUTE
AND ITS AFFILIATE
Notes to Consolidated Financial Statements, Continued**

INVESTMENTS

Following is a summary of GMRI's and GMPInc's investment securities at December 31, 2014:

	<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	\$ 380,832	374,315	239,675	240,410
Equity	937,965	1,402,183	-	-
Government fixed income	105,270	100,294	-	-
Non-government fixed income	84,345	83,361	5,216	5,600
Foreign fixed income	32,375	31,728	-	-
Cash and cash equivalents	1,172,905	1,172,905	282,991	282,991
Totals	\$ 2,713,692	3,164,786	527,882	529,001

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

GMRI's net investment income for fiscal years 2014 and 2013 include investment earnings (dividend and interest) of \$57,054 and \$60,314, respectively, and realized and unrealized gains of \$89,284 and \$250,260, respectively. GMPInc's net investment income for fiscal years 2014 and 2013 include investment earnings (dividend and interest) of \$2,690 and \$3,033, respectively, and realized and unrealized gains (losses) of \$(602) and \$(1,517), 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 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 \$580,748 and \$106,551 at December 31, 2014 and 2013, respectively.

**GULF OF MAINE RESEARCH INSTITUTE
AND ITS AFFILIATE
Notes to Consolidated Financial Statements, Continued**

PLEDGES RECEIVABLE AND CONDITIONAL PROMISES RECEIVABLE

Pledges receivable, net of unamortized discount and allowance for uncollectible accounts, are summarized as follows at December 31. Interest rates on U.S. Treasury 1-year notes, ranging from 0.27% to 4.99%, are used to discount the future payments of each respective year's pledges.

	<u>2014</u>	<u>2013</u>
Pledges receivable, net of reserve for bad debt, expected to be collected in:		
Less than one year	\$ 833,959	698,410
One year to five years:		
Restricted for future program expenses	110,000	237,500
Restricted for endowments	345,200	360,000
Unrestricted	-	30,000
Total one to five years	455,200	627,500
Over five years	-	-
	1,289,159	1,325,910
Less allowance for uncollectible accounts	(27,250)	(25,000)
Less unamortized discount	(2,399)	(2,141)
Pledges receivable, net	1,259,510	1,298,769
Less current portion, net	(806,709)	(673,409)
<u>Pledges receivable, net of current portion</u>	<u>\$ 452,801</u>	<u>625,360</u>

Management estimates a reserve for uncollectible pledges based on a review of specific pledges outstanding. At December 31, 2014 and 2013, respectively, the reserve amounted to \$27,250 and \$25,000. This reserve has been netted against pledges receivable as shown above.

In addition, at December 31, 2014 and 2013, GMRI holds several conditional pledges receivable in the total amount of \$2,003,852 and \$1,953,852, respectively, 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.

**GULF OF MAINE RESEARCH INSTITUTE
AND ITS AFFILIATE
Notes to Consolidated Financial Statements, Continued**

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>2014</u>		<u>2013</u>
	<u>GMRI</u>	<u>GMPInc</u>	<u>GMRI</u>	<u>GMPInc</u>
Land	\$ 1,677,436	2,384,426	1,521,336	2,384,426
Building	266,400	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	69,616	308,867	41,736
Furniture and fixtures	182,796	120,231	175,896	120,928
Computer hardware and software	141,463	-	141,463	-
Equipment and vehicles	813,369	113,279	806,919	113,279
Exhibits	827,927	-	829,055	-
Totals	\$ 6,605,572	14,201,742	6,170,850	14,174,559

**GULF OF MAINE RESEARCH INSTITUTE
AND ITS AFFILIATE
Notes to Consolidated Financial Statements, Continued**

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, 2014 and 2013, the fair value of GMRI's interest in this trust was estimated to be \$134,764 and \$99,839, respectively, and in accordance with generally accepted accounting principles is recorded as an asset within the consolidated statement of financial position. At December 31, 2014 this fair value estimate was based on the readily-determinable market value of the underlying trust assets, an assumed remaining life expectancy of the life tenant of 14.5 years from that date, assumed annualized nominal rates of return for the trust assets of 6%, and a discount rate of 2.17%. The current year's change in the value of GMRI's interest in this trust is included in contributions, in the amount of \$34,925.

BOARD-DESIGNATED ENDOWMENT

As noted elsewhere in the financial statements, at December 31, 2014 and 2013, the Board of Directors had designated \$1,728,218 and \$1,606,724, 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, 2014 and 2013, 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

**GULF OF MAINE RESEARCH INSTITUTE
AND ITS AFFILIATE
Notes to Consolidated Financial Statements, Continued**

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, 2014:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Board-designated endowment funds	\$ 1,728,218	-	-	1,728,218
Totals	\$ 1,728,218	-	-	1,728,218

The changes in the Institute's endowment balances for the year ended December 31, 2014 were as follows:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 1,606,724	-	-	1,606,724
Contributions	68,272	-	-	68,272
Investment return:				
Investment income	38,028	-	-	38,028
Net appreciation	84,942	-	-	84,942
Total investment return	122,970	-	-	122,970
Amounts appropriated for expenditure	(69,748)	-	-	(69,748)
Endowment net assets, end of year	\$ 1,728,218	-	-	1,728,218

**GULF OF MAINE RESEARCH INSTITUTE
AND ITS AFFILIATE
Notes to Consolidated Financial Statements, Continued**

BOARD-DESIGNATED ENDOWMENT, CONTINUED

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 ended 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

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.

**GULF OF MAINE RESEARCH INSTITUTE
AND ITS AFFILIATE
Notes to Consolidated Financial Statements, Continued**

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 12/31/14 using:</u>				
	<u>12/31/14</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	\$ 446,336	205,925	240,410	-	-
Medium-term	268,685	268,684	-	-	-
Domestic equities					
Exchange traded funds	1,402,183	1,402,183	-	-	-
Non-government fixed income					
Short-term	5,601	-	5,600	-	-
Medium-term	83,361	83,361	-	-	-
Foreign fixed income					
Medium-term	31,728	31,728	-	-	-
Cash and cash equivalents	1,455,893	1,172,905	282,991	-	-
Interest in pooled investments	580,748	-	-	580,748	-
Charitable remainder trust	134,764	-	-	-	134,764
Totals	\$ 4,409,299	3,164,786	529,001	580,748	134,764

**GULF OF MAINE RESEARCH INSTITUTE
AND ITS AFFILIATE
Notes to Consolidated Financial Statements, Continued**

ASSETS MEASURED AT FAIR VALUE ON A RECURRING BASIS, CONTINUED

	12/31/13 <u>Totals</u>	<u>Fair value measurements at 12/31/13 using:</u>			
		<u>GMRI</u> (Level 1)	<u>GMPInc</u> (Level 1)	Quoted prices in active markets for <u>identical assets</u> <u>(Level 2)</u>	Significant other observable inputs (Level 2)
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

**GULF OF MAINE RESEARCH INSTITUTE
AND ITS AFFILIATE
Notes to Consolidated Financial Statements, Continued**

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, 2014 and 2013 is as follows:

	Charitable remainder <u>trust</u>
Beginning 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>
Balance, December 31, 2013	99,839
Total gains (realized and unrealized, all included in contributions and changes in net assets within the consolidated statement of activities)	34,925
Purchases, issuances, sales, and settlements	-
<u>Transfers in and/or out of Level 3</u>	<u>-</u>
<u>Ending balance, December 31, 2014</u>	<u>\$ 134,764</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, 2014:	
	<u>\$ 34,925</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, 2014 and 2013, respectively. GMPInc's deferred revenue represents prepaid rental payments received. GMPInc had deferred revenue balances of \$3,576 and \$2,230 at December 31, 2014 and 2013, respectively.

**GULF OF MAINE RESEARCH INSTITUTE
AND ITS AFFILIATE
Notes to Consolidated Financial Statements, Continued**

TEMPORARILY RESTRICTED AND PERMANENTLY RESTRICTED NET ASSETS

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

	<u>2014</u>	<u>2013</u>
Gifts and other unexpended revenues and gains restricted to:		
Future program expenses	\$ 1,477,317	2,422,748
Totals	\$ 1,477,317	2,422,748

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

	<u>2014</u>	<u>2013</u>
Gifts and other unexpended revenues and gains restricted to:		
Pooled investments held by others	\$ 580,748	106,551
Pledges receivable and other	422,351	766,074
Totals	\$ 1,003,099	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>2014</u>	<u>2013</u>
Future program expenses	\$ 1,801,882	1,895,065
Totals	\$ 1,801,882	1,895,065

UNRESTRICTED BOARD-DESIGNATED NET ASSETS

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

	<u>2014</u>	<u>2013</u>
Waldron reserve fund	\$ 722,767	733,918
Endowment funds	1,936,893	1,697,613
Reserved for research and scientist guarantee surpluses	109,286	140,572
Reserved for capital projects and equipment and other	493,405	119,086
Capacity building	258,970	300,268
Totals	\$ 3,521,321	2,991,457

**GULF OF MAINE RESEARCH INSTITUTE
AND ITS AFFILIATE
Notes to Consolidated Financial Statements, Continued**

UNRESTRICTED BOARD-DESIGNATED NET ASSETS, CONTINUED

Additionally, at December 31, 2014 and 2013, respectively, GMPInc held \$338,901 and \$369,061 in board-designated net assets, set aside by the board for purposes of long-term investment in capital assets and operating reserves.

OPERATING LEASES

As of December 31, 2014, 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, 2014, GMRI's rent was \$32,292 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, 2020 and may be renewed for up to nine additional five-year periods.

For the periods from January 1 through December 31, 2014 and 2013, total rent incurred by GMRI was \$387,504 and \$369,408, respectively, plus \$102,604 and \$103,438 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>	
2015	\$ 406,872
2016	427,216
2017	448,576
2018	471,005
2019	494,555
<u>Thereafter</u>	<u>86,547</u>
<u>Total</u>	<u>\$ 2,334,771</u>

Additionally, during 2014 and 2013, 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, 2014 and 2013.

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, 2014 and 2013, GMPInc was the sole unit owner of the units thus created. As of and for the years ended December 31, 2014 and 2013, Gulf of Maine Properties I had no financial activity or balances.

**GULF OF MAINE RESEARCH INSTITUTE
AND ITS AFFILIATE
Notes to Consolidated Financial Statements, Continued**

LINES OF CREDIT

At December 31, 2014 and 2013, 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 a variable rate equal to the lesser of Wall Street Journal prime less 0.25% or BBA LIBOR plus 2.35%, is payable on demand, and is secured by collateral comprising certain investments whose combined market value as of December 31, 2014 and 2013 amounted to \$727,086 and \$741,462, respectively. Outstanding balances on this credit line at December 31, 2014 and 2013 were \$0 and \$128,530, respectively. This credit line expires on August 31, 2016. The second line of credit bears interest at prime plus 0.25%, is secured by all business assets of GMRI. This credit line expires August 31, 2015 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, 2014 or December 31, 2013.

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, 2014 and 2013 was \$3,594,170 and \$3,697,380, 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 \$438,601 and \$452,057 at December 31, 2014 and 2013, 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 years ended December 31, 2014 and 2013 GMRI satisfied this requirement.

**GULF OF MAINE RESEARCH INSTITUTE
AND ITS AFFILIATE
Notes to Consolidated Financial Statements, Continued**

LONG-TERM DEBT, CONTINUED

Following is a schedule of future minimum loan payments, based on balances outstanding at December 31, 2014:

<u>Years ending December 31,</u>	<u>Tax-exempt bond</u>
2015	\$ 121,083
2016	125,249
2017	130,393
2018	135,322
2019	140,438
<u>Thereafter</u>	<u>3,380,286</u>
<u>Total</u>	<u>\$ 4,032,771</u>

DONATED GOODS AND SERVICES

For the years ended December 31, 2014 and 2013, certain professional services were donated to GMRI under cost-share agreements in relation to grants from the Maine Research Fund, National Fish & Wildlife Foundation, National Oceanic and Atmospheric Administration and Maine Space Grant Consortium. Other in-kind contributions were for catering, event supplies, exhibit booth space and legal services. 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 \$37,355 and \$246,804 for the years ended December 31, 2014 and 2013, 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, 2014 and 2013 was \$112,287 and \$109,200, respectively.

**GULF OF MAINE RESEARCH INSTITUTE
AND ITS AFFILIATE
Notes to Consolidated Financial Statements, Continued**

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 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 2014, 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 & Property & support equipment	Board designated	Programs & support	Capital	GMRI Total
Management, general and facility expenses	\$ 1,985,925	262,798	-	-	-	2,248,723
Indirect recovered, including allowable depreciation	(2,014,886)	-	-	-	-	(2,014,886)
Total expenses	\$ (28,961)	262,798	-	-	-	233,837

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 17, 2015 which is the date the financial statements were available to be issued.