

# financials

## report of the treasurer

**T**his past year the MBL set new performance records in fundraising, net investment income and gains, and the growth in our Net Assets, which are currently at a historic high. While we experienced a modest “cash” operating loss, pro-active steps have been taken to address any shortfall through continued cost savings and the development of a long-term sustainable business plan. In this connection, in 2006 we successfully completed the issuance of a new 30-year bond financing at a significantly lower interest rate (3.3%) that will enable us to continue building the MBL’s physical wealth.

The MBL’s Balance Sheet reflects these major changes. The Endowment & Similar Investments increased \$4 million or 7.5% even after a 5.25% spending rate draw for operations. Property & Equipment net of \$2.6 million in depreciation increased over \$7.6 million as continued improvements were made to the campus infrastructure. Most of the funding for this was drawn from the Assets held by the Bond Trustee, which represents the remnants of the new funds realized by the \$34 million Mass Development Bond issued on April 26, 2006. Our Liabilities grew significantly due to this debt, but we also were able to make a major reduction in our Line of Credit borrowings. On the Equity side, our Unrestricted Net Assets fell by \$1.9 million due to our operating loss, but Temporarily and Permanently Restricted Net Assets grew \$8.5 million or 14.8%. Overall the MBL’s Return on Average Net Assets was a healthy 8.2 % in 2006.

In general, the overall results for the MBL’s Operations were encouraging. Operating Support in 2006 increased \$5.4 million from 2005 levels. Contributions had the largest impact, increasing \$7 million to establish a new annual record for the institution. This broke the old record set in 2001 during the last year of the Discovery Campaign by \$1 million. Government Grants declined slightly (-3.6%) to the levels last experienced in 2002. This was driven by two factors. The first was the departure of six principal investigators (most of whom retired) since the fall of 2005 and the second reflects the more challenging funding environment due to the lower funding of the government agencies. Laboratory Rental & Net Tuition reflected a more pronounced decline (-24%) principally due to the withdrawal by Boston University from rented space for the B.U. Marine Program that is being discontinued in Woods Hole. The various other sources of support declined slightly (-3.3%).

Operating Expenses were controlled very effectively, increasing merely 1.6% over 2005. Fringe, Subcontracts, Equipment, Interest, Depreciation, and Utility expenses showed increases over the previous year. Depreciation increased 16.2% as capital improvements came on-line. Utilities increased 13.1% due entirely to higher energy prices. The others increased at single digit levels. Professional Services, Supplies, and Travel were all reduced by over 9%. Serials cost was reduced (-4.2%), and the MBL even reduced Salaries slightly (-1.7%) as the number of staff had decreased at year's end by 15 from 2005 levels. Even with these concerted efforts to limit expenses, the MBL reported a \$3.1 million operating loss. Most of that was attributable to the depreciation accrual—a non-cash item. The actual “cash” operating loss of \$486 thousand represents only 1.3% of last year's annual expenses.

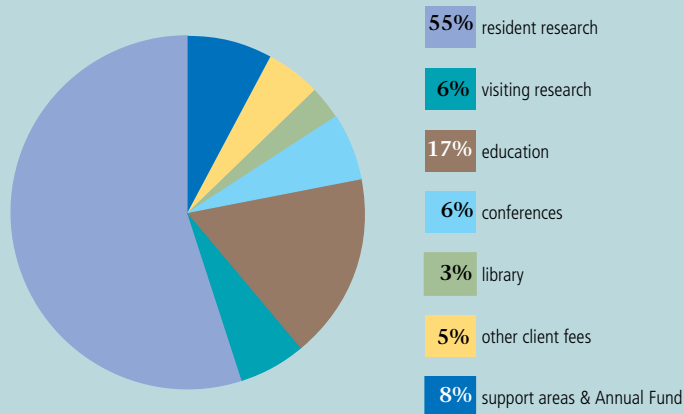
Fortunately, the strong level of Contributions overcame the operating loss, so the MBL experienced a \$2.1 million change in Net Assets before non-operating activities (5.2% of revenues).

Non-Operating Activities were also strong, assisted by robust Investment Income & Earnings of \$6.4 million that represented a 12.7% investment return on the Long Term Investments. This helped the MBL experience a bottom-line increase in Net Assets of \$6.6 million.

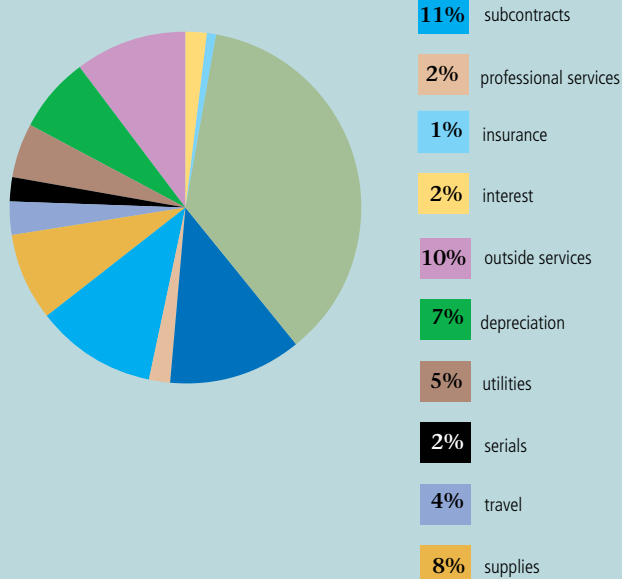
Overall the MBL continues to responsibly address the challenge of operating losses related to the need to fund the depreciation accrual. Steps have already been taken to enhance revenues from services the institution provides, which in conjunction with cost saving steps already taken, should enable the MBL to continue making progress on reducing the operating loss. Management has also prepared a functional sector analysis to evaluate how each core activity at the MBL is affecting operations. This will be used as the foundation for developing a sustainable business plan to close this systemic gap over the next few years. Simultaneously, a new campaign feasibility study is underway to position the MBL for a major new fundraising initiative. This can only add to our current \$8.8 million in Contribution receivables that already are enabling the MBL to make an array of significant investments in its future. In the meantime, our Long-Term Debt to Net Assets stands at 41% and remains manageable. These factors, combined with any rebound in Government Grants, should help us continue to successfully implement the MBL's Strategic Plan.

—Mary B. Conrad

Sources of \$34.6 Million in Operating Support



Uses of \$37.7 Million in Expenses



# Operating History and Balance Sheet

as of December 31, 2006 and 2005

BALANCE SHEET (In Thousands)	2006	2005
<b>ASSETS:</b>		
Cash and Short-Term Investments	\$1,527	\$373
Pledges and Other Receivables	12,146	10,390
Assets Held by Bond Trustee	10,125	0
Other Assets	1,247	978
Endowment and Similar Investments	56,054	52,167
Property and Equipment, net	45,386	37,705
<b>TOTAL ASSETS</b>	<b>126,485</b>	<b>101,613</b>
<b>LIABILITIES:</b>		
Accounts Payable	4,941	3,275
Line of Credit	500	2,500
Annuities and Unitrusts Payable	670	599
Deferred Revenue and Other Liabilities	2,519	2,811
Long-Term Debt	34,000	15,200
<b>Total Liabilities</b>	<b>42,630</b>	<b>24,385</b>
<b>NET ASSETS:</b>		
Unrestricted	17,752	19,619
Temporarily Restricted	37,041	28,942
Permanently Restricted	29,062	28,667
<b>Total Net Assets:</b>	<b>83,855</b>	<b>77,228</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$126,485</b>	<b>\$101,613</b>
<b>OPERATING HISTORY (In Thousands)</b>		
<b>OPERATING SUPPORT</b>		
Government Grants	\$16,840	\$17,478
Private Contracts	1,479	1,187
Laboratory Rental and Net Tuition	1,835	2,410
Fees for Conferences and Services	5,239	5,087
Contributions	11,916	4,972
Investment and Other Revenue	2,523	3,281
<b>Total Operating Support</b>	<b>39,832</b>	<b>34,415</b>
<b>EXPENSES:</b>		
Research	23,714	24,170
Instruction	7,029	7,077
Conferences and Services	2,420	2,083
Other Programs	4,577	3,824
<b>Total Expenses</b>	<b>37,740</b>	<b>37,154</b>
<b>CHANGES IN NET ASSETS BEFORE NON-OPERATING ACTIVITY:</b>	<b>2,092</b>	<b>(2,739)</b>
<b>Non-Operating Activities:</b>		
Contributions to Plant and Other Expenses, Net	310	1,297
<b>Total Investment Income and Earnings</b>	<b>6,388</b>	<b>2,650</b>
<b>Less Investment Earnings Used for Operations</b>	<b>(2,163)</b>	<b>(2,121)</b>
<b>Reinvested Investment Earnings</b>	<b>4,225</b>	<b>529</b>
<b>TOTAL CHANGE IN NET ASSETS:</b>	<b>\$6,627</b>	<b>(\$913)</b>

The financial statements of the Marine Biological Laboratory for the fiscal year ending December 31, 2006, were audited by KPMG.

Complete financial statements are available upon request from:

Homer Lane  
Chief Financial Officer  
MBL  
7 MBL Street  
Woods Hole, MA 02543

The Operating and Balance Sheet numbers shown here are unaudited.