



financials

report of the treasurer

Taken aboard the RV Gemma (P. Oldham)

The spring of 2008 marks the Marine Biological Laboratory's 120th anniversary of its founding on March 20, 1888. Over the years the MBL has been one of America's foremost scientific institutions as a world center for biological research and education. While this past year was a challenge for the Laboratory on the operating side, a new performance record in fundraising enabled the MBL to enlarge its equity while reducing its liabilities.

As a sign of the times, the MBL is coping with the same adversity that confronts many research and educational institutions as the funding from the federal agencies continues to decline in real dollar terms. As a consequence, the laboratory reported an operating loss that totaled approximately \$4 million or 9.3% of Operating Support.

Management made every effort to control the growth in Operating Expenses, limiting it to the smallest increase in over 20 years. Expenses for salaries, our food services sub-contract, supplies, serials and utilities were all reduced from 2006 levels. On the other hand, Interest expense increased 53% to over \$1.1 million as we experienced a full year's impact of the long-term bond financing done in April 2006. Also the Depreciation accrual increased over 20% from the previous year.

Simultaneously, Unrestricted revenues suffered a decline of 2.3% from 2006. The mix of support also changed as Government Grants fell to \$15 million, the lowest level since 2002. Private Contracts increased by approximately \$1 million mainly due to funding for the Encyclopedia of Life project. Lab rental and net tuition fell by 26% principally due to the departure of the Boston University Marine Program. Fees for Conferences and Services also declined by 8% mainly as a result of less conference activity. A bright note was the Annual Fund raising effort exceeded \$911 thousand in 2007, breaking the old record set in 2004 by 37%.

Fortunately two other revenue components offset the resulting operating deficit. Overall Contributions for the year established a new record, increasing 37% over the record established in 2006. Investment and Other Revenues also increased by 21.4%. As a consequence MBL's combined Operating Support for 2007 increased by 8% over the previous year. The ensuing Change in Net Assets before non-operating activities exceeded \$5.2 million, which is encouraging.

Non-operating activities, so called below the line entries, had an overall adverse impact due to three main factors. The decline in Contributions to Plant and Other Expenses, Net was mainly due to the substantial change in the value of our fixed (3.3%) interest rate swap owing to the drop in short-term interest rates. While investment returns were off from the record setting returns we had in 2006, what was utilized for operations (\$2.2 million) increased only slightly from the previous year. Finally, we had to reflect a liability of approximately \$600 thousand for the under funding of the MBL's Post Retirement Health Care Plan as required under FASB Statement 158. The Total change in Net Assets was a favorable \$5.6 million, representing a 6.4% Return on Average Equity, somewhat less than what we experienced in 2006.

The Laboratory's Balance Sheet reveals a number of areas of major improvements. From our humble beginnings, Net Assets (Equity) have grown to exceed \$89 million for the first time while we reduced our liabilities by approximately \$2 million in 2007. Focusing on our Assets, one can see strong growth in four key areas. Cash & cash equivalents doubled. Pledges and other receivables increased by over 40% as our fundraising efforts produced the second year in a row of record results. Investments, at fair value, increased by \$4.6 million as our long-term investment portfolio experienced a 7.8% market gain. Plant assets, net of depreciation (\$3.15 million) increased by over \$6.2 million because for the second consecutive year in a row the Laboratory made more than \$9 million in improvements.

In summary, 2007 was a crossroads as the MBL settled into handling the increased debt service created by the \$34 million Mass Development bond and the increasing Depreciation accrual as a result of \$19 million in property and equipment improvements made since the Bond was issued. These steps have vastly improved the physical wealth of the institution but have added to the operating hardship.

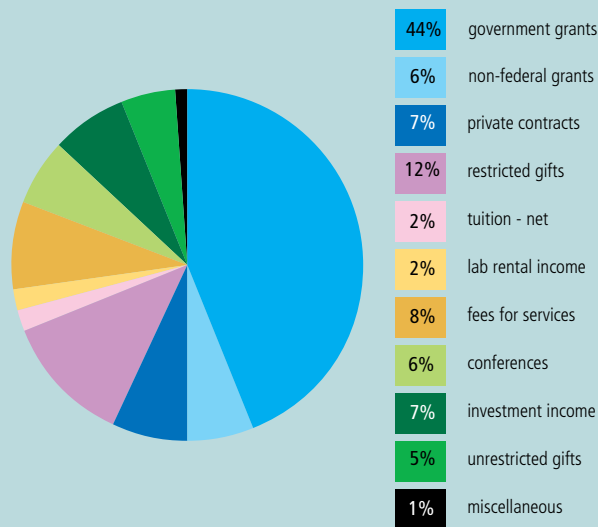
As a consequence the new administration recognized the necessity to develop a sustainable business plan. As a first step management completed a detailed analysis for each operating sector for 2005 and 2006 with cost allocations to determine the root causes for the chronic operating losses. Then a rigorous 2008 operating budget for each sector was developed. This new transparency is being used to rally the whole community to ultimately help make each sector self-sustaining.

After reviewing the 2008 budget with the Board of Trustees, a goal was set to close the operating loss to where excluding depreciation & capitalization the results would be cash neutral by 2010.

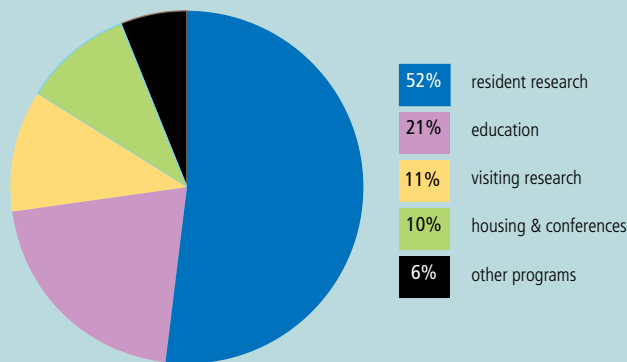
This will be a major challenge, but we are already seeing some encouraging signs. Also our continued success on the fund raising side is encouraging as we gear up to formally launch a major new fundraising campaign. As a result Management feels confident we are well positioned to continue the long proud history of the MBL.

—Mary B. Conrad

Sources of \$33.8 Million in Unrestricted Operating Support



Uses of \$37.8 Million in Expenses



Operating History and Balance Sheet

as of December 31, 2007 and 2006

BALANCE SHEET (In Thousands)	2007	2006
ASSETS:		
Cash and Cash Equivalents	\$1,586	\$748
Pledges and Other Receivables	17,054	12,146
Assets held by bond trustee	695	10,125
Other Assets	747	1,247
Investments, at fair value	58,443	53,833
Property and Equipment, net	51,626	45,386
Total Assets	130,151	123,485
LIABILITIES:		
Accounts Payable	2,746	4,941
Line of Credit	0	500
Annuities and Unitrusts Payable	547	670
Deferred Revenue and Other Liabilities	3,436	2,519
Long-Term Debt	34,000	34,000
Total Liabilities	40,729	42,630
NET ASSETS:		
Unrestricted	26,481	30,754
Temporarily Restricted	29,342	23,891
Permanently Restricted	33,599	29,210
Total Net Assets:	89,422	83,855
TOTAL LIABILITIES AND NET ASSETS	\$130,151	\$126,485

OPERATING HISTORY (In Thousands)

OPERATING SUPPORT		
Government Grants	\$15,009	\$16,840
Private Contracts	2,437	1,479
Laboratory rental and Net Tuition	1,358	1,835
Fees for Conferences and Services	4,822	5,239
Contributions	16,341	11,916
Investment and Other Revenue	3,062	2,523
Total Operating Support	43,029	39,832
EXPENSES:		
Research	23,586	23,714
Instruction	7,478	7,029
Conferences and services	1,866	2,420
Other programs	4,873	4,577
Total Expenses	37,803	37,740
CHANGES IN NET ASSETS BEFORE NONOPERATING ACTIVITY:	5,226	2,092
Non-Operating Activities:		
Contributions to Plant and Other Expenses, Net	(951)	310
Total Investment Income and Earnings	4,103	6,388
Less Investment Earnings Used for Operations	(2,207)	(2,163)
Reinvested Investment Earnings	1,896	4,225
Cumulative effect of change in accounting principle	(604)	
TOTAL CHANGE IN NET ASSETS:	\$5,567	\$6,627

The financial statements of the Marine Biological Laboratory for the fiscal year ending December 31, 2007, 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.