louie & wong LLP
certified
public
accountants

March 28, 2013

Ms. Marci Davis
Chief Financial and Operations Officer
The Marine Mammal Center
2000 Bunker Road
Fort Cronkhite
Sausalito, CA 94965-2619

Dear Ms. Davis:

We are enclosing fifteen (15) bound copies and one (1) unbound copy of the financial statements of The Marine Mammal Center as of and for the year ended September 30, 2012.

We are also enclosing SAS 114 letter – Communications With Those Charged With Governance.

If you have any questions, please feel free to call us.

Very truly yours,

LOUIE & WONG LLP

By
Arthur Louie

AL/ak
Enclosures

425 WASHINGTON STREET SAN FRANCISCO, CALIFORNIA 94111 FAX 415 989.9999 415 981.9999

THE MARINE MAMMAL CENTER

FINANCIAL STATEMENTS
SEPTEMBER 30, 2012

(WITH SUMMARIZED FINANCIAL INFORMATION AS OF AND FOR THE YEAR ENDED SEPTEMBER 30, 2011)

TOGETHER WITH
INDEPENDENT AUDITORS' REPORT

louie & wong LLP
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public
accountants

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
The Marine Mammal Center:

We have audited the accompanying statement of financial position of The Marine Mammal Center (the Center), a California not-for-profit organization, as of September 30, 2012, and the related statements of activities, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of the Center's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the Center's 2011 financial statements, and in our report dated March 2, 2012, we expressed an unqualified opinion on these financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Center's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the management, as well as

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evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Marine Mammal Center as of September 30, 2012, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Louie + Wong LLP

San Francisco, California
March 11, 2013

THE MARINE MAMMAL CENTER

STATEMENT OF FINANCIAL POSITION -- SEPTEMBER 30, 2012

(WITH SUMMARIZED FINANCIAL INFORMATION AS OF SEPTEMBER 30, 2011)

ASSETS

	Unrestricted				Totals	
	Undesignated	Board - Designated	Temporarily Restricted	Permanently Restricted	2012	2011
CURRENT ASSETS:						
Cash and cash equivalents	$ 1,662,680	$ -	$ 1,667,389	$ -	$ 3,330,069	$ 1,690,484
Contributions receivable	112,829	-	225,600	-	338,429	1,198,750
Inventories	99,052	-	-	-	99,052	140,363
Prepaid expenses	94,612	-	-	-	94,612	120,813
Total current assets	1,969,173	-	1,892,989	-	3,862,162	3,150,410
PROPERTY AND EQUIPMENT, at cost:						
Buildings	17,291,604	-	-	-	17,291,604	17,314,454
Pools and mechanical systems	12,664,017	-	-	-	12,664,017	12,664,017
Furniture and exhibits	1,518,737	-	-	-	1,518,737	1,504,427
Equipment	1,246,154	-	-	-	1,246,154	1,147,190
Vehicles	353,033	-	-	-	353,033	353,033
Construction in progress	265,013	-	-	-	265,013	129,440
	33,338,558	-	-	-	33,338,558	33,112,561
Less - accumulated depreciation	6,019,494	-	-	-	6,019,494	4,755,694
	27,319,064	-	-	-	27,319,064	28,356,867
OTHER ASSETS:						
Investments	-	610,151	57,642	500,000	1,167,793	995,686
Land held for sale	200,000	-	-	-	200,000	250,000
Beneficial interest in perpetual trust	-	-	-	123,326	123,326	111,991
Noncurrent contributions receivable, net	-	-	308,954	-	308,954	177,242
Deposits	59,720	-	-	-	59,720	56,554
	259,720	610,151	366,596	623,326	1,859,793	1,591,473
	$ 29,547,957	$ 610,151	$ 2,259,585	$ 623,326	$ 33,041,019	$ 33,098,750

LIABILITIES AND NET ASSETS

	Undesignated	Board - Designated	Temporarily Restricted	Permanently Restricted	2012	2011
CURRENT LIABILITIES:						
Accounts payable	$ 100,740	$ -	$ -	$ -	$ 100,740	$ 183,019
Accrued liabilities	459,529	-	-	-	459,529	487,443
Total current liabilities	560,269	-	-	-	560,269	670,462
NOTE PAYABLE	1,700,000	-	-	-	1,700,000	2,100,000
COMMITMENTS AND CONTINGENCIES						
NET ASSETS	27,287,688	610,151	2,259,585	623,326	30,780,750	30,328,288
	$ 29,547,957	$ 610,151	$ 2,259,585	$ 623,326	$ 33,041,019	$ 33,098,750

The accompanying independent auditors' report and notes to financial statements should be read in conjunction with this statement.

THE MARINE MAMMAL CENTER

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED SEPTEMBER 30, 2012

(WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED SEPTEMBER 30, 2011)

	Unrestricted				Totals	
	Undesignated	Board - Designated	Temporarily Restricted	Permanently Restricted	2012	2011
SUPPORT AND REVENUES:						
Support -						
Contributions -						
Foundations, corporations, government and individuals	$ 2,713,130	$ -	$ 1,684,070	$ -	$ 4,397,200	$ 4,203,592
Donated materials and services	534,319	-	-	-	534,319	598,000
Total support	3,247,449	-	1,684,070	-	4,931,519	4,801,592
Revenues and gains (losses) -						
Membership dues	1,429,967	-	-	-	1,429,967	1,391,581
Store sales	677,749	-	-	-	677,749	617,444
Veterinary science contracts	235,931	-	-	-	235,931	427,135
Educational programs	187,512	-	-	-	187,512	180,816
Unrealized and realized gain (loss) on investments and beneficial interest in perpetual trust, net	-	62,501	8,224	86,126	156,851	(158,929)
Interest and dividends	54,865	16,427	2,143	25,555	98,990	99,432
Rent	81,749	-	-	-	81,749	83,734
Unrealized loss on land held for sale	(50,000)	-	-	-	(50,000)	(250,000)
Other	928	-	-	-	928	4,876
Total revenues and gains (losses)	2,618,701	78,928	10,367	111,681	2,819,677	2,396,089
NET ASSETS RELEASED FROM RESTRICTIONS:						
Satisfaction of program restrictions	556,037	93,179	(548,870)	(100,346)	-	-
Total support and revenues	6,422,187	172,107	1,145,567	11,335	7,751,196	7,197,681
FUNDRAISING EVENTS:						
Revenues from special events	436,674	-	-	-	436,674	383,894
Cost of special events	(204,226)	-	-	-	(204,226)	(179,500)
Net revenues from fundraising events	232,448	-	-	-	232,448	204,394
Total support, revenues and fundraising events	6,654,635	172,107	1,145,567	11,335	7,983,644	7,402,075
EXPENSES:						
Program services -						
Veterinary science	3,842,356	-	-	-	3,842,356	3,787,528
Education	2,231,131	-	-	-	2,231,131	2,253,017
Supporting services	517,511	-	-	-	517,511	580,920
Fundraising -						
Operations	856,409	-	-	-	856,409	831,844
Capital campaign	83,775	-	-	-	83,775	95,143
Total expenses	7,531,182	-	-	-	7,531,182	7,548,452
CHANGE IN NET ASSETS	(876,547)	172,107	1,145,567	11,335	452,462	(146,377)
NET ASSETS - BEGINNING OF YEAR	28,164,235	438,044	1,114,018	611,991	30,328,288	30,474,665
NET ASSETS - END OF YEAR	$ 27,287,688	$ 610,151	$ 2,259,585	$ 623,326	$ 30,780,750	$ 30,328,288

The accompanying independent auditors' report and notes to financial statements should be read in conjunction with this statement.

THE MARINE MAMMAL CENTER

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED SEPTEMBER 30, 2012

(WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED SEPTEMBER 30, 2011)

	Program Services			Fundraising		Totals	
	Veterinary Science	Education	Supporting Services	Operations	Capital Campaign	2012	2011
Salaries	$ 1,161,285	$ 730,715	$ 272,640	$ 282,623	$ 18,370	$ 2,465,633	$ 2,432,714
Donated materials and services	24,393	462,230	25,261	22,435	-	534,319	580,000
Professional services	50,849	93,980	18,725	193,492	54,756	411,802	379,574
Animal care costs	381,424	9,209	-	-	-	390,633	344,701
Employee benefits	166,756	96,272	30,031	24,224	1,168	318,451	312,853
Cost of retail sales	-	284,262	-	-	-	284,262	265,997
Lettershop and database	-	102,186	-	175,953	-	278,139	317,077
Utilities	224,174	3,458	-	-	-	227,632	227,180
Insurance	162,769	11,203	6,448	1,789	-	182,209	196,977
Payroll taxes	84,228	54,440	15,870	20,641	1,114	176,293	167,685
Information technology	61,976	44,605	13,832	14,625	-	135,038	197,620
Rental and housing	123,536	-	-	-	-	123,536	116,889
Repairs and maintenance	110,960	1,884	-	-	-	112,844	80,749
Volunteer and donor relations	24,444	15,833	2,397	31,913	4,611	79,198	130,173
Travel, conferences and training	46,291	2,635	13,672	2,363	3,715	68,676	76,157
Service district charges	67,840	-	-	-	-	67,840	57,944
Pier 39 store closing costs	-	54,694	-	-	-	54,694	-
Outreach and marketing	-	48,215	-	-	-	48,215	46,335
Publications and postage	10,730	15,195	3,443	12,154	41	41,563	59,932
Merchandising expenses	-	41,319	-	-	-	41,319	63,446
Supplies	10,487	17,920	3,020	4,898	-	36,325	35,842
Bank and finance charges	-	-	7,855	27,102	-	34,957	32,517
Interest expense	27,294	3,113	1,216	956	-	32,579	56,733
Telephone	20,847	4,049	3,461	2,000	-	30,357	37,865
Fees and licenses	1,906	3,113	23,519	50	-	28,588	22,533
Student buses	-	16,994	-	-	-	16,994	12,011
Other	11,366	2,895	28,951	2,074	-	45,286	53,230
	2,773,555	2,120,419	470,341	819,292	83,775	6,267,382	6,304,734
Depreciation	1,068,801	110,712	47,170	37,117	-	1,263,800	1,243,718
	$ 3,842,356	$ 2,231,131	$ 517,511	$ 856,409	$ 83,775	$ 7,531,182	$ 7,548,452

The accompanying independent auditors' report and notes to financial statements should be read in conjunction with this statement.

THE MARINE MAMMAL CENTER

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED SEPTEMBER 30, 2012

(WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED SEPTEMBER 30, 2011)

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	$ 452,462	$ (146,377)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	1,263,800	1,243,718
Unrealized loss on land held for sale	50,000	250,000
Unrealized and realized (gain) loss on investments	(142,066)	150,908
Interest and dividends on investments, net of fees	(30,041)	(30,072)
Change in beneficial interest in perpetual trust	(11,335)	8,021
Changes in operating assets and liabilities:		
Contributions receivable	728,609	205,261
Inventories	41,311	40,569
Prepaid expenses	26,201	(47,550)
Deposits	(3,166)	(15,202)
Accounts payable	(82,279)	(112,140)
Accrued liabilities	(27,914)	(112,885)
Retention payable	-	(243,520)
Total adjustments	1,813,120	1,337,108
Net cash provided by operating activities	2,265,582	1,190,731
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(225,997)	(984,549)
Proceeds from claim settlement	-	320,500
Purchase of investments	-	(74,106)
Net cash used in investing activities	(225,997)	(738,155)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payment on notes payable	(400,000)	(500,000)
Net cash used in financing activities	(400,000)	(500,000)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,639,585	(47,424)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	1,690,484	1,737,908
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 3,330,069	$ 1,690,484
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Noncash operating and investing activities:		
Donated -		
Materials and services	$ 595,517	$ 615,653
Property and equipment	-	18,000
	$ 595,517	$ 633,653
Cash paid during the year for interest	$ 30,357	$ 37,865

The accompanying independent auditors' report and notes to financial statements should be read in conjunction with this statement.

THE MARINE MAMMAL CENTER

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2012

1. Summary of Significant Accounting Policies

General -- The Marine Mammal Center (the Center) is a California not-for-profit organization formed to rescue, rehabilitate and release sick and injured marine mammals that are stranded along the California coastline. The Center also conducts scientific research in the fields of marine mammal medicine. In addition, the Center educates thousands of children and adults through marine science education programs.

Basis of Presentation -- The Center prepares the financial statements in accordance with generally accepted accounting principles promulgated in the United States of America for Not-for-Profit organizations. The significant accounting and reporting policies used by the Center are described subsequently to enhance the usefulness and understandability of the financial statements.

Basis of Accounting -- The accompanying financial statements have been prepared on the accrual basis of accounting.

Cash and Cash Equivalents -- Cash and cash equivalents consist of funds in checking and money market placements with original maturities of three months or less from dates of acquisition.

Contributions Receivable -- Contributions receivable are unconditional promises to give that are recognized as contributions when the promise is received. Contributions receivable that are expected to be collected in less than one year are reported at net realizable value. Contributions receivable that are expected to be collected in more than one year are recorded at fair value at the date of promise. That fair value is computed using a present value technique applied to anticipated cash flows. Amortization of the resulting discount is recognized as additional contribution revenue. The allowance for uncollectible contributions receivable is determined based on management's evaluation of the collectability of individual promises. Promises that remain uncollected more than one year after their due dates are written off unless the donors indicate that payment is merely postponed.

Inventories -- Inventories, which consist primarily of gift store merchandise, are recorded at the lower of cost or market. Cost is determined using the average cost method.

Property and Equipment -- Property and equipment are carried at cost, if purchased, and at fair value at the date of donation, if donated, and depreciated on a straight-line basis over the following estimated useful lives:

Type of Property	Estimated Useful Life (In Years)
Buildings	20 to 40
Pools and mechanical systems	10 to 30
Furniture and exhibits	10 to 15
Equipment	5
Vehicles	5

The depreciation expense was $1,263,800 during the year ended September 30, 2012. Property and equipment are capitalized if these have a cost of $5,000 or more and a useful life when acquired of more than one year.

The Center entered into a cooperative agreement with the National Park Service – Golden Gate National Recreation Area mainly to maintain and administer, within the Marine Headlands, a marine mammal rehabilitation and research center. The

Center does not hold legal title to substantially all the property improvements included in the statement of financial position. While the Center does not hold legal title to these assets, they are recorded in the statement of financial position in a manner similar to leasehold improvements.

Investments -- Investments, which consist primarily of investment in mutual funds, are stated at fair market values, determined based on quoted market prices. See Note 4 for fair value measurement. Unrealized gains and losses resulting from market fluctuations are recognized in the period such fluctuations occur. For purposes of determining realized gains or losses, the cost of securities sold is computed based on the weighted average method. Investments are part of the Center's endowment funds. See Note 8.

Beneficial Interest in Perpetual Trust -- The Center is the irrevocable beneficiary of a perpetual trust held by a foundation. The beneficial interest in the trust is reported at its fair value, which is estimated as the fair value of the underlying trust assets. See Note 4 for fair value measurement. The value of the beneficial interest in the trust is adjusted annually for the change in its estimated fair value. Those changes in value, as well as interest income, are reported as increases in permanently restricted net assets. The beneficial interest in the trust is part of the Center's endowment funds. See Note 8.

Land Held for Sale -- Land held for sale is carried at fair value, determined using published market prices of similar properties, less cost to sell. Land held for sale is reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable, and recognizes an impairment loss for the excess of the carrying value over the fair value. Accordingly, a gain is recognized for the subsequent increase in fair value, but only to the extent of the previously recognized impairment loss.

Support -- Contributions, including unconditional promises to give, are recognized when received. All contributions are reported as increases in unrestricted net assets unless use of the contributed assets is specifically restricted by the donor. Amounts received that are restricted by the donor to use in future periods or for specific purposes are reported as increases in either temporarily restricted or permanently restricted net assets, consistent with the nature of the restriction. Unconditional promises with payments due in future years have an implied restriction to be used in the year the payment is due, and therefore are reported as temporarily restricted until the payment is due unless the contribution is clearly intended to support activities of the current fiscal year or is received with permanent restrictions. Conditional promises, such as matching grants, are not recognized until they become unconditional, that is, until all conditions on which they depend are substantially met.

The Center is a beneficiary under several donors' wills. Contributions from bequests are recognized as contributions receivable when the probate court declares that the will is valid, the Center has an irrevocable right to the bequest and the amount is reasonably estimable.

Donated Materials and Services -- Donated materials and services are recorded as support and expense or asset in the accompanying financial statements at their estimated fair market values upon receipt.

Donated materials and services that create and enhance nonfinancial assets or that require specialized skills which would typically need to be purchased, if not provided by a donation, are recorded as support and expensed in the accompanying financial statements at their estimated fair market values on the date of their receipt.

Contributions of land, building or equipment that meet the Center's capitalization policy are capitalized in the accompanying financial statements at their estimated fair market values on the date of their receipt and depreciated over their estimated useful lives. Such donations are reported as unrestricted support unless the donor has restricted the donated assets to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support.

Revenues -- Membership dues are recognized upon receipt. Store sales are recorded when products are sold to customers. Other revenues are recognized when earned.

Income Tax Status -- The Center has been granted tax-exempt status by the Internal Revenue Service under Section 501(c)(3) and by the California Franchise Tax Board under Section 23701(d) of the California Revenue and Taxation Code. Accordingly, no provision for income tax has been made in the accompanying financial statements.

Concentration of Credit Risk -- Financial instruments that potentially subject the Center to credit risk consist principally of cash and cash equivalents greater than $250,000 with each financial institution, contributions receivable and investments. The Center periodically reviews its cash and investments policies, evaluates its donors' financial condition and maintains adequate reserves for potential losses, which are based on management's expectations, estimates and historical experience.

Expense Recognition and Allocation -- The costs of providing the various programs, fundraising and other activities have been summarized on a functional basis in the statement of activities and statement of functional expenses. Expenses that can be identified with a specific program or support service are charged directly to that program or support service. Costs common to multiple functions have been allocated among the various functions benefited.

Estimates Included in the Financial Statements -- 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 during the reporting period. On an ongoing basis, the management evaluates the estimates and assumptions based upon historical experience and various other factors and circumstances. The management believes that the estimates and assumptions are reasonable in the circumstances; however, the actual results could differ from those estimates.

Comparative Financial Statements -- The financial statements include certain prior-year summarized comparative information in total, but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Center's financial statements for the year ended September 30, 2011, from which the summarized information was derived.

Reclassification -- Certain items in the prior year financial statements have been reclassified to conform to current year presentation. Such reclassification had no effect on the previously reported change in net assets.

New Accounting Pronouncement -- In May 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2011-04, Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and International Financial Reporting Standards (IFRS), which amends FASB Accounting Standards Code 820 to converge U.S. GAAP and IFRS. The amendments include wording changes to U.S. GAAP in order to clarify the FASB's intent about the application of existing fair value measurement and disclosure requirements, as well as to change a particular principle or existing requirements for measuring fair value or for disclosing information about fair value measurements. There are no additional fair value measurements required upon adoption of this ASU. The amendments are effective, prospectively, for interim and annual reporting periods beginning after December 15, 2011. The Center will adopt the provisions of ASU 2011-04 effective October 1, 2012. The adoption is not expected to have a material effect on the financial statements of the Center.

2. Description of Net Assets

Unrestricted - Undesignated -- This is used to account for resources that are available to support the Center's operations.

Unrestricted - Board-designated -- This is used to account for unrestricted resources that are designated by the Board of Directors to be invested as endowment.

Temporarily Restricted -- This is used to account for resources that are restricted by the donor for use for a particular purpose or in a particular future period. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as "Net assets released from restrictions."

The temporarily restricted net assets consist of contributions for the following:

Purpose	Balance
Capital Campaigns	$ 1,945,245
Operating Programs	256,698
El Nino Emergency Fund	57,642
	$ 2,259,585

The Center has on-going capital campaigns to raise funds for the construction of a Hawaiian Monk Seal Facility in Kona, Hawaii and an Intensive Care and Quarantine Facility in Sausalito, California.

Permanently Restricted -- This is used to account for resources whose use is limited by donor-imposed restrictions that neither expire by being used in accordance with the donor's restriction nor by the passage of time. The Center had $623,326 of permanently restricted endowment funds as of September 30, 2012. The endowment funds were from the Geoffrey C. Hughes Foundation (the Hughes Foundation) and the Shirley Ann Spencer Fund of Community Foundation Sonoma County for The Marine Mammal Center (the Spencer Fund). The growth in principal and interest generated by the Hughes Foundation is used to fund the Geoffrey C. Hughes Research Fellowship. The Spencer Fund is administered by the Community Foundation Sonoma County.

3. Contributions Receivable

Contributions receivable as of September 30, 2012, were as follows:

	Amount
Less than one year	$ 338,429
More than one year but less than five years	317,000
	655,429
Less - discount	(8,046)
	$ 647,383

Contributions receivable that are expected to be collected in more than one year are recorded at fair value at the date of promise by discounting to reflect its net present value using risk-free interest rate, which was 2% at September 30, 2012.

4. Fair Value Measurement

FASB Accounting Standards Codification (ASC) 820, Fair Value Measurements and Disclosures, provides the framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under FASB ASC 820 are described as follows:

- Level 1 – Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Center has the ability to access.
- Level 2 – Inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets or liabilities in inactive markets, inputs other than quoted prices that are observable for the asset or liability, and inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.
- Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following is a description of the valuation methodologies used for instruments measured at fair value, including the general classification of such instruments pursuant to the valuation hierarchy. There has been no change in the methodology used as of September 30, 2012.

Investments -- These consist of mutual funds stated at fair values, determined based on quoted market prices. This is classified under Level 1 of the valuation hierarchy.

Beneficial interest in perpetual trust -- The Center is the irrevocable beneficiary of a perpetual trust held by a foundation. The beneficial interest in the trust is estimated as the fair value of the underlying trust assets. Since there are no observable market transactions for assets similar to the beneficial interest in the trust and because the trust cannot be redeemed, this is classified under Level 3 of the valuation hierarchy.

Assets measured at fair value are as follows:

	Level 1	Level 2	Level 3	Total
Investments:				
Money funds	$ 9,859	$ -	$ -	$ 9,859
Mutual Funds -				
Equities	455,113	-	-	455,113
Fixed-income	427,856	-	-	427,856
Balanced	215,663	-	-	215,663
Commodities - Precious Metals	59,302	-	-	59,302
	1,157,934	-	-	1,157,934
	$ 1,167,793	$ -	$ -	$ 1,167,793
Beneficial interest in perpetual trust	$ -	$ -	$ 123,326	$ 123,326

Level 3 Gains and Losses -- The table below sets forth a summary of changes in the fair value of the Center's Level 3 assets for the year ended September 30, 2012:

	Beneficial interest in perpetual trust
Balance - Beginning of Year	$ 111,991
Net gains	14,785
Interest	3,179
Fees	(2,029)
Amount distributed to the Center	(4,600)
Balance - End of Year	$ 123,326

5. Land Held for Sale

The Center presently owns a parcel of land in Mendocino, California which was donated to the Center in 2009, and since then, has been held for sale. The fair value of the land at the time of donation was $500,000. During 2012 and 2011, land held for sale was deemed to be impaired and written down to its fair value, less cost to sell. The fair value of the land, which was determined by reference to public market prices of similar properties in Mendocino, net of cost to sell, was $200,000 and $250,000 at September 30, 2012 and 2011, respectively. Accordingly, an impairment loss of $50,000 and $250,000 was recorded during the year ended September 30, 2012 and 2011, respectively.

6. Endowment Funds

The Center maintains various board-designated and donor-restricted funds whose purpose is to provide long-term support for its programs. In classifying such funds for financial statement purposes as either permanently restricted, temporarily restricted or unrestricted net assets, management considers the explicit directions of the donor, where applicable, and the provisions of the laws of the State of California. In the absence of donor stipulations to the contrary, the provisions of California State law do not impose either a permanent or temporary restriction on the income or capital appreciation derived from the original gift.

The State of California enacted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) effective January 1, 2009. UPMIFA establishes law for the management and investment of donor-restricted endowment funds. The Board of Directors of the Center has interpreted UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted permanent endowment investments unless there are explicit donor stipulations to the contrary.

UPMIFA permits the Center to appropriate for expenditure or accumulate as much of a donor-restricted endowment fund as it determines is prudent for the uses, benefits, purposes, and duration for which the endowment fund is established. In making its determination to appropriate or accumulate, the Center must act in good faith, with the care that an ordinarily prudent person in a like position would exercise under similar circumstances, and it must consider, if relevant, the following factors:

- The duration and preservation of the endowment fund;
- The purposes of the Center and the donor-restricted endowment fund;
- General economic conditions;
- The possible effect of inflation and deflation;
- The expected total return from income and the appreciation of investments; and
- Other resources of the Center.

Endowment funds as of September 30, 2012, include unrestricted contributions amounting to $610,151 designated by the Board of Directors, a temporarily restricted fund of $57,642 designated by the donors for emergency use, and the permanently restricted fund from the Hughes Foundation amounting to $500,000. These endowments funds totaling $1,167,793 are included under investments in the accompanying statement of financial position as of September 30, 2012.

The Center has an investment policy specific to its endowment investments, which is monitored by the Board of Directors. The Board subscribes to the modern portfolio theory of prudent investment, and thus may cause the principal of the endowment to be invested in real or personal property mortgages, deeds of trust, stocks, bonds, debentures, and other securities both government and private. The Board may also direct that the principal of endowment be invested, in whole or in part, in a pooled income fund, mutual fund, or other form of common fund. The investment policy sets ranges for asset allocation.

The following is a summary of the asset allocation guidelines, with allowable ranges for each asset type:

Asset Category	Target	Minimum	Maximum
Fixed income securities	40%	20%	60%
Equities	60%	40%	80%

In June 2008, the Spencer Fund was established as a fulfillment of the charitable purpose of the donor, including among others, to support the projects and operations of the Center. The Spencer Fund, included under beneficial interest in perpetual trust in the accompanying statement of financial position, amounted to $123,326 as of September 30, 2012. The amount available for distribution each year is based on the spending rate of 4% of the average market value of the fund over the prior twelve quarters. The Community Foundation of Sonoma County may distribute that amount each year as long as the fund balance does not go below eighty percent (80%) of the original fund amount.

The following is a reconciliation of the activity in the endowment funds:

	Unrestricted – Board-Designated	Temporarily Restricted	Permanently Restricted	Total
Balance – October 1, 2011	$ 438,044	$ 57,642	$ 611,991	$ 1,107,677
Program activities -				
Net gains	62,501	8,224	86,126	156,851
Interest and dividends	16,427	2,143	25,555	44,125
Satisfaction of program restrictions	93,179	(10,367)	(100,346)	(17,534)
Balance – September 30, 2012	$ 610,151	$ 57,642	$ 623,326	$ 1,291,119

The following is a summary of the endowment funds:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor Restricted Funds	$ -	$ 57,642	$ 623,326	$ 680,968
Board-Designated Funds	610,151	-	-	610,151
	$ 610,151	$ 57,642	$ 623,326	$ 1,291,119

In June 1990, the Marine Mammal Center Endowment Fund of the Marin Community Foundation (the Marin Community Foundation) was established. The purpose of the endowment fund was to receive contributions for the benefit of the Center. This endowment fund is not reflected on the Center's financial statements.

The following is a summary of the activities in the endowment fund, recorded on the books of the Marin Community Foundation, during the year ended September 30, 2012:

Beginning Balance	$	937,648
Net gains		116,790
Interest and dividends		12,618
Investment fees		(2,378)
Administrative fees		(4,410)
Distributions		(44,098)
		78,522
Ending Balance	$	1,016,170

7. Line of Credit

The Center has a revolving line of credit amounting to $3,800,000 with a bank, with an original expiration date of June 2, 2011. In June 2011, the Center amended its line of credit with an extended expiration date of June 2, 2013. Borrowings under the amended line of credit bear interest, payable monthly, at LIBOR plus 1.0% or at prime rate minus 1.0%, at the option of the Center. The borrowings are secured by the pledged assets of a member of the Board of Directors.

The balance on the line of credit will be refinanced through borrowings of $2,000,000, expiring in 2015, and with the same guarantee. Hence, the outstanding balance on the line of credit of $1,700,000 was classified as a long-term note payable in the accompanying statement of financial position as of September 30, 2012.

The interest expense and the average interest rate on the line of credit were $32,579 and 1.8%, respectively, during the year ended September 30, 2012.

The Center has an unused credit line of $2,100,000 as of September 30, 2012. The maximum and average outstanding balances on the revolving line were $2,100,000 and $1,780,000, respectively, during the year ended September 30, 2012.

8. Donated Materials and Services

The value of donated materials and services included in the accompanying financial statements during the year ended September 30, 2012, were as follows:

Advertising and public relations	$	398,096
Supplies		110,951
Rent		59,709
Professional services		26,761
	$	595,517

Donated materials and services of $61,198 related to fundraising events were shown under revenues and costs of special events.

In addition, the following volunteer services hours, valued using the Bureau of Labor Statistics' value of volunteer time for the State of California and estimated at approximately $2.5 million, were provided during the year ended September 30, 2012:

	Hours
Animal care	59,324
Stranding	34,891
Education	12,407
Other	6,153
	112,775

However, since these services do not require specialized skills and did not meet the recognition criteria set forth in the pronouncement, they were not recorded as support and expenses.

9. Retirement Plan

On January 1, 2009, the Center established a retirement plan (the Plan) adopted under the Internal Revenue Code Section 401(k) and covering substantially all eligible employees. The Center may make discretionary matching contributions to the Plan. The Center did not make any such contribution during the year ended September 30, 2012.

10. Commitments and Contingencies

The Center occupies a seven-acre site in the Marin Headlands, Golden Gate National Recreation Area. In 2002, the National Park Service ("NPS") issued a memorandum regarding the imposition of service district charges on an annual basis. In August 2007, the NPS and the Center finalized a twenty-five (25) year Cooperative Agreement (the Agreement), which requires the Center to pay monthly service district charges to cover common area maintenance services. Monthly service district charges are determined upon obtaining a special use permit every year. The total service district charges were $67,840 during the year ended September 30, 2012.

The Center also occupies, without charge, a space to conduct educational programs at Pier 39 in San Francisco. In August 2012, the Center made a decision to close its store at Pier 39. Its last day of operations was on October 13, 2012, and the lease was officially terminated on October 31, 2012. See Note 11.

The Center leases, on a month to month tenancy, certain housing units from the NPS for use by staff and students. The total rental expense under these operating leases was $123,536 during the year ended September 30, 2012.

On May 4, 2001 and June 1, 2001, the Center entered into an agreement with LSP Moss Landing, LLC and LSP Morro Bay, LLC, (the "Licensors") respectively, to construct, operate and maintain a triage facility for twenty (20) years commencing June 1, 2001. The Center paid $20 to each Licensor, for the right to occupy the property where the triage facility was constructed. The Licensors reserve the right to terminate the agreement at any time during the term of the agreement, with or without cause and without obligation to the Center, by having written notice delivered to the Center 90 days prior to the termination date specified in the notice.

In connection with the plan to construct a facility in Hawaii, the Center entered into a sublease agreement, in December 2011, for 3.5 acres of land. The lease is for an initial period of two (2) years, with four (4) successive options to renew the term for five (5) years per renewal. Fixed monthly rental payments totaling $781 per month, shall commence once the Center obtains the necessary permits that are required to develop the site. The lease shall be terminated if the Center fails to obtain such permits by the end of the first two-year term. On February 15, 2013, the Center obtained the necessary permits.

11. <u>Subsequent Events</u>

In August 2012, the Center made a decision to close its store at Pier 39. Its last day of operation was on October 13, 2012, and the lease was officially terminated on October 31, 2012. The Center has accrued expenses of $54,694 relating to the store closure during the year ended September 30, 2012. These expenses are presented as Pier 39 store closing costs in the statement of functional expenses.

The Center has evaluated subsequent events through March 11, 2013, the date the financial statements were available to be issued. Events occurring after that date have not been evaluated to determine whether a change in the financial statements would be required.