

SEATTLE AQUARIUM

Financial Statements

For the Year Ended December 31, 2016

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Independent Auditor's Report

**To the Board of Directors
Seattle Aquarium Society
Seattle, Washington**

We have audited the accompanying financial statements of Seattle Aquarium Society (dba Seattle Aquarium, herein referred to as the "Aquarium"), which comprise the balance sheet as of December 31, 2016, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 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 financial statements based on our audit. 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 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.



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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Aquarium as of December 31, 2016, and the results of its operations 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 Aquarium's 2015 financial statements, and we expressed an unmodified opinion on those audited financial statements in our report dated April 14, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2015 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Clark Nuber P.S.

Certified Public Accountants

April 13, 2017

SEATTLE AQUARIUM

Balance Sheet
 December 31, 2016
 (With Comparative Totals for 2015)

	<u>2016</u>	<u>2015</u>
Assets		
Current Assets:		
Cash and cash equivalents	\$ 2,971,379	\$ 1,481,969
Accounts receivable	429,969	2,092,460
Current portion of grants and contributions receivable, net	410,077	601,274
Investments	760,552	761,080
Prepaid expenses	<u>387,173</u>	<u>342,695</u>
Total Current Assets	4,959,150	5,279,478
Long-term portion of grants and contributions receivable	30,000	5,000
Property and equipment, net	<u>3,772,496</u>	<u>3,411,018</u>
Total Assets	<u>\$ 8,761,646</u>	<u>\$ 8,695,496</u>
Liabilities and Net Assets		
Current Liabilities:		
Accounts payable	\$ 575,695	\$ 1,352,347
Accrued expenses	<u>1,092,810</u>	<u>803,887</u>
Total Current Liabilities	1,668,505	2,156,234
Net Assets:		
Unrestricted	4,150,132	3,121,898
Temporarily restricted	<u>2,943,009</u>	<u>3,417,364</u>
Total Net Assets	<u>7,093,141</u>	<u>6,539,262</u>
Total Liabilities and Net Assets	<u>\$ 8,761,646</u>	<u>\$ 8,695,496</u>

See accompanying notes.

SEATTLE AQUARIUM

Statement of Activities and Changes in Net Assets
For the Year Ended December 31, 2016
(With Comparative Totals for 2015)

	Unrestricted	Temporarily Restricted	2016 Total	2015 Total
Revenues:				
Admissions	\$ 11,704,613		\$ 11,704,613	\$ 10,813,423
Membership	1,266,292		1,266,292	1,219,256
Concessions	1,277,229		1,277,229	1,290,842
Contributions and grants	594,764	\$ 459,409	1,054,173	771,036
Special events, net of \$621,446 (2015 - \$657,500) of expenses	793,501		793,501	767,171
Metropolitan Parks District funding	1,080,000		1,080,000	300,000
In-kind contributions				11,257
Other income	199,744		199,744	203,911
Restricted net assets released from restrictions	933,764	(933,764)		
Total Revenues	17,849,907	(474,355)	17,375,552	15,376,896
Expenses:				
Program	13,055,634		13,055,634	11,117,821
Management and general	2,442,289		2,442,289	2,627,354
Fundraising	1,323,750		1,323,750	1,091,775
Total Expenses	16,821,673		16,821,673	14,836,950
Total Change in Net Assets	1,028,234	(474,355)	553,879	539,946
Net assets, beginning of year	3,121,898	3,417,364	6,539,262	5,999,316
Net Assets, End of Year	\$ 4,150,132	\$ 2,943,009	\$ 7,093,141	\$ 6,539,262

See accompanying notes.

SEATTLE AQUARIUM

Statement of Functional Expenses
For the Year Ended December 31, 2016
(With Comparative Totals for 2015)

	Program	Management and General	Fundraising	2016 Total	2015 Total
Personnel related expenses	\$ 8,176,644	\$ 1,383,416	\$ 909,380	\$ 10,469,440	\$ 9,054,867
Office expense	1,315,249	424,296	201,450	1,940,995	1,692,890
Professional fees	862,084	261,915	185,480	1,309,479	1,338,161
Animal and operating costs	690,009	35,414	1,429	726,852	647,906
Advertising	519,366	27,326		546,692	547,056
Depreciation and amortization	276,148	68,460		344,608	275,719
Equipment	261,727	37,253	767	299,747	219,703
Bank fees	191,325	26,744	1,683	219,752	199,856
Facility expense	128,370	62,548		190,918	47,034
Taxes	189,151			189,151	187,468
Gift shop payments to City	170,750			170,750	176,000
Computer expense	98,769	44,513	10,575	153,857	131,070
Travel	95,753	12,888	3,524	112,165	139,901
Bad debt expense	35,088	35,088	6,560	76,736	53,235
Miscellaneous expense	22,098	14,193	155	36,446	19,016
Meals and entertainment	23,052	8,235	2,747	34,034	25,672
Interest expense	51			51	73,194
In-kind expense					8,202
Special events expenses			621,446	621,446	657,500
	13,055,634	2,442,289	1,945,196	17,443,119	15,494,450
Less special events expenses			(621,446)	(621,446)	(657,500)
	<u>\$ 13,055,634</u>	<u>\$ 2,442,289</u>	<u>\$ 1,323,750</u>	<u>\$ 16,821,673</u>	<u>\$ 14,836,950</u>

See accompanying notes.

SEATTLE AQUARIUM

Statement of Cash Flows
For the Year Ended December 31, 2016
(With Comparative Totals for 2015)

	2016	2015
Cash Flows From Operating Activities:		
Change in net assets	\$ 553,879	\$ 539,946
Adjustments to reconcile change in net assets to net cash provided by operating activities-		
In-kind donations of property and equipment		(3,054)
Depreciation and amortization	344,608	275,719
Change in assets and liabilities:		
Accounts receivable	1,662,491	(870,422)
Grants and contributions receivable	91,995	19,542
Prepaid expenses	(44,478)	(157,295)
Accounts payable	(802,320)	518,691
Accrued expenses	288,923	149,243
Net Cash Provided by Operating Activities	2,095,098	472,370
Cash Flows From Investing Activities:		
Purchases of property and equipment	(680,418)	(520,476)
Proceeds from sale of investments	316,432	2,333,904
Purchases of investments	(315,904)	(422,145)
Net Cash (Used) Provided by Investing Activities	(679,890)	1,391,283
Cash Flows From Financing Activities:		
Proceeds from contributions restricted for investment in exhibits	74,202	135,780
Payments on leasehold financing and term loan		(1,470,821)
Net Cash Provided (Used) by Financing Activities	74,202	(1,335,041)
Net Change in Cash and Cash Equivalents	1,489,410	528,612
Cash and cash equivalents balance, beginning of year	1,481,969	953,357
Cash and Cash Equivalents Balance, End of Year	\$ 2,971,379	\$ 1,481,969
Supplementary Disclosure of Noncash Investing Activities		
Property and equipment purchases in accounts payable	\$ 25,668	\$ -
In-kind property and equipment donations	\$ -	\$ 3,054
Supplementary Disclosure of Cash Flow Information:		
Cash paid for interest	\$ 51	\$ 73,194

See accompanying notes.

SEATTLE AQUARIUM

Notes to Financial Statements For the Year Ended December 31, 2016

Note 1 - Organization and Summary of Significant Accounting Policies

Seattle Aquarium Society (dba Seattle Aquarium, herein referred to as the "Aquarium") is a nonprofit corporation whose primary purpose is to manage the day-to-day operations of the Seattle Aquarium on behalf of the City of Seattle ("the City").

Basis of Presentation - Net assets and revenues, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Aquarium and changes therein are classified and reported 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 actions of the Aquarium and/or the passage of time.

Permanently Restricted Net Assets - Net assets subject to donor-imposed stipulations that they be maintained permanently by the Aquarium. At December 31, 2016 and 2015, the Aquarium had no permanently restricted net assets.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets.

Contributions of long-lived assets and contributions restricted to acquire long-lived assets are reported as temporarily restricted contributions and are released from restriction ratably over the life of the asset.

Cash and Cash Equivalents - The Aquarium considers all cash accounts which are not subject to withdrawal restrictions or penalties, and all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents. The Aquarium holds cash that at times exceeds the Federal Deposit Insurance Corporation insurance limits.

Receivables - Receivables are stated at the amount management expects to collect. Management provides for probable uncollectible amounts through a charge to net assets and a credit to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to trade accounts receivable. Changes in the valuation allowance have not been material to the financial statements.

Investments - Investments consist of cash equivalents and certificates of deposits. Investments in certificates of deposit are reported at original cost plus accrued interest, which approximates fair value.

SEATTLE AQUARIUM

Notes to Financial Statements For the Year Ended December 31, 2016

Note 1 - Continued

Property and Equipment - Property and equipment are stated at cost if purchased or fair value if contributed. The Aquarium follows the practice of capitalizing all expenditures for property and equipment over \$5,000. Depreciation is provided on the straight-line basis over the estimated useful lives of the assets. The estimated useful lives for computer equipment, software, furniture and fixtures and other equipment are two to five years. The estimated useful lives for vehicles are five to ten years. The useful lives of exhibits and Aquarium improvements are equal to the lesser of their useful lives or the term of the Agreement described in Note 2. Estimated useful life of tenant improvements is the lesser of the useful life of those improvements or the lease.

Donated Materials and Services - Donated services are recognized if the services create or enhance nonfinancial assets or require specialized skills, are performed by people with those skills, and would otherwise need to be purchased by the Aquarium. Donated services and materials are reflected in the statement of activities and changes in net assets at their estimated fair value at the date of receipt of the service or gift.

Donated services and materials received during 2016 totaled \$211,574, which was used for special fundraising events. Donated services and materials received during 2015 totaled \$310,670 which included \$299,413 used for special fundraising events, \$3,054 capitalized as additions to property and equipment, \$4,703 used in program activities, \$1,750 used in management and general activities, and \$1,750 used in fundraising activities.

Membership Revenue - Memberships are recorded as contributions and recognized as revenue when received.

Animal and Plant Collections - The costs of purchasing or collecting live animals and plants are expensed as incurred. Donated specimens are not valued and, therefore, are not reflected in the financial statements.

Advertising - The Aquarium expenses advertising as incurred. Advertising and marketing expenses totaled \$546,692 and \$547,056 for the years ended December 31, 2016 and 2015, respectively.

Federal Income Tax - The Aquarium has been notified by the Internal Revenue Service that it is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code (IRC), with the exception of income from any activities that are not related to the Aquarium's tax-exempt purpose. The Aquarium is also exempt from private foundation status under Section 509(a)(1) of the IRC.

Allocation of Functional Expenses - The costs of providing various programs and other activities have been summarized on a functional basis in the statement of activities and changes in net assets. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Program expenses are those expenses that directly correlate to maintaining a living collection of marine life representative of Puget Sound, as well as our broader ocean environment in which the Aquarium endeavors to inspire all visitors within and without the facility to conserve.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) 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. Actual results could differ from those estimates.

SEATTLE AQUARIUM

Notes to Financial Statements For the Year Ended December 31, 2016

Note 1 - Continued

Subsequent Events - The Aquarium has evaluated subsequent events through April 13, 2017, the date on which the financial statements were available to be issued.

Note 2 - Operations and Management Agreement

The Aquarium entered into the Operations and Management Agreement (the "Agreement") with the City's Superintendent of Parks and Recreation to operate and manage the Aquarium effective July 1, 2010 through June 30, 2030. The City will continue to own the aquarium building and will remain responsible for insurance and capital maintenance of the buildings and piers for the duration of the Agreement. Under the Agreement, the Aquarium is responsible for funding a minimum of \$10,000,000 of new or refurbished exhibits or visitor amenities by June 30, 2030, with at least \$5,000,000 of expenditures occurring on or before June 30, 2020. Total expenditures incurred toward this commitment as of December 31, 2016 were \$4,040,013 which includes certain capitalized costs and expenses incurred. The City's obligations under the Agreement includes funding \$8,000,000 of capital maintenance projects, together with such other capital maintenance as may be required to keep the aquarium building open and operating. The \$8,000,000 funding was fully expended as of December 31, 2016.

As part of the Agreement, the Aquarium is committed to pay approximately \$180,000 annually to the City from the Aquarium's café and gift shop commission revenue through 2025. Payments to the City during 2016 and 2015 for this obligation totaled \$170,750 and \$176,000, respectively, and has been reported as program expenses in the statement of activities and changes in net assets.

Pursuant to the Agreement, control over the nature and disposition of City maintenance funds is held by the Aquarium and is typically treated on a reimbursement basis with a short-term receivable created when the Aquarium bills the City for work completed. As of December 31, 2015, there was \$537,876 in charges billed to the City included in accounts receivable in the balance sheet for work completed; there were no charges included in accounts receivable as of December 31, 2016.

Note 3 - Facilities Master Planning for Expansion

In 2013, the Aquarium and the City executed a Memorandum of Agreement (the "2013 MOA") regarding master planning efforts for the organization. This includes an evaluation of how a potential aquarium expansion could positively integrate into the City's larger central waterfront redevelopment plan. The 2013 MOA stipulates partial City funding for the Aquarium's planning efforts provided that private matching funds are raised and deployed in the creation of a final design for adoption by City Council at a future date. In 2015, the full City Council unanimously approved the master plan document produced in collaboration with the Parks Department and Office of the Waterfront for the City of Seattle. As of December 31, 2015, there was \$1,061,599 in charges billed to the City included in accounts receivable in the balance sheet; there were no charges included in accounts receivable as of December 31, 2016.

SEATTLE AQUARIUM

Notes to Financial Statements For the Year Ended December 31, 2016

Note 4 - Grants and Contributions Receivable

Grants and contributions receivable consisted of the following at December 31:

	<u>2016</u>	<u>2015</u>
Receivables due in less than one year	\$ 450,077	\$ 621,274
Receivables due in one to five years	<u>30,000</u>	<u>5,000</u>
Total grants and contributions receivable	480,077	626,274
Less allowance for uncollectible amounts	<u>(40,000)</u>	<u>(20,000)</u>
Net Grants and Contributions Receivable	<u>\$ 440,077</u>	<u>\$ 606,274</u>

Note 5 - Property and Equipment

Property and equipment consisted of the following at December 31:

	<u>2016</u>	<u>2015</u>
Computer equipment	\$ 466,537	\$ 454,440
Point-of-sale equipment	72,190	72,190
Furniture, fixtures and other equipment	1,237,829	1,159,402
Vehicles	156,720	156,720
Leasehold improvements	474,381	146,591
Exhibits and Aquarium improvements	2,305,511	2,305,511
Facilities master planning	<u>1,235,546</u>	<u>947,774</u>
	5,948,714	5,242,628
Less accumulated depreciation	<u>(2,176,218)</u>	<u>(1,831,610)</u>
Property and Equipment, Net	<u>\$ 3,772,496</u>	<u>\$ 3,411,018</u>

Note 6 - Leasehold Financing

In March 2005, the Aquarium and the City signed a Memorandum of Agreement (the "2005 MOA") in which both parties agreed to take a phased approach to renovating the existing aquarium. The first phase under the 2005 MOA was named the New Currents Capital Campaign and consisted of significant improvements to the east end of the existing aquarium building and overall Pier 59 support structure, which was completed in June 2007. The Aquarium completed a capital fundraising campaign to fund part of the lease improvements but required a long-term liability to finance the work by the necessary completion date. This liability was repaid with interest with the final payment of \$1,455,000 made in 2015, in accordance with the agreed upon repayment schedule.

SEATTLE AQUARIUM

Notes to Financial Statements For the Year Ended December 31, 2016

Note 7 - Term Loan

During 2012, the Aquarium opened an unsecured term loan with a bank in the amount of \$50,000 for the purposes of procuring a backup power generator for the facility. The loan matured and was repaid in full on November 10, 2015.

Note 8 - Line-of-Credit

The Aquarium has an unsecured revolving line-of-credit with a bank in the amount of \$1,000,000. The line will be available to the Aquarium until September 2018. Interest shall accrue on the unpaid outstanding principal balance of the credit at the greater of a floating rate equal to an index rate set by the bank plus 0.75% or the floor rate of 4.5%. As of December 31, 2016 and 2015, there were no draws on this line by the Aquarium.

Note 9 - Lease Commitments

Office Space Lease - The Aquarium is obligated under a lease agreement for office space in Seattle, Washington, which expires on December 31, 2017. Total rental expense was \$414,042 and \$297,357 for the years ended December 31, 2016 and 2015, respectively, which includes base monthly rents plus common area maintenance charges. Future minimum rental commitments under this operating lease are \$308,743 for 2017.

Note 10 - Employee Related Commitments

The Aquarium has established a defined contribution benefit plan under IRC Section 403(b) that covers all employees who are 21 years of age or older. Qualifying employees are immediately 100% vested in the salary reduction amounts. The plan provides for an employer match of employees' voluntary contributions subject to certain terms and conditions. Vesting of the employer match occurs over 4 years, at the rate of 25% per year. The Aquarium contributed a total of \$277,541 and \$220,824 to the plan for the years ended December 31, 2016 and 2015, respectively.

Note 11 - Temporarily Restricted Net Assets

Net assets were temporarily restricted for the following purposes at December 31:

	<u>2016</u>	<u>2015</u>
Time restrictions-		
Exhibits	\$ 1,717,101	\$ 1,844,778
Contributed property and equipment	125,353	197,183
Purpose restrictions-		
Education	347,951	521,996
Other programs	58,900	69,641
Life sciences	144,263	139,018
Facilities master planning	549,441	644,748
Total Temporarily Restricted Net Assets	<u>\$ 2,943,009</u>	<u>\$ 3,417,364</u>

Time restrictions for exhibits and contributed property and equipment are released from restriction ratably over the life of the related assets.

SEATTLE AQUARIUM

Notes to Financial Statements For the Year Ended December 31, 2016

Note 12 - Concessions Agreements

Sodexo Agreement - A ten year agreement was executed between Sodexo and the Aquarium on November 17, 2006, whereby Sodexo operates the café and catering business for the Aquarium, remitting commission revenue monthly to the Aquarium. Commissions are based on a percentage of gross receipts, as defined in the agreement, and totaled \$503,489 and \$530,271 for the years ended December 31, 2016 and 2015, respectively. This agreement was renewed in 2016 for an extended five year term through November 2021. As part of the extension Sodexo is obligated to pay the Aquarium a fee of \$500,000 by April 2017 for capital investment in the café and related space; if the agreement is terminated before the end of the five year extended term the Aquarium will repay Sodexo the unamortized portion of the fee.

Event Network Agreement - A ten year agreement was executed between Event Network and the Aquarium on December 19, 2006, whereby Event Network operates the Aquarium gift store, remitting commission revenue monthly to the Aquarium. Commissions are based on a percentage of gross receipts, as defined in the agreement and totaled \$773,740 and \$760,571 for the years ended December 31, 2016 and 2015, respectively.

Note 13 - Seawall Construction

In the fall of 2012, the City passed a bond issue related to replacing the aging seawall that runs underneath Alaskan Way and directly in front of the Aquarium. Work has progressed since 2014 in areas to the south of the Aquarium premises with a short break during the summer of 2015. In the fall of 2015, work resumed and continued until early summer of 2016 when it was complete for areas south of Waterfront Park to Coleman Dock. In January 2016, the work area expanded to include the area directly in front of the Seattle Aquarium and was completed in February 2017. The Aquarium took action to mitigate negative impacts the seawall construction had on attendance.

Note 14 - Metropolitan Parks District Funds

On August 5, 2014, Proposition 1, "Parks for All" was approved by the citizens of the City of Seattle, creating the Seattle Park District to provide funding for specified park and recreation services through the Seattle Department of Parks and Recreation. In anticipation of impacts on Aquarium attendance related to the City's seawall replacement project, the City allocated funds to support Aquarium operations during the construction period through February 2017. The amount of support was \$300,000 in 2015 and \$1,080,000 in 2016. During 2017, the funding will revert to supporting capital projects and is expected to be \$1,107,000.