



**Virginia Aquarium & Marine
Science Center Foundation, Inc.**

Financial Statements
Years Ended June 30, 2017 and 2016

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Independent Auditor's Report

The Board of Trustees
Virginia Aquarium & Marine Science Center Foundation, Inc.
Virginia Beach, Virginia

We have audited the accompanying financial statements of Virginia Aquarium & Marine Science Center Foundation, Inc. (the Foundation), which comprise the statement of financial position as of June 30, 2017, and the related statements of activities, 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.



Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Foundation as of June 30, 2017, 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.

Other Matter

The 2016 financial statements of Virginia Aquarium & Marine Science Center Foundation, Inc. were audited by McPhillips, Roberts and Deans, PLC ("MRD"), whose members and professional staff joined BDO USA, LLP as of November 1, 2016, shortly after which MRD ceased operations. MRD's report dated October 28, 2016 expressed an unmodified opinion on those statements.

BDO USA, LLP

October 9, 2017

Financial Statements

Virginia Aquarium & Marine Science Center Foundation, Inc.

Statements of Financial Position

<i>June 30,</i>	2017	2016
Assets		
Cash and cash equivalents	\$ 1,911,433	\$ 2,189,365
Accounts receivable	576,556	444,527
Grants receivable	360,838	154,753
Pledges receivable, net	7,246,677	7,147,546
Prepaid expenses	89,104	1,620
Investments	3,491,343	2,356,368
Property and equipment, net	11,009,511	9,662,822
Restricted cash	3,602,772	2,831,671
Total Assets	\$ 28,288,234	\$ 24,788,672
Liabilities and Net Assets		
Liabilities		
Accounts payable	\$ 414,261	\$ 447,495
Deferred revenue	97,094	156,774
Total Liabilities	511,355	604,269
Net Assets		
Unrestricted		
Undesignated	2,385,495	1,945,996
Net investment in property and equipment	11,009,511	9,662,822
Board designated	500,514	250,000
Total unrestricted	13,895,520	11,858,818
Temporarily restricted	11,816,404	10,278,399
Permanently restricted	2,064,955	2,047,186
Total Net Assets	27,776,879	24,184,403
Total Liabilities and Net Assets	\$ 28,288,234	\$ 24,788,672

See accompanying notes to financial statements.

Virginia Aquarium & Marine Science Center Foundation, Inc.

Statements of Activities

<i>Year Ended June 30, 2017</i>	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue, Support and Other Income				
Grant revenue	\$ 399,604	\$ -	\$ -	\$ 399,604
Contributions				
Cash	81,002	3,680,559	17,769	3,779,330
Noncash	1,255,500	31,366	-	1,286,866
Education programs	970,882	-	-	970,882
Restaurant income	188,992	-	-	188,992
Photo concessions	323,089	-	-	323,089
Temporary exhibit income	317,098	-	-	317,098
Fundraising events, net	-	169,636	-	169,636
Memberships	9,259	-	-	9,259
Facility rental income	108,302	-	-	108,302
Adventure park	379,171	-	-	379,171
Other	15,874	-	-	15,874
	4,048,773	3,881,561	17,769	7,948,103
Net assets released from restrictions for operations	908,784	(908,784)	-	-
Total Revenue, Support and Other Income	4,957,557	2,972,777	17,769	7,948,103
Operating Expenses				
Program services				
Exhibits	977,278	-	-	977,278
Educational programs	1,388,798	-	-	1,388,798
Research and conservation	1,158,868	-	-	1,158,868
General and administrative	627,374	-	-	627,374
Fundraising	478,788	-	-	478,788
Total Operating Expenses	4,631,106	-	-	4,631,106
Change in Net Assets from Operations	326,451	2,972,777	17,769	3,316,997
Other Income (Expense)				
Investment income	18,104	262,627	-	280,731
Net assets released for capital	1,697,399	(1,697,399)	-	-
Collections	(5,252)	-	-	(5,252)
Total Other Income (Expense)	1,710,251	(1,434,772)	-	275,479
Change in Net Assets	2,036,702	1,538,005	17,769	3,592,476
Net Assets, beginning of year	11,858,818	10,278,399	2,047,186	24,184,403
Net Assets, end of year	\$ 13,895,520	\$ 11,816,404	\$ 2,064,955	\$ 27,776,879

See accompanying notes to financial statements.

Virginia Aquarium & Marine Science Center Foundation, Inc.

Statements of Activities

<i>Year Ended June 30, 2016</i>	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue, Support and Other Income				
Grant revenue	\$ 423,341	\$ -	\$ -	\$ 423,341
Contributions				
Cash	87,291	8,030,077	25	8,117,393
Noncash	1,198,670	50,792	-	1,249,462
Education programs	798,393	-	-	798,393
Restaurant income	189,764	-	-	189,764
Photo concessions	277,872	-	-	277,872
Temporary exhibit income	314,473	-	-	314,473
Fundraising events, net	-	168,909	-	168,909
Memberships	10,870	-	-	10,870
Facility rental income	89,995	-	-	89,995
Adventure park	223,076	-	-	223,076
Other	13,343	-	-	13,343
	3,627,088	8,249,778	25	11,876,891
Net assets released from restrictions for operations	787,998	(787,998)	-	-
Total Revenue, Support and Other Income	4,415,086	7,461,780	25	11,876,891
Operating Expenses				
Program services				
Exhibits	1,017,705	-	-	1,017,705
Educational programs	1,203,897	-	-	1,203,897
Research and conservation	1,203,303	-	-	1,203,303
General and administrative	546,117	-	-	546,117
Fundraising	433,687	-	-	433,687
Total Operating Expenses	4,404,709	-	-	4,404,709
Change in Net Assets from Operations	10,377	7,461,780	25	7,472,182
Other Income (Expense)				
Investment income (loss)	8,647	(93,840)	-	(85,193)
Net assets released for capital	89,227	(89,227)	-	-
Collections	(41,599)	-	-	(41,599)
Total Other Income (Expense)	56,275	(183,067)	-	(126,792)
Change in Net Assets	66,652	7,278,713	25	7,345,390
Net Assets, beginning of year	11,792,166	2,999,686	2,047,161	16,839,013
Net Assets, end of year	\$ 11,858,818	\$ 10,278,399	\$ 2,047,186	\$ 24,184,403

See accompanying notes to financial statements.

Virginia Aquarium & Marine Science Center Foundation, Inc.

Statements of Functional Expenses

<i>Year Ended June 30, 2017</i>	Program Services			General and	Fundraising	Total
	Exhibits	Educational	Research	Administrative		
Salaries	\$ 198,822	\$ 419,662	\$ 571,273	\$ 353,456	\$ 206,960	\$ 1,750,173
Payroll taxes	13,493	29,143	39,617	22,332	14,705	119,290
Employee benefits	39,796	100,195	140,882	76,559	62,852	420,284
 Total Personnel	 252,111	 549,000	 751,772	 452,347	 284,517	 2,289,747
Advertising and promotion	2,216	20,017	924	7,142	5,136	35,435
Bank charges	63	2,852	523	3,396	1,036	7,870
Conservation support	-	-	33,280	-	-	33,280
Contractual services	125,929	673,467	105,206	43,861	153,521	1,101,984
Dues and subscriptions	19,581	2,106	2,288	30,662	3,339	57,976
Fuel	302	2,211	6,730	-	-	9,243
Indirect overhead	-	-	11,369	(11,369)	-	-
Insurance	125	-	21,290	8,444	-	29,859
Maintenance and repair	1,943	2,694	3,937	569	963	10,106
Meetings	892	669	35	6,174	3,778	11,548
Miscellaneous	165	3,836	259	-	-	4,260
Permits and fees	187	497	2,431	791	-	3,906
Printing and postage	10,413	3,332	3,136	4,765	3,450	25,096
Professional development	32,568	24,904	23,175	1,235	327	82,209
Professional services	6,578	5,577	8,657	28,423	2,489	51,724
Rent	-	-	62,654	-	-	62,654
Small tools and equipment	7,802	35	9,142	2,070	7,404	26,453
Supplies	9,622	61,037	18,837	32,215	5,070	126,781
Telecommunications	4,740	96	2,849	8,701	-	16,386
Travel	1,019	2,380	19,644	2,017	2,865	27,925
Uncollectible accounts	-	-	-	-	-	-
Volunteer and staff expense	-	9,790	550	144	50	10,534
 Total expenses before depreciation and loss on disposition	 476,256	 1,364,500	 1,088,688	 621,587	 473,945	 4,024,976
Depreciation	490,303	24,298	66,777	5,787	4,843	592,008
Loss on disposition of property and equipment	10,719	-	3,403	-	-	14,122
 Total	 \$ 977,278	 \$ 1,388,798	 \$ 1,158,868	 \$ 627,374	 \$ 478,788	 \$ 4,631,106

See accompanying notes to financial statements.

Virginia Aquarium & Marine Science Center Foundation, Inc.

Statements of Functional Expenses

<i>Year Ended June 30, 2016</i>	Program Services			General and	Fundraising	Total
	Exhibits	Educational	Research	Administrative		
Salaries	\$ 168,738	\$ 403,102	\$ 556,003	\$ 292,164	\$ 186,863	\$ 1,606,870
Payroll taxes	11,658	25,239	43,258	18,171	14,295	112,621
Employee benefits	49,563	102,228	149,876	65,389	55,249	422,305
Total Personnel	229,959	530,569	749,137	375,724	256,407	2,141,796
Advertising and promotion	-	10,953	1,000	6,279	75	18,307
Bank charges	52	1,482	256	2,717	627	5,134
Conservation support	-	-	28,250	-	-	28,250
Contractual services	174,231	545,524	149,527	30,296	142,058	1,041,636
Dues and subscriptions	33,477	-	1,739	8,524	1,799	45,539
Fuel	423	3,168	9,151	36	-	12,778
Indirect overhead	-	-	16,962	(16,962)	-	-
Insurance	3,835	-	21,522	4,422	-	29,779
Maintenance and repair	2,138	6,800	2,038	133	-	11,109
Meetings	773	1,050	1,347	11,204	5,851	20,225
Miscellaneous	81	6,810	2,315	1,055	-	10,261
Permits and fees	175	338	556	567	-	1,636
Printing and postage	4,501	1,617	1,062	2,059	8,593	17,832
Professional development	41,808	11,924	31,949	16,570	4,385	106,636
Professional services	5,209	5,668	10,960	47,900	-	69,737
Rent	-	-	62,044	-	-	62,044
Small tools and equipment	2,746	775	8,308	1,506	1,080	14,415
Supplies	10,024	46,104	24,928	25,404	3,208	109,668
Telecommunications	6,599	51	2,172	9,040	-	17,862
Travel	1,926	324	8,174	1,111	4,761	16,296
Uncollectible accounts	-	-	-	6,772	-	6,772
Volunteer and staff expense	-	6,000	-	-	-	6,000
Total expenses before depreciation and loss on disposition	517,957	1,179,157	1,133,397	534,357	428,844	3,793,712
Depreciation	499,748	24,740	69,906	11,760	4,843	610,997
Loss on disposition of property and equipment	-	-	-	-	-	-
Total	\$ 1,017,705	\$ 1,203,897	\$ 1,203,303	\$ 546,117	\$ 433,687	\$ 4,404,709

See accompanying notes to financial statements.

Virginia Aquarium & Marine Science Center Foundation, Inc.

Statements of Cash Flows

<i>Years Ended June 30,</i>	2017	2016
Cash Flows From Operating Activities		
Change in net assets	\$ 3,592,476	\$ 7,345,390
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	592,008	610,997
Loss on sale of property and equipment	14,122	-
Payments received on capital campaign pledges	(3,008,577)	(1,169,240)
Uncollectible accounts	-	6,772
Realized gain on sale of investments	(295,794)	(30,556)
Unrealized loss on investments	103,376	244,118
Changes in operating assets and liabilities		
Accounts receivable	(132,029)	184,565
Grants receivable	(206,085)	197,983
Pledges receivable	(99,131)	(6,534,123)
Prepaid expenses	(87,484)	90,509
Accounts payable	(33,234)	128,313
Deferred revenue	(59,680)	8,532
Net Cash Provided by Operating Activities	379,968	1,083,260
Cash Flows From Investing Activities		
Restricted cash	(771,101)	(975,015)
Purchase of property and equipment	(1,953,007)	(104,737)
Purchase of investments	(3,734,994)	(1,035,353)
Proceeds from sale of property and equipment	188	-
Proceeds from sale of investments	2,792,437	1,045,418
Net Cash Used in Investing Activities	(3,666,477)	(1,069,687)
Net Cash Provided by Financing Activities		
Payments received on capital campaign pledges	3,008,577	1,169,240
Net Decrease in Cash and Cash Equivalents	(277,932)	1,182,813
Cash and Cash Equivalents, beginning of year	2,189,365	1,006,552
Cash and Cash Equivalents, end of year	\$ 1,911,433	\$ 2,189,365

See accompanying notes to financial statements.

Virginia Aquarium & Marine Science Center Foundation, Inc.

Notes To Financial Statements

1. Nature Of Organization

The Virginia Aquarium & Marine Science Center Foundation, Inc. (the "Foundation") is a non-stock, nonprofit corporation. The mission of the Foundation is to inspire conservation of the marine environment through education, research and sustainable practices. The Foundation is supported primarily through educational programs and public support.

2. Summary of Significant Accounting Policies

Estimates

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could differ from those estimates.

Basis of Presentation

The Foundation is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. Donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a temporary restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and presented as "net assets released from restrictions" in the accompanying statements of activities.

Cash and Cash Equivalents

For purposes of the statements of financial position and cash flows, cash and cash equivalents are defined as demand deposits, certificate of deposits and all highly liquid debt instruments purchased with an original maturity of three months or less, other than those maintained as a part of investment portfolios.

Accounts and Grants Receivable

Management considers the need for an allowance for uncollectible accounts and grants receivable based on its review of receivables and historical collection experience. The Foundation writes off receivables as a charge to the allowance, when in their estimation, it is probable the receivable is worthless. Accounts and grants receivable are considered past due if payments are not received by the due date stated on the billing statement. Past due accounts are not charged a monthly finance charge. Management considers all accounts to be collectible and, accordingly, has not provided an allowance for uncollectible accounts.

Virginia Aquarium & Marine Science Center Foundation, Inc.

Notes To Financial Statements

Pledges Receivable

Pledges receivable represent unconditional promises to give and are recorded at net realizable value. Promises to give to be received after one year are discounted at an appropriate discount rate commensurate with the risks involved. An allowance for uncollectible pledges receivable is provided based upon management's judgment. Conditional promises to give are not included as support until the conditions are substantially met.

Investments

The Foundation's investments are carried at their fair value in the statements of financial position. Changes in fair value are included in the change in net assets in the statements of activities.

Collections

In accordance with industry practice, the Foundation's collections of marine animals are not capitalized and recognized as assets in the statements of financial position. The Foundation holds its collections for public exhibition, education and research rather than for financial gain. It protects, cares for, preserves and keeps its collections unencumbered. Additionally, it is impracticable to attempt to assign values to the collection because the animals have certain attributes, such as species, sex, age, breeding potential, and relationship to others in the ecosystem that make it difficult to determine an objective basis for valuation. The cost of collection items purchased by the Foundation is reported in the accompanying statements of activities as collections. Contributed collection items are not reflected in the financial statements.

Property and Equipment

Property and equipment are recorded at cost if purchased and at estimated fair value if donated. Asset purchases of \$5,000 or more are capitalized, while maintenance and repairs that do not improve or extend the useful lives of the respective assets are expensed currently. Depreciation is calculated using the straight-line method based on the following useful lives:

<u>Asset Category</u>	<u>Useful Life</u>
Exhibits	3-39 Years
Leasehold improvements	15-25 Years
Office furniture and equipment	3-7 Years
Vehicles	5-7 Years
Vessels	5-20 Years

Restricted Cash

Restricted cash consist of cash received by donors and restricted for future exhibit, program or renovation purposes.

Deferred Revenue

Deferred revenue includes event deposits, program fees, and grant awards received in advance and will be recognized as revenue when the event occurs or the grant expenses are incurred.

Virginia Aquarium & Marine Science Center Foundation, Inc.

Notes To Financial Statements

Expense Allocation

The costs of providing various programs and other activities have been summarized on a functional basis in the statements of activities and of functional expenses. Accordingly, certain costs have been allocated between program services, general and administrative, and fundraising.

Volunteers

A substantial number of unpaid volunteers have made significant contributions of their time and talent to further the mission of the Foundation. The value of these contributed services is not reported in these financial statements since it is not susceptible to objective measurement or valuation, and because the criteria for recognition of such volunteer effort have not been satisfied.

Income Taxes

The Foundation is an organization described in Section 501(c)(3) of the Internal Revenue Code and is exempt from federal and state income taxes. Exempt organizations are subject to tax on income from regularly conducted trade or business activities that are not substantially related to the organization's exempt purpose. Returns are generally subject to examinations for three years from the date filed. This period of limitations has expired for returns filed for tax years 2013 and earlier. Management continually evaluates tax positions reflected in the Foundation's tax filings and does not believe that any material uncertain tax positions exist.

Subsequent Events

The Foundation has evaluated subsequent events through October 9, 2017, the date which the financial statements were available to be issued.

3. Related Party Transactions

The Aquarium that houses the Foundation's exhibits is owned, operated and maintained by the City of Virginia Beach (the City). On June 25, 2012, the Foundation renewed its agreement with the City. The initial term of the agreement was for five years effective June 2012 through June 2017, with an automatic extension which was exercised in 2017 for a consecutive five-year term. The following summarizes the material terms of this agreement:

The Foundation owns all the animals and permanent exhibits located in the Aquarium which have been funded by the Foundation.

The City agrees to insure and maintain exhibits designed, fabricated and installed in the Aquarium by the Foundation.

The Foundation operates the Aquarium's Stranding Program which is housed in a building leased by the City and is known as the Marine Animal Care Center. The Foundation pays the City 35% of the cost of the lease and utilities. Rent expense includes \$62,654 and \$62,044 for the years ended June 30, 2017 and 2016, respectively, inclusive of utilities related to this arrangement.

Virginia Aquarium & Marine Science Center Foundation, Inc.

Notes To Financial Statements

The City provides the Foundation with office space in the Aquarium, use of office equipment and City personnel for administrative, program and accounting services. These amounts are included as both non-cash contribution income and personnel expenses in the statements of activities and totaled \$1,278,216 and \$1,187,891 for the years ended June 30, 2017 and 2016, respectively.

The Foundation reimburses the City for the cost of the salaries and related expenses paid by the City to City employees who operate certain programs at the Aquarium on behalf of the Foundation. These amounts totaled \$1,011,531 and \$953,905 for the years ended June 30, 2017 and 2016 and are included in personnel expenses in the statements of activities.

The Foundation pays to the City 25% of gross revenues and 100% of 3D Theater movie revenues received by the Foundation as a result of the use of the Aquarium facilities by third parties for private functions arranged by the Foundation. These amounts are recorded as a liability to the City and are not recorded as revenue in the statements of activities.

Accounts payable related to payroll reimbursements and other transactions with the City totaled \$242,783 and \$399,736 at June 30, 2017 and 2016, respectively.

The City sells both admissions tickets and memberships through its admissions desk. Temporary exhibit charges are paid to the Foundation and totaled \$317,098 and \$314,473 for the years ended June 30, 2017 and 2016, respectively. Any amounts in excess of basic membership for philanthropic memberships are paid to the Foundation and totaled \$9,259 and \$10,870 for the years ended June 30, 2017 and 2016, respectively. Other fees are also collected by the City on behalf of the Foundation at the admissions desk for educational programs, facility rental and adventure park fees and other miscellaneous items. Amounts due to the Foundation from the City related to the above transactions totaled \$406,416 and \$263,040 for the years ended June 30, 2017 and 2016, respectively.

The Foundation is responsible for the operation of all food services throughout the Aquarium. The Foundation contracts all food services to an independent restaurant operator under an agreement through June 30, 2027. The Foundation receives monthly payments based on varying commission rates.

The Aquarium Stores in the Aquarium are operated and maintained by the City and the City retains all revenues received from their operations.

The Foundation and the City are in process of three jointly funded capital improvement projects to renovate and enlarge certain buildings and exhibits. Per the terms of the agreements, the Foundation will provide funding in the amount of \$10,980,710 toward these projects. The Foundation will own the permanent exhibits and equipment which have been constructed, funded or purchased as part of the improvement projects. \$2,000,000 was paid to the City for these capital improvement projects and is reflected in construction in progress in the statements of financial position at June 30, 2017.

Virginia Aquarium & Marine Science Center Foundation, Inc.

Notes To Financial Statements

4. Pledges Receivable

Pledges receivable consist of the following:

<i>June 30,</i>	2017	2016
Receivable in less than one year	\$ 2,429,057	\$ 1,855,012
Receivable in 1 - 5 years	5,019,354	5,568,191
Receivable in more than 5 years	670,000	698,750
Total pledges receivable	8,118,411	8,121,953
Less discounts to net present value (ranging from 1.41% - 6.83%)	(490,330)	(558,747)
Less allowance for doubtful accounts	(381,404)	(415,660)
Total Pledges Receivable, net	\$ 7,246,677	\$ 7,147,546

5. Investments

Investments consist of the following:

<i>June 30,</i>	2017			2016		
	Cost	Market Value	Cumulative Unrealized Gain (Loss)	Cost	Market Value	Cumulative Unrealized Gain (Loss)
Real estate	\$ 10,000	\$ 10,000	\$ -	\$ 10,000	\$ 10,000	\$ -
Money market	11,679	11,679	-	3,123	3,123	-
Mutual funds						
U.S. equities	1,033,552	1,174,411	140,859	690,325	874,296	183,971
International	366,926	402,945	36,019	418,507	488,633	70,126
Fixed income	332,450	329,842	(2,608)	358,501	350,196	(8,305)
Alternative	484,632	466,634	(17,998)	470,432	508,756	38,324
Fixed income	950,000	949,433	(567)	-	-	-
Corporate bonds	115,000	146,399	31,399	115,000	121,364	6,364
Total	\$ 3,304,239	\$ 3,491,343	\$ 187,104	\$ 2,065,888	\$ 2,356,368	\$ 290,480

Virginia Aquarium & Marine Science Center Foundation, Inc.

Notes To Financial Statements

Investment income (loss) in the following net asset categories consist of the following:

<i>Years ended June 30,</i>	2017	2016
Unrestricted net assets		
Interest and dividends	\$ 18,185	\$ 8,698
Financial service fees	(81)	(51)
	18,104	8,647
Temporarily restricted net assets		
Interest and dividends	88,108	135,105
Realized gain on sale of investments	295,794	30,556
Financial service fees	(17,899)	(15,383)
Unrealized loss on investments	(103,376)	(244,118)
	262,627	(93,840)
Total Investment Income (Loss)	\$ 280,731	\$ (85,193)

6. Fair Value Measurements

The Foundation's investments are valued using a fair value hierarchy. The three levels of fair value hierarchy for recurring fair value measurements are prioritized based on the inputs to valuation techniques used to measure fair value and are as follows:

- Level 1 - quoted prices in active markets for identical assets.
- Level 2 - observable inputs that include quoted market prices for similar assets; quoted market prices that are not in an active market; or other inputs that are observable and can be corroborated by observable market data for substantially the full term of the assets.
- Level 3 - unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets.

The Foundation's investments at fair value on a recurring basis are as follows:

<i>June 30, 2017</i>	Level 1	Level 2	Level 3	Total
Real estate	\$ -	\$ 10,000	\$ -	\$ 10,000
Money market	11,679	-	-	11,679
Mutual funds				
U.S. equities	1,174,411	-	-	1,174,411
International	402,945	-	-	402,945
Fixed income	329,842	-	-	329,842
Alternative	466,634	-	-	466,634
Fixed income	-	949,433	-	949,433
Corporate bonds	-	146,399	-	146,399
Total Investments	\$ 2,385,511	\$ 1,105,832	\$ -	\$ 3,491,343

Virginia Aquarium & Marine Science Center Foundation, Inc.

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The Foundation's investments at fair value on a recurring basis are as follows:

<i>June 30, 2016</i>	Level 1	Level 2	Level 3	Total
Real estate	\$ -	\$ 10,000	\$ -	\$ 10,000
Money market	3,123	-	-	3,123
Mutual funds				
U.S. equities	874,296	-	-	874,296
International	488,633	-	-	488,633
Fixed income	350,196	-	-	350,196
Alternative	508,756	-	-	508,756
Corporate bonds	-	121,364	-	121,364
Total Investments	\$ 2,225,004	\$ 131,364	\$ -	\$ 2,356,368

Real estate is valued at the property tax assessment as reported by the taxing county in which the property is located. Money market funds and mutual funds are valued at the closing price reported by the active market in which the individual securities are traded. Fixed income and corporate bonds are calculated using quoted market prices for similar assets. There were no changes in valuation techniques during 2017 and 2016.

7. Property and Equipment

Property and equipment consist of the following:

<i>June 30,</i>	2017	2016
Exhibits	\$ 14,983,789	\$ 15,096,576
Leasehold improvements	114,727	109,227
Office furniture and equipment	246,471	246,470
Vehicles	293,211	253,105
Vessels	590,921	583,150
Works of art	150,000	150,000
Construction in progress	2,000,000	256,060
Total	18,379,119	16,694,588
Less accumulated depreciation	(7,369,608)	(7,031,766)
Property and Equipment, net	\$ 11,009,511	\$ 9,662,822

Virginia Aquarium & Marine Science Center Foundation, Inc.

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8. Restricted Net Assets

Restricted net assets are available for the following purposes:

<i>June 30,</i>	2017	2016
Temporarily restricted		
Renovation project	\$ 10,176,514	\$ 8,891,681
Exhibits and program expenses	1,639,890	1,386,718
Total temporarily restricted assets	11,816,404	10,278,399
Permanently restricted		
Program and supporting services	2,064,955	2,047,186
Total Restricted Net Assets	\$ 13,881,359	\$ 12,325,585

Net assets of the Foundation were released from donor restrictions by satisfying the purposes or time restrictions specified by donors as follows:

<i>Years ended June 30,</i>	2017	2016
Renovation project	\$ 1,697,399	\$ 89,227
Exhibits and program expenses	908,784	787,998
Total Net Assets Released from Restrictions	\$ 2,606,183	\$ 877,225

9. Endowments

The Foundation's endowment consists of seven individual donor-restricted funds held with the Foundation for the purpose of attracting other donors who wish to support the work of the Foundation in perpetuity through gifts to the endowment. Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Governing Board's Interpretation of Law

The Board of Trustees has interpreted UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. The Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment, if any, made in accordance with the direction of the applicable donor gift instrument. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation. In accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

Virginia Aquarium & Marine Science Center Foundation, Inc.

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- (1) The duration and preservation of the fund;
- (2) The purpose of the Foundation in relation to the purpose of a restricted endowment fund;
- (3) General economic conditions;
- (4) The possible effect of inflation and deflation;
- (5) The expected total return from income and appreciation of investments;
- (6) Other resources of the Foundation;
- (7) The investment policies of the Foundation.

Spending Policy

The distribution policy of the Foundation is to annually distribute up to the distribution percentage of the three year average market value of the endowment. The distribution percentage will be computed as the three year average annual fiscal year return of total income less the three year average Consumer Price Index (CPI). The distribution percentage will have a minimum floor of 2.5% and a maximum of 5%. If in any one year, the full spending rate is not expended, the unspent portion carries forward and is added to subsequent year's spending rate.

Investment Return Objectives and Risk Parameters

The Foundation has adopted investment and spending policies for endowment assets that attempt to maintain the purchasing power of current assets, maximize return with a reasonable and prudent level of risk and to minimize the costs of administering and managing the assets. Under these policies, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to produce results that achieve long-term real rate of return of assets of not less than 5% after inflation. To satisfy its long-term rate-of-return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation reviews and rebalances the assets no less than quarterly.

The Foundation targets a diversified asset allocation that places a greater emphasis on liquid securities, securities that can be sold quickly and efficiently with minimal impact of market price.

Endowment net asset composition by type of fund is as follows:

<i>June 30, 2017</i>	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted	\$ -	\$ 383,465	\$ 2,064,955	\$ 2,448,420
Total Endowment Funds	\$ -	\$ 383,465	\$ 2,064,955	\$ 2,448,420

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<i>June 30, 2016</i>	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted	\$ -	\$ 204,328	\$ 2,047,186	\$ 2,251,514
Total Endowment Funds	\$ -	\$ 204,328	\$ 2,047,186	\$ 2,251,514

Changes in endowment net assets are as follows:

<i>Years ended June 30,</i>	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Balance, June 30, 2015	\$ -	\$ 393,502	\$ 2,047,161	\$ 2,440,663
Contributions	-	-	25	25
Investment income	-	(93,840)	-	(93,840)
Expenditures	-	(95,334)	-	(95,334)
Balance, June 30, 2016	-	204,328	2,047,186	2,251,514
Contributions	-	-	17,769	17,769
Investment income	-	262,627	-	262,627
Expenditures	-	(83,490)	-	(83,490)
Balance, June 30, 2017	\$ -	\$ 383,465	\$ 2,064,955	\$ 2,448,420

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Foundation to retain as a fund of perpetual duration. There were no deficiencies of this nature as of June 30, 2017 and 2016.

10. Donated Materials and Services

The estimated fair market value of donated materials and services included in the financial statements for the years ended June 30, 2017 and 2016 are as follows:

<i>Years ended June 30,</i>	2017	2016
Salaries	\$ 985,629	\$ 913,639
Payroll taxes	64,247	60,743
Employee benefits	228,339	234,704
Fuel	-	1,850
Maintenance and repair	1,426	1,500
Professional services	6,300	33,944
Supplies	925	2,546
Travel	-	536
Total Donated Materials and Services	\$1,286,866	\$ 1,249,462

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11. Concentrations

At various times during the years presented, the Foundation may have had on deposit with a single financial institution more than \$250,000, which is the basic limit currently insured by the Federal Deposit Insurance Corporation (FDIC).

Investments are subject to market risk which is dependent on the future changes in market prices of the various investments held.

12. Reclassifications

Certain amounts in the 2016 financial statements have been reclassified to conform with the current year financial statement presentation. These reclassifications had no effect on financial position or operating results as previously reported.

13. Restatement

The accompanying financial statements at June 30, 2016 have been restated to correct an understatement of net assets released from prior years. The restatement had no effect on change in net assets or total net assets for 2016. The impact of this restatement is shown in the following table.

<i>June 30, 2016</i>	As Previously Reported	As Restated	Increase (Decrease)
Statements of Financial Position			
Unrestricted	\$ 10,612,064	\$ 11,858,818	\$ 1,246,754
Temporarily restricted	11,525,153	10,278,399	(1,246,754)
Statements of Activities			
Net assets, beginning of year			
Unrestricted	\$ 10,545,412	\$ 11,792,166	\$ 1,246,754
Temporarily restricted	4,246,440	2,999,686	(1,246,754)
Net assets, end of year			
Unrestricted	10,612,064	11,858,818	1,246,754
Temporarily restricted	11,525,153	10,278,399	(1,246,754)