



VIRGINIA
AQUARIUM
& MARINE SCIENCE CENTER

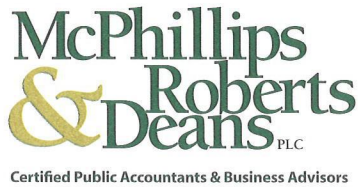
FOUNDATION, INC.

FINANCIAL REPORT

June 30, 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 statements of financial position as of June 30, 2016 and 2015, and the related statements of activities, functional expenses, and cash flows for the years 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

McPhillips, Roberts & Deans, PLC

October 28, 2016
Norfolk, Virginia

VIRGINIA AQUARIUM & MARINE SCIENCE CENTER FOUNDATION, INC.

STATEMENTS OF FINANCIAL POSITION

June 30, 2016 and 2015

Assets	<u>2016</u>	<u>2015</u>
Cash and cash equivalents	\$ 2,030,147	\$ 861,019
Accounts receivable	444,527	629,092
Grants receivable	154,753	352,736
Pledges receivable, net	7,147,546	620,195
Investments	2,356,368	2,579,995
Property and equipment, net	9,662,822	10,169,082
Cash restricted for capital purchases	2,990,889	2,002,189
Other assets	1,620	92,129
TOTAL ASSETS	<u>\$ 24,788,672</u>	<u>\$ 17,306,437</u>
Liabilities and Net Assets		
Liabilities		
Accounts payable	\$ 447,495	\$ 319,182
Deferred revenue	156,774	148,242
Total Liabilities	<u>604,269</u>	<u>467,424</u>
Net Assets		
Unrestricted		
Net investment in property and equipment	9,662,822	10,169,082
Other	949,242	376,330
Temporarily restricted	11,525,153	4,246,440
Permanently restricted	2,047,186	2,047,161
Total Net Assets	<u>24,184,403</u>	<u>16,839,013</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 24,788,672</u>	<u>\$ 17,306,437</u>

STATEMENTS OF ACTIVITIES

For the Years Ended June 30, 2016 and 2015

VIRGINIA AQUARIUM & MARINE SCIENCE CENTER FOUNDATION, INC.

STATEMENTS OF ACTIVITIES

For the Years Ended June 30, 2016 and 2015

	2016			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
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
Rental income	89,995	-	-	89,995
Adventure park	223,076	-	-	223,076
Other	13,343	-	-	13,343
Investment income (loss)	8,647	(93,840)	-	(85,193)
	<u>3,635,735</u>	<u>8,155,938</u>	<u>25</u>	<u>11,791,698</u>
Net assets released from restrictions	<u>877,225</u>	<u>(877,225)</u>	<u>-</u>	<u>-</u>
Total Revenue, Support and Other Income	<u>4,512,960</u>	<u>7,278,713</u>	<u>25</u>	<u>11,791,698</u>
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	<u>4,404,709</u>	<u>-</u>	<u>-</u>	<u>4,404,709</u>
Change in Net Assets before Collections	108,251	7,278,713	25	7,386,989
Collections	<u>(41,599)</u>	<u>-</u>	<u>-</u>	<u>(41,599)</u>
Change in Net Assets from Activities	66,652	7,278,713	25	7,345,390
Redesignation by donor	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Change in Net Assets	66,652	7,278,713	25	7,345,390
Net Assets, Beginning of Year	<u>10,545,412</u>	<u>4,246,440</u>	<u>2,047,161</u>	<u>16,839,013</u>
NET ASSETS, END OF YEAR	<u>\$ 10,612,064</u>	<u>\$ 11,525,153</u>	<u>\$ 2,047,186</u>	<u>\$ 24,184,403</u>

See Accompanying Notes to Financial Statements

2015

Unrestricted	Temporarily Restricted	Permanently Restricted	Total
\$ 940,568	\$ -	\$ -	\$ 940,568
150,694	725,301	455	876,450
989,967	63,478	-	1,053,445
398,901	-	-	398,901
169,498	-	-	169,498
260,966	-	-	260,966
261,899	-	-	261,899
-	197,010	-	197,010
63,946	-	-	63,946
81,056	-	-	81,056
218,986	-	-	218,986
12,909	-	-	12,909
5,813	21,981	-	27,794
<u>3,555,203</u>	<u>1,007,770</u>	<u>455</u>	<u>4,563,428</u>
<u>1,058,897</u>	<u>(1,058,897)</u>	<u>-</u>	<u>-</u>
<u>4,614,100</u>	<u>(51,127)</u>	<u>455</u>	<u>4,563,428</u>
1,028,813	-	-	1,028,813
780,753	-	-	780,753
1,858,947	-	-	1,858,947
606,910	-	-	606,910
<u>380,521</u>	<u>-</u>	<u>-</u>	<u>380,521</u>
<u>4,655,944</u>	<u>-</u>	<u>-</u>	<u>4,655,944</u>
(41,844)	(51,127)	455	(92,516)
<u>(7,462)</u>	<u>-</u>	<u>-</u>	<u>(7,462)</u>
(49,306)	(51,127)	455	(99,978)
<u>-</u>	<u>(25,000)</u>	<u>25,000</u>	<u>-</u>
(49,306)	(76,127)	25,455	(99,978)
<u>10,594,718</u>	<u>4,322,567</u>	<u>2,021,706</u>	<u>16,938,991</u>
<u>\$ 10,545,412</u>	<u>\$ 4,246,440</u>	<u>\$ 2,047,161</u>	<u>\$ 16,839,013</u>

VIRGINIA AQUARIUM & MARINE SCIENCE CENTER FOUNDATION, INC.

STATEMENTS OF FUNCTIONAL EXPENSES

For the Years Ended June 30, 2016 and 2015

	2016					
	Program Services			General and Administrative	Fundraising	Total
	Exhibits	Educational	Research			
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	<u>229,959</u>	<u>530,569</u>	<u>749,137</u>	<u>375,724</u>	<u>256,407</u>	<u>2,141,796</u>
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 expense	-	6,000	-	-	-	6,000
Total expenses before depreciation	<u>517,957</u>	<u>1,179,157</u>	<u>1,133,397</u>	<u>534,357</u>	<u>428,844</u>	<u>3,793,712</u>
Depreciation	<u>499,748</u>	<u>24,740</u>	<u>69,906</u>	<u>11,760</u>	<u>4,843</u>	<u>610,997</u>
Total	<u><u>\$ 1,017,705</u></u>	<u><u>\$ 1,203,897</u></u>	<u><u>\$ 1,203,303</u></u>	<u><u>\$ 546,117</u></u>	<u><u>\$ 433,687</u></u>	<u><u>\$ 4,404,709</u></u>

2015

Program Services			General and		
Exhibits	Educational	Research	Administrative	Fundraising	Total
\$ 166,331	\$ 308,347	\$ 517,584	\$ 318,510	\$ 156,368	\$ 1,467,140
12,715	20,706	38,914	16,194	11,962	100,491
54,881	77,722	138,722	60,345	46,196	377,866
<u>233,927</u>	<u>406,775</u>	<u>695,220</u>	<u>395,049</u>	<u>214,526</u>	<u>1,945,497</u>
-	6,385	900	25,561	25	32,871
30	2,118	509	2,537	22	5,216
-	-	19,316	-	-	19,316
149,936	249,440	812,448	24,234	109,776	1,345,834
40,182	837	2,180	4,976	1,820	49,995
1,045	1,742	10,950	-	-	13,737
-	-	19,544	(19,544)	-	-
-	-	11,245	4,414	-	15,659
901	993	3,160	2,201	-	7,255
317	554	11,142	5,942	17,206	35,161
316	2,163	2,245	209	-	4,933
620	536	4,601	362	-	6,119
5,836	10,511	2,787	12,563	3,166	34,863
68,295	8,031	38,602	7,394	3,686	126,008
9,977	19,929	14,999	46,008	1,821	92,734
-	1,946	64,106	-	-	66,052
1,400	330	24,533	2,029	-	28,292
22,375	42,667	29,746	13,456	9,438	117,682
5,479	162	2,946	12,360	-	20,947
1,589	4,959	17,330	5,335	14,817	44,030
-	-	-	-	-	-
-	3,000	-	-	-	3,000
<u>542,225</u>	<u>763,078</u>	<u>1,788,509</u>	<u>545,086</u>	<u>376,303</u>	<u>4,015,201</u>
<u>486,588</u>	<u>17,675</u>	<u>70,438</u>	<u>61,824</u>	<u>4,218</u>	<u>640,743</u>
<u>\$ 1,028,813</u>	<u>\$ 780,753</u>	<u>\$ 1,858,947</u>	<u>\$ 606,910</u>	<u>\$ 380,521</u>	<u>\$ 4,655,944</u>

VIRGINIA AQUARIUM & MARINE SCIENCE CENTER FOUNDATION, INC.

STATEMENTS OF CASH FLOWS

For the Years Ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Cash Flows From Operating Activities		
Change in net assets	\$ 7,345,390	\$ (99,978)
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	610,997	640,743
Payments received on capital campaign pledges	(1,169,240)	(223,505)
Uncollectible accounts	6,772	-
Realized gain on sale of investments	(30,556)	(44,704)
Unrealized loss on investments	244,118	160,811
Changes in operating assets and liabilities		
Accounts receivable	184,565	(468,288)
Grants receivable	197,983	130,556
Pledges receivable	(6,534,123)	(111,244)
Other assets	90,509	(81,854)
Accounts payable	128,313	245,484
Deferred revenue	8,532	(4,047)
	<u>1,083,260</u>	<u>143,974</u>
Net Cash Provided by Operating Activities		
Cash Flows From Investing Activities		
Cash restricted for capital purchases	(988,700)	(104,794)
Purchase of property and equipment	(104,737)	(519,878)
Purchase of investments	(1,035,353)	(330,052)
Proceeds from sale of investments	1,045,418	400,049
	<u>(1,083,372)</u>	<u>(554,675)</u>
Net Cash Used in Investing Activities		
Cash Flows Provided by Financing Activities		
Payments received on capital campaign pledges	<u>1,169,240</u>	<u>223,505</u>
Net Increase (Decrease) in Cash and Cash Equivalents	1,169,128	(187,196)
Cash and Cash Equivalents, Beginning of Year	<u>861,019</u>	<u>1,048,215</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 2,030,147</u>	<u>\$ 861,019</u>

VIRGINIA AQUARIUM & MARINE SCIENCE CENTER FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 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.

NOTE 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.

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.

VIRGINIA AQUARIUM & MARINE SCIENCE CENTER FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

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

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.

Compensated Absences Employees working for the Foundation are entitled to paid vacation depending on length of service and other factors. It is not practicable to estimate the amount of compensation for future absences and, accordingly, no liability has been recorded in the accompanying financial statements. The Foundation's policy is to recognize the costs of compensated absences when actually paid to employees.

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.

VIRGINIA AQUARIUM & MARINE SCIENCE CENTER FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

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 2012 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 28, 2016, the date which the financial statements were available to be issued.

NOTE 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 is for five years effective June 2012 through June 2017 and is automatically extended for five-year terms, subject to a 90 day notice by either party to terminate. 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 plus utilities. Rent expense includes \$62,044 and \$59,907 for the years ended June 30, 2016 and 2015, respectively, inclusive of utilities related to this arrangement.

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 \$1,187,890 and \$947,782 for the years ended June 30, 2016 and 2015, 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 \$953,905 and \$939,124 for the years ended June 30, 2016 and 2015 and are included in personnel expenses in the statements of activities. Accounts payable related to these transactions with the City was \$399,736 and \$212,795 at June 30, 2016 and 2015, respectively.

VIRGINIA AQUARIUM & MARINE SCIENCE CENTER FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

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 statement of activities. There were no amounts related to these transactions payable to the City at June 30, 2016 and 2015.

The City sells both admissions tickets and memberships through its admissions desk. Temporary exhibit charges are paid to the Foundation and totaled \$314,473 and \$261,899 for the years ended June 30, 2016 and 2015, respectively. Any amounts in excess of general admissions for philanthropic memberships are paid to the Foundation and totaled \$10,870 and \$63,946 for the years ended June 30, 2016 and 2015, 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 \$263,040 and \$301,799 for the years ended June 30, 2016 and 2015, respectively.

The Foundation is responsible for the operation of the restaurant for the provision of food services throughout the Aquarium. The Foundation retains all revenues from the operation of the restaurant. The Foundation leases this facility to an independent restaurant operator which is renewable on a month-to-month basis. 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.

NOTE 4 - PLEDGES RECEIVABLE

Pledges receivable at June 30, 2016 and 2015 consists of the following:

	2016	2015
Receivable in less than one year	\$ 1,855,012	\$ 202,320
Receivable in 1 - 5 years	5,568,191	195,916
Receivable in more than 5 years	698,750	687,500
Total pledges receivable	8,121,953	1,085,736
Less discounts to net present value (ranging from 1.41% - 6.83%)	(558,747)	(390,794)
Less allowance for doubtful accounts	(415,660)	(74,747)
Total pledges receivable, net	<u>\$ 7,147,546</u>	<u>\$ 620,195</u>

VIRGINIA AQUARIUM & MARINE SCIENCE CENTER FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 5 - INVESTMENTS

Investments at June 30, 2016 and 2015 consist of the following:

	2016			2015		
	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 funds	3,123	3,123	-	4,374	4,374	-
Mutual funds						
U.S. large to mid cap	522,124	682,021	159,897	-486,819	755,014	268,195
U.S. small cap	168,201	192,275	24,074	126,960	196,514	69,554
International	418,507	488,633	70,126	448,575	594,917	146,342
Alternative investment	470,432	508,756	38,324	562,487	628,357	65,870
Fixed income	473,501	471,560	(1,941)	406,182	390,819	(15,363)
Total Investment	<u>\$ 2,065,888</u>	<u>\$ 2,356,368</u>	<u>\$ 290,480</u>	<u>\$ 2,045,397</u>	<u>\$ 2,579,995</u>	<u>\$ 534,598</u>

Investment income (loss) in the following net asset categories in the statements of activities for the years ended June 30, 2016 and 2015 consist of the following:

	2016	2015
Unrestricted net assets		
Interest and dividends	\$ 8,698	\$ 6,096
Financial service fees	(51)	(283)
	<u>8,647</u>	<u>5,813</u>
Temporarily restricted net assets		
Interest and dividends	135,105	154,099
Realized gain on sale of investments	30,556	44,704
Financial service fees	(15,383)	(16,011)
Unrealized loss on investments	(244,118)	(160,811)
	<u>(93,840)</u>	<u>21,981</u>
Total investment income (loss)	<u>\$ (85,193)</u>	<u>\$ 27,794</u>

VIRGINIA AQUARIUM & MARINE SCIENCE CENTER FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 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 following tables present the Foundation’s investments at fair value on a recurring basis for each hierarchy level at June 30, 2016:

	Level 1	Level 2	Level 3	Total
Real estate	\$ -	\$ 10,000	\$ -	\$ 10,000
Money market funds	3,123	-	-	3,123
Mutual funds				
U.S. large to mid cap	682,021	-	-	682,021
U.S. small cap	192,275	-	-	192,275
International	488,633	-	-	488,633
Alternative investments	508,756	-	-	508,756
Fixed income	471,560	-	-	471,560
Total investments	\$ 2,346,368	\$ 10,000	\$ -	\$ 2,356,368

The following tables present the Foundation’s investments at fair value on a recurring basis for each hierarchy level at June 30, 2015:

	Level 1	Level 2	Level 3	Total
Real estate	\$ -	\$ 10,000	\$ -	\$ 10,000
Money market funds	4,374	-	-	4,374
Mutual funds				
U.S. large to mid cap	755,014	-	-	755,014
U.S. small cap	196,514	-	-	196,514
International	594,917	-	-	594,917
Alternative investments	628,357	-	-	628,357
Fixed income	390,819	-	-	390,819
Total investments	\$ 2,569,995	\$ 10,000	\$ -	\$ 2,579,995

VIRGINIA AQUARIUM & MARINE SCIENCE CENTER FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

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.

NOTE 7 - PROPERTY AND EQUIPMENT

Property and equipment at June 30, 2016 and 2015 consist of the following:

	2016	2015
Exhibits	\$ 15,096,576	\$ 14,909,107
Leasehold improvements	109,227	109,227
Office furniture and equipment	246,470	246,470
Vehicles	253,105	253,105
Vessels	583,150	583,150
Works of art	150,000	150,000
Construction in progress	256,060	338,792
Total	<u>16,694,588</u>	<u>16,589,851</u>
Less accumulated depreciation	<u>(7,031,766)</u>	<u>(6,420,769)</u>
Property and equipment, net	<u>\$ 9,662,822</u>	<u>\$ 10,169,082</u>

NOTE 8 -RESTRICTED NET ASSETS

Restricted net assets at June 30, 2016 and 2015 are available for the following purposes:

	2016	2015
Temporarily restricted		
Renovation project	\$ 10,138,435	\$ 2,622,384
Exhibits and program expenses	<u>1,386,718</u>	<u>1,624,056</u>
Total temporarily restricted assets	<u>11,525,153</u>	<u>4,246,440</u>
Permanently restricted		
Program and supporting services	<u>2,047,186</u>	<u>2,047,161</u>
Total restricted net assets	<u>\$ 13,572,339</u>	<u>\$ 6,293,601</u>

Net assets of the Foundation for the years ended June 30, 2016 and 2015 were released from donor restrictions by satisfying the purposes or time restrictions specified by donors as follows:

	2016	2015
Net assets released from restrictions for exhibits and program expenses	<u>\$ 877,225</u>	<u>\$ 1,058,897</u>

VIRGINIA AQUARIUM & MARINE SCIENCE CENTER FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 9 - ENDOWMENTS

The Foundation's endowment consists of six 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:

- (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.

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.

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.

VIRGINIA AQUARIUM & MARINE SCIENCE CENTER FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

Endowment net asset composition by type of fund at June 30, 2016 and 2015 is as follows:

	2016			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Donor-restricted	\$ -	\$ 204,328	\$ 2,047,186	\$ 2,251,514
Total endowment funds	\$ -	\$ 204,328	\$ 2,047,186	\$ 2,251,514

	2015			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Donor-restricted	\$ -	\$ 393,502	\$ 2,047,161	\$ 2,440,663
Total endowment funds	\$ -	\$ 393,502	\$ 2,047,161	\$ 2,440,663

Changes in endowment net assets for the years ended June 30, 2016 and 2015 is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Balance, June 30, 2014	\$ -	\$ 617,438	\$ 2,021,706	\$ 2,639,144
Contributions	-	-	455	455
Investment income	-	21,981	-	21,981
Expenditures	-	(245,917)	-	(245,917)
Redesignation by donor	-	-	25,000	25,000
Balance, June 30, 2015	-	393,502	2,047,161	2,440,663
Contributions	-	-	25	25
Investment loss	-	(93,840)	-	(93,840)
Expenditures	-	(95,334)	-	(95,334)
Balance, June 30, 2016	\$ -	\$ 204,328	\$ 2,047,186	\$ 2,251,514

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, 2016 and 2015.

VIRGINIA AQUARIUM & MARINE SCIENCE CENTER FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 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, 2016 and 2015 are as follows (see Note 2):

	<u>2016</u>	<u>2015</u>
Salaries	\$ 913,639	\$ 763,637
Payroll taxes	60,743	50,099
Employee benefits	234,704	200,581
Fuel	1,850	-
Maintenance and repair	1,500	-
Professional services	33,944	39,128
Supplies	2,546	-
Travel	536	-
	<u>536</u>	<u>-</u>
Total donated materials and services	<u>\$ 1,249,462</u>	<u>\$ 1,053,445</u>

NOTE 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.

NOTE 12 - RECLASSIFICATIONS

Certain amounts in the 2015 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.