

National Aquarium, Inc. and Subsidiaries

Consolidated Financial Report
December 31, 2015

Contents

Independent auditor's report	1-2
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Financial statements	
Consolidated statements of financial position	3
Consolidated statements of activities	4-5
Consolidated statements of cash flows	6
Notes to consolidated financial statements	7-22

Independent auditor's report on the supplementary information	23
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Supplementary information	
Consolidating statements of financial position	24-25
Consolidating statements of activities	26-29

Independent Auditor's Report

To the Board of Directors
National Aquarium, Inc.
Baltimore, Maryland

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of National Aquarium, Inc. and Subsidiaries (formerly National Aquarium Institute, Inc. and Subsidiaries) (collectively, the Aquarium) which comprise the consolidated statements of financial position as of December 31, 2015 and 2014, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP); this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of consolidated 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 consolidated 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 audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of National Aquarium, Inc. and Subsidiaries as of December 31, 2015 and 2014, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

RSM US LLP

Baltimore, Maryland
April 11, 2016

National Aquarium, Inc. and Subsidiaries

**Consolidated Statements of Financial Position
December 31, 2015 and 2014**

	2015	2014
Assets		
Cash and cash equivalents	\$ 7,161,743	\$ 4,304,229
Restricted cash (Note 1)	-	504,741
Promises to give and grants receivable, net (Note 3)	4,079,036	8,757,167
Other assets	1,935,245	1,776,047
Investments (Notes 4 and 5)	29,023,105	31,676,077
	<u>42,199,129</u>	<u>47,018,261</u>
Property and equipment:		
Land	3,967,252	2,684,364
Furniture, fixtures and office equipment	10,137,650	8,892,599
Other equipment	8,121,624	8,151,466
Building and leasehold improvements	179,699,253	168,485,460
Construction in progress (Note 11)	5,356,595	9,416,386
	<u>207,282,374</u>	<u>197,630,275</u>
Less accumulated depreciation	(97,908,458)	(90,004,707)
Property and equipment, net	<u>109,373,916</u>	<u>107,625,568</u>
Total assets	<u>\$ 151,573,045</u>	<u>\$ 154,643,829</u>
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses (Note 11)	\$ 2,492,862	\$ 2,652,408
Accrued salaries and benefits	1,653,521	1,256,230
Deferred revenue	3,000,536	2,093,757
Deferred rent (Note 11)	1,037,146	1,159,836
Capital lease obligation (Note 7)	3,279,744	3,397,261
Interest rate swap (Notes 5 and 6)	339,942	-
Notes payable (Note 6)	9,421,367	4,871,625
Bond payable (Note 6)	20,095,373	21,881,236
Total liabilities	<u>41,320,491</u>	<u>37,312,353</u>
Commitments and contingencies (Notes 2 and 11)		
Net assets (Note 9):		
Unrestricted	100,420,605	105,370,419
Temporarily restricted	8,023,975	10,153,083
Permanently restricted	1,807,974	1,807,974
Total net assets	<u>110,252,554</u>	<u>117,331,476</u>
Total liabilities and net assets	<u>\$ 151,573,045</u>	<u>\$ 154,643,829</u>

See notes to consolidated financial statements.

National Aquarium, Inc. and Subsidiaries

Consolidated Statements of Activities Years Ended December 31, 2015 and 2014

	2015			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue, gains and other support:				
Admissions	\$ 24,082,631	\$ -	\$ -	\$ 24,082,631
Contributions and grants	6,489,093	1,593,493	-	8,082,586
General and corporate membership programs	4,459,468	-	-	4,459,468
Gift shop and food service	1,637,517	-	-	1,637,517
Group sales	1,826,121	-	-	1,826,121
Education program	1,643,435	-	-	1,643,435
Auxiliary	2,798,946	-	-	2,798,946
Catered events	676,619	-	-	676,619
Net assets released from restrictions:				
Satisfaction of program restrictions	1,410,705	(1,410,705)	-	-
Satisfaction of equipment acquisition restrictions	2,145,083	(2,145,083)	-	-
Total revenue, gains and other support	47,169,618	(1,962,295)	-	45,207,323
Expenses (Note 12):				
Programs:				
Plant operations	8,043,025	-	-	8,043,025
Depreciation	8,502,345	-	-	8,502,345
Biological programs	9,558,499	-	-	9,558,499
Visitor operations	2,422,241	-	-	2,422,241
Education	4,890,097	-	-	4,890,097
Catered events	285,649	-	-	285,649
Total program expenses	33,701,856	-	-	33,701,856
Supporting services:				
General and administrative	6,786,227	-	-	6,786,227
Marketing	7,550,183	-	-	7,550,183
General and corporate membership programs	616,118	-	-	616,118
Development	1,447,533	-	-	1,447,533
Total supporting services expenses	16,400,061	-	-	16,400,061
Total expenses	50,101,917	-	-	50,101,917
Change in net assets before other financial items	(2,932,299)	(1,962,295)	-	(4,894,594)
Investment income (loss) (Note 4)	(913,570)	(166,813)	-	(1,080,383)
Loss on interest rate swap contract (Note 6)	(339,942)	-	-	(339,942)
Debt service (Note 6)	(764,003)	-	-	(764,003)
Total other financial items	(2,017,515)	(166,813)	-	(2,184,328)
Change in net assets	(4,949,814)	(2,129,108)	-	(7,078,922)
Net assets:				
Beginning	105,370,419	10,153,083	1,807,974	117,331,476
Ending	\$ 100,420,605	\$ 8,023,975	\$ 1,807,974	\$ 110,252,554

See notes to consolidated financial statements.

2014

Unrestricted	Temporarily Restricted	Permanently Restricted	Total
\$ 24,617,521	\$ -	\$ -	\$ 24,617,521
8,174,073	6,198,721	33,030	14,405,824
4,201,133	-	-	4,201,133
1,900,292	-	-	1,900,292
2,275,682	-	-	2,275,682
1,663,929	-	-	1,663,929
2,680,031	-	-	2,680,031
879,270	-	-	879,270
1,832,385	(1,832,385)	-	-
945,432	(945,432)	-	-
49,169,748	3,420,904	33,030	52,623,682
8,718,271	-	-	8,718,271
7,748,011	-	-	7,748,011
9,237,627	-	-	9,237,627
3,029,264	-	-	3,029,264
4,832,201	-	-	4,832,201
403,904	-	-	403,904
33,969,278	-	-	33,969,278
4,461,555	-	-	4,461,555
6,562,407	-	-	6,562,407
666,078	-	-	666,078
740,791	-	-	740,791
12,430,831	-	-	12,430,831
46,400,109	-	-	46,400,109
2,769,639	3,420,904	33,030	6,223,573
758,808	151,241	-	910,049
-	-	-	-
(801,573)	-	-	(801,573)
(42,765)	151,241	-	108,476
2,726,874	3,572,145	33,030	6,332,049
102,643,545	6,580,938	1,774,944	110,999,427
\$ 105,370,419	\$ 10,153,083	\$ 1,807,974	\$ 117,331,476

National Aquarium, Inc. and Subsidiaries

Consolidated Statements of Cash Flows Years Ended December 31, 2015 and 2014

	2015	2014
Cash flows from operating activities:		
Change in net assets	\$ (7,078,922)	\$ 6,332,049
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	8,502,345	7,748,011
Amortization of capital lease issuance cost	7,664	4,471
Amortization of bond issue costs and original issue premium	12,819	12,819
Increase in allowance for uncollectible promises to give	25,000	-
Loss on interest rate swap agreement	339,942	-
(Decrease) increase in discount on promises to give	(24,376)	38,815
Net realized and unrealized losses (gains) of investments	1,651,750	(313,448)
Contributions restricted to long-term investment	(1,530,231)	(1,320,431)
Changes in assets and liabilities		
Decrease (increase) in:		
Promises to give and grants receivable	4,677,507	(7,160,882)
Other assets	(83,017)	(116,186)
Increase (decrease) in:		
Accounts payable and accrued expenses	377,297	124,384
Accrued salaries and benefits	397,291	(229,463)
Deferred rent	(122,690)	(89,261)
Deferred revenue	906,779	(132)
Net cash provided by operating activities	8,059,158	5,030,746
Cash flows from investing activities:		
Restricted cash used (acquired) in conjunction with capital lease obligation	504,741	(504,741)
Purchases of property and equipment	(10,787,536)	(6,858,114)
Purchases of investments	(925,408)	(859,806)
Proceeds from sale of investments	1,926,630	321,208
Net cash used in investing activities	(9,281,573)	(7,901,453)
Cash flows from financing activities:		
Contributions restricted to long-term investment	1,530,231	1,320,431
Principal payments on bond payable	(1,785,863)	(1,735,233)
Proceeds from note payable	4,549,742	-
Proceeds from capital lease obligation	-	504,741
Principal payments on capital lease obligation	(117,517)	(21,405)
Debt issuance costs	(96,664)	-
Net cash provided by financing activities	4,079,929	68,534
Net increase (decrease) in cash and cash equivalents	2,857,514	(2,802,173)
Cash and cash equivalents:		
Beginning	4,304,229	7,106,402
Ending	\$ 7,161,743	\$ 4,304,229
Supplemental disclosure of cash flow information:		
Cash paid for interest for long-term debt and capital lease	\$ 720,886	\$ 756,299
Supplemental schedule of noncash investing and financing activities:		
Property and equipment acquired through capital lease obligation	\$ -	\$ 2,913,925
Property and equipment purchases in accounts payable and accrued expenses	\$ 624,863	\$ 1,161,706

See notes to consolidated financial statements.

National Aquarium, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 1. Nature of Activities and Significant Accounting Policies

Nature of activities: The National Aquarium, Inc. and Subsidiaries (collectively, the Aquarium) is a not-for-profit corporation that operates and manages an aquarium and centers for the study of marine sciences in Baltimore, Maryland and provides recreational and educational facilities for its guests. The Aquarium is comprised of three nonprofit corporations, National Aquarium, Inc. (NA), National Aquarium Foundation, Inc. (the Foundation), and the Center for Aquatic Life and Conservation, Inc. (CALC).

A summary of the Aquarium's significant accounting policies follows:

Principles of consolidation: The consolidated financial statements include the accounts of NA, the Foundation, and CALC. All intercompany accounts and transactions were eliminated for consolidation purposes.

Basis of accounting: The accompanying consolidated financial statements have been prepared on the accrual basis of accounting, whereby revenue is recognized when earned and expenses are recognized when incurred.

Basis of presentation: The Aquarium is required to report information regarding its consolidated financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted.

Unrestricted net assets: Unrestricted net assets are the net assets that are neither permanently restricted nor temporarily restricted by donor-imposed stipulations.

Temporarily restricted net assets: Temporarily restricted net assets result from contributions whose use is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the Aquarium pursuant to these stipulations. Net assets may be temporarily restricted for various purposes, such as use in future periods or use for specified purposes.

Permanently restricted net assets: Permanently restricted net assets result from contributions whose use is limited by donor-imposed stipulations that neither expire by the passage of time nor can be fulfilled or otherwise removed by the Aquarium's actions.

Revenue recognition: The Aquarium reports gifts of cash and other assets as temporarily restricted if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statements of activities as net assets released from restrictions.

The Aquarium reports gifts of land, buildings and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Aquarium reports expirations of donor restrictions when the donated long-lived assets are placed in service or the acquired long-lived assets are purchased.

National Aquarium, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. Promises to give are carried at the present value of expected future cash flows computed using a discount rate of 3.25 percent for 2015 and 2014, respectively. Amortization of the discount is included in contributions and grants revenue.

Membership revenue is recognized ratably over the term of the membership. Prepayments are recorded as deferred revenue when received.

Admissions revenue is recognized on the date of admission. Prepayments are recorded as deferred revenue when received.

Auxiliary revenue consists of attendance related items, visitor photos, locker rental and revenue, in addition to sponsorship and miscellaneous income. Auxiliary revenue is recognized when the service is provided.

Cash and cash equivalents: Cash and cash equivalents consist of cash and funds deposited in a money market fund and temporary investments with a maturity of three months or less. Cash equivalents held temporarily in the investment portfolio are reported with investments.

Cash restricted for capital lease expenditures: The Aquarium considers cash and cash equivalents, restricted for future support of a specific purpose, as restricted cash. Restricted cash was \$504,741 as of December 31, 2014. There was no restricted cash as of December 31, 2015.

Credit risk: The Aquarium maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. Management considers this to be a normal business risk.

Other assets: Other assets consist of other receivables, prepaid expenses, and debt issuance costs.

Investments: Investments are recorded at fair value based on closing values on the last trading day of the year. The Foundation invests in a portfolio that includes mutual funds, equities and hedge funds. Such investments are exposed to various risks such as interest rate, market and credit. Due to the level of risk associated with such investments and the level of uncertainty related to the changes in value of such investments, it is at least reasonably possible that changes in risks in the near-term would materially affect investment balances and the amounts reported in the consolidated financial statements.

Property and equipment: Expenditures made by the Aquarium for portions of capital projects which the Aquarium will own are included in property and equipment at cost, if purchased, or at their fair value at the date of the gift, if donated. Expenditures made by the City of Baltimore (the City) for capital projects are not included in the Aquarium's consolidated financial statements because these assets are owned by the City.

National Aquarium, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

Management's estimate of the cost of construction of all aquarium buildings in Baltimore, including renovations/improvements made subsequently, was approximately \$224,029,000 and \$214,377,000 as of December 31, 2015 and 2014, respectively. Of this amount, approximately \$179,383,000 and \$169,731,000 has been capitalized in the accompanying consolidated statements of financial position as of December 31, 2015 and 2014, respectively. The remaining amount is not capitalized in the accompanying consolidated financial statements as it pertains to assets paid for and owned by the City (see Note 2).

All other property and equipment are the property of the Aquarium and, accordingly, are included in the accompanying consolidated financial statements.

Property and equipment are depreciated using the straight-line method over the following estimated useful lives:

Furniture, fixtures and office equipment	3-10 years
Other equipment	3-10 years
Building and leasehold improvements	3-30 years

Exhibits are included in building improvements and are depreciated using the straight-line method over five years for revolving exhibits and 10 to 30 years for permanent exhibits.

Construction in progress consists of costs incurred relating to various renovation projects of existing facilities, exhibits and displays.

Valuation of long-lived assets: The Aquarium accounts for the subsequent measurement of certain long-lived assets in accordance with subsections of the Financial Accounting Standards Board (FASB) Accounting Standards Codification Topic Property, Plant, and Equipment that address Impairment or Disposal of Long-Lived Assets. The accounting standard requires that property, plant, and equipment and certain identifiable intangible assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of the long-lived asset is measured by a comparison of the carrying amount of the asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the estimated fair value of the assets. Assets to be disposed of are reportable at the lower of the carrying amount or fair value, less costs to sell.

Deferred rent: Rents on operating leases are reported whereby total rent expense under the leases is charged to operations on a straight-line basis over the term of the related leases.

Volunteer services: The Aquarium utilizes a volunteer program that incorporates extensive training protocols to meet various operational needs. The fair market value of these volunteer services is recognized as contribution revenue and the applicable expense in the accompanying consolidated financial statements. The value for volunteer services was \$3,218,320 and \$3,066,708 for the years ended December 31, 2015 and 2014, respectively.

National Aquarium, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

Advertising: Advertising costs are expensed as incurred and were approximately \$4,130,613 and \$3,303,988 for the years ended December 31, 2015 and 2014, respectively.

Income taxes: The Aquarium and its subsidiaries are generally exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code (IRC). In addition, the Aquarium and its subsidiaries qualify for charitable contribution deductions under Section 170(b)(1)(A) and have been classified as organizations that are not private foundations under Section 509(a)(1). Income which is not related to exempt purposes, less applicable deductions, is subject to federal and state corporate income taxes. The Aquarium had no net unrelated business income for the years ended December 31, 2015 and 2014.

Management has evaluated the Aquarium's tax positions and has concluded that the Aquarium has taken no uncertain tax positions that require adjustment to the consolidated financial statements.

Generally, the Aquarium is no longer subject to income tax examinations for the U.S. federal, state or local tax authorities for years before 2012.

Interest rate swap agreement: The Aquarium recognizes all derivative financial instruments in the financial statements at their fair value. The Aquarium participates in an interest rate swap contract that is considered a derivative financial instrument. Changes in the fair value of the derivative financial instrument is recognized in the combined statements of activities as a loss on interest rate swap contract.

Use of estimates: The preparation of consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the consolidated financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Reclassification: Certain 2014 amounts were reclassified to conform to the 2015 presentation. These reclassifications had no effect on previously stated net assets or change in net assets.

Subsequent events: The Aquarium has evaluated subsequent events (events occurring after December 31, 2015) through April 11, 2016, which is the date the consolidated financial statements were available to be issued.

Accounting pronouncements pending: In April 2015, the FASB issued updated guidance clarifying the presentation requirements for debt issuance costs and debt discount or premiums. This updated guidance requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs is not affected by the new guidance. This pronouncement will be effective in the Aquarium's 2016 consolidated financial statements.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The amendments in this ASU create Topic 606, *Revenue from Contracts with Customers*, and supersede the revenue requirements in Topic 605, *Revenue Recognition*, including most industry-specific revenue recognition guidance throughout the Industry Topics of the Codification. In summary, the core principle of Topic 606 is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The amendments in this ASU are effective for annual reporting periods beginning after December 15, 2018. The impact of adopting ASU 2014-09 on the Aquarium's consolidated financial statements for subsequent periods has not yet been determined.

National Aquarium, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

In May 2015, the FASB issued ASU No. 2015-07, *Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*, which removes the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value per share practical expedient. The amendments also remove the requirement to make certain disclosures for all investments that are eligible to be measured at fair value using the net asset value per share practical expedient. Rather, those disclosures are limited to investments for which the entity has elected to measure the fair value using that practical expedient. The ASU is effective for the Aquarium for the year ended December 31, 2017. The adoption of this standard is expected to result in changes to the Aquarium's fair value measurement disclosures.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*, which requires that lessees recognize right-of-use assets and lease liabilities for all leases not considered short-term leases. The ASU is effective for the Aquarium for the year ending December 31, 2019. The adoption of this standard is expected to result in the Aquarium recognizing right-of-use asset and lease liabilities for some leases currently accounted for as operating leases under the legacy lease accounting guidance. Management is evaluating the impact of this standard on the Aquarium's consolidated financial statements.

Note 2. Management and Lease Agreement

In 1987, the Aquarium entered into a management and lease agreement with the Mayor and the City Council of Baltimore for the purpose of setting forth the rights and obligations of each related to the operation, maintenance, and ownership of the Aquarium. Significant provisions of the agreement are as follows:

- The Aquarium set forth its intention to operate the facilities on a self-sustaining basis, dedicating its excess of revenue over expenses for exhibit additions, replacements and renovations.
- The Aquarium is responsible for the operation of the facilities under the general direction of the City.
- The City has legal title to certain of the real and tangible personal property located at the aquarium complex and, in the event of the Aquarium's dissolution, obtains title to all other corporate assets.
- The Aquarium is responsible for the maintenance, repair, replacement and upkeep of the exterior of the aquarium and all structural elements thereof. In addition, the Aquarium is responsible for the repair and maintenance of property and equipment such as water, electric, sewer, heating and air conditioning apparatus, and all machinery, equipment and other fixtures used in connection with the operation of the facilities.
- The Aquarium is responsible for maintaining certain levels of comprehensive general liability, fire and extended coverage insurance as defined by the agreement.
- The original 1987 agreement, which does not require annual rental payments, was amended during 2001 to extend the lease term to 2049. The lease shall automatically renew itself for five successive terms of ten years each, upon certain conditions being met by both parties, as defined by the agreement.

National Aquarium, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 3. Promises to Give and Grants Receivable

Included in promises to give and grants receivable are the following unconditional promises to give at December 31, 2015 and 2014:

	2015	2014
Capital campaign	\$ 980,680	\$ 1,007,346
Capital campaign, restricted to future periods	1,725,800	1,473,986
State grant	567,560	5,000,000
Conservation, education and other	462,524	672,739
Conservation, education and other, restricted to future periods	500,000	760,000
Unconditional promises to give before present value discount	4,236,564	8,914,071
Less present value discount	(132,528)	(156,904)
Less allowance in doubtful accounts	(25,000)	-
Promises to give and grants receivable, net	<u>\$ 4,079,036</u>	<u>\$ 8,757,167</u>
Amounts due in:		
Less than one year	\$ 2,010,764	\$ 6,680,085
One to five years	2,133,200	2,050,002
Thereafter	92,600	183,984
	<u>\$ 4,236,564</u>	<u>\$ 8,914,071</u>

Note 4. Investments

Investments owned by the Aquarium consist of the following at December 31, 2015 and 2014:

	2015		2014	
	Cost	Fair Value	Cost	Fair Value
Cash equivalents	\$ 574,088	\$ 574,088	\$ 713,952	\$ 713,952
Equities	3,900,381	4,117,663	4,176,445	4,757,069
Mutual funds	21,359,661	22,956,615	20,716,239	24,789,376
Hedge funds	1,400,000	1,374,739	1,400,000	1,415,680
	<u>\$ 27,234,130</u>	<u>\$ 29,023,105</u>	<u>\$ 27,006,636</u>	<u>\$ 31,676,077</u>

National Aquarium, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 4. Investments (Continued)

Investment income (loss) is as follows for the years ended December 31, 2015 and 2014:

	2015	2014
Net unrealized losses	\$ (2,880,466)	\$ (184,543)
Net realized gains	1,228,716	497,991
	(1,651,750)	313,448
Interest and dividends	571,367	596,601
	<u>\$ (1,080,383)</u>	<u>\$ 910,049</u>

Note 5. Fair Value Measurements

The Aquarium defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date and within a fair value hierarchy. The fair value hierarchy gives the highest rank to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest rank to unobservable inputs (Level 3). Inputs are broadly defined as data that market participants would use in pricing an asset or liability. The three levels of the fair value hierarchy are described below:

Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Listed equities and holdings in mutual funds are types of investments included in Level 1.

Level 2: Inputs other than quoted prices within Level 1 that are observable for the asset or liability, either directly or indirectly; Level 2 includes the use of models or other valuation methodologies. Investments which are generally included in this category include corporate loans, less liquid, restricted equity securities and certain corporate bonds, and over-the-counter derivatives.

Level 3: Inputs are unobservable for the asset or liability and include situations where there is little, if any, market activity for the asset or liability. The inputs into the determination of fair value are based upon the best information in the circumstances and may require significant management judgment or estimation.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases an investment's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. The Aquarium's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the investment. The following section describes the valuation techniques used by the Aquarium:

Level 1: Investments in securities traded on a national securities exchange, or reported on the NASDAQ national market, are stated at the last reported sales price on the day of valuation. These financial instruments are classified as Level 1 in the fair value hierarchy.

National Aquarium, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 5. Fair Value Measurements (Continued)

Level 2: Includes investments in funds that calculated net asset value per share, or the equivalent. These funds are classified as Level 2 when the Aquarium is able to redeem the funds in the near term, which is generally defined to be within 90 days of year-end.

The Aquarium's interest rate swap is observable at commonly quoted intervals for the full term of the swap, and therefore is considered a Level 2 item.

Level 3: Not applicable.

The following table classifies all investments into the hierarchy set forth by Accounting Standards Codification (ASC) 820. The table includes those investments that are held and managed by the Aquarium measured at fair value on a recurring basis by level within the hierarchy at December 31, 2015 and 2014.

The fair value of equity and fixed income securities are measured using quoted market prices at the reporting date when quoted market prices are available. When quoted market prices are not available, the Aquarium has used a practical expedient allowed under Accounting Standards Update (ASU) 2009-12, where each investment's net asset value as reported by each fund manager is an acceptable measurement of fair value owned when coinciding with the Aquarium's measurement date.

	2015				2014			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Equities (a):								
Consumer discretionary	\$ 706,700	\$ -	\$ -	\$ 706,700	\$ 1,088,091	\$ -	\$ -	\$ 1,088,091
Information technology	646,674	-	-	646,674	680,044	-	-	680,044
Industrials	1,018,977	-	-	1,018,977	1,080,883	-	-	1,080,883
Health care	714,057	-	-	714,057	581,653	-	-	581,653
Financial	766,412	-	-	766,412	829,221	-	-	829,221
Materials	201,690	-	-	201,690	216,574	-	-	216,574
Energy	41,140	-	-	41,140	136,637	-	-	136,637
Telecommunication services	-	-	-	-	20,572	-	-	20,572
Consumer staples	22,013	-	-	22,013	85,071	-	-	85,071
Miscellaneous	-	-	-	-	38,323	-	-	38,323
Mutual funds (b):								
International	5,058,155	-	-	5,058,155	5,755,862	-	-	5,755,862
Fixed income	5,744,109	-	-	5,744,109	4,230,672	-	-	4,230,672
Growth	3,474,926	-	-	3,474,926	4,197,276	-	-	4,197,276
Value	3,066,319	-	-	3,066,319	4,157,300	-	-	4,157,300
Emerging market	3,146,493	-	-	3,146,493	3,446,142	-	-	3,446,142
Market index	1,212,886	-	-	1,212,886	2,104,648	-	-	2,104,648
Real Estate	1,253,727	-	-	1,253,727	-	-	-	-
Global hard asset	-	-	-	-	897,476	-	-	897,476
Hedge funds (c)	-	1,374,739	-	1,374,739	-	1,415,680	-	1,415,680
Total assets	\$ 27,074,278	\$ 1,374,739	\$ -	\$ 28,449,017	\$ 29,546,445	\$ 1,415,680	\$ -	\$ 30,962,125
Interest rate swap	\$ -	\$ 339,942	\$ -	\$ 339,942	\$ -	\$ -	\$ -	\$ -
Total liabilities	\$ -	\$ 339,942	\$ -	\$ 339,942	\$ -	\$ -	\$ -	\$ -

(a) Equity investments are made through comingled accounts, managed accounts, or mutual funds that hold primarily common stock of U.S., non-U.S., emerging markets, and global companies. These funds are classified as Level 1 investments when the funds are publicly traded.

National Aquarium, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 5. Fair Value Measurements (Continued)

- (b) Mutual funds are investments made through managed accounts and hold a variety of equity and debt securities such as U.S. and international stocks, as well as U.S. and international sovereign, agency, and corporate debt. These funds are classified as Level 1 investments when the funds are publicly traded.
- (c) Hedge funds are investments made through international multi-strategy fund of funds that may invest in a wide variety of assets globally, including equity and debt. These funds calculate net asset values per share, or the equivalent. Funds are classified as Level 2 when the Aquarium is able to redeem the funds in the near term, which is generally considered to be within 90 days of year-end.

The Aquarium excludes cash and cash equivalents from the fair value hierarchy as cash is generally measured at cost. As such, \$574,088 and \$713,952 of cash equivalents and a certificate of deposit, in the Aquarium's investment portfolio at December 31, 2015 and 2014, respectively, has been excluded from this table.

The following table represents information on the Aquarium investments by major category where net asset value as a practical expedient to fair value was used.

	Fair Value as of December 31, 2015	Redemptio Frequency	Redemption Notice Period
Hedge funds (a)	\$ 1,374,739	Monthly	30 days
Total investment values using net asset value as a practical expedient to fair value	<u>\$ 1,374,739</u>		

The nature and risks inherent in the Aquarium's investments where the fair value was estimated using the practical expedient are summarized as follows:

- (a) Hedge funds: Hedge fund investments were approximately 5 percent of total investments at December 31, 2015 and 2014, and are comprised of domestic funds of funds, offshore low volatility multi-strategy funds, and international fund of funds. These hedge funds share in the returns and risks associated with international equity and credit markets, interest rate, and foreign currencies. In addition, some of these funds may present lower liquidity, organizational risk, event and deal risks, leverage, and counterparty risk. Reduced redemption rights have been accepted for certain funds in order to achieve more desirable terms such as lower management fees.

Note 6. Long-Term Debt

The Maryland Industrial Development Financing Authority (MIDFA), on behalf of the Aquarium, issued a tax-exempt revenue refunding bond (National Aquarium in Baltimore Facility 2012 Issue) in the original amount of \$25,980,765. The bond was placed with Bank of America as a non-bank qualified private loan. The loan carries a fixed rate of 2.84 percent. The loan is subject to certain financial and non-financial covenants. Monthly principal and interest payments in the amount of \$199,370 are scheduled for ten years over a 13-year amortization table. The maturity date of the underlying bonds is June 2022, where Bank of America has the ability to call the loan or they can grant an extension of the current terms. The loan balance was \$20,095,373 and \$21,881,236 at December 31, 2015 and 2014, respectively. The loan is secured by a Security Agreement, whereby the bank has a lien on all current and future receipts of the Aquarium.

National Aquarium, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 6. Long-Term Debt (Continued)

On December 15, 2015, the Aquarium purchased a building and property to house the future Animal Care and Rescue Center. To purchase the building and property, finance the issuance costs and finance future renovations, a delayed draw term loan up to \$20,000,000 was obtained. The principal balance is subject to a rate of interest per annum equal to the sum of one-month London Interbank Offered Rate (LIBOR) plus 1.15 percent adjusted on a monthly basis. Interest on the outstanding principal is due monthly beginning January 1, 2016. Principal payments are due monthly beginning January 1, 2018 and are scheduled for ten years over a 25-year amortization table. The maturity date is December 15, 2027. The loan balance was \$4,549,742 at December 31, 2015. The loan is secured by a Security Agreement, whereby the bank has a lien on all current and future receipts of the Aquarium.

Interest rate swap contract: In connection with the delayed draw term loan, the Aquarium entered into an interest rate swap agreement, which expires December 15, 2027. At December 31, 2015, the Aquarium has an interest rate swap contract to pay a fixed rate of 3.86 percent and receive a variable market rate on \$11,000,000 notional amount of indebtedness. The Aquarium recognized a net loss and an interest rate swap liability of \$339,942 on this instrument as of and for the year ended December 31, 2015.

Principal payment requirements on the bond payable and deferred draw term loan at December 31, 2015, are due in future years as follows:

Years ending December 31:

2016	\$ 1,836,374
2017	1,891,551
2018	2,428,893
2019	2,504,838
2020	2,582,227
Thereafter	13,401,232
	<u>\$ 24,645,115</u>

On February 7, 2007, CALC purchased 21.0 acres of land, which contained the central garage and repair facility for the Baltimore City Department of Public Works (DPW), for \$250,000. In addition, CALC was required to provide up to \$7,975,000 toward the cost of constructing a new garage for DPW, as defined in the agreement.

In conjunction with the purchase, CALC received a \$5,000,000 investment from the City of Baltimore Development Corporation (BDC) for acquisition and development of the expected site for CALC. The investment is to be repaid from the development fees received by CALC as defined in the agreement. There were no development fees received by CALC in 2015 or 2014. The funds were provided by way of a reinvestment agreement between CALC and BDC. The reinvestment agreement is parallel to an investment agreement between the Maryland Department of Commerce and BDC. The balance due under this agreement is \$4,871,625 at both December 31, 2015 and 2014.

During 2015, CALC entered into a purchase option agreement with another party for the real estate it owns. The option period extends through 2020. Various governmental and regulatory approvals are required for the sale to be consummated.

Interest expense on long-term debt was \$605,000 and \$653,000 for the years ended December 31, 2015 and 2014, respectively. The City of Baltimore Development Corporation investment does not charge interest.

National Aquarium, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 7. Capital Lease

In March 2014, NA and the Foundation entered into a non-bank qualified tax-exempt capital lease between the Maryland Clean Energy Center and Bank of America Public Capital Corp relating to the acquisition of infrastructure related capital equipment. Concurrent with the lease, NA also entered into a Guaranteed Energy Savings Contract with Constellation NewEnergy, Inc. for the procurement and installation of the equipment. Installation was completed in the first quarter of 2015. The lease is subject to certain financial and non-financial covenants which are consistent with those associated with its 2012 bond financing. The lease carries a fixed interest rate of 3.68 percent. The total value of the transaction was \$3,418,666.

Total principal payment requirements on the capital lease payable at December 31, 2015, are due in future years as follows:

Years ending December 31:	
2016	\$ 130,865
2017	145,025
2018	160,040
2019	175,952
2020	192,807
Thereafter	2,475,055
	<u>\$ 3,279,744</u>

Interest expense relating to the capital lease totaled \$123,050 and \$99,098 for the years ended December 31, 2015 and 2014, respectively.

Note 8. Line of Credit

The Aquarium has an unsecured \$5,000,000 revolving line of credit with a floating rate of interest equal to the LIBOR plus 150 basis points. The line of credit was renewed in August 2015 and has an expiration date of August 31, 2016. There was no outstanding balance on the line of credit as of December 31, 2015 and 2014.

National Aquarium, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 9. Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets as of December 31, 2015 and 2014, are available for the following purposes:

	2015	2014
NA:		
Capital expansion	\$ 3,374,056	\$ 4,590,269
Biological program activities	114,922	103,221
Conservation programs	1,424,211	1,934,342
Henry Hall activities	139,605	131,785
Education activities	75,988	106,273
Total NA	<u>5,128,782</u>	<u>6,865,890</u>
Foundation:		
Lecture series	951,591	1,004,497
Henry Hall activities	439,681	470,328
Endowment earnings:		
Biological program activities	665,380	739,558
Education activities	485,924	558,180
Professional excellence	192,925	250,456
Aquarium science and medicine	159,692	264,174
Total Foundation	<u>2,895,193</u>	<u>3,287,193</u>
	<u>\$ 8,023,975</u>	<u>\$ 10,153,083</u>

Permanently restricted net assets as of December 31, 2015 and 2014, are held by the National Aquarium Foundation, Inc. and are restricted for the following purposes:

	2015	2014
Professional excellence	\$ 250,000	\$ 250,000
Marine life accessions	250,000	250,000
Education center	299,944	299,944
Aquarium science and medicine	1,008,030	1,008,030
	<u>\$ 1,807,974</u>	<u>\$ 1,807,974</u>

The earnings on permanently restricted net assets are directed for use by the donors and are accounted for in the temporarily restricted funds until transfers are made to the Aquarium and used for their designated purposes.

The Blaustein Foundation has established endowed funds to provide grants to the Aquarium to finance purchases of aquarium specimens and to support programming activities of the Aquatic Education Resource Center. The original endowments were \$250,000 each and income from the endowments has been used for the intended purposes. Based on need and approval, annual earnings are used for grants to the Aquarium, and those earnings in excess of expenditures are to be temporarily restricted for the designated purposes.

The James McBride Endowment of \$149,944, with additional matching support by the National Aquarium Foundation, Inc. of \$150,000, was established to provide funds for education for professional staff.

National Aquarium, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 9. Temporarily and Permanently Restricted Net Assets (Continued)

A donor has established endowed funds in the form of a \$1,008,030 bequest to aid in providing additional veterinary support to the Aquarium.

Interpretation of relevant law: The Board of Directors of the Aquarium has interpreted the Maryland-enacted version of the Uniform Prudent Management of Institutional Funds Act (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. As a result of this interpretation, the Aquarium 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 made in accordance with the direction of applicable donor gift instrument at the time the accumulation is added to the fund. 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 under UPMIFA until appropriated for use in accordance with the donor's stipulations.

Return objectives and risk parameters: The Aquarium's objective is to earn a respectable long-term, risk adjusted total rate of return to support the designated programs. The Aquarium recognizes and accepts that pursuing a respectable rate of return involves risk and potential volatility. The generation of current income will be a secondary consideration. The Aquarium targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints. The Aquarium has established a policy portfolio, or normal asset allocation. While the policy portfolio can be adjusted from time to time, it is designated to serve for long-time horizons based upon long-term expected returns.

Endowment spending policy: The Aquarium will plan for expenditures in its annual budget a maximum of 5 percent of the rolling average of the market value of the endowment assets over the preceding 12 quarters, with the base adjusted for new capital contributions to the endowment. There may be times when the Aquarium may opt not to take the maximum spending rate but rather to reinvest some of the annual return.

The composition of the Aquarium's donor-restricted endowment and non-endowment funds at December 31, 2015 and 2014, and changes in endowment net assets for the years then ended, are as follows:

	2015			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ -	\$ 1,503,921	\$ 1,807,974	\$ 3,311,895
Non-endowment funds	100,420,605	6,520,054	-	106,940,659
Total funds	<u>\$ 100,420,605</u>	<u>\$ 8,023,975</u>	<u>\$ 1,807,974</u>	<u>\$ 110,252,554</u>
	2014			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ -	\$ 1,812,368	\$ 1,807,974	\$ 3,620,342
Non-endowment funds	105,370,419	8,340,715	-	113,711,134
Total funds	<u>\$ 105,370,419</u>	<u>\$ 10,153,083</u>	<u>\$ 1,807,974</u>	<u>\$ 117,331,476</u>

National Aquarium, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 9. Temporarily and Permanently Restricted Net Assets (Continued)

Changes in Endowment Net Assets Years Ended December 31, 2015 and 2014

	2015			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of the year	\$ -	\$ 1,812,368	\$ 1,807,974	\$ 3,620,342
Investment return:				
Investment income	-	122,392	-	122,392
Net depreciation	-	(248,092)	-	(248,092)
Total investment return	-	(125,700)	-	(125,700)
Contribution to endowment	-	-	-	-
Appropriation of endowment assets for expenditure	-	(182,747)	-	(182,747)
Endowment net assets, end of the year	\$ -	\$ 1,503,921	\$ 1,807,974	\$ 3,311,895

	2014			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of the year	\$ -	\$ 1,825,704	\$ 1,774,944	\$ 3,600,648
Investment return:				
Investment income	-	201,292	-	201,292
Net depreciation	-	(97,693)	-	(97,693)
Total investment return	-	103,599	-	103,599
Contribution to endowment	-	-	33,030	33,030
Appropriation of endowment assets for expenditure	-	(116,935)	-	(116,935)
Endowment net assets, end of the year	\$ -	\$ 1,812,368	\$ 1,807,974	\$ 3,620,342

Note 10. Employee Benefit Plans

The Aquarium has a 401(k) plan for employees. The 401(k) plan provides a 50 percent match on participants' contributions up to 3 percent for both 2015 and 2014. The Plan also provides for discretionary employer contributions, but employer contributions were not made in 2015 and 2014. The 401(k) plan expense was approximately \$201,000 and \$186,000 for the years ended December 31, 2015 and 2014, respectively.

Note 11. Commitments and Contingencies

Commitments: The Aquarium leases office, warehouse, aquatic tank space, and an exhibit under operating lease agreements. Total expense, net of sublease income, for these leases was approximately \$1,073,278 and \$1,184,401 for the years ended December 31, 2015 and 2014, respectively. Beginning October 1, 2015, the Aquarium has an agreement to sublease office space under an operating sublease expiring June 2018.

National Aquarium, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 11. Commitments and Contingencies (Continued)

Approximate future minimum annual payments under all noncancelable leases are as follows:

Years ending December 31:	
2016	\$ 958,367
2017	976,284
2018	904,639
2019	699,242
2020	716,721
Thereafter	1,804,805
	<u>\$ 6,060,058</u>

Litigation: Lawsuits and claims are filed from time-to-time against the Aquarium in the ordinary course of business. The Aquarium, after reviewing developments to date with legal counsel, is of the opinion that the outcome of such matters will not have a material adverse effect on the Aquarium's consolidated financial statements.

Capital projects: As of December 31, 2015, the Aquarium has signed contract commitments for approximately \$1,631,000 of capital projects.

Power purchase agreement: In July 2014, NA entered into a power purchase agreement with Constellation NewEnergy, Inc. committing NA to purchasing all of the energy output of a specifically identified solar facility to be completed in the second quarter of 2015. The solar facility output serves as a price component for a blended fixed rate on all energy consumption of the Aquarium through March 2040. The established rate per Megawatt Hour is subject to an annual 2.9 percent increase through the fixed rate period ending on December 2020. The pricing from January 2021 to March 2040 is on a "pass-through model" on variables described in the agreement.

Self-insurance program: The Aquarium maintains a self-insured medical plan for the benefit of its employees. The medical plan is administered through a contractual relationship with an unrelated company. The Aquarium is responsible for all claims incurred up to the amount of its stop loss insurance, which it maintains on both a "per employee" basis and in the aggregate. The Aquarium's expense under the self-insured medical plan amounted to approximately \$1,241,660 and \$1,327,262 for the years ended December 31, 2015 and 2014, respectively. The Aquarium includes a provision for estimated claims in accounts payable and accrued expenses on the consolidated statements of financial position.

National Aquarium, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 12. Expenses

Expenses by natural classification for the years ended December 31, 2015 and 2014, are as follows:

	2015	2014
Salaries and benefits	\$ 18,975,565	\$ 18,153,017
Supplies and other	9,321,746	9,648,103
Depreciation and amortization	8,502,345	7,748,011
Purchased services	10,083,941	7,784,270
Volunteer services and in-kind contributions	3,218,320	3,066,708
	<u>50,101,917</u>	<u>46,400,109</u>
Add expenses included in other financial items	764,003	801,573
	<u>\$ 50,865,920</u>	<u>\$ 47,201,682</u>

Fully allocated functional expenses for the years ended December 31, 2015 and 2014, are as follows:

	2015	2014
Program services:		
Biological programs	\$ 19,202,177	\$ 18,351,153
Visitor operations	4,866,067	6,017,832
Education	9,823,771	9,599,484
Catered events	573,844	802,382
	<u>34,465,859</u>	<u>34,770,851</u>
Supporting services:		
General and administrative	6,786,227	4,461,555
Marketing	7,550,183	6,562,407
General and corporate membership programs	616,118	666,078
Development	1,447,533	740,791
	<u>16,400,061</u>	<u>12,430,831</u>
	<u>\$ 50,865,920</u>	<u>\$ 47,201,682</u>



RSM US LLP

Independent Auditor's Report on the Supplementary Information

To the Board of Directors
National Aquarium, Inc.
Baltimore, Maryland

We have audited the consolidated financial statements of National Aquarium, Inc. and Subsidiaries (collectively, the Aquarium) as of and for the years ended December 31, 2015 and 2014, and have issued our report thereon, which contained an unmodified opinion on those consolidated financial statements (see pages 1 and 2). Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole.

The consolidating information is presented for purposes of additional analysis rather than to present the financial position and results of activities of the individual entities and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The consolidating information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

RSM US LLP

Baltimore, Maryland
April 11, 2016

National Aquarium, Inc. and Subsidiaries

Consolidating Statements of Financial Position December 31, 2015 and 2014

	2015				
	National Aquarium, Inc.	National Aquarium Foundation, Inc.	Center for Aquatic Life and Conservation, Inc.	Eliminations	Total
Assets					
Cash and cash equivalents	\$ 7,159,976	\$ 1,767	\$ -	\$ -	\$ 7,161,743
Restricted cash	-	-	-	-	-
Promises to give and grants receivable, net	4,079,036	-	-	-	4,079,036
Due from affiliate	13,656	272,066	86,907	(372,629)	-
Other assets	1,873,388	11,281	50,576	-	1,935,245
Investments	-	29,023,105	-	-	29,023,105
	<u>13,126,056</u>	<u>29,308,219</u>	<u>137,483</u>	<u>(372,629)</u>	<u>42,199,129</u>
Property and equipment:					
Land	1,282,888	-	2,684,364	-	3,967,252
Furniture, fixtures and office equipment	10,137,650	-	-	-	10,137,650
Other equipment	8,121,624	-	-	-	8,121,624
Building and leasehold improvements	171,912,353	-	7,786,900	-	179,699,253
Construction in progress	5,356,595	-	-	-	5,356,595
	<u>196,811,110</u>	<u>-</u>	<u>10,471,264</u>	<u>-</u>	<u>207,282,374</u>
Less accumulated depreciation	(97,541,238)	-	(367,220)	-	(97,908,458)
Property and equipment, net	<u>99,269,872</u>	<u>-</u>	<u>10,104,044</u>	<u>-</u>	<u>109,373,916</u>
Total assets	<u>\$ 112,395,928</u>	<u>\$ 29,308,219</u>	<u>\$ 10,241,527</u>	<u>\$ (372,629)</u>	<u>\$ 151,573,045</u>
Liabilities and Net Assets					
Liabilities:					
Accounts payable and accrued expenses	\$ 2,478,198	\$ 14,664	\$ -	\$ -	\$ 2,492,862
Accrued salaries and benefits	1,653,521	-	-	-	1,653,521
Due to affiliate	358,973	13,656	-	(372,629)	-
Deferred revenue	3,000,536	-	-	-	3,000,536
Deferred rent	1,037,146	-	-	-	1,037,146
Capital lease	3,279,744	-	-	-	3,279,744
Interest rate swap	339,942	-	-	-	339,942
Note payable	4,549,742	-	4,871,625	-	9,421,367
Bond payable	20,095,373	-	-	-	20,095,373
Total liabilities	<u>36,793,175</u>	<u>28,320</u>	<u>4,871,625</u>	<u>(372,629)</u>	<u>41,320,491</u>
Net assets:					
Unrestricted	70,473,971	24,576,732	5,369,902	-	100,420,605
Temporarily restricted	5,128,782	2,895,193	-	-	8,023,975
Permanently restricted	-	1,807,974	-	-	1,807,974
Total net assets	<u>75,602,753</u>	<u>29,279,899</u>	<u>5,369,902</u>	<u>-</u>	<u>110,252,554</u>
Total liabilities and net assets	<u>\$ 112,395,928</u>	<u>\$ 29,308,219</u>	<u>\$ 10,241,527</u>	<u>\$ (372,629)</u>	<u>\$ 151,573,045</u>

2014

	National Aquarium, Inc.	National Aquarium Foundation, Inc.	Center for Aquatic Life and Conservation, Inc.	Eliminations	Total
\$	4,142,172	\$ 1,766	\$ 160,291	\$ -	\$ 4,304,229
	504,741	-	-	-	504,741
	8,757,167	-	-	-	8,757,167
	129,311	272,066	-	(401,377)	-
	1,770,544	5,503	-	-	1,776,047
	-	31,676,077	-	-	31,676,077
	15,303,935	31,955,412	160,291	(401,377)	47,018,261
	-	-	2,684,364	-	2,684,364
	8,892,599	-	-	-	8,892,599
	8,151,466	-	-	-	8,151,466
	160,698,560	-	7,786,900	-	168,485,460
	9,416,386	-	-	-	9,416,386
	187,159,011	-	10,471,264	-	197,630,275
	(89,990,018)	-	(14,689)	-	(90,004,707)
	97,168,993	-	10,456,575	-	107,625,568
\$	112,472,928	\$ 31,955,412	\$ 10,616,866	\$ (401,377)	\$ 154,643,829
\$	2,468,392	\$ 184,016	\$ -	\$ -	\$ 2,652,408
	1,256,230	-	-	-	1,256,230
	272,066	48,649	80,662	(401,377)	-
	2,093,757	-	-	-	2,093,757
	1,159,836	-	-	-	1,159,836
	3,397,261	-	-	-	3,397,261
	-	-	-	-	-
	-	-	4,871,625	-	4,871,625
	21,881,236	-	-	-	21,881,236
	32,528,778	232,665	4,952,287	(401,377)	37,312,353
	73,078,260	26,627,580	5,664,579	-	105,370,419
	6,865,890	3,287,193	-	-	10,153,083
	-	1,807,974	-	-	1,807,974
	79,944,150	31,722,747	5,664,579	-	117,331,476
\$	112,472,928	\$ 31,955,412	\$ 10,616,866	\$ (401,377)	\$ 154,643,829

National Aquarium, Inc. and Subsidiaries

Consolidating Statement of Activities Year Ended December 31, 2015

	National Aquarium, Inc.			National Aquarium Foundation, Inc.				Center for Aquatic Life and Conservation, Inc.		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Total
Revenue, gains and other support:										
Admissions	\$ 24,082,631	\$ -	\$ 24,082,631	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Contributions and grants	6,489,093	1,593,493	8,082,586	-	-	-	-	-	-	-
General and corporate membership programs	4,459,468	-	4,459,468	-	-	-	-	-	-	-
Gift shop and food service	1,637,517	-	1,637,517	-	-	-	-	-	-	-
Group sales	1,826,121	-	1,826,121	-	-	-	-	-	-	-
Education program	1,643,435	-	1,643,435	-	-	-	-	-	-	-
Auxiliary	2,667,041	-	2,667,041	-	-	-	-	131,905	-	131,905
Catered events	676,619	-	676,619	-	-	-	-	-	-	-
Intercompany grants	1,000,000	-	1,000,000	-	-	-	-	-	-	-
Net assets released from restrictions:										
Satisfaction of program restrictions	1,185,518	(1,185,518)	-	225,187	(225,187)	-	-	-	-	-
Satisfaction of equipment acquisition restrictions	2,145,083	(2,145,083)	-	-	-	-	-	-	-	-
Total revenue, gains and other support	47,812,526	(1,737,108)	46,075,418	225,187	(225,187)	-	-	131,905	-	131,905
Expenses:										
Programs:										
Plant operations	8,014,403	-	8,014,403	-	-	-	-	28,622	-	28,622
Depreciation	8,149,814	-	8,149,814	-	-	-	-	352,531	-	352,531
Biological programs	9,333,312	-	9,333,312	225,187	-	-	225,187	-	-	-
Visitor operations	2,422,241	-	2,422,241	-	-	-	-	-	-	-
Education	4,890,097	-	4,890,097	-	-	-	-	-	-	-
Catered events	285,649	-	285,649	-	-	-	-	-	-	-
Intercompany grants	-	-	-	1,000,000	-	-	1,000,000	-	-	-
Total program expenses	33,095,516	-	33,095,516	1,225,187	-	-	1,225,187	381,153	-	381,153
Supporting services:										
General and administrative	6,603,520	-	6,603,520	136,716	-	-	136,716	45,991	-	45,991
Marketing	7,550,183	-	7,550,183	-	-	-	-	-	-	-
General and corporate membership programs	616,118	-	616,118	-	-	-	-	-	-	-
Development	1,447,533	-	1,447,533	-	-	-	-	-	-	-
Total supporting services expenses	16,217,354	-	16,217,354	136,716	-	-	136,716	45,991	-	45,991
Total expenses	49,312,870	-	49,312,870	1,361,903	-	-	1,361,903	427,144	-	427,144
Change in net assets before other financial items	(1,500,344)	(1,737,108)	(3,237,452)	(1,136,716)	(225,187)	-	(1,361,903)	(295,239)	-	(295,239)
Investment income (loss)	-	-	-	(914,132)	(166,813)	-	(1,080,945)	562	-	562
Loss on interest rate swap	(339,942)	-	(339,942)	-	-	-	-	-	-	-
Debt service	(764,003)	-	(764,003)	-	-	-	-	-	-	-
Total other financial items	(1,103,945)	-	(1,103,945)	(914,132)	(166,813)	-	(1,080,945)	562	-	562
Change in net assets	(2,604,289)	(1,737,108)	(4,341,397)	(2,050,848)	(392,000)	-	(2,442,848)	(294,677)	-	(294,677)
Net assets:										
Beginning	73,078,260	6,865,890	79,944,150	26,627,580	3,287,193	1,807,974	31,722,747	5,664,579	-	5,664,579
Ending	\$ 70,473,971	\$ 5,128,782	\$ 75,602,753	\$ 24,576,732	\$ 2,895,193	\$ 1,807,974	\$ 29,279,899	\$ 5,369,902	\$ -	\$ 5,369,902

Eliminations			Total			
Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
\$ -	\$ -	\$ -	\$ 24,082,631	\$ -	\$ -	\$ 24,082,631
-	-	-	6,489,093	1,593,493	-	8,082,586
-	-	-	4,459,468	-	-	4,459,468
-	-	-	1,637,517	-	-	1,637,517
-	-	-	1,826,121	-	-	1,826,121
-	-	-	1,643,435	-	-	1,643,435
-	-	-	2,798,946	-	-	2,798,946
-	-	-	676,619	-	-	676,619
(1,000,000)	-	(1,000,000)	-	-	-	-
-	-	-	1,410,705	(1,410,705)	-	-
-	-	-	2,145,083	(2,145,083)	-	-
(1,000,000)	-	(1,000,000)	47,169,618	(1,962,295)	-	45,207,323
-	-	-	8,043,025	-	-	8,043,025
-	-	-	8,502,345	-	-	8,502,345
-	-	-	9,558,499	-	-	9,558,499
-	-	-	2,422,241	-	-	2,422,241
-	-	-	4,890,097	-	-	4,890,097
-	-	-	285,649	-	-	285,649
(1,000,000)	-	(1,000,000)	-	-	-	-
(1,000,000)	-	(1,000,000)	33,701,856	-	-	33,701,856
-	-	-	6,786,227	-	-	6,786,227
-	-	-	7,550,183	-	-	7,550,183
-	-	-	616,118	-	-	616,118
-	-	-	1,447,533	-	-	1,447,533
-	-	-	16,400,061	-	-	16,400,061
(1,000,000)	-	(1,000,000)	50,101,917	-	-	50,101,917
-	-	-	(2,932,299)	(1,962,295)	-	(4,894,594)
-	-	-	(913,570)	(166,813)	-	(1,080,383)
-	-	-	(339,942)	-	-	(339,942)
-	-	-	(764,003)	-	-	(764,003)
-	-	-	(2,017,515)	(166,813)	-	(2,184,328)
-	-	-	(4,949,814)	(2,129,108)	-	(7,078,922)
-	-	-	105,370,419	10,153,083	1,807,974	117,331,476
\$ -	\$ -	\$ -	\$ 100,420,605	\$ 8,023,975	\$ 1,807,974	\$ 110,252,554

National Aquarium, Inc. and Subsidiaries

Consolidating Statement of Activities Year Ended December 31, 2014

	National Aquarium, Inc.			National Aquarium Foundation, Inc.				Center for Aquatic Life and Conservation, Inc.		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Total
Revenue, gains and other support:										
Admissions	\$ 24,617,521	\$ -	\$ 24,617,521	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Contributions and grants	8,174,073	6,198,721	14,372,794	-	-	33,030	33,030	-	-	-
General and corporate membership programs	4,201,133	-	4,201,133	-	-	-	-	-	-	-
Gift shop and food service	1,900,292	-	1,900,292	-	-	-	-	-	-	-
Group sales	2,275,682	-	2,275,682	-	-	-	-	-	-	-
Education program	1,663,929	-	1,663,929	-	-	-	-	-	-	-
Auxiliary	2,635,031	-	2,635,031	-	-	-	-	45,000	-	45,000
Catered events	879,270	-	879,270	-	-	-	-	-	-	-
Intercompany grants	2,528,432	-	2,528,432	2,339,881	-	-	2,339,881	-	-	-
Net assets released from restrictions:										
Satisfaction of program restrictions	1,661,135	(1,661,135)	-	171,250	(171,250)	-	-	-	-	-
Satisfaction of equipment acquisition restrictions	945,432	(945,432)	-	-	-	-	-	-	-	-
Total revenue, gains and other support	51,481,930	3,592,154	55,074,084	2,511,131	(171,250)	33,030	2,372,911	45,000	-	45,000
Expenses:										
Programs:										
Plant operations	8,718,271	-	8,718,271	-	-	-	-	-	-	-
Depreciation	7,733,322	-	7,733,322	-	-	-	-	14,689	-	14,689
Biological programs	9,066,377	-	9,066,377	171,250	-	-	171,250	-	-	-
Visitor operations	3,029,264	-	3,029,264	-	-	-	-	-	-	-
Education	4,832,201	-	4,832,201	-	-	-	-	-	-	-
Catered events	403,904	-	403,904	-	-	-	-	-	-	-
Intercompany grants	2,339,881	-	2,339,881	-	-	-	-	-	-	-
Total program expenses	36,123,220	-	36,123,220	171,250	-	-	171,250	14,689	-	14,689
Supporting services:										
General and administrative	4,212,242	-	4,212,242	114,447	-	-	114,447	134,866	-	134,866
Marketing	6,562,407	-	6,562,407	-	-	-	-	-	-	-
General and corporate membership programs	666,078	-	666,078	-	-	-	-	-	-	-
Development	740,791	-	740,791	-	-	-	-	-	-	-
Total supporting services expenses	12,181,518	-	12,181,518	114,447	-	-	114,447	134,866	-	134,866
Total expenses	48,304,738	-	48,304,738	285,697	-	-	285,697	149,555	-	149,555
Change in net assets before other financial items	3,177,192	3,592,154	6,769,346	2,225,434	(171,250)	33,030	2,087,214	(104,555)	-	(104,555)
Investment income	-	-	-	758,808	151,241	-	910,049	-	-	-
Debt service	(801,573)	-	(801,573)	-	-	-	-	-	-	-
Total other financial items	(801,573)	-	(801,573)	758,808	151,241	-	910,049	-	-	-
Change in net assets	2,375,619	3,592,154	5,967,773	2,984,242	(20,009)	33,030	2,997,263	(104,555)	-	(104,555)
Net assets:										
Beginning	70,702,641	3,273,736	73,976,377	23,643,338	3,307,202	1,774,944	28,725,484	5,769,134	-	5,769,134
Ending	\$ 73,078,260	\$ 6,865,890	\$ 79,944,150	\$ 26,627,580	\$ 3,287,193	\$ 1,807,974	\$ 31,722,747	\$ 5,664,579	\$ -	\$ 5,664,579

The National Aquarium Society			Eliminations			Total			
Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 24,617,521	\$ -	\$ -	\$ 24,617,521
-	-	-	-	-	-	8,174,073	6,198,721	33,030	14,405,824
-	-	-	-	-	-	4,201,133	-	-	4,201,133
-	-	-	-	-	-	1,900,292	-	-	1,900,292
-	-	-	-	-	-	2,275,682	-	-	2,275,682
-	-	-	-	-	-	1,663,929	-	-	1,663,929
-	-	-	-	-	-	2,680,031	-	-	2,680,031
-	-	-	(4,868,313)	-	(4,868,313)	879,270	-	-	879,270
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	1,832,385	(1,832,385)	-	-
-	-	-	-	-	-	945,432	(945,432)	-	-
-	-	-	(4,868,313)	-	(4,868,313)	49,169,748	3,420,904	33,030	52,623,682
-	-	-	-	-	-	8,718,271	-	-	8,718,271
-	-	-	-	-	-	7,748,011	-	-	7,748,011
-	-	-	-	-	-	9,237,627	-	-	9,237,627
-	-	-	-	-	-	3,029,264	-	-	3,029,264
-	-	-	-	-	-	4,832,201	-	-	4,832,201
-	-	-	-	-	-	403,904	-	-	403,904
2,528,432	-	2,528,432	(4,868,313)	-	(4,868,313)	-	-	-	-
2,528,432	-	2,528,432	(4,868,313)	-	(4,868,313)	33,969,278	-	-	33,969,278
-	-	-	-	-	-	4,461,555	-	-	4,461,555
-	-	-	-	-	-	6,562,407	-	-	6,562,407
-	-	-	-	-	-	666,078	-	-	666,078
-	-	-	-	-	-	740,791	-	-	740,791
-	-	-	-	-	-	12,430,831	-	-	12,430,831
2,528,432	-	2,528,432	(4,868,313)	-	(4,868,313)	46,400,109	-	-	46,400,109
(2,528,432)	-	(2,528,432)	-	-	-	2,769,639	3,420,904	33,030	6,223,573
-	-	-	-	-	-	758,808	151,241	-	910,049
-	-	-	-	-	-	(801,573)	-	-	(801,573)
-	-	-	-	-	-	(42,765)	151,241	-	108,476
(2,528,432)	-	(2,528,432)	-	-	-	2,726,874	3,572,145	33,030	6,332,049
2,528,432	-	2,528,432	-	-	-	102,643,545	6,580,938	1,774,944	110,999,427
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 105,370,419	\$ 10,153,083	\$ 1,807,974	\$ 117,331,476