

National Aquarium, Inc. and Subsidiaries

Consolidated Financial Report
December 31, 2016

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RSM US LLP

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 (collectively, the Aquarium), which comprise the consolidated statements of financial position as of December 31, 2016 and 2015, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements (collectively, 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 audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of National Aquarium, Inc. and Subsidiaries as of December 31, 2016 and 2015, 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
May 10, 2017

National Aquarium, Inc. and Subsidiaries

**Consolidated Statements of Financial Position
December 31, 2016 and 2015**

	2016	2015
Assets		
Cash and cash equivalents	\$ 6,737,719	\$ 7,161,743
Promises to give and grants receivable, net (Note 3)	3,211,096	4,079,036
Other assets	1,173,829	1,652,431
Investments (Notes 4 and 5)	30,436,019	29,023,105
	<u>41,558,663</u>	<u>41,916,315</u>
Property and equipment:		
Land	1,362,888	3,967,252
Furniture, fixtures and office equipment	10,691,996	10,137,650
Other equipment	9,260,349	8,121,624
Building and leasehold improvements	180,480,653	179,699,253
Construction in progress (Note 11)	2,803,942	5,356,595
	<u>204,599,828</u>	<u>207,282,374</u>
Less accumulated depreciation	(105,652,545)	(97,908,458)
Property and equipment, net	<u>98,947,283</u>	<u>109,373,916</u>
Total assets	<u>\$ 140,505,946</u>	<u>\$ 151,290,231</u>
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses (Note 11)	\$ 2,104,429	\$ 2,492,862
Accrued salaries and benefits	1,703,687	1,653,521
Deferred revenue	3,306,289	3,000,536
Deferred rent (Note 11)	879,793	1,037,146
Capital lease obligation (Note 7)	3,054,323	3,176,918
Interest rate swap (Notes 5 and 6)	336,009	339,942
Notes payable, net of unamortized issuance costs (Note 6)	5,418,835	9,324,703
Bond payable, net of unamortized issuance costs (Note 6)	18,188,494	20,012,049
Total liabilities	<u>34,991,859</u>	<u>41,037,677</u>
Commitments and contingencies (Notes 2 and 11)		
Net assets (Note 9):		
Unrestricted	96,796,942	100,420,605
Temporarily restricted	6,909,171	8,023,975
Permanently restricted	1,807,974	1,807,974
Total net assets	<u>105,514,087</u>	<u>110,252,554</u>
Total liabilities and net assets	<u>\$ 140,505,946</u>	<u>\$ 151,290,231</u>

See notes to consolidated financial statements.

National Aquarium, Inc. and Subsidiaries

Consolidated Statements of Activities Years Ended December 31, 2016 and 2015

	2016			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Revenue, gains and other support:				
Admissions	\$ 26,471,210	\$ -	\$ -	\$ 26,471,210
Contributions and grants	6,797,149	1,509,983	-	8,307,132
General and corporate membership programs	4,934,885	-	-	4,934,885
Gift shop and food service	1,820,935	-	-	1,820,935
Group sales	3,089,080	-	-	3,089,080
Education program	851,484	-	-	851,484
Auxiliary	2,648,625	-	-	2,648,625
Catered events	637,049	-	-	637,049
Net assets released from restrictions:				
Satisfaction of program restrictions	1,241,992	(1,241,992)	-	-
Satisfaction of equipment acquisition restrictions	1,512,514	(1,512,514)	-	-
Total revenue, gains and other support	50,004,923	(1,244,523)	-	48,760,400
Expenses (Note 12):				
Programs:				
Plant operations	7,732,398	-	-	7,732,398
Depreciation	8,912,570	-	-	8,912,570
Biological programs	7,900,028	-	-	7,900,028
Visitor operations	2,820,453	-	-	2,820,453
Education	3,129,693	-	-	3,129,693
Catered events	293,954	-	-	293,954
Total program expenses	30,789,096	-	-	30,789,096
Supporting services:				
General and administrative	7,136,571	-	-	7,136,571
Marketing	9,674,795	-	-	9,674,795
General and corporate membership programs	801,133	-	-	801,133
Development	1,590,433	-	-	1,590,433
Total supporting services expenses	19,202,932	-	-	19,202,932
Total expenses	49,992,028	-	-	49,992,028
Change in net assets before other financial items	12,895	(1,244,523)	-	(1,231,628)
Investment income (loss) (Note 4)	1,898,062	129,719	-	2,027,781
Gain (loss) on interest rate swap contract (Note 6)	3,933	-	-	3,933
Debt service (Note 6)	(713,949)	-	-	(713,949)
Loss on sale of property	(4,824,604)	-	-	(4,824,604)
Total other financial items	(3,636,558)	129,719	-	(3,506,839)
Change in net assets	(3,623,663)	(1,114,804)	-	(4,738,467)
Net assets:				
Beginning	100,420,605	8,023,975	1,807,974	110,252,554
Ending	\$ 96,796,942	\$ 6,909,171	\$ 1,807,974	\$ 105,514,087

See notes to consolidated financial statements.

2015

Unrestricted		Temporarily Restricted	Permanently Restricted	Total
\$ 24,082,631	\$ -	\$ -	\$ 24,082,631	
4,036,608	1,593,493	-	5,630,101	
4,459,468	-	-	4,459,468	
1,637,517	-	-	1,637,517	
2,721,509	-	-	2,721,509	
748,047	-	-	748,047	
2,798,946	-	-	2,798,946	
676,619	-	-	676,619	
1,410,705	(1,410,705)	-	-	
2,145,083	(2,145,083)	-	-	
44,717,133	(1,962,295)	-	42,754,838	
8,025,789	-	-	8,025,789	
8,502,345	-	-	8,502,345	
8,715,558	-	-	8,715,558	
2,422,241	-	-	2,422,241	
4,889,231	-	-	4,889,231	
285,649	-	-	285,649	
32,840,813	-	-	32,840,813	
6,755,654	-	-	6,755,654	
5,989,314	-	-	5,989,314	
616,118	-	-	616,118	
1,447,533	-	-	1,447,533	
14,808,619	-	-	14,808,619	
47,649,432	-	-	47,649,432	
(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

Consolidated Statements of Cash Flows Years Ended December 31, 2016 and 2015

	2016	2015
Cash flows from operating activities:		
Change in net assets	\$ (4,738,467)	\$ (7,078,922)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	8,912,570	8,502,345
Amortization of capital lease issuance cost	8,302	7,664
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 sale of property	4,824,604	-
(Gain) loss on interest rate swap agreement	(3,933)	339,942
Decrease in discount on promises to give	(108,021)	(24,376)
Net realized and unrealized (gains) losses of investments	(1,499,923)	1,651,750
Contributions restricted to long-term investment	(3,526,366)	(5,962,671)
Deferred rent	(157,353)	(122,690)
Changes in assets and liabilities:		
Decrease (increase) in:		
Promises to give and grants receivable	975,961	4,677,507
Other assets	478,602	(83,017)
Increase (decrease) in:		
Accounts payable and accrued expenses	(295,169)	377,297
Accrued salaries and benefits	50,166	397,291
Deferred revenue	305,753	906,779
Net cash provided by operating activities	5,239,545	3,626,718
Cash flows from investing activities:		
Restricted cash used in conjunction with capital lease obligation	-	504,741
Purchases of property and equipment	(8,266,181)	(10,787,536)
Proceeds from sale of property	4,862,376	-
Purchases of investments	(3,962,502)	(925,408)
Proceeds from sale of investments	4,049,511	1,926,630
Net cash used in investing activities	(3,316,796)	(9,281,573)
Cash flows from financing activities:		
Contributions restricted to long-term investment	3,526,366	5,962,671
Principal payments on bond payable	(1,836,374)	(1,785,863)
Principal payments on note payable	(4,871,625)	-
Proceeds from note payable	965,757	4,549,742
Principal payments on capital lease obligation	(130,897)	(117,517)
Debt issuance costs	-	(96,664)
Net cash (used in) provided by financing activities	(2,346,773)	8,512,369
Net (decrease) increase in cash and cash equivalents	(424,024)	2,857,514
Cash and cash equivalents:		
Beginning	7,161,743	4,304,229
Ending	\$ 6,737,719	\$ 7,161,743
Supplemental disclosure of cash flow information:		
Cash paid for interest for long-term debt and capital lease	\$ 673,983	\$ 720,886
Supplemental schedule of noncash investing and financing activities:		
Property and equipment purchases in accounts payable and accrued expenses	\$ 531,599	\$ 624,863

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: National Aquarium, Inc. and Subsidiaries (collectively, the Aquarium) is a nonprofit 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 based on the Daily Treasury Yield Curve rate as of December 31, 2016. 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 and group sales 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.

Revenue from grants is recognized when expenses are incurred.

Gift shop and food revenue is recognized on the date of sale.

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.

Financial 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.

Debt issuance costs: Debt issuance costs are capitalized and amortized over the life of the related debt. Bond issuance costs, net of accumulated amortization of \$70,505 and \$83,324 as of December 31, 2016 and 2015, respectively, are included in bonds payable on the statements of financial position. Capital lease issuance costs, net of accumulated amortization of \$94,524 and \$102,826 as of December 31, 2016 and 2015, respectively, are included in capital lease obligation on the statement of financial position. Notes payable issuance costs of \$96,664 as of December 31, 2016 and 2015 are included in notes payable on the statement of financial position. Amortization expense was \$21,121 and \$20,483 for the years ended December 31, 2016 and 2015, respectively.

Other assets: Other assets consist of other receivables and prepaid expenses.

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 the City, including renovations/improvements made subsequently, was approximately \$219,655,000 and \$224,029,000 as of December 31, 2016 and 2015, respectively. Of this amount, approximately \$175,009,000 and \$179,383,000 has been capitalized in the accompanying consolidated statements of financial position as of December 31, 2016 and 2015, 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 and leasehold 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 (the 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. The difference between rent expense and lease payments is accounted for as deferred rent.

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. During the years ended December 31, 2016 and 2015, the fair value of contributed services meeting the requirements for recognition in the financial statements was \$2,347,743 and \$757,809, respectively. In addition, many individuals volunteer their time and perform a variety of tasks that assist the Aquarium. The Aquarium receives more than 90,000 volunteer hours per year.

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 \$5,585,527 and \$4,130,613 for the years ended December 31, 2016 and 2015, respectively. The increase in advertising costs are due to advertising services that were donated to the Aquarium in 2016.

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, 2016 and 2015.

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 2013.

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 are recognized in the consolidated statements of activities as gain (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 2015 amounts were reclassified to conform to the 2016 presentation. These reclassifications had no effect on previously stated net assets or change in net assets.

Subsequent events: The Aquarium has evaluated subsequent events through May 10, 2017, which is the date the consolidated financial statements were available to be issued.

Accounting pronouncement adopted: In April 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2015-03, *Interest – Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs*, which requires that debt issuance costs related to a recognized debt liability be presented on the consolidated statements of financial position as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The ASU is effective for the Aquarium for the year ending December 31, 2016. The Aquarium adopted this ASU as of December 31, 2016, which resulted in changes to the Aquarium's treatment of debt issuance costs including the presentation of those costs on the Aquarium's consolidated statements of financial position as of December 31, 2016 and 2015.

National Aquarium, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

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

Accounting pronouncements pending: 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 ASC. 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.

In May 2015, the FASB issued ASU 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 (NAV) 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 NAV 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 ending 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 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, 2020. 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.

In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for Profit Entities*. The amendments in this ASU make improvements to the information provided in financial statements and accompanying notes of not-for-profit entities. The amendments set forth the FASB's improvements to net asset classification requirements and the information presented about a not-for-profit entity's liquidity, financial performance and cash flows. The amendments in this ASU are effective for the Aquarium for the year ending December 31, 2018. Earlier adoption is permitted. The changes in this ASU should generally be applied on a retrospective basis in the year that the ASU is first applied. The Aquarium's management has not yet evaluated the impact of this ASU on the consolidated financial statements.

National Aquarium, Inc. and Subsidiaries

Notes to 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.

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, 2016 and 2015:

	2016	2015
Capital campaign	\$ 1,906,343	\$ 2,706,480
State grant	415,521	567,560
Conservation, education and other	938,739	962,524
Unconditional promises to give before present value discount	3,260,603	4,236,564
Less present value discount	(24,507)	(132,528)
Less allowance in doubtful accounts	(25,000)	(25,000)
Promises to give and grants receivable, net	<u>\$ 3,211,096</u>	<u>\$ 4,079,036</u>
Amounts due in:		
Less than one year	\$ 1,980,560	\$ 2,010,764
One to five years	1,268,743	2,133,200
Thereafter	11,300	92,600
	<u>\$ 3,260,603</u>	<u>\$ 4,236,564</u>

National Aquarium, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 4. Investments

Investments owned by the Aquarium consist of the following at December 31, 2016 and 2015:

	2016		2015	
	Cost	Fair Value	Cost	Fair Value
Cash equivalents	\$ 1,119,712	\$ 1,119,712	\$ 574,088	\$ 574,088
Equities	3,704,966	4,250,651	3,900,381	4,117,663
Mutual funds	20,139,192	22,348,589	21,359,661	22,956,615
Hedge funds	2,650,000	2,717,067	1,400,000	1,374,739
	<u>\$ 27,613,870</u>	<u>\$ 30,436,019</u>	<u>\$ 27,234,130</u>	<u>\$ 29,023,105</u>

Investment income (loss) is as follows for the years ended December 31, 2016 and 2015:

	2016	2015
Net unrealized and realized gains (losses)	\$ 1,499,923	\$ (1,651,750)
Interest and dividends	530,858	571,367
	<u>\$ 2,030,781</u>	<u>\$ (1,080,383)</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.

National Aquarium, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 5. Fair Value Measurements (Continued)

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.

Level 2: Includes investments in funds that calculated NAV 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 the 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, 2016 and 2015.

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 ASU 2009-12, where each investment's NAV as reported by each fund manager is an acceptable measurement of fair value owned when coinciding with the Aquarium's measurement date.

National Aquarium, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 5. Fair Value Measurements (Continued)

	2016				2015			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Equities (a):								
Consumer discretionary	\$ 783,927	\$ -	\$ -	\$ 783,927	\$ 706,700	\$ -	\$ -	\$ 706,700
Information technology	474,081	-	-	474,081	646,674	-	-	646,674
Industrials	1,099,631	-	-	1,099,631	1,018,977	-	-	1,018,977
Health care	493,545	-	-	493,545	714,057	-	-	714,057
Financial	850,863	-	-	850,863	766,412	-	-	766,412
Materials	300,144	-	-	300,144	201,690	-	-	201,690
Energy	168,637	-	-	168,637	41,140	-	-	41,140
Consumer staples	19,703	-	-	19,703	22,013	-	-	22,013
Miscellaneous	60,120	-	-	60,120	-	-	-	-
Mutual funds (b):								
International	6,430,815	-	-	6,430,815	5,058,155	-	-	5,058,155
Fixed income	5,874,283	-	-	5,874,283	5,744,109	-	-	5,744,109
Growth	3,203,198	-	-	3,203,198	3,474,926	-	-	3,474,926
Value	3,878,164	-	-	3,878,164	3,066,319	-	-	3,066,319
Emerging market	1,677,134	-	-	1,677,134	3,146,493	-	-	3,146,493
Market index	-	-	-	-	1,212,886	-	-	1,212,886
Real estate	-	-	-	-	1,253,727	-	-	1,253,727
Global hard asset	1,284,995	-	-	1,284,995	-	-	-	-
Hedge funds (c)	-	2,717,067	-	2,717,067	-	1,374,739	-	1,374,739
Total assets	<u>\$ 26,599,240</u>	<u>\$ 2,717,067</u>	<u>\$ -</u>	<u>\$ 29,316,307</u>	<u>\$ 27,074,278</u>	<u>\$ 1,374,739</u>	<u>\$ -</u>	<u>\$ 28,449,017</u>
Interest rate swap	\$ -	\$ 336,009	\$ -	\$ 336,009	\$ -	\$ 339,942	\$ -	\$ 339,942
Total liabilities	<u>\$ -</u>	<u>\$ 336,009</u>	<u>\$ -</u>	<u>\$ 336,009</u>	<u>\$ -</u>	<u>\$ 339,942</u>	<u>\$ -</u>	<u>\$ 339,942</u>

- (a) Equity investments are made through comingled accounts or managed accounts 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.
- (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 NAV 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, \$1,119,712 and \$574,088 of cash equivalents and a certificate of deposit, in the Aquarium's investment portfolio at December 31, 2016 and 2015, respectively, have been excluded from this table.

National Aquarium, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 5. Fair Value Measurements (Continued)

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

	Fair Value as of December 31, 2016	Redemption Frequency	Redemption Notice Period
Hedge funds (a)	\$ 2,717,067	Monthly	30 days
Total investment values using NAV as a practical expedient to fair value	<u>\$ 2,717,067</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 9% and 5% of total investments at December 31, 2016 and 2015, respectively, 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%. 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 \$18,258,999 and \$20,095,373 at December 31, 2016 and 2015, respectively. The loan is secured by a Security Agreement, whereby the bank has a lien on all current and future receipts of the Aquarium.

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% 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 is subject to certain financial and non-financial covenants. The loan balance was \$5,515,499 and \$4,549,742 at December 31, 2016 and 2015, 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)

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, 2016, the Aquarium has an interest rate swap contract to pay a fixed rate of 3.86% and receive a variable market rate on \$11,000,000 notional amount of indebtedness. The Aquarium recognized a net gain (loss) of \$3,933 and \$(339,942) for the years ended December 31, 2016 and 2015, respectively.

Principal payment requirements on the bond payable and deferred draw term loan at December 31, 2016, are due in future years as follows:

	<u>Bonds Payable</u>	<u>Note Payable</u>
Years ending December 31:		
2017	\$ 1,891,550	\$ -
2018	1,946,741	482,152
2019	2,003,542	501,296
2020	2,061,027	521,200
2021	2,122,136	541,894
Thereafter	<u>8,234,003</u>	<u>3,468,957</u>
	18,258,999	5,515,499
Issuance costs, net of amortization	<u>(70,505)</u>	<u>(96,664)</u>
	<u>\$ 18,188,494</u>	<u>\$ 5,418,835</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 was to be repaid from the development fees received by CALC as defined in the agreement. There were no development fees received by CALC in 2016 or 2015. 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 was \$0 and \$4,871,625 for the years ended December 31, 2016 and 2015, respectively.

During 2016, CALC sold the building and repaid the investment to BDC. The Aquarium recognized a loss on the sale of \$4,824,604. As of December 31, 2016, there is still a parcel of land held by CALC for \$80,000 that was unrelated to the investment from the City.

Interest expense on long-term debt was approximately \$564,000 and \$615,000 for the years ended December 31, 2016 and 2015, 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%. The total value of the transaction was \$3,418,666.

Total principal payment requirements on the capital lease payable at December 31, 2016, are due in future years as follows:

Years ending December 31:	
2017	\$ 145,025
2018	160,040
2019	175,952
2020	192,807
2021	210,653
Thereafter	<u>2,264,370</u>
	3,148,847
Issuance costs, net of amortization	<u>(94,524)</u>
	<u>\$ 3,054,323</u>

Interest expense relating to the capital lease totaled approximately \$127,000 and \$131,000 for the years ended December 31, 2016 and 2015, respectively.

Note 8. Line of Credit

The Aquarium has an unsecured \$3,000,000 revolving line of credit with a floating rate of interest equal to LIBOR plus 150 basis points. The line of credit was renewed in August 2016 and has an expiration date of August 31, 2017. There was no outstanding balance on the line of credit as of December 31, 2016 and 2015.

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, 2016 and 2015, are available for the following purposes:

	2016	2015
NA:		
Capital expansion	\$ 2,518,532	\$ 3,374,056
Biological program activities	34,080	114,922
Conservation programs	961,160	1,424,211
Henry Hall activities	172,829	139,605
Education activities	194,658	75,988
Total NA	<u>3,881,259</u>	<u>5,128,782</u>
Foundation:		
Lecture series	981,676	951,591
Henry Hall activities	454,585	439,681
Endowment earnings:		
Biological program activities	687,927	665,380
Education activities	508,076	485,924
Professional excellence	207,079	192,925
Aquarium science and medicine	188,569	159,692
Total Foundation	<u>3,027,912</u>	<u>2,895,193</u>
	<u>\$ 6,909,171</u>	<u>\$ 8,023,975</u>

Permanently restricted net assets as of December 31, 2016 and 2015, are held by the National Aquarium Foundation, Inc. and are restricted for the following purposes:

	2016	2015
Professional excellence	\$ 250,000	\$ 250,000
Marine life accessions	250,000	250,000
Education center	299,994	299,994
Aquarium science and medicine	1,007,980	1,007,980
	<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 appropriated by Aquarium for use in 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.

National Aquarium, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

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

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.

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% 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, 2016 and 2015, and changes in endowment net assets for the years then ended, are as follows:

	2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ -	\$ 1,591,651	\$ 1,807,974	\$ 3,399,625
Non-endowment funds	96,796,942	5,317,520	-	102,114,462
Total funds	\$ 96,796,942	\$ 6,909,171	\$ 1,807,974	\$ 105,514,087
	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	\$ 100,420,605	\$ 8,023,975	\$ 1,807,974	\$ 110,252,554

National Aquarium, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

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

	2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of the year	\$ -	\$ 1,503,921	\$ 1,807,974	\$ 3,311,895
Investment return:				
Investment income	-	79,124	-	79,124
Net appreciation	-	8,606	-	8,606
Total investment return	-	87,730	-	87,730
Endowment net assets, end of the year	\$ -	\$ 1,591,651	\$ 1,807,974	\$ 3,399,625
	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

Note 10. Employee Benefit Plans

The Aquarium has a 401(k) plan for employees. The 401(k) plan provides a 50% match on participants' contributions up to 3% for both 2016 and 2015. The Plan also provides for discretionary employer contributions, but employer contributions were not made in 2016 and 2015. The 401(k) plan expense was approximately \$196,000 and \$201,000 for the years ended December 31, 2016 and 2015, 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 \$1,066,756 and \$1,073,278 for the years ended December 31, 2016 and 2015, respectively. 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:	
2017	\$ 976,284
2018	904,639
2019	699,242
2020	716,721
2021	734,658
Thereafter	1,070,148
	<u>\$ 5,101,692</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, 2016, the Aquarium has signed contract commitments for approximately \$15,219,000 of capital projects. Construction and design contracts for the Animal Care & Rescue Center (ACRC) comprise approximately \$13,991,000 of the capital contract commitments.

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 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% 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 \$1,293,720 and \$1,241,660 for the years ended December 31, 2016 and 2015, 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, 2016 and 2015, are as follows:

	2016	2015
Salaries and benefits	\$ 20,234,014	\$ 18,975,565
Supplies and other	9,037,235	9,321,746
Depreciation and amortization	8,912,570	8,502,345
Purchased services	9,460,466	10,083,941
Volunteer services and in-kind contributions	2,347,743	765,835
	<u>49,992,028</u>	<u>47,649,432</u>
Add expenses included in other financial items	713,949	764,003
	<u>\$ 50,705,977</u>	<u>\$ 48,413,435</u>

Fully allocated functional expenses for the years ended December 31, 2016 and 2015, are as follows:

	2016	2015
Program services:		
Biological programs	\$ 17,595,638	\$ 17,954,422
Visitor operations	6,281,960	4,989,920
Education	6,970,726	10,072,025
Catered events	654,721	588,449
	<u>31,503,045</u>	<u>33,604,816</u>
Supporting services:		
General and administrative	7,136,572	6,755,654
Marketing	9,674,795	5,989,314
General and corporate membership programs	801,132	616,118
Development	1,590,433	1,447,533
	<u>19,202,932</u>	<u>14,808,619</u>
	<u>\$ 50,705,977</u>	<u>\$ 48,413,435</u>

Note 13. Subsequent Event

On March 21, 2017, subsequent to year-end, the Aquarium entered into a series of transactions which provided permanent financing related to the renovation of the property that will house the future Animal Care and Rescue Center (ACRC property). The transactions met the qualifications for the New Markets Tax Credit (NMTC), as outlined in Internal Revenue Code (IRC) Section 45(d).

As part of the transaction, the Aquarium has established two new entities: ACRC Lender, LLC (Lender) and ACRC Lessor, Inc. (Lessor). Lender is a single member LLC of the Aquarium, and is considered a disregarded entity for income tax purposes. Lessor is a nonprofit/nonstock corporation that has applied for 501(c)(3) status with the IRS. Lessor will be considered a Type II supporting organization of the Aquarium under IRC Section 509(a)(3).

On the transaction date, the loan agreement for the Aquarium's Delayed Draw Term Loan referenced in Note 6 was amended. The amended loan agreement allows funds to be advanced for: the purchase of

National Aquarium, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 13. Subsequent Event (Continued)

ACRC property; a portion of construction, equipping and furnishing ACRC property (directly or through ACRC Lessor, Inc.); the Leverage Loan; and the costs of issuing Delayed Draw Term Loan. Further amendments to the terms include replacing any reference to the Maximum Principal amount of \$20,000,000 with \$18,000,000. The amendment includes a clause requiring the Aquarium's Minimum Unrestricted Liquid Assets at each June 30 and December 31 to be at least \$20,000,000 for the first seven years of the amended loan agreement.

The Aquarium drew down \$424,681 prior to the amendment on the agreement. Following amendments to the loan agreement, the Aquarium borrowed \$11,441,882 on this facility. The Aquarium has the ability to request one additional advance of \$617,938 with supporting documentation. The Aquarium then contributed \$10,332,500 and \$1,109,382 of the loan proceeds to Lender and Lessor, respectively. Lender, acting as the leveraged lender in the transaction, then loaned \$10,332,500 of loan proceeds to an entity serving in the investment fund role of the NMTC transaction. Lender's loan receivable earns interest of 1.21% per annum.

Lessor entered into loan agreements totaling \$14,700,000 that qualify as "QLICI" loans under the NMTC program. Lessor's loan payable bears interest of 1.42% per annum. The Aquarium agreed to indemnify the CDE investors for any potential tax credit losses.

The Aquarium and Lessor also entered into lease agreements whereby Lessor took control of the ACRC property under a 75 year ground lease and then leased it back to the Aquarium under a 29 year operating lease. Under the terms of the operating lease agreement, the Aquarium's first annual rental payment of \$105,000 is due on December 1, 2018. Annual rent escalates at a rate of 15-20% within the first seven years, increases 192% in year eight to \$742,000 and escalates 1% or less for the remainder of the lease term with maximum annual rent of \$796,000. Under the terms of the ground lease agreement, the Aquarium's annual rental payment will be \$10 for the entire term of the 75 year lease of 1.4937 acres located at 901 E. Fayette Street. Additional terms of the Ground Lease include a landlord contribution of \$5,795,155 which includes the costs of the building, improvements to date, and \$1,109,382 in cash. Both leases are triple-net leases, whereby the Aquarium is responsible for all maintenance, insurance, and taxes.



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, 2016 and 2015, 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
May 10, 2017

National Aquarium, Inc. and Subsidiaries

Consolidating Statements of Financial Position December 31, 2016 and 2015

	2016				
	National Aquarium, Inc.	National Aquarium Foundation, Inc.	Center for Aquatic Life and Conservation, Inc.	Eliminations	Total
Assets					
Cash and cash equivalents	\$ 6,737,719	\$ -	\$ -	\$ -	\$ 6,737,719
Promises to give and grants receivable, net	3,211,096	-	-	-	3,211,096
Due from affiliate	454,609	2,772	185,771	(643,152)	-
Other assets	1,170,517	3,312	-	-	1,173,829
Investments	-	30,436,019	-	-	30,436,019
	<u>11,573,941</u>	<u>30,442,103</u>	<u>185,771</u>	<u>(643,152)</u>	<u>41,558,663</u>
Property and equipment:					
Land	1,282,888	-	80,000	-	1,362,888
Furniture, fixtures and office equipment	10,691,996	-	-	-	10,691,996
Other equipment	9,260,349	-	-	-	9,260,349
Building and leasehold improvements	180,480,653	-	-	-	180,480,653
Construction in progress	2,803,942	-	-	-	2,803,942
	<u>204,519,828</u>	<u>-</u>	<u>80,000</u>	<u>-</u>	<u>204,599,828</u>
Less accumulated depreciation	(105,652,545)	-	-	-	(105,652,545)
Property and equipment, net	<u>98,867,283</u>	<u>-</u>	<u>80,000</u>	<u>-</u>	<u>98,947,283</u>
Total assets	<u>\$ 110,441,224</u>	<u>\$ 30,442,103</u>	<u>\$ 265,771</u>	<u>\$ (643,152)</u>	<u>\$ 140,505,946</u>
Liabilities and Net Assets					
Liabilities:					
Accounts payable and accrued expenses	\$ 2,104,429	\$ -	\$ -	\$ -	\$ 2,104,429
Accrued salaries and benefits	1,703,687	-	-	-	1,703,687
Due to affiliate	188,543	340,537	114,072	(643,152)	-
Deferred revenue	3,306,289	-	-	-	3,306,289
Deferred rent	879,793	-	-	-	879,793
Capital lease	3,054,323	-	-	-	3,054,323
Interest rate swap	336,009	-	-	-	336,009
Note payable, net of unamortized issuance costs	5,418,835	-	-	-	5,418,835
Bond payable, net of unamortized issuance costs	18,188,494	-	-	-	18,188,494
Total liabilities	<u>35,180,402</u>	<u>340,537</u>	<u>114,072</u>	<u>(643,152)</u>	<u>34,991,859</u>
Net assets:					
Unrestricted	71,379,563	25,265,680	151,699	-	96,796,942
Temporarily restricted	3,881,259	3,027,912	-	-	6,909,171
Permanently restricted	-	1,807,974	-	-	1,807,974
Total net assets	<u>75,260,822</u>	<u>30,101,566</u>	<u>151,699</u>	<u>-</u>	<u>105,514,087</u>
Total liabilities and net assets	<u>\$ 110,441,224</u>	<u>\$ 30,442,103</u>	<u>\$ 265,771</u>	<u>\$ (643,152)</u>	<u>\$ 140,505,946</u>

2015

	National Aquarium, Inc.	National Aquarium Foundation, Inc.	Center for Aquatic Life and Conservation, Inc.	Eliminations	Total
\$	7,159,976	\$ 1,767	\$ -	\$ -	\$ 7,161,743
	4,079,036	-	-	-	4,079,036
	13,656	272,066	86,907	(372,629)	-
	1,590,574	11,281	50,576	-	1,652,431
	-	29,023,105	-	-	29,023,105
	12,843,242	29,308,219	137,483	(372,629)	41,916,315
	1,282,888	-	2,684,364	-	3,967,252
	10,137,650	-	-	-	10,137,650
	8,121,624	-	-	-	8,121,624
	171,912,353	-	7,786,900	-	179,699,253
	5,356,595	-	-	-	5,356,595
	196,811,110	-	10,471,264	-	207,282,374
	(97,541,238)	-	(367,220)	-	(97,908,458)
	99,269,872	-	10,104,044	-	109,373,916
\$	112,113,114	\$ 29,308,219	\$ 10,241,527	\$ (372,629)	\$ 151,290,231
\$	2,478,198	\$ 14,664	\$ -	\$ -	\$ 2,492,862
	1,653,521	-	-	-	1,653,521
	358,973	13,656	-	(372,629)	-
	3,000,536	-	-	-	3,000,536
	1,037,146	-	-	-	1,037,146
	3,176,918	-	-	-	3,176,918
	339,942	-	-	-	339,942
	4,453,078	-	4,871,625	-	9,324,703
	20,012,049	-	-	-	20,012,049
	36,510,361	28,320	4,871,625	(372,629)	41,037,677
	70,473,971	24,576,732	5,369,902	-	100,420,605
	5,128,782	2,895,193	-	-	8,023,975
	-	1,807,974	-	-	1,807,974
	75,602,753	29,279,899	5,369,902	-	110,252,554
\$	112,113,114	\$ 29,308,219	\$ 10,241,527	\$ (372,629)	\$ 151,290,231

National Aquarium, Inc. and Subsidiaries

Consolidating Statement of Activities Year Ended December 31, 2016

	National Aquarium, Inc.			National Aquarium Foundation, Inc.				Center for Aquatic Life and Conservation, Inc.		
	Unrestricted	Temporarily		Unrestricted	Temporarily	Permanently	Total	Unrestricted	Temporarily	
		Restricted	Total						Restricted	Restricted
Revenue, gains and other support:										
Admissions	\$ 26,471,210	\$ -	\$ 26,471,210	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Contributions and grants	6,797,149	1,506,983	8,304,132	-	3,000	-	3,000	-	-	-
General and corporate membership programs	4,934,885	-	4,934,885	-	-	-	-	-	-	-
Gift shop and food service	1,820,935	-	1,820,935	-	-	-	-	-	-	-
Group sales	3,089,080	-	3,089,080	-	-	-	-	-	-	-
Education program	851,484	-	851,484	-	-	-	-	-	-	-
Auxiliary	2,549,762	-	2,549,762	-	-	-	-	98,863	-	98,863
Catered events	637,049	-	637,049	-	-	-	-	-	-	-
Intercompany grants	1,272,066	-	1,272,066	450,267	-	-	450,267	-	-	-
Net assets released from restrictions:										
Satisfaction of program restrictions	1,241,992	(1,241,992)	-	-	-	-	-	-	-	-
Satisfaction of equipment acquisition restrictions	1,512,514	(1,512,514)	-	-	-	-	-	-	-	-
Total revenue, gains and other support	51,178,126	(1,247,523)	49,930,603	450,267	3,000	-	453,267	98,863	-	98,863
Expenses:										
Programs:										
Plant operations	7,732,398	-	7,732,398	-	-	-	-	-	-	-
Depreciation	8,575,506	-	8,575,506	-	-	-	-	337,064	-	337,064
Biological programs	7,650,439	-	7,650,439	249,589	-	-	249,589	-	-	-
Visitor operations	2,820,453	-	2,820,453	-	-	-	-	-	-	-
Education	3,129,693	-	3,129,693	-	-	-	-	-	-	-
Catered events	293,954	-	293,954	-	-	-	-	-	-	-
Intercompany grants	450,267	-	450,267	1,272,066	-	-	1,272,066	-	-	-
Total program expenses	30,652,710	-	30,652,710	1,521,655	-	-	1,521,655	337,064	-	337,064
Supporting services:										
General and administrative	6,843,447	-	6,843,447	137,726	-	-	137,726	155,398	-	155,398
Marketing	9,674,795	-	9,674,795	-	-	-	-	-	-	-
General and corporate membership programs	801,133	-	801,133	-	-	-	-	-	-	-
Development	1,590,433	-	1,590,433	-	-	-	-	-	-	-
Total supporting services expenses	18,909,808	-	18,909,808	137,726	-	-	137,726	155,398	-	155,398
Total expenses	49,562,518	-	49,562,518	1,659,381	-	-	1,659,381	492,462	-	492,462
Change in net assets before other financial items										
	1,615,608	(1,247,523)	368,085	(1,209,114)	3,000	-	(1,206,114)	(393,599)	-	(393,599)
Investment income	-	-	-	1,898,062	129,719	-	2,027,781	-	-	-
Gain on interest rate swap	3,933	-	3,933	-	-	-	-	-	-	-
Debt service	(713,949)	-	(713,949)	-	-	-	-	-	-	-
Loss on sale of property	-	-	-	-	-	-	-	(4,824,604)	-	(4,824,604)
Total other financial items	(710,016)	-	(710,016)	1,898,062	129,719	-	2,027,781	(4,824,604)	-	(4,824,604)
Change in net assets	905,592	(1,247,523)	(341,931)	688,948	132,719	-	821,667	(5,218,203)	-	(5,218,203)
Net assets:										
Beginning	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
Ending	\$ 71,379,563	\$ 3,881,259	\$ 75,260,822	\$ 25,265,680	\$ 3,027,912	\$ 1,807,974	\$ 30,101,566	\$ 151,699	\$ -	\$ 151,699

Eliminations			Total				
Unrestricted	Temporarily		Unrestricted	Temporarily		Permanently	Total
	Restricted	Total		Restricted	Restricted		
\$ -	\$ -	\$ -	\$ 26,471,210	\$ -	\$ -	\$ -	\$ 26,471,210
-	-	-	6,797,149	1,509,983	-	-	8,307,132
-	-	-	4,934,885	-	-	-	4,934,885
-	-	-	1,820,935	-	-	-	1,820,935
-	-	-	3,089,080	-	-	-	3,089,080
-	-	-	851,484	-	-	-	851,484
-	-	-	2,648,625	-	-	-	2,648,625
-	-	-	637,049	-	-	-	637,049
(1,722,333)	-	(1,722,333)	-	-	-	-	-
-	-	-	1,241,992	(1,241,992)	-	-	-
-	-	-	1,512,514	(1,512,514)	-	-	-
(1,722,333)	-	(1,722,333)	50,004,923	(1,244,523)	-	-	48,760,400
-	-	-	7,732,398	-	-	-	7,732,398
-	-	-	8,912,570	-	-	-	8,912,570
-	-	-	7,900,028	-	-	-	7,900,028
-	-	-	2,820,453	-	-	-	2,820,453
-	-	-	3,129,693	-	-	-	3,129,693
-	-	-	293,954	-	-	-	293,954
(1,722,333)	-	(1,722,333)	-	-	-	-	-
(1,722,333)	-	(1,722,333)	30,789,096	-	-	-	30,789,096
-	-	-	7,136,571	-	-	-	7,136,571
-	-	-	9,674,795	-	-	-	9,674,795
-	-	-	801,133	-	-	-	801,133
-	-	-	1,590,433	-	-	-	1,590,433
-	-	-	19,202,932	-	-	-	19,202,932
(1,722,333)	-	(1,722,333)	49,992,028	-	-	-	49,992,028
-	-	-	12,895	(1,244,523)	-	-	(1,231,628)
-	-	-	1,898,062	129,719	-	-	2,027,781
-	-	-	3,933	-	-	-	3,933
-	-	-	(713,949)	-	-	-	(713,949)
-	-	-	(4,824,604)	-	-	-	(4,824,604)
-	-	-	(3,636,558)	129,719	-	-	(3,506,839)
-	-	-	(3,623,663)	(1,114,804)	-	-	(4,738,467)
\$ -	\$ -	\$ -	100,420,605	8,023,975	1,807,974	-	110,252,554
\$ -	\$ -	\$ -	\$ 96,796,942	\$ 6,909,171	\$ 1,807,974	\$ -	\$ 105,514,087

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	4,036,608	1,593,493	5,630,101	-	-	-	-	-	-	-
General and corporate membership programs	4,459,468	-	4,459,468	-	-	-	-	-	-	-
Gift shop and food service	1,637,517	-	1,637,517	-	-	-	-	-	-	-
Group sales	2,721,509	-	2,721,509	-	-	-	-	-	-	-
Education program	748,047	-	748,047	-	-	-	-	-	-	-
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	45,360,041	(1,737,108)	43,622,933	225,187	(225,187)	-	-	131,905	-	131,905
Expenses:										
Programs:										
Plant operations	7,997,167	-	7,997,167	-	-	-	-	28,622	-	28,622
Depreciation	8,149,814	-	8,149,814	-	-	-	-	352,531	-	352,531
Biological programs	8,490,371	-	8,490,371	225,187	-	-	225,187	-	-	-
Visitor operations	2,422,241	-	2,422,241	-	-	-	-	-	-	-
Education	4,889,231	-	4,889,231	-	-	-	-	-	-	-
Catered events	285,649	-	285,649	-	-	-	-	-	-	-
Intercompany grants	-	-	-	1,000,000	-	-	1,000,000	-	-	-
Total program expenses	32,234,473	-	32,234,473	1,225,187	-	-	1,225,187	381,153	-	381,153
Supporting services:										
General and administrative	6,572,947	-	6,572,947	136,716	-	-	136,716	45,991	-	45,991
Marketing	5,989,314	-	5,989,314	-	-	-	-	-	-	-
General and corporate membership programs	616,118	-	616,118	-	-	-	-	-	-	-
Development	1,447,533	-	1,447,533	-	-	-	-	-	-	-
Total supporting services expenses	14,625,912	-	14,625,912	136,716	-	-	136,716	45,991	-	45,991
Total expenses	46,860,385	-	46,860,385	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
-	-	-	4,036,608	1,593,493	-	5,630,101
-	-	-	4,459,468	-	-	4,459,468
-	-	-	1,637,517	-	-	1,637,517
-	-	-	2,721,509	-	-	2,721,509
-	-	-	748,047	-	-	748,047
-	-	-	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)	44,717,133	(1,962,295)	-	42,754,838
-	-	-	8,025,789	-	-	8,025,789
-	-	-	8,502,345	-	-	8,502,345
-	-	-	8,715,558	-	-	8,715,558
-	-	-	2,422,241	-	-	2,422,241
-	-	-	4,889,231	-	-	4,889,231
-	-	-	285,649	-	-	285,649
(1,000,000)	-	(1,000,000)	-	-	-	-
(1,000,000)	-	(1,000,000)	32,840,813	-	-	32,840,813
-	-	-	6,755,654	-	-	6,755,654
-	-	-	5,989,314	-	-	5,989,314
-	-	-	616,118	-	-	616,118
-	-	-	1,447,533	-	-	1,447,533
-	-	-	14,808,619	-	-	14,808,619
(1,000,000)	-	(1,000,000)	47,649,432	-	-	47,649,432
-	-	-	(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