

The Marine Mammal Center

Financial Statements

September 30, 2017
(With Comparative Totals for 2016)



TABLE OF CONTENTS

| | <u>Page No.</u> |
|----------------------------------|-----------------|
| Independent Auditor's Report | 1 - 2 |
| Statement of Financial Position | 3 |
| Statement of Activities | 4 |
| Statement of Functional Expenses | 5 |
| Statement of Cash Flows | 6 |
| Notes to Financial Statements | 7 - 23 |



INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
The Marine Mammal Center
Sausalito, California

We have audited the accompanying financial statements of The Marine Mammal Center (a California nonprofit corporation) (the "TMMC"), which comprise the statement of financial position as of September 30, 2017, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Marine Mammal Center as of September 30, 2017, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited The Marine Mammal Center's 2016 financial statements, and our report dated February 9, 2017 expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended September 30, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

A handwritten signature in black ink that reads "Armanino LLP". The signature is written in a cursive, flowing style.

Armanino^{LLP}
San Ramon, California

February 13, 2018

The Marine Mammal Center
Statement of Financial Position
September 30, 2017
(With Comparative Totals for 2016)

| | 2017 | 2016 |
|---|---------------|---------------|
| ASSETS | | |
| Current assets | | |
| Cash | \$ 2,829,939 | \$ 5,255,522 |
| Restricted cash | 368,660 | 368,549 |
| Short-term investments | 2,872,116 | - |
| Accounts receivable | 209,417 | 113,102 |
| Contributions receivable | 1,132,372 | 729,728 |
| Inventory | 88,352 | 101,822 |
| Prepaid and other current assets | 138,433 | 227,358 |
| Total current assets | 7,639,289 | 6,796,081 |
| Property and equipment, net | 27,876,065 | 28,725,537 |
| Other assets | | |
| Long-term investments | 5,360,596 | 4,712,783 |
| Contributions receivable, net of current portion | 771,280 | 128,500 |
| Deposits | 92,820 | 89,957 |
| Total other assets | 6,224,696 | 4,931,240 |
| Total assets | \$ 41,740,050 | \$ 40,452,858 |
| LIABILITIES AND NET ASSETS | | |
| Current liabilities | | |
| Accounts payable | \$ 487,479 | \$ 437,882 |
| Accrued expenses | 453,632 | 593,336 |
| Current portion of capital lease obligations | 58,283 | 23,223 |
| Deferred revenue | 51,352 | 8,553 |
| Total current liabilities | 1,050,746 | 1,062,994 |
| Capital lease obligations, net of current portion | 81,984 | 43,713 |
| Total liabilities | 1,132,730 | 1,106,707 |
| Net assets | | |
| Unrestricted | | |
| Undesignated | 29,288,918 | 29,906,175 |
| Board-designated | 9,355,969 | 8,421,712 |
| Total unrestricted | 38,644,887 | 38,327,887 |
| Temporarily restricted | 1,336,224 | 400,030 |
| Permanently restricted | 626,209 | 618,234 |
| Total net assets | 40,607,320 | 39,346,151 |
| Total liabilities and net assets | \$ 41,740,050 | \$ 40,452,858 |

The accompanying notes are an integral part of these financial statements.

The Marine Mammal Center
Statement of Activities
For the Year Ended September 30, 2017
(With Comparative Totals for 2016)

| | Unrestricted | | Temporarily Restricted | Permanently Restricted | 2017 Total | 2016 Total |
|--|----------------------|-----------------------|---------------------------|---------------------------|----------------------|----------------------|
| | Undesignated | Board - Designated | | | | |
| Support and revenues | | | | | | |
| Support | | | | | | |
| Contributions and grants | \$ 5,717,244 | \$ - | \$ 2,368,724 | \$ - | \$ 8,085,968 | \$ 7,693,796 |
| Bequests | 700,000 | 818,235 | - | - | 1,518,235 | 2,922,829 |
| Special events, net | 293,875 | - | - | - | 293,875 | 500,085 |
| Donated materials, services, property and equipment | <u>468,676</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>468,676</u> | <u>237,552</u> |
| Total support | <u>7,179,795</u> | <u>818,235</u> | <u>2,368,724</u> | <u>-</u> | <u>10,366,754</u> | <u>11,354,262</u> |
| Revenues, gains and losses | | | | | | |
| Veterinary science contracts | 628,371 | - | - | - | 628,371 | 631,317 |
| Retail store sales, net | 355,225 | - | - | - | 355,225 | 391,645 |
| Education programs | 208,260 | - | - | - | 208,260 | 250,685 |
| Rent | 123,575 | - | - | - | 123,575 | 121,222 |
| Interest and dividends, net | 97,956 | 48,177 | 25,787 | 460 | 172,380 | 148,558 |
| Other | 1,200 | - | - | - | 1,200 | 1,025 |
| Unrealized and realized gains on investments, net | 416,399 | 75,965 | 48,904 | 12,016 | 553,284 | 183,166 |
| Loss on disposal of property and equipment | (78,207) | - | - | - | (78,207) | (93,150) |
| Net assets released from restriction | <u>1,519,842</u> | <u>(8,120)</u> | <u>(1,507,221)</u> | <u>(4,501)</u> | <u>-</u> | <u>-</u> |
| Total revenues, gains and losses | <u>3,272,621</u> | <u>116,022</u> | <u>(1,432,530)</u> | <u>7,975</u> | <u>1,964,088</u> | <u>1,634,468</u> |
| Total support and revenues | <u>10,452,416</u> | <u>934,257</u> | <u>936,194</u> | <u>7,975</u> | <u>12,330,842</u> | <u>12,988,730</u> |
| Functional expenses | | | | | | |
| Program services | | | | | | |
| Veterinary science | 6,424,263 | - | - | - | 6,424,263 | 6,006,619 |
| Education | <u>2,508,892</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>2,508,892</u> | <u>2,287,520</u> |
| Total program services | 8,933,155 | - | - | - | 8,933,155 | 8,294,139 |
| Fundraising | 1,470,370 | - | - | - | 1,470,370 | 1,330,043 |
| Management and general | <u>666,148</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>666,148</u> | <u>642,215</u> |
| Total functional expenses | <u>11,069,673</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>11,069,673</u> | <u>10,266,397</u> |
| Change in net assets | (617,257) | 934,257 | 936,194 | 7,975 | 1,261,169 | 2,722,333 |
| Net assets, beginning of year | <u>29,906,175</u> | <u>8,421,712</u> | <u>400,030</u> | <u>618,234</u> | <u>39,346,151</u> | <u>36,623,818</u> |
| Net assets, end of year | <u>\$ 29,288,918</u> | <u>\$ 9,355,969</u> | <u>\$ 1,336,224</u> | <u>\$ 626,209</u> | <u>\$ 40,607,320</u> | <u>\$ 39,346,151</u> |

The accompanying notes are an integral part of these financial statements.

The Marine Mammal Center
Statement of Functional Expenses
For the Year Ended September 30, 2017
(With Comparative Totals for 2016)

| | Program Services | | Support Services | | 2017 Total | 2016 Total |
|------------------------------------|-----------------------|---------------------|---------------------|---------------------------|----------------------|----------------------|
| | Veterinary Science | Education | Fundraising | Management and General | | |
| Salaries | \$ 2,221,376 | \$ 1,031,572 | \$ 737,578 | \$ 345,168 | \$ 4,335,694 | \$ 3,987,702 |
| Depreciation and amortization | 1,318,782 | 415,450 | 11,165 | 33,495 | 1,778,892 | 1,682,123 |
| Animal care costs | 859,815 | 3,295 | - | - | 863,110 | 1,066,899 |
| Employee benefits | 249,731 | 121,713 | 84,023 | 40,579 | 496,046 | 434,212 |
| Professional services | 150,074 | 68,346 | 103,355 | 56,008 | 377,783 | 347,975 |
| Information technology | 187,263 | 79,661 | 67,747 | 17,554 | 352,225 | 215,048 |
| Payroll taxes | 162,917 | 77,478 | 52,687 | 21,592 | 314,674 | 293,882 |
| Donated materials and services | 76,238 | 153,554 | 45,533 | 34,415 | 309,740 | 237,552 |
| Utilities | 269,473 | 19,148 | 544 | 1,822 | 290,987 | 264,652 |
| Lettershop and acknowledgements | - | 90,109 | 149,815 | - | 239,924 | 244,045 |
| Repairs and maintenance | 170,925 | 60,228 | 1,878 | 5,651 | 238,682 | 187,683 |
| Insurance | 170,773 | 48,601 | 6,497 | 5,045 | 230,916 | 211,910 |
| Staff housing and rent | 159,768 | 36,088 | - | - | 195,856 | 178,688 |
| Travel, conference and training | 110,305 | 63,003 | 6,485 | 13,093 | 192,886 | 148,829 |
| Volunteer and donor relations | 107,660 | 5,082 | 60,909 | 2,229 | 175,880 | 134,148 |
| Bank charges | 14,539 | 27,204 | 58,437 | 61,209 | 161,389 | 159,902 |
| Supplies | 69,683 | 62,197 | 5,369 | 2,062 | 139,311 | 148,713 |
| Other | 11,934 | 92 | 52,340 | 9,522 | 73,888 | 4,702 |
| Outreach and marketing | - | 70,487 | - | - | 70,487 | 45,067 |
| Services district charges | 38,685 | 20,978 | 654 | 1,968 | 62,285 | 60,867 |
| Telephone | 36,468 | 11,316 | 9,896 | 3,868 | 61,548 | 67,322 |
| Postage and publications | 10,302 | 15,609 | 9,695 | 1,761 | 37,367 | 59,980 |
| Merchandising expense | - | 19,496 | - | - | 19,496 | 23,128 |
| Payroll services | 10,039 | 2,893 | 2,530 | 2,536 | 17,998 | 28,149 |
| Meetings | 13,714 | 1,432 | 194 | 2,651 | 17,991 | 19,683 |
| Dues and subscriptions | 2,742 | 3,426 | 2,660 | 3,813 | 12,641 | 13,536 |
| Interest expense | 1,057 | 434 | 379 | 107 | 1,977 | - |
| | <u>\$ 6,424,263</u> | <u>\$ 2,508,892</u> | <u>\$ 1,470,370</u> | <u>\$ 666,148</u> | <u>\$ 11,069,673</u> | <u>\$ 10,266,397</u> |

The accompanying notes are an integral part of these financial statements.

The Marine Mammal Center
Statement of Cash Flows
For the Year Ended September 30, 2017
(With Comparative Totals for 2016)

| | <u>2017</u> | <u>2016</u> |
|--|---------------------|---------------------|
| Cash flows from operating activities | | |
| Change in net assets | \$ 1,261,169 | \$ 2,722,333 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities | | |
| Depreciation and amortization | 1,778,892 | 1,682,123 |
| Unrealized and realized gain on investments, net | (553,284) | (183,166) |
| Loss on disposal of property and equipment | 78,207 | 93,150 |
| Donated property and equipment | (158,936) | - |
| Changes in operating assets and liabilities | | |
| Accounts receivable | (96,315) | 512,803 |
| Contributions receivable | (1,045,424) | 201,019 |
| Inventory | 13,470 | (357) |
| Prepaid and other current assets | 88,925 | (1,647) |
| Deposits | (2,863) | (21,304) |
| Accounts payable | 49,597 | 67,682 |
| Accrued expenses | (139,704) | 61,664 |
| Deferred revenue | 42,799 | (711,292) |
| Net cash provided by operating activities | <u>1,316,533</u> | <u>4,423,008</u> |
| Cash flows from investing activities | | |
| Proceeds from sale of investments | 7,274,963 | 760,336 |
| Purchase of investments | (10,241,608) | (3,105,297) |
| Proceeds from sale of property and equipment | 19,385 | - |
| Purchase of property and equipment | (765,055) | (2,593,787) |
| Net cash used in investing activities | <u>(3,712,315)</u> | <u>(4,938,748)</u> |
| Cash flows from financing activities | | |
| Change in restricted cash | (111) | (199,532) |
| Principal payments on capital lease obligations | (29,690) | (6,789) |
| Net cash used in financing activities | <u>(29,801)</u> | <u>(206,321)</u> |
| Net decrease in cash and cash equivalents | (2,425,583) | (722,061) |
| Cash and cash equivalents, beginning of year | <u>5,255,522</u> | <u>5,977,583</u> |
| Cash and cash equivalents, end of year | <u>\$ 2,829,939</u> | <u>\$ 5,255,522</u> |

Supplemental disclosure of cash flow information

| | | |
|------------------------------------|----------|--------|
| Cash paid during the year interest | \$ 1,977 | \$ 184 |
|------------------------------------|----------|--------|

Supplemental schedule of noncash investing and financing activities

| | | |
|--|------------|-----------|
| Property and equipment acquired with capital lease financing | \$ 103,021 | \$ 73,725 |
|--|------------|-----------|

The accompanying notes are an integral part of these financial statements.

The Marine Mammal Center
Notes to Financial Statements
September 30, 2017

1. NATURE OF OPERATIONS

The Marine Mammal Center ("TMMC") is a California nonprofit organization guided and inspired by a shared vision of a healthy ocean for marine mammals and humans alike. TMMC's mission is to advance global ocean conservation through marine mammal rescue, scientific research, and education. To accomplish its goals through measurable results, TMMC focuses its work in three key program areas: animal care, scientific research, and education.

Programs

- *Animal Care* - With a volunteer force numbering more than 1,200 and the support of a concerned public, TMMC is able to respond to marine mammals in distress. Sick and injured animals are treated and rehabilitated at the TMMC's state-of-the-art veterinary facilities where patients are cared for until they can be released back to their ocean home. Covering a rescue range that spans 600 miles of California coastline and the Big Island of Hawai'i, TMMC responds to more stranded marine mammals than any other organization in the world. TMMC's sought-after experts are deployed locally and internationally to provide technical veterinary expertise and training on best practices ranging from anesthesia to disentanglement. In 2017, TMMC treated more than 660 marine mammals with the help of volunteers who recorded more than 143,000 volunteer hours served, an estimated workforce value of approximately \$4.1 million.
- *Scientific Research* - Since the 1990s, TMMC's research scientists have been primary or contributing authors on about 40 percent of all peer-reviewed articles on marine mammal health and ecology in North America. TMMC's veterinary experts develop new diagnostic tests, treatments and clinical techniques to assess and improve the efficacy of marine mammal care and rehabilitation. Learning from the patients in their care, TMMC's researchers support endangered species conservation and share findings with interdisciplinary colleagues across the globe. Marine mammal health, ocean health and human health are inextricably linked, and TMMC's work advances medical knowledge that benefits everyone. In 2017, scientists at TMMC contributed 24 research papers to peer-reviewed journals and hosted 42 visiting students and researchers from all over the world interested in learning from TMMC's world-class team of experts.
- *Education* - As a true teaching hospital, TMMC serves as a vital training ground for veterinary professionals from around the world, expanding the collective understanding and application of marine science and conservation. Our innovative school and public education programs build a sense of responsibility through a connection to marine mammals and the marine environment, inspiring future ocean stewards and promoting action to protect the ocean. These education programs and hands-on trainings support the next generation of informed scientists and engaged citizens who will care for and ensure the health of our ocean and environment. In 2017, TMMC engaged more than 100,000 children and adults as visitors at the Sausalito hospital as well as through outreach programs and community events in California and Hawai'i.

The Marine Mammal Center
Notes to Financial Statements
September 30, 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting and financial statement presentation

The financial statements of TMMC have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Net assets and changes therein are classified as follows:

- *Unrestricted net assets* - represent unrestricted resources available to support TMMC's operations and temporarily restricted resources that have become available for use by TMMC in accordance with the intentions of the donors. These can be undesignated or Board-designated. Board-designated net assets represent unrestricted resources that are designated by the Board of Directors to be invested long-term or to be set aside for the cash operating reserve fund.
- *Temporarily restricted net assets* - represent contributions whose use by TMMC is limited in accordance with donor-imposed stipulations. These stipulations may expire with time or may be satisfied by the actions of TMMC according to the intention of the donors.
- *Permanently restricted net assets* - represent contributions to be held in perpetuity as directed by the donors. The income from these contributions is available to support activities of TMMC as designated by the donors.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on assets and liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor restriction or by law. Expirations of temporary restrictions on net assets (i.e. the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as releases from temporarily restricted net assets and recognized as unrestricted net assets.

Cash and cash equivalents

Cash and cash equivalents consist of funds in checking and money market accounts with original maturities of three months or less from dates of acquisition.

Restricted cash

Restricted cash includes assets held by a bank as collateral under a security agreement related to TMMC's commercial card agreement.

The Marine Mammal Center
Notes to Financial Statements
September 30, 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Accounts receivable

Accounts receivable primarily represent amounts billed to customers for program service contracts and are stated at the amount management expects to collect from outstanding balances. An allowance for doubtful accounts is maintained, based on historical experience, overall economic conditions, and the current aging status of its customers. Account balances are charged off against the allowance for doubtful accounts after all means of collection have been exhausted and the potential for recovery is considered remote. There was no allowance for doubtful accounts as September 30, 2017 as all accounts are considered collectible.

Contributions and contributions receivable

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence or nature of any donor restrictions. Temporarily restricted contributions are reflected in unrestricted if the restriction is released during the same fiscal year the contribution was received.

Contributions, including unconditional promises to give, are recognized as revenue in the period received. Conditional promises to give are not recognized until they become unconditional; that is when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value. Donated advertising, public relations and legal services are recorded as contributions at their estimated fair value only in those instances where the services create or enhance nonfinancial assets or require specialized skills, are provided by individuals possessing those skills, and would need to be purchased if not provided by donation. Contributions to be received after one year are recorded at the present value of their estimated future cash flows. The discount on these amounts is computed using risk adjusted market interest rates applicable to the years in which the promise was received. Amortization of the discount is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions. An allowance for uncollectible contributions receivable is established based upon management's judgment including such factors as prior collection history, aging statistics of contributions, and the nature of the receivable. Promises that remain uncollected more than one year after their due dates are written off unless the donor indicates that payment is merely postponed. At September 30, 2017, management has determined that no allowance for uncollectible contributions was required, as all balances are considered fully collectible.

Unconditional promises to give with payments due in future years have an implied restriction to be used in the year the payment is due, and therefore, are reported as temporarily restricted until the payment is due, unless the contribution is clearly intended to support activities of the current fiscal year or is received with permanent restrictions. Conditional promises, such as matching grants, are not recognized until they become unconditional, that is, until all conditions on which they depend on are substantially met.

The Marine Mammal Center
Notes to Financial Statements
September 30, 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Contributions and contributions receivable (continued)

TMMC is a beneficiary under several donors' wills. Contributions from bequests are recognized as contributions receivable when the will becomes valid, TMMC has an irrevocable right to the bequest and the amount is measurable.

Inventory

Inventory, which consists primarily of gift store merchandise, is recorded at the lower of cost or market. Cost is determined using the average cost method.

Investments

Investments in equity securities and fixed income bonds are recorded at fair value as determined primarily by quoted market prices in active markets. Investments received through gifts are recorded at estimated fair value at the date of donation. Dividend and interest income are accrued when earned.

Unrealized gains and losses that result from market fluctuations are recognized in the period such fluctuations occur. For purposes of determining realized gains or losses, the cost of securities sold is computed based on the weighted average method. Investments include the beneficial interest in the perpetual trust. Realized and unrealized gains (losses) on investments are reported as follows:

- As increases (decreases) in permanently restricted net assets if the terms of the donor stipulations require that they be added to (deducted from) the principal of a permanent endowment fund;
- As increases (decreases) in temporarily restricted net assets, if the terms of the donor stipulations impose restrictions on the use of income;
- As increases (decreases) in unrestricted net assets in all other cases.

The Marine Mammal Center
Notes to Financial Statements
September 30, 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurements

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. TMMC determines the fair values of its assets and liabilities based on a fair value hierarchy that includes three levels of inputs that may be used to measure fair value (Level 1, Level 2 and Level 3). Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that TMMC has the ability to access at the measurement date. An active market is a market in which transactions occur with sufficient frequency and volume to provide pricing information on an ongoing basis. Level 2 inputs are inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly. Level 3 inputs are unobservable inputs for the asset or liability. There have been no changes in valuation techniques for the year ended September 30, 2017.

The following methods and assumptions were used to estimate the fair value of financial instruments:

- Investments (Level 1). Mutual funds are valued at the daily closing price as reported by the fund. Mutual funds held are open-end mutual funds that are registered with the SEC. These funds are required to publish their daily net asset value (NAV) and to transact at that price. Fixed income bonds are valued at the closing price as reported by the bond. The mutual funds and fixed income bonds held are deemed to be actively traded.
- Investments (Level 2). The perpetual trust represents an interest in pooled investment funds that are valued at the net asset value (NAV) per unit or percentage of ownership as reported by the funds. The NAV is based on the fair value of the underlying investments held by the fund less its liabilities. Due to the inherent uncertainty of valuation of non-marketable investments, those estimated values may differ significantly from the values that would have been used had a ready market for the securities existed, and the differences could be material.

Beneficial interests in perpetual trust

TMMC is the irrevocable beneficiary of a perpetual trust held by a foundation. The beneficial interest in the trust is included in investments on the statement of financial position and reported at its fair value, which is estimated as the fair value of the underlying trust assets.

The value of the beneficial interest in the trust is adjusted annually for the change in its estimated fair value. Those changes in value, as well as interest income, are reported as changes in permanently restricted net assets. The beneficial interest in the trust is part of TMMC's endowment funds.

The Marine Mammal Center
Notes to Financial Statements
September 30, 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and equipment

Property and equipment are stated at cost when purchased or constructed, or at the asset's estimated fair value at the time the donated property is received. Depreciation is provided using the straight-line method over the assets' estimated useful lives ranging from 5 to 40 years. TMMC capitalizes all property and equipment with a cost greater than \$5,000 and an estimated useful life in excess of one year. Construction in progress is depreciated only after the assets are completed and have been placed into service.

Donated property and equipment is recorded at the estimated fair value at the date the contribution is received and considered to be unrestricted when placed into service by TMMC, unless restricted as to use by explicit donor stipulation. Leasehold improvements are amortized over the shorter of the estimated useful life or the lease term.

Whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recovered, TMMC, using its best estimates and projections, reviews for impairment of the carrying value of long-lived identifiable assets to be held and used in the future. Any impairment losses identified are recognized when determined. There was no impairment loss recognized for the year ending September 30, 2017.

Deferred revenue

Deferred revenue includes funds received in advance for which TMMC has not performed the services necessary to earn the revenue. Deferred revenue totaled \$51,352 as of September 30, 2017.

Revenue recognition

Retail store sales are recorded when products are sold to customers. Program service contracts and other revenues are recognized when services are performed.

Special events, net

Special event revenue is presented on the statement of activities net of event related expense. For the year ended September 30, 2017, revenue from special events was \$346,595 and the related cost of special events was \$52,720.

Retail store sales, net

Retail store sales revenue is presented on the statement of activities net of cost of goods sold. For the year ended September 30, 2017, revenue from store sales was \$564,874 and the related product cost was \$209,649.

The Marine Mammal Center
Notes to Financial Statements
September 30, 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Functional expenses

The costs of providing the various programs, fundraising and other activities have been summarized on a functional basis in the statement of activities and statement of functional expenses. Expenses that can be identified with a specific program or support service are charged directly to that program or support service. Costs common to multiple functions have been allocated among the various functions benefited.

Income tax status

TMMC is a qualified organization exempt from Federal income and California franchise taxes under the provisions of Sections 501(c)(3) of the Internal Revenue Code and 23701(d) of the California Revenue and Taxation Code, respectively.

TMMC has evaluated its current tax positions and has concluded that as of September 30, 2017, TMMC does not have any significant uncertain tax positions for which a reserve would be necessary. The returns of TMMC are subject to examination by federal and state taxing authorities, generally for three to four years, respectively, after they are filed. TMMC's federal and state informational returns are open for examinations for tax years starting with 2013 and 2012, respectively.

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities, at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Uses of estimates include, but are not limited to, depreciation and useful lives of property and equipment, investment fair values, inventory valuation, the recorded value of beneficial interests, functional expense allocations, and the determination of the allowance for uncollectible receivables.

Risk and uncertainties

Financial instruments that potentially subject TMMC to credit risk consist principally of cash and cash equivalents greater than \$250,000 with each financial institution, contributions receivable and investments. TMMC periodically reviews its cash and investment policies, evaluates its donors' financial condition and maintains adequate reserves for potential losses, which are based on management's expectations, estimates and historical experience.

The Marine Mammal Center
Notes to Financial Statements
September 30, 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Comparative totals

The financial statements include certain prior year summarized comparative information in total but not by net asset classification. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with TMMC's financial statements as of, and for the year ended, September 30, 2016, from which the summarized information was derived.

Subsequent events

TMMC has evaluated subsequent events through February 13, 2018, the date the financial statements were available to be issued. All subsequent events have been disclosed that would have a material impact on the presentation of the financial statements.

3. CONTRIBUTIONS RECEIVABLE

Unconditional promises to give that are expected to be collected after one year are recorded at present value.

Contributions receivable consist of the following:

| | |
|--------------------------------------|----------------------------|
| Receivable in less than one year | \$ 1,132,372 |
| Receivable in one to five years | <u>891,000</u> |
| | 2,023,372 |
| Less: discount on pledges receivable | <u>(119,720)</u> |
| | <u><u>\$ 1,903,652</u></u> |

The Marine Mammal Center
Notes to Financial Statements
September 30, 2017

4. PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

| | |
|------------------------------|----------------------|
| Buildings | \$ 18,242,054 |
| Structures and pools | 17,410,280 |
| Medical and office equipment | 2,318,325 |
| Furniture and fixtures | 1,808,035 |
| Vehicles | 742,735 |
| Construction in progress | 25,000 |
| Computer equipment | 278,382 |
| Land improvements | <u>106,687</u> |
| | 40,931,498 |
| Accumulated depreciation | <u>(13,055,433)</u> |
| | <u>\$ 27,876,065</u> |

Depreciation and amortization expense for the year ended September 30, 2017 was \$1,778,892.

5. CAPITAL LEASE OBLIGATIONS

TMMC has entered into capital lease agreements to finance the acquisition of capital equipment with a total value of \$185,129 as of September 30, 2017, based upon the present value of future minimum lease payments. The capital lease agreements require monthly payments ranging from \$774 to \$2,132, expiring at various dates through September 2020. As of September 30, 2017, TMMC had outstanding borrowings of \$140,267 relating to these capital lease agreements.

Future maturities of capital lease obligations are as follows:

| <u>Year ending September 30,</u> | |
|---|------------------|
| 2018 | \$ 61,422 |
| 2019 | 55,025 |
| 2020 | <u>28,889</u> |
| | 145,336 |
| Imputed interest | <u>(5,069)</u> |
| Present value of minimum lease payments | 140,267 |
| Current portion | <u>(58,283)</u> |
| | <u>\$ 81,984</u> |

The Marine Mammal Center
Notes to Financial Statements
September 30, 2017

6. INVESTMENTS AND FAIR VALUE MEASUREMENTS

The following table lists the components of TMMC's investments, set forth by level within the fair value hierarchy, as of September 30, 2017:

| | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u> |
|-------------------------------|---------------------|-------------------|----------------|---------------------|
| Equity mutual funds | \$ 3,850,755 | \$ - | \$ - | \$ 3,850,755 |
| Fixed income mutual funds | 1,163,319 | - | - | 1,163,319 |
| Other investment mutual funds | 95,329 | - | - | 95,329 |
| Fixed income bonds | 2,997,100 | - | - | 2,997,100 |
| Investments held in trust | <u>-</u> | <u>126,209</u> | <u>-</u> | <u>126,209</u> |
| | <u>\$ 8,106,503</u> | <u>\$ 126,209</u> | <u>\$ -</u> | <u>\$ 8,232,712</u> |

7. ENDOWMENT

TMMC's endowments, totaling \$626,209, consist of two permanently restricted funds; a beneficial interest in a perpetual trust from the Shirley Ann Spencer Fund of Community Foundation of Sonoma County for The Marine Mammal Center (the "Spencer Fund") in the amount of \$126,209 and a donation from the Geoffrey C. Hughes Foundation (the "Hughes Foundation") in the amount of \$500,000. The endowments are included in investments on the statement of financial position. The Hughes Foundation funds are to be used for endowment purposes with income henceforth to be used for certain program activities. Earnings from the Hughes Foundation are temporarily restricted and used from time to time to fund unrestricted activities.

Earnings from the Spencer Fund are permanently restricted with distributions from the perpetual trust reflected as released from restriction.

The State of California enacted the Uniform Prudent Management of Institutions Funds Act (UPMIFA) effective January 1, 2009, the provisions of which apply to endowment funds existing on or established after that date. Net asset classifications of donor-restricted endowment funds subject to an enacted version of UPMIFA have been accounted for appropriately in these financial statements.

The Marine Mammal Center
Notes to Financial Statements
September 30, 2017

7. ENDOWMENT (continued)

Interpretation of relevant law

The Board of Directors of TMMC has interpreted the California enacted version of UPMIFA as allowing TMMC to appropriate for expenditure or accumulate so much of an endowment fund as TMMC determines is prudent for the uses, benefits, purposes and duration for which the endowment fund is established, subject to the intent of the donor as expressed in the gift instrument. Unless stated otherwise in the gift instrument, the assets in an endowment fund shall be donor-restricted assets until appropriated for expenditure by the Board of Directors. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure in a manner consistent with the standard of prudence prescribed by UPMIFA.

Spending policy

In accordance with UPMIFA, TMMC considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the fund
- (2) The purposes of the organization and the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the TMMC
- (7) The investment policies of the TMMC

Each year, TMMC makes available for appropriation the earnings from the investment balance. TMMC's objective is to maintain the original fair value of the endowment assets held in perpetuity as well as to provide additional growth through new gifts and investment returns.

Funds with deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level the donor or UPMIFA requires TMMC to retain as a fund of perpetual duration. There were no deficiencies of this nature that are reported in unrestricted net assets as of September 30, 2017.

The Marine Mammal Center
Notes to Financial Statements
September 30, 2017

7. ENDOWMENT (continued)

Investment policy, strategies, and objectives

TMMC adopted an investment policy that is monitored by the Board of Directors for the endowment funds, as well as the short-term and long-term operating reserves (see Note 8). The Board subscribes to the modern portfolio theory of prudent investment, and thus may cause the principal of the endowment to be invested in real or personal property mortgages, deeds of trust, stocks, bonds, debentures, and other securities both government and private. The Board may also direct that the principal of endowment be invested, in whole or in part, in a pooled income fund, mutual fund, or other form of common fund. The investment policy sets ranges for asset allocation.

The following is a summary of the asset allocation guidelines, with allowable ranges for each asset type:

| | <u>Target</u> | <u>Minimum</u> | <u>Maximum</u> |
|-------------------------|---------------|----------------|----------------|
| Fixed income securities | 40 % | 20 % | 60 % |
| Equities | 60 % | 40 % | 80 % |

Endowment net asset composition by type of fund as of September 30, 2017 is as follows:

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
|----------------------------------|---------------------|-----------------------------------|-----------------------------------|-------------------|
| Donor-restricted endowment funds | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 626,209</u> | <u>\$ 626,209</u> |

Changes in endowment net assets for the fiscal year ended September 30, 2017 is as follows:

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
|--|---------------------|-----------------------------------|-----------------------------------|-------------------|
| Balance, September 30, 2016 | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 618,234</u> | <u>\$ 618,234</u> |
| Investment return | | | | |
| Net gains (losses) | - | 48,904 | 12,016 | 60,920 |
| Interest and dividends | - | <u>25,787</u> | <u>460</u> | <u>26,247</u> |
| Total investment return | - | 74,691 | 12,476 | 87,167 |
| Appropriation of endowment assets for expenditure | <u>-</u> | <u>(74,691)</u> | <u>(4,501)</u> | <u>(79,192)</u> |
| Balance, September 30, 2017 | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 626,209</u> | <u>\$ 626,209</u> |

The Marine Mammal Center
Notes to Financial Statements
September 30, 2017

7. ENDOWMENT (continued)

Investment policy, strategies, and objectives (continued)

In June 1990, the Marine Mammal Center Endowment Fund of the Marin Community Foundation (the "Marin Community Foundation") was established. The purpose of the endowment fund was to receive contributions for the benefit of TMMC. This endowment is not reflected on TMMC's financial statements as the Marin Community Foundation has variance power over the endowment.

Activity in the Marin Community Foundation Fund during the year was as follows:

| | |
|----------------------------|---------------------|
| Balance, beginning of year | \$ 988,065 |
| Net income | 107,047 |
| Interest and dividends | 11,867 |
| Investment fees | (2,698) |
| Administrative fees | (5,615) |
| Distributions | <u>(45,962)</u> |
| Balance, end of year | <u>\$ 1,052,704</u> |

8. UNRESTRICTED NET ASSETS

The Board of Directors designated the short-term and long-term operating reserves to help ensure the long-term financial stability of TMMC, by creating a resource to manage cash flow and maintain financial flexibility, meet unfunded, critical and unexpected organization needs, and to promote public and donor confidence in the long-term sustainability of TMMC.

In November 2013, the Board of Directors approved a policy to maintain 25% to 50% of current annual operating expense (excluding non-cash depreciation and donated materials and services expense) in short-term operating reserves. Any additional board-designated net assets are considered long-term operating reserves and are invested with a long-term return objective, time horizon, volatility and liquidity in mind.

The following is a summary of the asset allocation guidelines, with allowable ranges for each asset type:

| | <u>Target</u> | <u>Minimum</u> | <u>Maximum</u> |
|-------------------------------|---------------|----------------|----------------|
| Short-term operating reserves | | | |
| Cash and cash equivalents | 25 % | 25 % | 100 % |
| Fixed income securities | 75 % | - | 75 % |
| Long-term operating reserves | | | |
| Fixed income securities | 25 % | 15 % | 40 % |
| Equities | 75 % | 60 % | 85 % |

The Marine Mammal Center
Notes to Financial Statements
September 30, 2017

8. UNRESTRICTED NET ASSETS (continued)

Reserve funds were allocated as follows:

| | |
|-------------------------------|----------------------------|
| Short-term operating reserves | \$ 4,400,000 |
| Long-term operating reserves | <u>4,955,969</u> |
| | <u><u>\$ 9,355,969</u></u> |

9. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consist of the following:

| | |
|------------------------|----------------------------|
| Veterinary science | \$ 908,872 |
| Education | 320,700 |
| El Niño Emergency Fund | 57,642 |
| Capital | <u>49,010</u> |
| | <u><u>\$ 1,336,224</u></u> |

Temporarily restricted net assets released from restriction during the year were as follows:

| | |
|---------------------|----------------------------|
| Veterinary science | \$ 1,003,820 |
| Education | 428,560 |
| Supporting services | 150 |
| Endowment earnings | <u>74,691</u> |
| | <u><u>\$ 1,507,221</u></u> |

10. DONATED MATERIALS AND SERVICES

Donated materials and services during the year were valued as follows:

| | |
|----------------------------------|--------------------------|
| Advertising and public relations | \$ 111,365 |
| Supplies and materials | 48,780 |
| Legal and other services | 149,595 |
| Vehicle | 77,000 |
| Medical equipment | <u>81,936</u> |
| | <u><u>\$ 468,676</u></u> |

Volunteer service hours were valued using the Bureau of Labor Statistics' value of volunteer time for the State of California and were estimated at approximately \$4,080,000. The value of this contributed time is not reflected in these financial statements as the services don't meet the the recognition criteria.

The Marine Mammal Center
Notes to Financial Statements
September 30, 2017

10. DONATED MATERIALS AND SERVICES (continued)

Volunteer services hours during the year were as follows:

| | |
|---------------|-----------------------|
| Animal care | 69,735 |
| Animal rescue | 50,325 |
| Education | 10,804 |
| Other | <u>12,630</u> |
| | <u><u>143,494</u></u> |

11. CONCENTRATIONS

As of September 30, 2017, approximately 60% of total contributions receivable are comprised of amounts due from two donors. Approximately 31% of total contribution revenue is comprised of amounts from two donors and approximately 57% of total bequest revenue is comprised of amounts from three donors for the year ended September 30, 2017.

12. RETIREMENT PLAN

On January 1, 2009, TMMC established a retirement plan (the "Plan") adopted under the Internal Revenue Code Section 401(k) and covering substantially all eligible employees. TMMC may make discretionary matching contributions to the Plan. TMMC did not make any such contributions during the year ended September 30, 2017.

13. COMMITMENTS AND CONTINGENCIES

Cooperative agreement

TMMC occupies most of its land through license agreements, the largest of which is the seven-acre site in the Marin Headlands, Golden Gate National Recreation Area ("Marin Headlands"). In 2002, the National Park Service ("NPS") issued a memorandum regarding the imposition of service district charges on an annual basis. In August 2007, the NPS and TMMC finalized a twenty-five (25) year Cooperative Agreement (the "Agreement"), which requires TMMC to pay monthly service district charges to cover common area maintenance services. Monthly service district charges are determined upon obtaining a special use permit every year. The total service district charges were \$76,168 during the year ended September 30, 2017, with \$13,883 included in staff housing and rent expense.

The Marine Mammal Center
Notes to Financial Statements
September 30, 2017

13. COMMITMENTS AND CONTINGENCIES (continued)

Land license agreements

In 2001, TMMC entered into agreements with LSP Morro Bay, LLC (the "Morro Licensor") and LSP Moss Landing (the "Moss Licensor") to construct, operate and maintain two triage facilities for twenty (20) years commencing June 1, 2001. TMMC paid \$20 to each Licensor for the right to occupy the property where the triage facilities were constructed, and funded the property improvements included in the statement of financial position. TMMC shall also pay an annual licensor fee of \$1 per year to each licensor for occupancy. The Licensors reserve the right to terminate the agreements at any time during the term of the agreement, with or without cause and without obligation to TMMC, by having written notice delivered to TMMC ninety days prior to the termination date specified in the notice.

In 2007, the original Moss Licensor sold the Moss Landing property to Dynegy Moss Landing, LLC ("Dynegy"). The agreement with TMMC transferred with the sale of the property. The new Licensor is in the process of selling the property occupied by TMMC. Dynegy has not sold the property or terminated the occupancy agreement as of February 13, 2018. TMMC may recognize a loss if the license to occupy the property is terminated.

Operating leases

TMMC has one long-term operating lease with the Natural Energy Laboratory of Hawaii Authority ("NELHA") in Kona, Hawaii, where it constructed a healthcare facility for the Hawaiian monk seal. The lease has monthly payments of \$781 and current terms expire October 31, 2018. The lease has three remaining options to renew for five years per renewal option. Total rent expense under this long term lease was \$9,374 during the year ended September 30, 2017.

The scheduled minimum lease payments under the lease terms are as follows:

| <u>Year ending September 30,</u> | | | |
|----------------------------------|----|-----------|--|
| 2018 | \$ | 9,374 | |
| 2019 | | 781 | |
| | | 10,155 | |
| | | \$ 10,155 | |

The total staff housing and rent expense incurred by TMMC was \$195,856 for the year ended September 30, 2017, which includes rent expense for the NELHA operating lease, operating leases for staff housing held under monthly cancelable lease arrangements, and the utility expenses paid as part of the leasing agreements.

The Marine Mammal Center
Notes to Financial Statements
September 30, 2017

13. COMMITMENTS AND CONTINGENCIES (continued)

Contingent liabilities

TMMC's buildings, structures, pools, and current construction in progress are located on land that is not owned by TMMC. TMMC occupies the land through various agreements with government and private entities. Many of these agreements are subject to termination at any time and without cause. TMMC may recognize a loss of the net book value for buildings, structures, pools, and current construction in progress located on unowned property if occupancy agreements were terminated and TMMC was forced to relocate.