

The Marine Mammal Center

Financial Statements

September 30, 2015
(With Comparative Totals for 2014)



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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 nonprofit organization), which comprise the statement of financial position as of September 30, 2015, 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, 2015, 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

The Marine Mammal Center's 2014 financial statements were audited by other auditors, whose report dated March 3, 2015, expressed an unmodified opinion on those financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended September 30, 2014, is consistent, in all material respects, with the audited financial statements from which it has been derived.

ARMANINO^{LLP}

Armanino^{LLP}
San Ramon, California

March 3, 2016

THE MARINE MAMMAL CENTER
Statement of Financial Position
September 30, 2015
(With Comparative Totals for 2014)

ASSETS

	2015	2014
Current assets		
Cash and cash equivalents	\$ 6,146,600	\$ 5,738,961
Contributions and program service contracts receivable, current	1,685,152	1,330,349
Inventory	101,465	86,142
Prepaid expenses	225,711	81,035
Total current assets	8,158,928	7,236,487
Investments	2,184,656	1,479,824
Contributions and program service contracts receivable, net, noncurrent	-	284,624
Deposits	68,653	59,909
Property and equipment, net	27,833,298	28,398,143
Total assets	\$ 38,245,535	\$ 37,458,987

LIABILITIES AND NET ASSETS

Current liabilities		
Accounts payable	\$ 370,200	\$ 350,816
Retainage payable	-	68,700
Accrued liabilities	531,672	482,887
Deferred revenue	719,845	7,435
Total current liabilities	1,621,717	909,838
Net assets		
Unrestricted		
Undesignated	28,967,244	30,191,075
Board-designated	6,203,637	5,018,648
Total unrestricted net assets	35,170,881	35,209,723
Temporarily restricted	841,121	714,312
Permanently restricted	611,816	625,114
Total net assets	36,623,818	36,549,149
Total liabilities and net assets	\$ 38,245,535	\$ 37,458,987

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

THE MARINE MAMMAL CENTER
Statement of Activities
September 30, 2015
(With Comparative Totals for 2014)

	2015				Total	2014
	Unrestricted		Temporarily Restricted	Permanently Restricted		
	Undesignated	Board- Designated				
Support and revenues						
Contributions						
Foundations, corporations, government and individuals	\$ 4,640,913	\$ -	\$ 1,014,617	\$ -	\$ 5,655,530	\$ 5,082,666
Bequests	700,000	1,370,933	-	-	2,070,933	4,280,126
Donated materials and services	351,103	-	-	-	351,103	697,552
Total contributions	<u>5,692,016</u>	<u>1,370,933</u>	<u>1,014,617</u>	<u>-</u>	<u>8,077,566</u>	<u>10,060,344</u>
Revenues, gains and losses						
Veterinary science contracts	704,468	-	-	-	704,468	492,860
Store sales	615,945	-	-	-	615,945	505,908
Educational programs	246,029	-	-	-	246,029	210,169
Rent	98,551	-	-	-	98,551	88,094
Interest and dividends, net	61,006	15,271	4,901	3,016	84,194	56,554
Other	4,350	-	-	-	4,350	3,443
Unrealized and realized gain (loss) on investments and beneficial interest in perpetual trust, net	(19,168)	(19,813)	(4,901)	(11,610)	(55,492)	70,102
Loss on disposal of property and equipment	(102,426)	-	-	-	(102,426)	-
Total revenues, gains and losses	<u>1,608,755</u>	<u>(4,542)</u>	<u>-</u>	<u>(8,594)</u>	<u>1,595,619</u>	<u>1,427,130</u>
Net assets released from restrictions						
Satisfaction of program restrictions	<u>1,073,914</u>	<u>(181,402)</u>	<u>(887,808)</u>	<u>(4,704)</u>	<u>-</u>	<u>-</u>
Total support and revenues	<u>8,374,685</u>	<u>1,184,989</u>	<u>126,809</u>	<u>(13,298)</u>	<u>9,673,185</u>	<u>11,487,474</u>
Fundraising events						
Revenues from special events	142,710	-	-	-	142,710	185,928
Cost of special events	(84,902)	-	-	-	(84,902)	(136,811)
Net revenues from fundraising events	<u>57,808</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>57,808</u>	<u>49,117</u>
Total support, revenues and net revenues from fundraising events	<u>8,432,493</u>	<u>1,184,989</u>	<u>126,809</u>	<u>(13,298)</u>	<u>9,730,993</u>	<u>11,536,591</u>
Expenses						
Program services						
Veterinary science	5,428,946	-	-	-	5,428,946	4,564,675
Education	2,426,848	-	-	-	2,426,848	2,293,374
Fundraising	1,153,780	-	-	-	1,153,780	1,023,618
Management and general	646,750	-	-	-	646,750	497,455
Total expenses	<u>9,656,324</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>9,656,324</u>	<u>8,379,122</u>
Change in net assets	<u>(1,223,831)</u>	<u>1,184,989</u>	<u>126,809</u>	<u>(13,298)</u>	<u>74,669</u>	<u>3,157,469</u>
Net assets, beginning of year	<u>30,191,075</u>	<u>5,018,648</u>	<u>714,312</u>	<u>625,114</u>	<u>36,549,149</u>	<u>33,391,680</u>
Net assets, end of year	<u>\$ 28,967,244</u>	<u>\$ 6,203,637</u>	<u>\$ 841,121</u>	<u>\$ 611,816</u>	<u>\$ 36,623,818</u>	<u>\$ 36,549,149</u>

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

THE MARINE MAMMAL CENTER
Statement of Functional Expenses
September 30, 2015
(With Comparative Totals for 2014)

	2015				Total	2014
	Program Services			Management and General		
	Veterinary Science	Education	Fundraising	Management and General		
Salaries	\$ 1,807,339	\$ 849,821	\$ 639,821	\$ 327,662	\$ 3,624,643	\$ 2,919,799
Depreciation and amortization	1,085,716	332,501	8,936	26,808	1,453,961	1,365,994
Animal care costs	795,141	-	-	-	795,141	656,899
Professional services	255,898	84,896	39,752	124,215	504,761	356,373
Employee benefits	196,885	97,029	78,649	26,253	398,816	348,494
Donated materials and services	31,437	206,598	42,969	21,719	302,723	565,787
Utilities	252,423	15,640	322	1,589	269,974	236,804
Payroll taxes	137,128	62,741	47,118	20,484	267,471	218,224
Lettershop and database maintenance	-	85,985	163,313	-	249,298	281,876
Repairs and maintenance	179,230	55,124	1,719	5,171	241,244	142,170
Insurance	175,066	50,202	6,695	6,256	238,219	204,653
Cost of retail sales	-	226,679	-	-	226,679	192,273
Information technology	106,267	54,268	12,524	13,683	186,742	155,872
Rental and housing	152,197	31,393	-	-	183,590	159,106
Travel, conferences and training	103,572	18,075	8,608	13,333	143,588	89,752
Bank, merchant and investment fees	2,425	27,862	50,356	29,992	110,635	83,448
Volunteer and donor relations	30,031	11,916	29,810	1,938	73,695	51,092
Publications and postage	6,388	52,708	10,884	1,881	71,861	55,563
Supplies	23,085	36,417	3,440	3,069	66,011	66,656
Service district charges	37,390	20,276	632	1,902	60,200	60,200
Telephone	32,215	16,652	3,856	5,249	57,972	38,351
Outreach and marketing	-	38,076	-	-	38,076	32,656
Merchandising expenses	-	22,735	-	-	22,735	18,616
Payroll service	10,501	6,079	1,405	1,535	19,520	13,202
Other	15	10,711	-	6,917	17,643	35,668
Dues and subscriptions	2,079	10,747	1,649	2,698	17,173	13,313
Meetings	6,518	1,717	1,322	4,396	13,953	7,645
Interest expense	-	-	-	-	-	8,636
Total expenses	<u>\$ 5,428,946</u>	<u>\$ 2,426,848</u>	<u>\$ 1,153,780</u>	<u>\$ 646,750</u>	<u>\$ 9,656,324</u>	<u>\$ 8,379,122</u>

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

THE MARINE MAMMAL CENTER
Statement of Cash Flows
September 30, 2015
(With Comparative Totals for 2014)

	2015	2014
Cash flows from operating activities		
Change in net assets	\$ 74,669	\$ 3,157,469
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	1,453,961	1,365,994
Unrealized and realized (gain) loss on investments, net	55,492	(70,102)
Loss on disposal of property and equipment	102,426	-
In-kind contribution of vehicle and equipment	(48,380)	-
Change in operating assets and liabilities		
Contributions and program service contracts receivable, net	(70,179)	1,319,178
Inventory	(15,323)	(6,685)
Prepaid expenses	(144,676)	(17,011)
Deposits	(8,744)	2,993
Accounts payable	19,384	7,223
Accrued liabilities	48,785	(51,284)
Deferred revenue	712,410	7,435
Net cash provided by operating activities	2,179,825	5,715,210
Cash flows from investing activities		
Proceeds from sale of investments	198,380	71,367
Purchase of investments	(958,704)	(109,175)
Purchase of property and equipment	(1,011,862)	(1,654,810)
Net cash used in investing activities	(1,772,186)	(1,692,618)
Cash flows from financing activities		
Principal payments on long-term debt	-	(1,125,000)
Net cash used in financing activities	-	(1,125,000)
Net increase in cash and cash equivalents	407,639	2,897,592
Cash and cash equivalents, beginning of year	5,738,961	2,841,369
Cash and cash equivalents, end of year	\$ 6,146,600	\$ 5,738,961
<u>Supplemental disclosure of cash flow data</u>		
Cash paid for interest	\$ -	\$ 8,636

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

THE MARINE MAMMAL CENTER
Notes to Financial Statements
September 30, 2015

1. Organization and Nature of Activities

The Marine Mammal Center ("TMMC") is a California not-for-profit organization formed to rescue, rehabilitate and release sick and injured marine mammals that are stranded along the California coastline. TMMC is a world class hospital and education center. TMMC conducts scientific research in the fields of marine mammal medicine. In addition, TMMC educates thousands of children and adults through marine science education programs.

Programs

Veterinary Science Programs

Rescue and rehabilitation - TMMC's core work is the rescue and rehabilitation of sick and injured marine mammals, supported by state-of-the-art animal care and research facilities, a corps of more than 1,200 dedicated volunteers, and an engaged community. TMMC rescues and humanely treats ill, injured or orphaned marine mammals and returns healthy ones to the wild. Since 1975, TMMC responded to and treated over 20,500 elephant seals, sea lions, whales, sea otters, harbor seals, fur seals, dolphins, harbor porpoises and more, many from threatened and endangered species. In 2015, TMMC responded to and treated 1,842 marine mammals, more than twice TMMC's yearly average, and recorded more than 165,000 volunteer hours served, the highest in our 40 year history. This workforce value is estimated at approximately \$4.5 million.

Expand and advance scientific knowledge - TMMC partners with leading scientists and other professionals to learn from the patients in their care including healthy, endangered and at-risk populations and expand and advance scientific knowledge, thus enhancing understanding of the health of our oceans and highlighting implications for human health. In 2015, scientists at TMMC contributed 20 research papers to peer-reviewed journals and published a chapter in a Marine Mammal Science Textbook. In 2015, TMMC also hosted 35 visiting students and researchers from all over the world interested in learning from TMMC's world-class team of experts. TMMC's scientists contribute research papers to peer-reviewed journals, present at conferences, and host visiting students and researchers to share the knowledge acquired through TMMC's research program.

Education Programs

Disseminate knowledge - TMMC disseminates knowledge to members of the scientific community and general public. TMMC's objective is to inspire action and foster stewardship toward the care of our environment. Each year, TMMC engages more than 100,000 visitors to the Sausalito hospital. TMMC's education programs and events reach over 30,000 children and adults each year.

THE MARINE MAMMAL CENTER
Notes to Financial Statements
September 30, 2015

2. Summary of Significant Accounting Policies

Basis of accounting and 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:

- *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.
- *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.
- *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.

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 placements with original maturities of three months or less from dates of acquisition.

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.

THE MARINE MAMMAL CENTER
Notes to Financial Statements
September 30, 2015

2. Summary of Significant Accounting Policies (continued)

Contributions and contributions receivable (continued)

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. At September 30, 2015, management has determined that no allowance for uncollectible contributions was required. Promises that remain uncollected more than one year after their due dates are written off unless the donor indicates that payment is merely postponed.

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.

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, which consist primarily of investments in equities, 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.

THE MARINE MAMMAL CENTER
Notes to Financial Statements
September 30, 2015

2. Summary of Significant Accounting Policies (continued)

Investments (continued)

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.

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 technique for the year ended September 30, 2015.

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

- (a) 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. The mutual funds held are deemed to be actively traded.
- (b) 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.

THE MARINE MAMMAL CENTER
Notes to Financial Statements
September 30, 2015

2. Summary of Significant Accounting Policies (continued)

Beneficial interest 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.

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.

Deferred revenue

Deferred revenue includes funds received in advance for which TMMC has not performed the services necessary to earn the revenue. TMMC had unearned revenue of the following as of September 30, 2015:

Gala Event (Sea Lion Soirée)	\$444,133
Vaquita Survey	264,581
Education programs	<u>11,131</u>
	<u>\$719,845</u>

THE MARINE MAMMAL CENTER
Notes to Financial Statements
September 30, 2015

2. Summary of Significant Accounting Policies (continued)

Revenues

Store sales are recorded when products are sold to customers. Program service contracts and other revenues are recognized when earned.

Allocation of 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.

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, 2015, 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 2011 and 2010, 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.

THE MARINE MAMMAL CENTER
Notes to Financial Statements
September 30, 2015

2. Summary of Significant Accounting Policies (continued)

Risks 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.

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, 2014, from which the summarized information was derived.

Reclassification

Certain functional expense classifications in the prior year financial statements have been reclassified to conform to the current year presentation. In addition, certain reclassifications were made to the endowment funds disclosure (see Note 6). Such reclassifications had no effect on the previously reported change in net assets.

Subsequent events

TMMC has evaluated subsequent events through March 3, 2016, 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 and Program Service Contracts Receivable

Unconditional promises to give, which include amounts to be received in subsequent fiscal years, are reflected in the accompanying financial statements as contributions and program contract services receivable and contribution and revenue of the appropriate net asset category. There were \$1,685,152 receivables that are due and expected to be realized in less than one year. There were no conditional promises to give at September 30, 2015, other than TMMC being named as the beneficiary in several donors' wills.

THE MARINE MAMMAL CENTER
Notes to Financial Statements
September 30, 2015

4. Property and Equipment, Net

Property and equipment consisted of the following at September 30, 2015:

Buildings	\$18,139,275
Structures and pools	15,354,243
Medical and office equipment	2,039,932
Furniture and fixtures	1,621,217
Automobiles	459,583
Construction in progress	<u>151,507</u>
Total	37,765,757
Less accumulated depreciation and amortization	<u>(9,932,459)</u>
Property and equipment, net	<u>\$27,833,298</u>

Depreciation and amortization expense for the year ended September 30, 2015 was \$1,453,961.

5. Fair Value Measurements

Investments at September 30, 2015 consisted of the following:

Money funds	\$ 83,364
Equities	1,451,307
Fixed income funds	471,792
Strategic income opportunity fund	63,223
Other investments	3,154
Beneficial interest in perpetual trust	<u>111,816</u>
Total investments	<u>\$2,184,656</u>

THE MARINE MAMMAL CENTER
Notes to Financial Statements
September 30, 2015

5. Fair Value Measurements (continued)

The following table summarizes TMMC's financial assets measured at fair value on a recurring basis as of September 30, 2015:

<u>Items</u>	Level 1: Quoted Prices in Active Markets For Identical <u>Assets</u>	Level 2: Significant Other Observable <u>Inputs</u>	Level 3: Significant Unobservable <u>Inputs</u>	<u>Total</u>
Investments				
Money funds	\$ 83,364	\$ -	\$ -	\$ 83,364
Mutual Funds				
Equities	1,451,307	-	-	1,451,307
Fixed income funds	471,792	-	-	471,792
Strategic income opportunity fund	63,223	-	-	63,223
Other	<u>3,154</u>	<u>-</u>	<u>-</u>	<u>3,154</u>
	<u>1,989,476</u>	<u>-</u>	<u>-</u>	<u>1,989,476</u>
Beneficial interest in perpetual trust	<u>-</u>	<u>111,816</u>	<u>-</u>	<u>111,816</u>
Total	<u>\$2,072,840</u>	<u>\$111,816</u>	<u>\$ -</u>	<u>\$2,184,656</u>

The following schedule represents the investment return for the year ended September 30, 2015:

Net realized and unrealized loss	\$(55,492)
Interest and dividends, net	<u>84,194</u>
	<u>\$ 28,702</u>

6. Endowment Funds

TMMC's endowments, totaling \$611,816, consists of two 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 \$111,816 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.

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6. Endowment Funds (continued)

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.

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, the Board of Directors considers the following factors in making a determination to appropriate or accumulate endowment funds:

- The duration and preservation of the endowment fund;
- The purposes of TMMC and the donor-restricted endowment fund;
- General economic conditions;
- The possible effect of inflation and deflation;
- The expected total return from income and the appreciation of investments;
- Other resources of TMMC; and
- The investment policies of TMMC.

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6. Endowment Funds (continued)

Spending policy (continued)

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, 2015.

Investment policy, strategies, and objectives

TMMC had 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 7). 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>Asset Category</u>	<u>Target</u>	<u>Minimum</u>	<u>Maximum</u>
Fixed income securities	40%	20%	60%
Equities	60%	40%	80%

Endowment funds by type of fund as of September 30, 2015 is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	<u>\$ (7,527)</u>	<u>\$ -</u>	<u>\$611,816</u>	<u>\$604,289</u>

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Notes to Financial Statements
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6. Endowment Funds (continued)

Investment policy, strategies, and objectives (continued)

The following summarizes changes in endowment funds for the fiscal year ended September 30, 2015:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment funds, beginning of year	\$797,068	\$ 57,642	\$625,114	\$1,479,824
Reclassified out of endowment funds	(797,068)	(57,642)	-	(854,710)
Program activities				
Net gains (losses)	(12,231)	(4,901)	(11,610)	(28,742)
Interest and dividends	<u>-</u>	<u>4,901</u>	<u>3,016</u>	<u>7,917</u>
Total investment return	(12,231)	-	(8,594)	(20,825)
Released from restrictions	<u>4,704</u>	<u>-</u>	<u>(4,704)</u>	<u>-</u>
Endowment funds, end of year	<u>\$ (7,527)</u>	<u>\$ -</u>	<u>\$611,816</u>	<u>\$ 604,289</u>

The amounts reclassified out of endowment funds reflect unrestricted board-designated investments and temporarily restricted net assets that were improperly classified as endowment funds in the prior year financial statements. The reclassifications out of endowment funds do not affect the classification of net assets as of September 30, 2015 and 2014.

The reclassified unrestricted net assets were board-designed investments set aside to meet unfunded and unexpected cash flow needs and to promote public and donor confidence in the long-term sustainability of TMMC and are included in unrestricted board-designated net assets in the statement of activities.

The reclassified temporarily restricted net assets were donor restricted as an El Niño Emergency Fund and are included in temporarily restricted net assets in the statement of activities.

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.

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Notes to Financial Statements
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6. Endowment Funds (continued)

Investment policy, strategies, and objectives (continued)

The following is a summary of the activities in the endowment fund, recorded on the books of the Marin Community Foundation, during the year ended September 30, 2015:

Beginning balance	\$1,078,463
Net loss	(36,160)
Interest and dividends	14,487
Investment fees	(2,511)
Administrative fees	(4,847)
Distributions	<u>(48,466)</u>
Ending balance	<u>\$1,000,966</u>

7. Unrestricted - Board-Designated 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 at least 25% of current annual operating expense (excluding non-cash depreciation and donated materials and services expense) in short-term operating reserves, with a target to increase this to 50% over time. 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 target asset allocations consistent with the investment objectives for the short-term and long-term operating reserves, respectively:

<u>Asset Category</u>	<u>Target</u>	<u>Minimum</u>	<u>Maximum</u>
Short-term operating reserves			
Cash and cash equivalents	25%	25%	100%
Fixed income securities	75%	0%	75%
Long-term operating reserves			
Fixed income securities	25%	15%	40%
Equities	75%	60%	85%

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7. Unrestricted - Board-Designated Net Assets (continued)

Reserve funds were allocated as follows as of September 30, 2015:

Short-term operating reserves	\$3,500,000
Long-term operating reserves	<u>2,703,637</u>
	<u>\$6,203,637</u>

8. Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are available for the following purposes as of September 30, 2015:

Purpose restrictions	
Capital campaigns	\$314,302
Operating programs	
Veterinary science	262,452
Education	176,725
Supporting services	30,000
El Niño Emergency Fund	<u>57,642</u>
	<u>\$841,121</u>

During the fiscal year ended September 30, 2015, temporarily restricted net assets were released from donor restrictions by satisfying purposes specified by donors as follows:

Purpose restrictions accomplished	
Capital campaigns	\$ 41,895
Operating programs	
Veterinary science	465,407
Education	373,506
Supporting services	<u>7,000</u>
	<u>\$887,808</u>

TMMC has an on-going capital campaign to raise funds for the construction of an Intensive Care and Quarantine Facility in Sausalito, California. The construction commenced during November 2015.

Permanently restricted net assets consisted of the following as of September 30, 2015:

Hughes Foundation	\$500,000
Spencer Fund	<u>111,816</u>
	<u>\$611,816</u>

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Notes to Financial Statements
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8. Temporarily and Permanently Restricted Net Assets (continued)

The \$4,704 of permanently restricted net assets released from donor restrictions represents the amount distributed out of the Spencer Fund.

9. Donated Materials and Services

The value of donated materials and services included in the accompanying financial statements during the year ended September 30, 2015 are as follows:

Advertising and public relations	\$211,773
Supplies and materials	37,733
Property and equipment	48,380
Legal and other services	<u>62,458</u>
	<u>\$360,344</u>

Donated materials and services of \$9,241 related to fundraising events were included in the revenues and costs of special events in the statement of activities.

In addition, the following volunteer service hours, valued using the Bureau of Labor Statistics' value of volunteer time for the State of California and estimated at approximately \$4,486,000, were provided during the year ended September 30, 2015:

	<u>Hours</u>
Animal care	92,110
Animal rescue	46,080
Education	10,252
Other	<u>18,501</u>
	<u>166,943</u>

10. Concentration of Risk

Approximately 61% of net contributions and program service contracts receivable are comprised of amounts from four sources, three major donors and one service contract, as of September 30, 2015. Approximately 19% of total contribution revenues is comprised of amounts from one donor for the year ending September 30, 2015.

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11. 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, 2015.

12. Commitments and Contingencies

Cooperative agreement

TMMC occupies most of their 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 \$74,492 during the year ended September 30, 2015, with \$14,292 included in rent and housing.

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, 2015.

Future minimum rental payments under the operating lease as of September 30, 2015 are as follows:

<u>Year Ending September 30</u>	
2016	\$ 9,374
2017	9,374
2018	9,374
2019	<u>781</u>
Total minimum future rent payments	<u>\$28,903</u>

The total rental expense incurred by TMMC was \$183,590 for the year ended September 30, 2015. The rental expense includes the utility expenses paid as part of the leasing agreements.

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12. Commitments and Contingencies (continued)

Land license agreements

TMMC's license agreement to occupy the Marin Headlands is renewed annually through a permit, currently approved at \$75,320 for the year ended September 30, 2016, due in quarterly installments. TMMC paid \$74,488 for permit fees during the year ended September 30, 2015.

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 March 3, 2016. TMMC may recognize a loss if the license to occupy the property is terminated.

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.