

The Marine Mammal Center

Financial Statements

September 30, 2016
(With Comparative Totals for 2015)



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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 California nonprofit corporation) ("TMMC"), which comprise the statement of financial position as of September 30, 2016, 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 (the "U.S."); 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 U.S. 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, 2016, 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 U.S.

Report on Summarized Comparative Information

We have previously audited The Marine Mammal Center's 2015 financial statements, and our report dated March 3, 2016 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, 2015, 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 9, 2017

The Marine Mammal Center
Statement of Financial Position
September 30, 2016
(With Comparative Totals for 2015)

	2016	2015
ASSETS		
Current assets		
Cash	\$ 5,255,522	\$ 5,977,583
Restricted cash	368,549	169,017
Accounts receivable	113,102	625,905
Contributions receivable	729,728	1,059,247
Inventory	101,822	101,465
Prepaid and other current assets	227,358	225,711
Total current assets	6,796,081	8,158,928
Property and equipment, net	28,725,537	27,833,298
Other assets		
Long-term investments	4,712,783	2,184,656
Contributions receivable, net of current portion	128,500	-
Deposits	89,957	68,653
Total other assets	4,931,240	2,253,309
Total assets	\$ 40,452,858	\$ 38,245,535
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable	\$ 437,882	\$ 370,200
Accrued expenses	593,336	531,672
Current portion of capital lease obligations	23,223	-
Deferred revenue	8,553	719,845
Total current liabilities	1,062,994	1,621,717
Capital lease obligations, net of current portion	43,713	-
Total liabilities	1,106,707	1,621,717
Net assets		
Unrestricted		
Undesignated	29,906,175	28,967,244
Board-designated	8,421,712	6,203,637
Total unrestricted	38,327,887	35,170,881
Temporarily restricted	400,030	841,121
Permanently restricted	618,234	611,816
Total net assets	39,346,151	36,623,818
Total liabilities and net assets	\$ 40,452,858	\$ 38,245,535

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

The Marine Mammal Center
Statement of Activities
For the Year Ended September 30, 2016
(With Comparative Totals for 2015)

	Unrestricted		Temporarily Restricted	Permanently Restricted	2016 Total	2015 Total
	Undesignated	Board - Designated				
Support and revenues						
Support						
Contributions and grants	\$ 5,927,161	\$ -	\$ 1,766,635	\$ -	\$ 7,693,796	\$ 5,703,996
Bequests	700,000	2,222,829	-	-	2,922,829	2,070,933
Special events, net	500,085	-	-	-	500,085	57,808
Donated materials and services	237,552	-	-	-	237,552	351,103
Total support	<u>7,364,798</u>	<u>2,222,829</u>	<u>1,766,635</u>	<u>-</u>	<u>11,354,262</u>	<u>8,183,840</u>
Revenues, gains and losses						
Veterinary science contracts	631,317	-	-	-	631,317	704,468
Retail store sales, net	391,645	-	-	-	391,645	389,266
Education programs	250,685	-	-	-	250,685	246,029
Rent	121,222	-	-	-	121,222	98,551
Interest and dividends, net	56,495	58,187	32,749	1,127	148,558	35,728
Other	1,025	-	-	-	1,025	4,350
Unrealized and realized gain (loss) on investments, net	132,801	25,893	16,669	7,803	183,166	(55,492)
Loss on disposal of property and equipment	(93,150)	-	-	-	(93,150)	(102,426)
Net assets released from restriction	2,348,490	(88,834)	(2,257,144)	(2,512)	-	-
Total revenues, gains and losses	<u>3,840,530</u>	<u>(4,754)</u>	<u>(2,207,726)</u>	<u>6,418</u>	<u>1,634,468</u>	<u>1,320,474</u>
Total support and revenues	<u>11,205,328</u>	<u>2,218,075</u>	<u>(441,091)</u>	<u>6,418</u>	<u>12,988,730</u>	<u>9,504,314</u>
Functional expenses						
Program services						
Veterinary science	6,006,619	-	-	-	6,006,619	5,428,946
Education	2,287,520	-	-	-	2,287,520	2,200,169
Total program services	8,294,139	-	-	-	8,294,139	7,629,115
Fundraising	1,330,043	-	-	-	1,330,043	1,153,780
Management and general	642,215	-	-	-	642,215	646,750
Total functional expenses	<u>10,266,397</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>10,266,397</u>	<u>9,429,645</u>
Change in net assets	938,931	2,218,075	(441,091)	6,418	2,722,333	74,669
Net assets, beginning 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>
Net assets, end 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>

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, 2016
(With Comparative Totals for 2015)

	<u>Program Services</u>		<u>Support Services</u>		<u>2016 Total</u>	<u>2015 Total</u>
	<u>Veterinary science</u>	<u>Education</u>	<u>Fundraising</u>	<u>Management and general</u>		
Salaries	\$ 1,952,148	\$ 945,210	\$ 723,173	\$ 367,171	\$ 3,987,702	\$ 3,624,643
Depreciation and amortization	1,249,302	390,809	10,503	31,509	1,682,123	1,453,961
Animal care costs	1,060,409	6,490	-	-	1,066,899	725,889
Employee benefits	210,349	117,714	78,618	27,531	434,212	398,816
Professional services	217,803	48,701	24,637	56,834	347,975	504,761
Payroll taxes	147,886	70,170	52,934	22,892	293,882	267,471
Utilities	244,141	18,256	518	1,737	264,652	269,974
Lettershop and acknowledgements	-	85,247	158,798	-	244,045	249,298
Donated materials and services	22,773	176,097	33,512	5,170	237,552	302,723
Information technology	120,494	44,877	38,427	11,250	215,048	186,742
Insurance	154,764	45,854	5,911	5,381	211,910	238,219
Repairs and maintenance	132,016	49,481	1,543	4,643	187,683	241,244
Staff housing and rent	145,084	33,604	-	-	178,688	183,590
Bank charges	4,113	31,309	60,805	63,675	159,902	110,635
Travel, conference and training	93,912	35,355	4,379	15,183	148,829	143,588
Supplies	87,035	52,036	6,620	3,022	148,713	145,974
Volunteer and donor relations	43,936	2,419	85,791	2,002	134,148	73,695
Telephone	39,077	12,039	11,084	5,122	67,322	57,972
Services district charges	37,805	20,500	639	1,923	60,867	60,200
Postage and publications	10,926	22,702	23,874	2,478	59,980	71,861
Outreach and marketing	-	45,067	-	-	45,067	38,076
Payroll services	15,087	6,150	5,375	1,537	28,149	19,520
Merchandising expense	-	23,128	-	-	23,128	22,735
Meetings	13,458	478	-	5,747	19,683	13,953
Dues and subscriptions	3,217	3,767	2,877	3,675	13,536	17,173
Other	884	60	25	3,733	4,702	6,932
	<u>\$ 6,006,619</u>	<u>\$ 2,287,520</u>	<u>\$ 1,330,043</u>	<u>\$ 642,215</u>	<u>\$10,266,397</u>	<u>\$ 9,429,645</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, 2016
(With Comparative Totals for 2015)

	<u>2016</u>	<u>2015</u>
Cash flows from operating activities		
Change in net assets	\$ 2,722,333	\$ 74,669
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	1,682,123	1,453,961
Unrealized and realized (gain) loss on investments, net	(183,166)	55,492
Loss on disposal of property and equipment	93,150	102,426
In-kind contribution of vehicle and equipment	-	(48,380)
Changes in operating assets and liabilities		
Accounts receivable	512,803	(519,682)
Contributions receivable	201,019	449,503
Inventory	(357)	(15,323)
Prepaid and other current assets	(1,647)	(144,676)
Deposits	(21,304)	(8,744)
Accounts payable	67,682	19,384
Accrued expenses	61,664	48,785
Deferred revenue	(711,292)	712,410
Net cash provided by operating activities	<u>4,423,008</u>	<u>2,179,825</u>
Cash flows from investing activities		
Proceeds from sale of investments	760,336	198,380
Purchase of investments	(3,105,297)	(958,704)
Purchase of property and equipment	(2,593,787)	(1,011,862)
Net cash used in investing activities	<u>(4,938,748)</u>	<u>(1,772,186)</u>
Cash flows from financing activities		
Change in restricted cash	(199,532)	(169,017)
Principal payments on capital lease obligations	(6,789)	-
Net cash used in financing activities	<u>(206,321)</u>	<u>(169,017)</u>
Net increase (decrease) in cash and cash equivalents	(722,061)	238,622
Cash and cash equivalents, beginning of year	<u>5,977,583</u>	<u>5,738,961</u>
Cash and cash equivalents, end of year	<u>\$ 5,255,522</u>	<u>\$ 5,977,583</u>

Supplemental disclosure of cash flow information

Cash paid during the year interest	\$ 184	\$ -
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Supplemental schedule of noncash investing and financing activities

Property and equipment acquired with capital lease financing	\$ 73,725	\$ -
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The accompanying notes are an integral part of these financial statements.

The Marine Mammal Center
Notes to Financial Statements
September 30, 2016

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. At all times, TMMC operates under the following values: modeling the highest standards of animal care and welfare; pursuing rigorous science and committing to scientific integrity; and encouraging innovation, collaboration and teamwork.

Programs

- *Rescue and rehabilitation* - TMMC rescues and rehabilitates sick and injured marine mammals at its state-of-the-art veterinary facilities by engaging a dedicated workforce and a supportive community. Since 1975, TMMC has responded to and treated more than 22,000 elephant seals, sea lions, whales, sea otters, harbor seals, fur seals, dolphins, harbor porpoises and more, many from threatened and endangered species. In 2016, TMMC responded to and treated nearly 1,000 marine mammals, including a record number of northern elephant seals. TMMC's workforce includes more than 1,200 volunteers who recorded more than 165,000 volunteer hours served in 2016, an estimated workforce value of almost \$4.5 million.
- *Scientific research* - TMMC learns from the patients in its care and contributes to scientific understanding of the changing health of our ocean, taking action to address ocean threats and save endangered species. In 2016, scientists at TMMC contributed 16 research papers to peer-reviewed journals and hosted 40 visiting students and researchers from all over the world interested in learning from TMMC's world-class team of experts.
- *Education* - TMMC leads as a teaching hospital by training veterinary professionals locally and internationally, and inspiring future ocean stewards through innovative school and public education programs. In 2016, TMMC engaged more than 120,000 children and adults as visitors at the Sausalito hospital as well as through outreach programs and community events in California and Hawaii.

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.

The Marine Mammal Center
Notes to Financial Statements
September 30, 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of accounting and financial statement presentation (continued)

- *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.

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, 2016 as all accounts are considered collectable.

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, 2016

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. 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, 2016, management has determined that no allowance for uncollectible contributions was required, as all balances are considered fully collectible. In addition, as the present value of the contributions to be received after one year approximate the carrying value, a discount has not been provided.

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, 2016

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, 2016.

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. The mutual funds 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.

The Marine Mammal Center
Notes to Financial Statements
September 30, 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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, 2016.

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 \$8,553 as of September 30, 2016.

Revenue recognition

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

The Marine Mammal Center
Notes to Financial Statements
September 30, 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Special events, net

Special event revenue is presented on the statement of activities net of event related expense. For the year ended September 30, 2016, revenue from special events was \$1,093,802 and the related cost of special events was \$593,717.

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, 2016, revenue from store sales was \$618,237 and the related product cost was \$226,592.

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, 2016, 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 2012 and 2011, 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.

The Marine Mammal Center
Notes to Financial Statements
September 30, 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Use of estimates (continued)

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.

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, 2015, from which the summarized information was derived.

Reclassification

Certain amounts in the prior year financial statements have been reclassified to conform to the current year presentation. Such reclassifications had no effect on the previously reported change in net assets.

Subsequent events

TMMC has evaluated subsequent events through February 9, 2017, 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.

The Marine Mammal Center
Notes to Financial Statements
September 30, 2016

3. PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

Buildings	\$ 18,191,267
Structures and pools	17,433,863
Medical and office equipment	2,299,966
Furniture and fixtures	1,756,572
Vehicles	516,025
Construction in progress	<u>75,665</u>
	40,273,358
Accumulated depreciation	<u>(11,547,821)</u>
	<u>\$ 28,725,537</u>

Depreciation and amortization expense for the year ended September 30, 2016 was \$1,682,123.

4. CAPITAL LEASE OBLIGATIONS

During 2016, TMMC entered into a capital lease agreement to finance the acquisition of capital equipment valued at \$73,725 based upon the present value of future minimum lease payments. The capital lease agreement requires monthly payments of \$2,132, including interest at 2.64%, and expires in June 2019. As of September 30, 2016, TMMC had outstanding borrowings of \$66,936 relating to this capital lease agreement.

Future maturities of capital lease obligations are as follows:

Year ending September 30,

2017	\$ 25,588
2018	25,588
2019	<u>18,325</u>
	69,501
Imputed interest	<u>(2,565)</u>
Present value of minimum lease payments	66,936
Current portion	<u>(23,223)</u>
	<u>\$ 43,713</u>

The Marine Mammal Center
Notes to Financial Statements
September 30, 2016

5. INVESTMENTS AND FAIR VALUE MEASUREMENTS

The following table lists the components of the investments and set forth by level, within the fair value hierarchy, the TMMC assets at fair value as of September 30, 2016:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Money market funds	\$ 134,250	\$ -	\$ -	\$ 134,250
Equity mutual funds	3,303,592	-	-	3,303,592
Fixed income funds	1,078,794	-	-	1,078,794
Other investment mutual funds	77,913	-	-	77,913
Investments held in trust	<u>-</u>	<u>118,234</u>	<u>-</u>	<u>118,234</u>
	<u>\$ 4,594,549</u>	<u>\$ 118,234</u>	<u>\$ -</u>	<u>\$ 4,712,783</u>

6. ENDOWMENT

TMMC's endowments, totaling \$618,234, 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 \$118,234 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
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6. 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, 2016.

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6. 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, 2016 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>618,234</u>	\$ <u>618,234</u>

Changes in endowment net assets for the fiscal year ended September 30, 2016 is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Balance, September 30, 2015	\$ <u>(7,527)</u>	\$ <u>-</u>	\$ <u>611,816</u>	\$ <u>604,289</u>
Investment return				
Net gains (losses)	-	16,669	7,803	24,472
Interest and dividends	-	<u>32,749</u>	<u>1,127</u>	<u>33,876</u>
Total investment return	-	49,418	8,930	58,348
Appropriation of endowment assets for expenditure	<u>7,527</u>	<u>(49,418)</u>	<u>(2,512)</u>	<u>(44,403)</u>
Balance, September 30, 2016	\$ <u>-</u>	\$ <u>-</u>	\$ <u>618,234</u>	\$ <u>618,234</u>

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Notes to Financial Statements
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6. 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.

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

Balance, beginning of year	\$ 1,000,966
Net income	69,750
Interest and dividends	11,942
Investment fees	(3,080)
Administrative fees	(5,376)
Distributions	<u>(86,137)</u>
Balance, end of year	<u>\$ 988,065</u>

7. 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 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 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 %

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7. UNRESTRICTED NET ASSETS (continued)

Reserve funds were allocated as follows:

Short-term operating reserves	\$ 4,200,000
Long-term operating reserves	<u>4,221,712</u>
	<u><u>\$ 8,421,712</u></u>

8. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consist of the following:

Veterinary science	\$ 73,638
Education	318,750
El Niño Emergency Fund	<u>57,642</u>
	<u><u>\$ 450,030</u></u>

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

Capital campaigns	\$ 1,145,720
Veterinary science	588,449
Education	492,975
Supporting services	<u>30,000</u>
	<u><u>\$ 2,257,144</u></u>

TMMC had a capital campaign to raise funds for the construction of an Intensive Care and Quarantine Facility in Sausalito, California. The construction commenced during November 2015 and was completed in September 2016.

TMMC received a conditional contribution in the amount of \$150,000 during the year ended September 30, 2014, with payment contingent upon beginning the construction of the Intensive Care and Quarantine Facility by December 31, 2015. TMMC recognized the contribution during the year ended September 30, 2016, upon meeting the requirements specified by the donor.

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9. DONATED MATERIALS AND SERVICES

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

Advertising and public relations	\$ 166,126
Supplies and materials	18,267
Gala	66,276
Legal and other services	<u>53,159</u>
	<u>\$ 303,828</u>

Donated materials and services of \$66,276 related to fundraising events were included in the revenues and costs of special events in the statement of activities.

In addition, volunteer service hours were valued using the Bureau of Labor Statistics' value of volunteer time for the State of California and estimated at approximately \$4,480,000.

Volunteer services hours during the year were as follows:

Animal care	90,830
Animal rescue	50,747
Education	9,482
Other	<u>15,669</u>
	<u>166,728</u>

10. CONCENTRATIONS

As of September 30, 2016, approximately 70% of total accounts receivable are comprised of amounts from one service contract and approximately 77% of total contributions receivable are comprised of amounts from five donors. Approximately 13% of total contribution revenue and approximately 10% of total bequest revenue is comprised of amounts from one donor, respectively, for the year ending September 30, 2016.

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, 2016.

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12. 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 \$75,159 during the year ended September 30, 2016, with \$14,292 included in staff housing and rent expense.

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 January 30, 2017. 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, 2016.

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12. COMMITMENTS AND CONTINGENCIES (continued)

Operating leases (continued)

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

Year ending September 30,

2017	\$	9,374
2018		9,374
2019		<u>781</u>
	\$	<u>19,529</u>

The total staff housing and rent expense incurred by TMMC was \$178,688 for the year ended September 30, 2016, 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.

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.