

SEATTLE AQUARIUM

Financial Statements

For the Year Ended December 31, 2011

Table of Contents

	<i>Page</i>
Independent Auditors' Report	1
Financial Statements:	
Balance Sheet	2
Statement of Activities and Changes in Net Assets	3
Statement of Functional Expenses	4
Statement of Cash Flows	5
Notes to Financial Statements	6 - 12

Independent Auditors' Report***Board of Directors
Seattle Aquarium Society
Seattle, Washington***Certified Public
Accountants
and Consultants

We have audited the accompanying balance sheet of Seattle Aquarium Society (dba Seattle Aquarium, herein referred to as the "Aquarium") as of December 31, 2011, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of the management of the Aquarium. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the Aquarium's 2010 financial statements and, in our report dated March 31, 2011, we expressed an unqualified opinion on those financial statements.

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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Aquarium as of December 31, 2011, and changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Certified Public Accountants
May 23, 2012

SEATTLE AQUARIUM

Balance Sheet

December 31, 2011

(With Comparative Totals for 2010)

	<u>2011</u>	<u>2010</u>
Assets		
Current Assets:		
Cash and cash equivalents	\$ 1,490,071	\$ 1,586,300
Accounts receivable	289,975	129,634
Current portion of grants and contributions receivable (Note 4)	717,711	1,371,585
Investments (Note 3)	4,219,821	4,421,677
Prepaid expenses	113,090	72,817
Total Current Assets	6,830,668	7,582,013
Long-term portion of grants and contributions receivable (Note 4)	204,573	198,007
Property and equipment, net (Note 5)	717,800	1,044,906
Total Assets	\$ 7,753,041	\$ 8,824,926
Liabilities and Net Assets		
Current Liabilities:		
Accounts payable	\$ 969,740	\$ 643,410
Accrued expenses	311,928	281,372
Current portion of leasehold financing (Note 6)	625,000	410,000
Total Current Liabilities	1,906,668	1,334,782
Leasehold financing, net of current portion (Note 6)	3,600,000	4,225,000
Total Liabilities	5,506,668	5,559,782
Net Assets:		
Unrestricted	987,912	960,735
Temporarily restricted (Note 10)	1,258,461	2,304,409
Total Net Assets	2,246,373	3,265,144
Total Liabilities and Net Assets	\$ 7,753,041	\$ 8,824,926

See accompanying notes.

SEATTLE AQUARIUM

Statement of Activities and Changes in Net Assets For the Year Ended December 31, 2011 (With Comparative Totals for 2010)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>2011 Total</u>	<u>2010 Total</u>
Operating Activities				
Revenues:				
Admissions	\$ 7,978,167	\$ -	\$ 7,978,167	\$ 3,898,235
Membership	1,223,925		1,223,925	786,684
Concessions (Note 11)	943,244		943,244	849,094
Contributions and grants	457,719	417,232	874,951	1,493,582
Special events, net of \$577,679 (2010-\$662,620) of expenses	404,795		404,795	483,196
Investment income	26,026		26,026	25,006
Other income	144,524		144,524	40,413
Restricted net assets released from restrictions	1,463,180	(1,463,180)		
Total Revenues	12,641,580	(1,045,948)	11,595,632	7,576,210
Expenses:				
Program	10,855,751		10,855,751	7,113,356
Management and general	1,107,244		1,107,244	873,153
Fundraising	651,408		651,408	264,587
Total Expenses	12,614,403		12,614,403	8,251,096
Change in Net Assets from Operating Activities	27,177	(1,045,948)	(1,018,771)	(674,886)
Nonoperating Activities				
Cash contribution received from City of Seattle (Note 2)				295,891
Personal property and equipment received from City of Seattle (Note 2)				1,081,524
Transition expenses (Note 2)				(275,069)
Loss on New Currents contributions receivable (Note 4)				(164,056)
Change in Net Assets from Nonoperating Activities				938,290
Total Change in Net Assets	27,177	(1,045,948)	(1,018,771)	263,404
Net assets, beginning of year	960,735	2,304,409	3,265,144	3,001,740
Net Assets, End of Year	\$ 987,912	\$ 1,258,461	\$ 2,246,373	\$ 3,265,144

See accompanying notes.

SEATTLE AQUARIUM

Statement of Functional Expenses For the Year Ended December 31, 2011 (With Comparative Totals for 2010)

	<u>Program</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>2011 Total</u>	<u>2010 Total</u>
Personnel related expenses	\$ 6,798,442	\$ 548,202	\$ 417,901	\$ 7,764,545	\$ 4,578,269
Office expense	1,245,350	187,975	169,106	1,602,431	878,617
Professional fees	483,813	101,443	41,237	626,493	835,973
Animal and operating costs	500,500	31,584	623	532,707	655,552
Advertising	502,428			502,428	336,182
Depreciation and amortization	292,783	97,594		390,377	196,743
Interest expense	173,813	57,938		231,751	245,496
Concession payments to City of Seattle	183,156			183,156	182,406
Bank fees	142,395	21,013	10,680	174,088	93,896
Equipment	138,564	13,284		151,848	104,836
Facility expense	133,492	14,866		148,358	159,728
Computer expense	104,436	20,154	4,648	129,238	87,442
Travel	116,794	3,525	3,225	123,544	81,234
Bad debt expense	19,312	6,437		25,749	20,032
Meals and entertainment	12,346	963	1,541	14,850	6,806
Taxes	6,675	2,225		8,900	8,356
Miscellaneous expense	752	41	2,447	3,240	50,128
General and marketing support	700			700	4,469
Total Expenses	<u>\$10,855,751</u>	<u>\$ 1,107,244</u>	<u>\$ 651,408</u>	<u>\$ 12,614,403</u>	<u>\$ 8,526,165</u>

See accompanying notes.

SEATTLE AQUARIUM

Statement of Cash Flows For the Year Ended December 31, 2011 (With Comparative Totals for 2010)

	<u>2011</u>	<u>2010</u>
Cash Flows from Operating Activities:		
Change in net assets	\$ (1,018,771)	\$ 263,404
Adjustments to reconcile change in net assets to net cash provided by operating activities-		
Depreciation and amortization	390,377	196,743
Donated property and equipment		(1,081,524)
Change in assets and liabilities:		
Accounts receivable	(160,341)	57,991
Grants and contributions receivable	647,308	277,199
Prepaid expenses	(40,273)	58,506
Accounts payable	326,330	87,579
Accrued expenses	30,556	173,221
Net Cash Provided by Operating Activities	175,186	33,119
Cash Flows from Investing Activities:		
Purchase of personal property and equipment	(63,271)	(121,968)
Proceeds from sale of investments	4,550,840	4,770,189
Purchase of investments	(4,348,984)	(4,314,187)
Net Cash Provided by Investing Activities	138,585	334,034
Cash Flows from Financing Activities:		
Payments on leasehold financing	(410,000)	(183,750)
Payments to retire capital lease obligation		(10,348)
Net Cash Used in Financing Activities	(410,000)	(194,098)
Net Change in Cash	(96,229)	173,055
Cash balance, beginning of year	1,586,300	1,413,245
Cash Balance, End of Year	\$ 1,490,071	\$ 1,586,300
Supplemental Disclosure of Cash Flow Information:		
Cash paid for interest	\$ 231,750	\$ 184,496

See accompanying notes.

SEATTLE AQUARIUM

Notes to Financial Statements For the Year Ended December 31, 2011

Note 1 - Organization and Summary of Significant Accounting Policies

Seattle Aquarium Society (dba Seattle Aquarium, herein referred to as the "Aquarium") is a nonprofit corporation whose primary purpose is to manage the day-to-day operations of the Seattle Aquarium on behalf of the City of Seattle ("the City"). In the Operations and Management Agreement ("the Agreement") executed on January 26, 2010, and made effective on July 1, 2010, the Aquarium and the City agreed to terms and conditions whereby the City continues to own the facility but overall management and supervision of the facility and the staff will be at the discretion of the nonprofit leadership and Board of Directors for an initial twenty-year term. As the timing of the effective date occurred at a point different than the fiscal year end date, the information reported as of December 31, 2010 reflects only a partial year of the fully combined operation. The information reported as of December 31, 2011 reflects a full year of combined operation.

Basis of Presentation - Net assets and revenues, expenses, and gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Aquarium and changes therein are classified and reported as follows:

Unrestricted Net Assets - Net assets that are not subject to donor-imposed stipulations.

Temporarily Restricted Net Assets - Net assets subject to donor-imposed stipulations that may or will be met either by actions of the Aquarium and/or the passage of time.

Permanently Restricted Net Assets - Net assets subject to donor-imposed stipulations that they be maintained permanently by the Aquarium. At December 31, 2011 and 2010, the Aquarium had no permanently restricted net assets.

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 investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation 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 reclassifications between the applicable classes of net assets.

Contributions of long-lived assets and contributions restricted to acquire long-lived assets are reported as temporarily restricted contributions and released from restriction ratably over the life of the asset.

Cash and Cash Equivalents - The Aquarium considers all cash accounts which are not subject to withdrawal restrictions or penalties, and all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents. The Aquarium holds cash that at times exceeds the Federal Deposit Insurance Corporation insurance limits.

Receivables - Receivables are stated at the amount management expects to collect. Management provides for probable uncollectible amounts through a charge to net assets and a credit to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to trade accounts receivable. Changes in the valuation allowance have not been material to the financial statements.

SEATTLE AQUARIUM

Notes to Financial Statements For the Year Ended December 31, 2011

Note 1 - Continued

Investments - Investments consist of cash equivalents and certificates of deposits. Investments in certificates of deposit are reported at original cost plus accrued interest.

Property and Equipment - Property and equipment are stated at cost if purchased or fair value if contributed. The Aquarium follows the practice of capitalizing all expenditures for property and equipment over \$5,000. Depreciation is provided on the straight-line basis over the estimated useful lives of the assets. The estimated useful lives for computer equipment, software, furniture and fixtures and other equipment are three to five years. The estimated useful lives for vehicles are five to ten years. The useful lives of exhibits and Aquarium improvements are equal to the term of the Agreement described in Note 2.

Donated Materials and Services - Donated services are recognized if the services create or enhance nonfinancial assets or require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Aquarium. Donated services and materials are reflected in the statement of activities and changes in net assets at their estimated fair value at the date of receipt of the service or gift.

Membership Revenue - Memberships are recorded as contributions and recognized as revenue when received.

Animal and Plant Collections - The costs of purchasing or collecting live animals and plants are expensed as incurred. Donated specimens are not valued and, therefore, are not reflected in the financial statements.

Advertising - The Aquarium expenses advertising as incurred. Advertising and marketing expenses totaled \$502,428 and \$336,182 for the years ended December 31, 2011 and 2010, respectively.

Federal Income Tax - The Aquarium has been notified by the Internal Revenue Service that it is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code, with the exception of income from any activities that are not related to the Aquarium's tax-exempt purpose. The Aquarium is also exempt from private foundation status under Section 509(a)(1) of the Internal Revenue Code. The Aquarium files income tax returns with the U.S. government. The Aquarium is subject to income tax examinations for the current year and certain prior years based on the applicable laws and regulations.

Operating and Nonoperating Activities - All activities are considered operating except for capital-related contributions, related gains and losses and expenses related to the transition.

Allocation of Functional Expenses - The costs of providing various programs and other activities have been summarized on a functional basis in the statement of activities and changes in net assets. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Program expenses are those expenses that directly correlate to maintaining a living collection of marine life representative of Puget Sound as well as our broader ocean environment in which the Aquarium endeavors to inspire all visitors within and without the facility to conserve.

Use of Estimates - The preparation of financial statements in conformity with generally accepted accounting principles 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.

SEATTLE AQUARIUM

Notes to Financial Statements For the Year Ended December 31, 2011

Note 1 - Continued

Summarized Information for 2010 - The financial statements include certain prior period summarized comparative information in total but not by net asset class. 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 the Aquarium's financial statements for the year ended December 31, 2010. Certain reclassifications have been made to the comparative presentation to correspond to the current year's format. Total net assets and change in net assets are unchanged due to these reclassifications.

Subsequent Events - The Aquarium has evaluated subsequent events through May 23, 2012, the date on which the financial statements were available to be issued and determined that no disclosure is required.

Note 2 - Operations and Management Agreement

The Seattle Aquarium Society entered into the Operations and Management Agreement (the "Agreement") with the City of Seattle's Superintendent of Parks and Recreation to operate and manage the Aquarium effective July 1, 2010 through June 30, 2030. The City of Seattle (the "City") will continue to own the aquarium building and will remain responsible for insurance and capital maintenance of the buildings and piers for the duration of the agreement. Under the Agreement, the Aquarium is responsible for funding a minimum of \$10,000,000 of new or refurbished exhibits or visitor amenities by June 30, 2030, with at least \$5,000,000 of expenditures occurring on or before June 30, 2020. The City's obligations under the Agreement includes funding \$8,000,000 of capital maintenance projects by December 31, 2015, together with such other capital maintenance as may be required to keep the aquarium building open and operating. Total expenditures incurred toward this commitment as of December 31, 2011 were \$98,665.

As part of the Agreement the Aquarium is committed to pay approximately \$180,000 annually to the City from the Aquarium's café and gift shop commission revenue through 2025. Payments to the City during 2011 and 2010 for this obligation totaled \$183,156 and \$182,406, respectively, and has been reported as program expenses in the statement of activities and changes in net assets.

During the year ended December 31, 2010, the Aquarium, in preparing to take over operation on July 1, 2010, expended \$275,069 in professional services to ready itself to handle matters of accounting, human resources and information technology. These expenses are now included within the general operation post July 1, 2010.

In accordance with the Agreement, on July 1, 2010, the City transferred ownership of the aquarium personal property, the animals, and the City's surplus cash from operations of the Aquarium. During the year ended December 31, 2010, the Aquarium reported nonoperating contributions of \$1,081,524 and \$295,891 for the contribution of the personal property and surplus cash, respectively. The Aquarium did not record a contribution in 2010 for the donation of the animals in accordance with the Aquarium's accounting policy for animal and plant collections described in Note 1.

SEATTLE AQUARIUM

Notes to Financial Statements For the Year Ended December 31, 2011

Note 3 - Investments

Investments consisted of the following at December 31:

	<u>2011</u>	<u>2010</u>
Certificates of deposit reported at cost plus accrued interest	\$ 4,219,821	\$ 4,420,304
Cash equivalents		<u>1,373</u>
Total Investments	<u>\$ 4,219,821</u>	<u>\$ 4,421,677</u>

Investment income totaled \$26,026 and \$25,006 for the years ended December 31, 2011 and 2010, respectively, and consisted primarily of interest income earned on the certificates of deposit.

Note 4 - Grants and Contributions Receivable

Grants and contributions receivable consisted of the following at December 31:

	<u>2011</u>	<u>2010</u>
Receivables due in less than one year	\$ 717,711	\$ 1,371,585
Receivables due in one to five years	<u>204,573</u>	<u>198,007</u>
Total Grants and Contributions Receivable	<u>\$ 922,284</u>	<u>\$ 1,569,592</u>

Contributions receivable includes amounts related to the New Currents capital campaign described in Note 6. During the years ended December 31, 2011 and 2010, \$0 and \$164,056, respectively, of the contributions receivable were written off as uncollectible. The remaining balance of New Currents reported as a receivable at December 31, 2011 and 2010 totaled \$95,417 and \$145,019, respectively.

SEATTLE AQUARIUM

Notes to Financial Statements For the Year Ended December 31, 2011

Note 5 - Property and Equipment

Property and equipment consisted of the following at December 31:

	<u>2011</u>	<u>2010</u>
Computer equipment	\$ 289,810	\$ 289,810
Point-of-sale equipment	72,190	72,190
Furniture, fixtures and other equipment	813,206	759,179
Vehicles	124,200	124,200
Exhibits and Aquarium improvements	<u>57,536</u>	<u>48,292</u>
	1,356,942	1,293,671
Less accumulated depreciation	<u>(639,142)</u>	<u>(248,765)</u>
Property and Equipment, Net	<u><u>\$ 717,800</u></u>	<u><u>\$ 1,044,906</u></u>

Note 6 - Leasehold Financing

In March 2005, the Aquarium and the City of Seattle (the "City") signed a Memorandum of Agreement (the "2005 MOA") in which both parties agreed to take a phased approach to renovating the existing Aquarium. The first phase under the 2005 MOA was named the New Currents Capital Campaign and consisted of significant improvements to the east end of the existing Aquarium building and overall Pier 59 support structure completed in June 2007. The Aquarium completed a capital fundraising campaign to fund part of the lease improvements but required a long-term liability to finance the work by the necessary completion date. This liability will be repaid with interest (annual rate of 3.80% at December 31, 2011 and 2010) in accordance with the repayment schedule summarized below:

For the Year Ending December 31,

2012	\$ 625,000
2013	900,000
2014	1,245,000
2015	<u>1,455,000</u>
Total Leasehold Financing Liability	<u><u>\$ 4,225,000</u></u>

Note 7 - Line of Credit

The Aquarium has an unsecured revolving line of credit with a bank in the amount of \$100,000. The line will be available to the Aquarium until November 5, 2012. Interest shall accrue on the unpaid outstanding principal balance of the credit at the greater of a floating rate equal to an index rate set by the bank plus 1% or the floor rate of 5%. As of December 31, 2011 and 2010, there were no draws on this line by the Aquarium.

SEATTLE AQUARIUM

Notes to Financial Statements For the Year Ended December 31, 2011

Note 8 - Lease Commitments

Office Space Operating Lease - The Aquarium is obligated under a lease agreement for office space in Seattle, Washington, which expires on December 31, 2017. Base monthly payments range from \$13,352 to \$15,943. Total rental expense was \$186,148 and \$120,384 for the years ended December 31, 2011 and 2010, respectively, which includes base monthly rents plus common area maintenance charges. Effective July, 2011, the Aquarium leased additional office space, increasing monthly rental payments \$1,764 beginning on March 1, 2012.

The minimum future rental commitment under the above operating lease is as follows:

For the Year Ending December 31,

2012	\$ 182,657
2013	191,771
2014	197,519
2015	203,442
2016	209,555
Thereafter	<u>215,840</u>
	<u>\$ 1,200,784</u>

Note 9 - Employee Related Commitments

Nonprofit Employees Retirement Plan - The Aquarium has established a defined contribution benefit plan under Internal Revenue Code Section 403(b) that covers all employees who are 21 years of age or older. Qualifying employees are immediately 100% vested in both the salary reduction amounts and any employer contributions or matching. For the first six months of 2010, the heritage plan provided for a discretionary employer contribution that is allocated to all participants based on their compensation. Effective July 1, 2010, the revised plan provides for an employer match of nonprofit employees voluntary contributions. The match is equal to 100% of the first 3% of compensation contributed and 1.5% of the next 3% contributed for a maximum match of 4.5% of the first 6% contributed. The Aquarium contributed a total of \$100,630 and \$40,796 to the plan for the years ended December 31, 2011 and 2010, respectively.

City of Seattle Employees - In accordance with the Agreement (described in Note 2) approximately 50% of the Aquarium's employees were employed by the City as of December 31, 2011 and 2010. These employees may remain City employees at the Aquarium under nonprofit supervision until December 31, 2014, after which all employees at the Aquarium will be nonprofit employees. As of December 31, 2010, five different labor unions represent twenty-three of these employees. As of December 31, 2011, the Aquarium has not executed any collective bargaining agreements with any union. The City employees continue to receive all rights, benefits and compensation afforded them by virtue of their employment with the City. The Aquarium reimburses the Parks Department of the City each month for the actual costs incurred in providing the above overall compensation to each City employee including the required employer contribution to the Seattle City Employees Retirement System ("SCERS").

SEATTLE AQUARIUM

Notes to Financial Statements For the Year Ended December 31, 2011

Note 10 - Temporarily Restricted Net Assets

Net assets were temporarily restricted for the following program purposes at December 31:

	<u>2011</u>	<u>2010</u>
Education	\$ 476,517	\$ 848,226
City of Seattle property	614,442	912,250
Aquarium general	69,131	423,817
Life sciences	27,091	21,972
Other programs	<u>71,280</u>	<u>98,144</u>
Total Temporarily Restricted Net Assets	<u><u>\$ 1,258,461</u></u>	<u><u>\$ 2,304,409</u></u>

Note 11 - Concessions Agreements

Sodexo Agreement - A ten year agreement was executed between Sodexo and the Aquarium on November 17, 2006, whereby Sodexo operates the café and catering business for the Aquarium, remitting commission revenue monthly to the Aquarium. Commissions are based on a percentage of gross receipts, as defined in the agreement and totaled \$415,314 and \$339,514 for the years ended December 31, 2011 and 2010, respectively. Sodexo has the right to terminate the agreement for convenience provided they issue the Aquarium 180 days written notice which would trigger the requirement for the Aquarium to repay Sodexo for the unamortized portion of their capital investment. This estimated remaining balance totals \$427,711 and \$571,000 at December 31, 2011 and 2010, respectively.

Event Network Agreement - A ten year agreement was executed between Event Network and the Aquarium on December 19, 2006, whereby Event Network operates the Aquarium gift store, remitting commission revenue monthly to the Aquarium. Commissions are based on a percentage of gross receipts, as defined in the agreement and totaled \$527,930 and \$509,580 for the years ended December 31, 2011 and 2010, respectively.

Note 12 - Taxes

The State of Washington Department of Revenue has initiated a routine excise tax audit of the Aquarium for a period of 18 months ended December 31, 2011, which is not yet complete. As the outcome is not known at this point, generally accepted accounting principles provide that the potential range for this "contingent loss" be disclosed. The range of loss could be any amount between \$0 and \$275,000.