

**Sea Research Foundation, Inc.
and Mystic Entertainment Company**

Index

| | <u>Page</u> |
|------------------------------------------------|-------------|
| Independent Auditor's Report | 2 |
| Consolidated Financial Statements | |
| Consolidated Statements of Financial Position | 4 |
| Consolidated Statements of Activities | 5 |
| Consolidated Statements of Functional Expenses | 7 |
| Consolidated Statements of Cash Flows | 9 |
| Notes to Consolidated Financial Statements | 10 |
| Supplementary Information | |
| Consolidating Statement of Financial Position | 24 |
| Consolidating Statement of Activities | 25 |

Independent Auditor's Report

To the Board of Directors
Sea Research Foundation, Inc. and Mystic Entertainment Company

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Sea Research Foundation, Inc. (a nonprofit entity) and Mystic Entertainment Company (a wholly-owned for profit subsidiary of Sea Research Foundation, Inc.), which comprise the consolidated statements of financial position as of December 31, 2015 and 2014, and the related consolidated statements of activities, functional expenses and cash flows for the years 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 consolidated 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 consolidated 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 consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Sea Research Foundation, Inc. and Mystic Entertainment Company as of December 31, 2015 and 2014, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Consolidating Information

Our audits were conducted for the purpose of forming an opinion on the 2015 consolidated financial statements as a whole. The consolidating information on pages 24 and 25 is presented for purposes of additional analysis of the 2015 consolidated financial statements rather than to present the financial position and results of operations of the individual companies, and is not a required part of the 2015 consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the 2015 consolidated financial statements. The consolidating information has been subjected to the auditing procedures applied in the audit of the 2015 consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the 2015 consolidated financial statements or to the 2015 consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidating information is fairly stated in all material respects in relation to the 2015 consolidated financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 28, 2016, on our consideration of Sea Research Foundation, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Sea Research Foundation, Inc.'s internal control over financial reporting and compliance.



Hartford, Connecticut
September 28, 2016

**Sea Research Foundation, Inc.
and Mystic Entertainment Company**

**Consolidated Statements of Financial Position
December 31, 2015 and 2014**

| | <u>Assets</u> | |
|---------------------------------------------------------|-----------------------------------|---------------|
| | 2015 | 2014 |
| Current assets | | |
| Cash and cash equivalents | \$ 1,089,976 | \$ 771,931 |
| Grants and contributions receivable | 245,469 | 303,361 |
| Accounts receivable | 301,052 | 317,281 |
| Prepaid expenses and other current assets | 354,409 | 409,791 |
| Pledges receivable, current portion | 376,486 | 389,665 |
| Total current assets | 2,367,392 | 2,192,029 |
| Noncurrent assets | | |
| Pledges receivable, net of discount and current portion | 279,142 | 298,567 |
| Investments | 423,543 | 454,626 |
| Deferred financing costs, net of amortization | 416,526 | 468,592 |
| Construction in progress | 490,320 | 533,571 |
| Property and equipment, net of accumulated depreciation | 32,463,300 | 35,300,889 |
| | \$ 36,440,223 | \$ 39,248,274 |
| | <u>Liabilities and Net Assets</u> | |
| Current liabilities | | |
| Accounts payable | \$ 2,176,429 | \$ 1,508,799 |
| Arbitration settlement | 1,077,000 | - |
| Line of credit | 550,000 | 300,000 |
| Notes payable, current portion | 195,961 | 185,174 |
| Deferred revenue and unearned membership fees | 1,564,321 | 1,744,774 |
| Accrued expenses | 615,672 | 626,737 |
| Capital lease obligations, current portion | 46,349 | 35,315 |
| Total current liabilities | 6,225,732 | 4,400,799 |
| Long-term liabilities | | |
| Notes payable, net of current portion | 12,204,483 | 12,400,443 |
| Interest rate swap agreement liability | 785,144 | 723,785 |
| Capital lease obligations, long-term | 148,551 | 152,406 |
| Total long-term liabilities | 13,138,178 | 13,276,634 |
| Total liabilities | 19,363,910 | 17,677,433 |
| Commitments | | |
| Net assets | | |
| Unrestricted | 16,090,061 | 20,639,190 |
| Temporarily restricted | 986,252 | 931,651 |
| Total net assets | 17,076,313 | 21,570,841 |
| | \$ 36,440,223 | \$ 39,248,274 |

See Notes to Consolidated Financial Statements.

**Sea Research Foundation, Inc.
and Mystic Entertainment Company**

**Consolidated Statement of Activities
Year Ended December 31, 2015
(with Comparative Totals for the Year Ended December 31, 2014)**

| | Unrestricted net assets | Temporarily restricted net assets | Totals | |
|-------------------------------------------------|----------------------------|-----------------------------------------|-------------------|-------------------|
| | | | 2015 | 2014 |
| Sea Research Foundation activities | | | | |
| Revenue from operations | | | | |
| Admissions | \$ 10,497,743 | \$ - | \$ 10,497,743 | \$ 9,817,651 |
| Memberships | 1,825,308 | - | 1,825,308 | 1,746,452 |
| Program income | 1,427,099 | - | 1,427,099 | 1,386,952 |
| Interest and dividends | 22,158 | - | 22,158 | 17,721 |
| Realized loss on investments | (1,951) | - | (1,951) | (95) |
| Grants and contracts - operations | 2,461,224 | 115,950 | 2,577,174 | 2,385,741 |
| Grants and contracts - capital | 175,000 | - | 175,000 | 50,000 |
| Contributions | 1,365,888 | 77,201 | 1,443,089 | 1,141,313 |
| Management fees and other revenue | 435,790 | - | 435,790 | 853,476 |
| Auxiliary operations | 2,247,218 | - | 2,247,218 | 2,147,145 |
| Net assets released from restriction | 138,550 | (138,550) | - | - |
| Total | 20,594,027 | 54,601 | 20,648,628 | 19,546,356 |
| Operating costs and expenses | | | | |
| Exhibits and husbandry | 9,160,540 | - | 9,160,540 | 8,710,898 |
| Education and research | 3,853,248 | - | 3,853,248 | 4,378,382 |
| Visitor services | 1,624,876 | - | 1,624,876 | 1,581,578 |
| General and administrative | 4,307,633 | - | 4,307,633 | 3,528,812 |
| Development | 1,111,810 | - | 1,111,810 | 819,524 |
| Marketing | 1,706,710 | - | 1,706,710 | 1,647,924 |
| Auxiliary operations | 551,635 | - | 551,635 | 515,721 |
| Ocean Exploration Center | 1,922,687 | - | 1,922,687 | 2,764,903 |
| Total | 24,239,139 | - | 24,239,139 | 23,947,742 |
| Deficiency from Foundation operations | (3,645,112) | 54,601 | (3,590,511) | (4,401,386) |
| Non-operating revenue and expenses | | | | |
| Arbitration settlement | (1,077,000) | - | (1,077,000) | - |
| Change in interest rate swap agreement | (61,359) | - | (61,359) | (655,980) |
| Gain on sale of land | - | - | - | 736,443 |
| Unrealized gains on investments | (20,871) | - | (20,871) | 7,999 |
| Change in net assets from Foundation activities | (4,804,342) | 54,601 | (4,749,741) | (4,312,924) |
| Mystic Entertainment activities | | | | |
| Operating revenue | 2,708,155 | - | 2,708,155 | 2,872,240 |
| Cost of goods sold | (1,253,800) | - | (1,253,800) | (1,340,523) |
| Net revenue | 1,454,355 | - | 1,454,355 | 1,531,717 |
| Operating expenses | (1,199,142) | - | (1,199,142) | (1,287,957) |
| Income from MEC activities | 255,213 | - | 255,213 | 243,760 |
| Non-operating income/expense | | | | |
| Debt forgiveness income | - | - | - | 577,711 |
| Interest expense | - | - | - | (95) |
| Net income | 255,213 | - | 255,213 | 821,376 |
| Change in net assets | (4,549,129) | 54,601 | (4,494,528) | (3,491,548) |
| Net assets, beginning of year | 20,639,190 | 931,651 | 21,570,841 | 25,062,389 |
| Net assets, end of year | \$ 16,090,061 | \$ 986,252 | \$ 17,076,313 | \$ 21,570,841 |

See Notes to Consolidated Financial Statements.

**Sea Research Foundation, Inc.
and Mystic Entertainment Company**

**Consolidated Statement of Activities
Year Ended December 31, 2014**

| | Unrestricted net assets | Temporarily restricted net assets | Total 2014 |
|-------------------------------------------------|----------------------------|-----------------------------------------|-------------------|
| Sea Research Foundation activities | | | |
| Revenue from operations | | | |
| Admissions | \$ 9,817,651 | \$ - | \$ 9,817,651 |
| Memberships | 1,746,452 | - | 1,746,452 |
| Program income | 1,386,952 | - | 1,386,952 |
| Interest and dividends | 17,721 | - | 17,721 |
| Realized loss on investments | (95) | - | (95) |
| Grants and contracts - operations | 2,171,264 | 214,477 | 2,385,741 |
| Grants and contracts - capital | 50,000 | - | 50,000 |
| Contributions | 835,201 | 306,112 | 1,141,313 |
| Management fees and other revenue | 853,476 | - | 853,476 |
| Auxiliary operations | 2,147,145 | - | 2,147,145 |
| Net assets released from restriction | 655,587 | (655,587) | - |
| Total | 19,681,354 | (134,998) | 19,546,356 |
| Operating costs and expenses | | | |
| Exhibits and husbandry | 8,710,898 | - | 8,710,898 |
| Education and research | 4,378,382 | - | 4,378,382 |
| Visitor services | 1,581,578 | - | 1,581,578 |
| General and administrative | 3,528,812 | - | 3,528,812 |
| Development | 819,524 | - | 819,524 |
| Marketing | 1,647,924 | - | 1,647,924 |
| Auxiliary operations | 515,721 | - | 515,721 |
| Ocean Exploration Center | 2,764,903 | - | 2,764,903 |
| Total | 23,947,742 | - | 23,947,742 |
| Deficiency from Foundation operations | (4,266,388) | (134,998) | (4,401,386) |
| Non-operating revenue and expenses | | | |
| Change in interest rate swap agreement | (655,980) | - | (655,980) |
| Gain on sale of land | 736,443 | - | 736,443 |
| Unrealized gains on investments | 7,999 | - | 7,999 |
| Change in net assets from Foundation activities | (4,177,926) | (134,998) | (4,312,924) |
| Mystic Entertainment activities | | | |
| Operating revenue | 2,872,240 | - | 2,872,240 |
| Cost of goods sold | (1,340,523) | - | (1,340,523) |
| Net revenue | 1,531,717 | - | 1,531,717 |
| Operating expenses | (1,287,957) | - | (1,287,957) |
| Income from MEC activities | 243,760 | - | 243,760 |
| Non-operating income/expense | | | |
| Debt forgiveness income | 577,711 | - | 577,711 |
| Interest expense | (95) | - | (95) |
| Net income | 821,376 | - | 821,376 |
| Change in net assets | (3,356,550) | (134,998) | (3,491,548) |
| Net assets, beginning of year | 23,995,740 | 1,066,649 | 25,062,389 |
| Net assets, end of year | \$ 20,639,190 | \$ 931,651 | \$ 21,570,841 |

See Notes to Consolidated Financial Statements.

Sea Research Foundation, Inc.

**Consolidated Statement of Functional Expenses
Year Ended December 31, 2015**

| | Exhibits and husbandry | Education and research | Visitor services | General and administrative | Development | Marketing | Auxiliary operations | Ocean Exploration Center | Total |
|--------------------------------|---------------------------|---------------------------|---------------------|-------------------------------|---------------------|---------------------|-------------------------|--------------------------------|----------------------|
| Salaries and employee benefits | \$ 4,851,102 | \$ 1,281,749 | \$ 1,030,371 | \$ 1,470,031 | \$ 565,178 | \$ 617,104 | \$ - | \$ - | \$ 9,815,535 |
| Travel | 70,377 | 65,384 | 2,302 | 319,457 | 51,125 | 28,122 | - | - | 536,767 |
| Utilities | 593,032 | 518,903 | 59,303 | 133,432 | 29,652 | 29,652 | 74,129 | 44,477 | 1,482,580 |
| General insurance | 136,191 | 119,167 | 17,024 | 34,048 | 10,214 | 10,214 | - | 13,619 | 340,477 |
| Supplies | 111,766 | 13,171 | 45,373 | 64,244 | 15,686 | 2,639 | - | - | 252,879 |
| Service contracts | 232,825 | 11,885 | 21,344 | - | 82 | - | - | - | 266,136 |
| Depreciation and amortization | 1,554,289 | 415,294 | - | 218,576 | - | - | - | 1,780,953 | 3,969,112 |
| Telephone | 80,122 | 6,130 | 2,045 | 20,083 | 4,016 | 3,137 | - | - | 115,533 |
| Dues and subscriptions | 33,649 | 12,820 | 671 | 304,822 | 14,738 | 39,735 | - | - | 406,435 |
| Bank and investment fees | 755 | 309 | 337,598 | 7,854 | 128 | 263 | - | - | 346,907 |
| Professional services | 92,534 | 193,275 | - | 1,402,056 | 44,112 | 54,329 | - | - | 1,786,306 |
| Interest expense | 241,575 | 209,095 | 83,638 | 73,437 | 16,728 | 25,091 | 41,819 | 83,638 | 775,021 |
| Vehicle operation | 186,013 | 17,475 | - | 112,322 | 5,475 | - | - | - | 321,285 |
| Property and other taxes | - | - | - | 20,272 | - | - | - | - | 20,272 |
| Advertising and promotions | 3,995 | 421 | 6,335 | 70 | 255,242 | 890,910 | - | - | 1,156,973 |
| Uniforms | 7,301 | 550 | 13,333 | - | - | - | - | - | 21,184 |
| Repairs and maintenance | 98,004 | 5,118 | - | 336 | - | - | 900 | - | 104,358 |
| Research expenses | 91,988 | 3,434 | - | 591 | 76,873 | - | - | - | 172,886 |
| Animal costs | 329,991 | 2,213 | - | 1,248 | - | - | - | - | 333,452 |
| Brine and chemicals | 154,590 | 4,519 | - | - | - | - | - | - | 159,109 |
| Education program | 201,207 | 970,435 | - | - | 8,676 | - | 434,787 | - | 1,615,105 |
| Membership program | - | - | 120 | - | - | - | - | - | 120 |
| Volunteer programs | 11,032 | - | - | 9,339 | - | - | - | - | 20,371 |
| Computer development | 18,182 | 200 | 660 | 6,129 | 1,503 | 934 | - | - | 27,608 |
| Offsite warehouse | 15,060 | 1,948 | - | 749 | - | - | - | - | 17,757 |
| Expedition expense | 10,478 | - | - | - | - | - | - | - | 10,478 |
| Other | 34,482 | (247) | 4,759 | 108,537 | 12,382 | 4,580 | - | - | 164,493 |
| Total | \$ 9,160,540 | \$ 3,853,248 | \$ 1,624,876 | \$ 4,307,633 | \$ 1,111,810 | \$ 1,706,710 | \$ 551,635 | \$ 1,922,687 | \$ 24,239,139 |

See Notes to Consolidated Financial Statements.

Sea Research Foundation, Inc.

**Consolidated Statement of Functional Expenses
Year Ended December 31, 2014**

| | Exhibits and husbandry | Education and research | Visitor services | General and administrative | Development | Marketing | Auxiliary operations | Ocean Exploration Center | Total |
|--------------------------------|---------------------------|---------------------------|---------------------|-------------------------------|-------------------|---------------------|-------------------------|--------------------------------|----------------------|
| Salaries and employee benefits | \$ 4,502,507 | \$ 751,242 | \$ 1,025,251 | \$ 1,669,352 | \$ 331,084 | \$ 504,748 | \$ - | \$ 205,742 | \$ 8,989,926 |
| Travel | 38,321 | 23,273 | 3,781 | 317,503 | 25,490 | 11,874 | - | 10,123 | 430,365 |
| Utilities | 546,426 | 478,122 | 54,643 | 122,946 | 27,321 | 27,321 | 68,303 | 40,982 | 1,366,064 |
| General insurance | 160,274 | 140,239 | 20,034 | 40,068 | 12,021 | 12,021 | - | 16,027 | 400,684 |
| Supplies | 91,190 | 11,496 | 52,413 | 42,508 | 8,382 | 5,454 | - | 225 | 211,668 |
| Service contracts | 203,138 | 11,655 | 14,925 | 409 | - | 4,000 | - | - | 234,127 |
| Depreciation and amortization | 1,493,356 | 399,630 | - | 210,332 | - | - | - | 2,150,652 | 4,253,970 |
| Telephone | 97,720 | 3,731 | 2,624 | 25,196 | 2,746 | 2,962 | - | 1,449 | 136,428 |
| Dues and subscriptions | 6,266 | 7,365 | 111 | 364,765 | 5,312 | 45,630 | - | 395 | 429,844 |
| Bank and investment fees | 1,879 | 809 | 284,557 | 3,906 | 1,470 | 1,073 | - | 732 | 294,426 |
| Professional services | 133,067 | 16,513 | 25,264 | 451,208 | 122,522 | 222,105 | - | 214,655 | 1,185,334 |
| Bad debts | - | 684,843 | - | 2,462 | - | - | - | - | 687,305 |
| Interest expense | 235,978 | 196,648 | 78,659 | 117,989 | 15,732 | 23,598 | 39,330 | 78,659 | 786,593 |
| Vehicle operation | 136,973 | 19,320 | - | 101,901 | - | - | - | 1,202 | 259,396 |
| Property and other taxes | - | - | - | 31,106 | - | - | - | - | 31,106 |
| Advertising and promotions | 8,676 | 3,079 | 7,748 | - | 217,996 | 787,115 | - | - | 1,024,614 |
| Uniforms | 1,445 | (61) | (429) | 1,337 | - | - | - | - | 2,292 |
| Repairs and maintenance | 135,619 | 4,186 | 3,008 | 1,160 | - | - | 4,319 | - | 148,292 |
| Research expenses | 73,738 | 4,056 | - | 288 | 36,609 | (72) | - | - | 114,619 |
| Animal costs | 398,711 | 22,346 | - | - | - | - | - | - | 421,057 |
| Brine and chemicals | 145,997 | 4,399 | - | - | - | - | - | - | 150,396 |
| Education program | 208,463 | 1,605,278 | - | - | 9,630 | - | 403,612 | - | 2,226,983 |
| Membership program | - | - | 2,090 | - | - | - | - | - | 2,090 |
| Volunteer programs | 15,444 | - | - | 2,553 | - | - | - | - | 17,997 |
| Computer development | 18,136 | - | 2,656 | 3,700 | - | 60 | - | - | 24,552 |
| Offsite warehouse | 25,482 | 1,859 | 3,542 | - | - | - | - | - | 30,883 |
| Expedition expense | 13,679 | - | - | - | 2,000 | - | - | 43,782 | 59,461 |
| Other | 18,413 | (11,646) | 701 | 18,123 | 1,209 | 35 | 157 | 278 | 27,270 |
| Total | \$ 8,710,898 | \$ 4,378,382 | \$ 1,581,578 | \$ 3,528,812 | \$ 819,524 | \$ 1,647,924 | \$ 515,721 | \$ 2,764,903 | \$ 23,947,742 |

See Notes to Consolidated Financial Statements.

**Sea Research Foundation, Inc.
and Mystic Entertainment Company**

**Consolidated Statements of Cash Flows
Years Ended December 31, 2015 and 2014**

| | 2015 | 2014 |
|--------------------------------------------------------------------------------------------|----------------|----------------|
| Cash flows from operating activities | | |
| Change in net assets | \$ (4,494,528) | \$ (3,491,548) |
| Adjustments to reconcile change in net assets to net cash provided by operating activities | | |
| Depreciation and amortization | 4,006,934 | 4,292,153 |
| Change in allowance provision | (554,917) | - |
| Bad debt | - | 687,305 |
| Unrealized and realized loss (gain) on investments | 22,822 | (7,904) |
| Pledge discount | (1,357) | 18,719 |
| In-kind deferred revenue | 174,107 | 206,250 |
| Change in interest swap agreement | 61,359 | 655,980 |
| Gain on sale of land | - | (736,443) |
| Non-cash contribution/ debt forgiveness income | - | (577,711) |
| (Increase) decrease in | | |
| Accounts receivable | 571,146 | (6,266) |
| Pledges receivable | 33,961 | (449,102) |
| Prepaid expenses and other current assets | 55,382 | (22,638) |
| Arbitration settlement | 1,077,000 | - |
| Grants and contributions receivable | 57,892 | 5,557 |
| (Decrease) increase in | | |
| Accounts payable | 667,630 | 226,489 |
| Accrued expenses | (11,065) | (315,629) |
| Deferred revenue and unearned membership fees | (354,560) | 279,223 |
| Net cash provided by operating activities | 1,311,806 | 764,435 |
| Cash flows from investing activities | | |
| Property and equipment additions | (1,030,787) | (823,846) |
| Proceeds from the sale of land | - | 187,399 |
| Construction in progress additions | - | (238,736) |
| Net investment proceeds | 8,262 | 19,002 |
| Net cash used in investing activities | (1,022,525) | (856,181) |
| Cash flows from financing activities | | |
| Principal payments on notes payable | (185,174) | (164,383) |
| Payments on line of credit | 250,000 | (200,000) |
| Payments on capital leases | (36,062) | (4,578) |
| Capitalized financing costs | - | (14,424) |
| Net cash provided by (used in) financing activities | 28,764 | (383,385) |
| Net change in cash and cash equivalents | 318,045 | (475,131) |
| Cash and cash equivalents, beginning of year | 771,931 | 1,247,062 |
| Cash and cash equivalents, end of year | \$ 1,089,976 | \$ 771,931 |
| Supplemental disclosure of cash flow information | | |
| Interest paid | \$ 772,813 | \$ 745,206 |
| Non-cash investing and financing activities | | |
| Purchase of equipment through capital lease obligation | \$ 43,241 | \$ 192,299 |
| Sale of land proceeds paid down notes payable at closing | \$ - | \$ 750,000 |

See Notes to Consolidated Financial Statements.

**Sea Research Foundation, Inc.
and Mystic Entertainment Company**

**Notes to Consolidated Financial Statements
December 31, 2015 and 2014**

Note 1 - Summary of significant accounting policies

Business activity

Sea Research Foundation, Inc. (the "Foundation") is a tax-exempt, nonstock, not-for-profit corporation. The Foundation consists of an operating aquarium located in Mystic, Connecticut. The Foundation exists for the purpose of educating the general public in the marine sciences by providing classes, field trips and exhibits. Members of the staff also engage in research related to the interaction of animals and plants with aquatic environments. The Foundation is financed primarily by the receipts of admissions and membership revenue, and grant and contract revenues.

Mystic Entertainment Company and Subsidiary (collectivity referred to as "MEC") is a wholly-owned subsidiary of Sea Research Foundation, Inc. MEC currently has one operating subsidiary, Ocean Blue Catering, LLC ("OBC"), which offers on and off-site catering services and the Penguin Café food service at the aquarium. Under an agreement, the Foundation earns annual base consideration of \$230,000 in varying monthly payments and supplemental consideration (based on fees stated in the agreement) for each catered event at the aquarium.

All organizations are referred to collectively as "SRF."

Basis of presentation

The accompanying consolidated financial statements are presented on the accrual basis of accounting. The Foundation's net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified as follows:

Unrestricted net assets – Net assets not subject to donor-imposed stipulations.

Temporarily restricted net assets – Net assets subject to either donor-imposed stipulations or by operation of law that may or will be met by actions of the Foundation and/or the passage of time.

Permanently restricted net assets – Net assets subject to donor-imposed stipulations or by operation of law that they will be maintained permanently by the Foundation. Generally, the donors of these assets permit the Foundation to use all or part of the income earned and capital gains, if any, on related investments for general or specific purposes. There were no permanently restricted net assets as of December 31, 2015 and 2014.

All intercompany accounts and transactions have been eliminated in consolidation.

The operations of MEC are presented in a separate section of the consolidated statements of activities and its accumulated earnings are included in unrestricted net assets.

Revenue recognition

Revenues relating to admission and program income 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, if any, 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 of 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. Donor-

**Sea Research Foundation, Inc.
and Mystic Entertainment Company**

**Notes to Consolidated Financial Statements
December 31, 2015 and 2014**

restricted contributions whose restrictions are met in the same reporting period have been reported as unrestricted support in the consolidated statements of activities.

Contributions, including unconditional promises to give, are recognized as revenues in the period received. Promises to give that are scheduled to be received after the statement of financial position date, or which are restricted by the donor to a specific purpose which has not been met as of the financial position date, are shown as increases in temporarily restricted net assets. This revenue is reclassified to unrestricted net assets when the time or purpose restrictions are met.

Grants that are identified as exchange transactions are recognized when eligible grant costs are incurred. Receivables are recognized to the extent costs have been incurred but not reimbursed. Deferred revenue represents grant advances and other revenue which exceeds eligible costs incurred. Grants require the fulfillment of certain conditions as set forth in the instrument of the grant. Failure to fulfill the conditions could result in the return of funds to grantors.

Revenue from the sale of memberships at the Foundation is reported over the life of each membership. Such fees are considered to be earned on a pro-rata basis, and the unearned portion is recorded in deferred income.

Revenue from MEC activities including on and off-site catering services and the Penguin Café food service at the aquarium are recognized as services are performed. Revenues are presented net of membership, employee and volunteer discounts.

Cash and cash equivalents

SRF considers all highly liquid investments purchased with a maturity of three months or less when acquired to be cash equivalents. Cash equivalents as of December 31, 2015 and 2014 were \$203,879 and \$248,986, respectively.

Allowances for receivables

Allowances for accounts and pledges receivable are determined by management based on an assessment of their collectability. Management considers past history, current economic conditions and overall viability of the third party. Receivables are written off only when management believes amounts will not be collected. Receivables are considered past due based on invoice date or pledge date.

Investments

Investments are stated at their current fair value and reflect any gain or loss in the consolidated statements of activities. Nonmonetary investments received as gifts are immediately sold and recorded at the realized value. Investments are generally expected to be held for long-term purposes and are, therefore, classified as noncurrent assets.

**Sea Research Foundation, Inc.
and Mystic Entertainment Company**

**Notes to Consolidated Financial Statements
December 31, 2015 and 2014**

Property and equipment

Property and equipment purchased are stated at cost. Costs of major renewals and betterments that extend the life of an asset are capitalized. SRF depreciates its property and equipment utilizing the straight-line method over the following estimated useful lives:

| <u>Asset</u> | <u>Estimated lives</u> |
|------------------------|------------------------|
| Building | 30-50 years |
| Building improvements | 5-10 years |
| Leasehold improvements | 3-10 years |
| Furniture and fixtures | 3-10 years |

The animal collection on exhibition is not being depreciated. Animals with a cost greater than \$5,000 are capitalized. Purchases of all other animals are charged to expense as incurred. The capitalized cost of an animal no longer at the aquarium is charged to expense in the year of departure.

Amortization of leasehold improvements is calculated using the shorter of the lease term or the useful life of the asset.

Amortization

Deferred financing costs are being amortized on a straight-line basis over the term of the related agreement, which is ten years. Total amortization expense for each of the years ended December 31, 2015 and 2014 was \$52,066.

Income taxes

The Internal Revenue Service classified the Foundation as a publicly supported foundation, as defined in Section 509(a) (2), and not as a private foundation. The Foundation will continue to be classified as a publicly supported foundation as long as it continues to meet the statutory requirements. Contributions to the Foundation are generally tax deductible under Section 170 of the Internal Revenue Code. During the years ended December 31, 2015 and 2014, the Foundation paid no unrelated business income taxes.

Income tax expense associated with MEC operations includes federal and state taxes currently payable and deferred taxes. MEC provides for deferred taxes on temporary differences arising from assets and liabilities whose bases are different for financial reporting and income tax purposes.

SRF and MEC have no unrecognized tax benefits as of December 31, 2015 and 2014. SRF's and MEC's federal and state tax returns prior to calendar year 2012 are closed and management continually evaluates expiring statutes of limitations, audits, proposed settlements, changes in tax law and new authoritative rulings.

SRF and MEC recognize interest and penalties associated with any tax matters as part of the change in net assets and include accrued interest and penalties with the related tax liability in the consolidated statements of financial position.

**Sea Research Foundation, Inc.
and Mystic Entertainment Company**

**Notes to Consolidated Financial Statements
December 31, 2015 and 2014**

Donated services

A number of volunteers donate their time to the Foundation's efforts. No amounts have been reflected in the consolidated financial statements for donated services since services generally do not require specialized skills.

Endowment and spending policy

The Foundation has investment and spending policies for endowment assets that attempt to provide a reasonably predictable stream of funding for activities supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include only Board-designated funds.

Under this policy, as approved by the Board of Directors, the endowment assets are invested in accordance with sound investment practices that emphasize long-term investment fundamentals. It is recognized that short-term market fluctuations may cause variations in account performance.

To satisfy its long-term rate of return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends).

The Foundation can prudently invest for total return (income and gain) in any mix of investment vehicles considering general economic conditions, the possible effect of inflation or deflation, the role that each investment or course of action plays within the overall investment portfolio, the expected total return from income and the appreciation of investments, and the needs of the Foundation and the endowment funds to make distributions and to preserve capital to achieve its long-term return objectives within prudent risk constraints.

Annually, the Board of Directors will determine the distribution of funds from the endowment.

Advertising

SRF expenses the cost of advertising the first time advertising takes place. Total advertising expense for the years ended December 31, 2015 and 2014 was \$814,314 and \$727,052, respectively.

Interest rate swap

SRF uses an interest rate swap contract as a cash flow hedge to eliminate the cash flow exposure of interest rate movements on its debt. The obligation under the interest rate swap is recorded at fair value. The change in value of the obligation under the interest rate swap has been included in non-operating activity on the accompanying consolidated statements of activities. SRF documents its risk management strategy at the inception of and during the term of the hedge. SRF's interest rate risk management strategy is to stabilize cash flow requirements by maintaining an interest rate swap contract to convert from variable-rate debt to a fixed rate.

Financial instruments

The carrying value of cash and cash equivalents, accounts receivable, grants and contributions receivable, pledges receivable, accounts payable, accrued expenses and notes payable as of December 31, 2015 and 2014 are believed to approximate fair value based on their maturities and current market conditions.

**Sea Research Foundation, Inc.
and Mystic Entertainment Company**

**Notes to Consolidated Financial Statements
December 31, 2015 and 2014**

Functional allocation of expenses

The Foundation's costs of providing the various programs and other activities have been summarized on a functional basis in the consolidated statements of activities. These costs include direct and indirect costs that have been allocated, on a consistent basis, among the program and supporting services benefited.

Use of estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Reclassifications

Certain amounts in the 2015 financial statements have been reclassified to conform to the 2014 presentation.

Subsequent events

SRF has evaluated events and transactions for potential recognition or disclosure through September 28, 2016, which is the date the financial statements were available to be issued.

Note 2 - Concentration of credit risk

Financial instruments which potentially subject SRF to concentrations of credit risk consist primarily of cash and cash equivalents, investments and receivables. SRF maintains its cash with high-credit quality financial institutions. At times, such amounts may exceed federally insured limits.

The Foundation invests in various debt and equity securities. These investment securities are recorded at fair value, which can fluctuate because of interest rates, reinvestment, credit and other risks depending on the nature of the specific investment. Therefore, it is at least reasonably possible that these factors will result in changes in the value of the Foundation's investments, which could materially affect amounts reported in the financial statements.

The contributors to SRF are individuals, corporations and foundations primarily in the State of Connecticut. Concentrations of credit risk with respect to grants receivable are limited to contractual agreements with various federal and state agencies.

Note 3 - Fair value measurements

SRF values its financial assets and liabilities based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In order to increase consistency and comparability in fair value measurements, a fair value hierarchy that prioritizes observable and unobservable inputs is used to measure fair value into three broad levels, which are described below:

- Level 1 Quoted prices (unadjusted) in active markets that are accessible at the measurement date for identical assets or liabilities. The fair value hierarchy gives the highest priority to Level 1 inputs.
- Level 2 Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in inactive markets; or model-derived valuations in which all

**Sea Research Foundation, Inc.
and Mystic Entertainment Company**

**Notes to Consolidated Financial Statements
December 31, 2015 and 2014**

significant inputs are observable or can be derived principally from or corroborated with observable market data.

Level 3 Unobservable inputs are used when little or no market data is available. The fair value hierarchy gives the lowest priority to Level 3 inputs.

In determining fair value, SRF utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible as well as considers counterparty credit risk in its assessment of fair value.

Financial assets and liabilities carried at fair value at December 31, 2015 are classified in the table below in one of the three categories described above:

| | 2015 | | | Total |
|-----------------------------|-------------------|-------------------|-------------|-------------------|
| | Level 1 | Level 2 | Level 3 | |
| Assets | | | | |
| Mutual funds | | | | |
| Money market funds | \$ 177,559 | \$ - | \$ - | \$ 177,559 |
| Fixed income funds | 41,161 | - | - | 41,161 |
| Equity mutual funds | 104,244 | - | - | 104,244 |
| Corporate bonds | 92,681 | - | - | 92,681 |
| Common stocks | | | | |
| Basic materials | 2,650 | - | - | 2,650 |
| Services | 5,248 | - | - | 5,248 |
| Total assets, at fair value | <u>\$ 423,543</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 423,543</u> |
| Liabilities | | | | |
| Interest rate swap | <u>\$ -</u> | <u>\$ 785,144</u> | <u>\$ -</u> | <u>\$ 785,144</u> |

Financial assets and liabilities carried at fair value at December 31, 2014 are classified in the table below in one of the three categories described above:

| | 2014 | | | Total |
|-----------------------------|-------------------|-------------------|-------------|-------------------|
| | Level 1 | Level 2 | Level 3 | |
| Assets | | | | |
| Mutual funds | | | | |
| Money market funds | \$ 179,395 | \$ - | \$ - | \$ 179,395 |
| Fixed income funds | 42,456 | - | - | 42,456 |
| Equity mutual funds | 113,368 | - | - | 113,368 |
| Corporate bonds | 97,943 | - | - | 97,943 |
| Common stocks | | | | |
| Basic materials | 6,472 | - | - | 6,472 |
| Services | 5,395 | - | - | 5,395 |
| industrial goods | 6,740 | - | - | 6,740 |
| Insurance | 2,857 | - | - | 2,857 |
| Total assets, at fair value | <u>\$ 454,626</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 454,626</u> |
| Liabilities | | | | |
| Interest rate swap | <u>\$ -</u> | <u>\$ 723,785</u> | <u>\$ -</u> | <u>\$ 723,785</u> |

**Sea Research Foundation, Inc.
and Mystic Entertainment Company**

**Notes to Consolidated Financial Statements
December 31, 2015 and 2014**

Investments in common stocks and mutual funds are valued using market prices on active markets (Level 1). Level 1 instrument valuations are obtained from real time quotes for transactions in active exchange markets involving identical assets.

The investments in fixed income funds are valued using significant observable inputs, particularly dealer market prices for comparable investments as of the valuation date (Levels 1 and 2).

The fair value of the interest rate swap is determined using observable market inputs such as current interest rates and considers nonperformance risk of SRF and that of its counterparty (Level 2).

The preceding is a description of the valuation methodologies used for assets and liabilities at fair value. There have been no changes in the methodology used at December 31, 2015 and 2014.

SRF's policy is to recognize transfers in and transfers out of levels as of the actual date of the event or change in circumstances that cause the transfer. There were no transfers in or out of the respective levels during the years ended December 31, 2015 and 2014.

Note 4 - Investments

The following is a summary of investments, by type, as of December 31, 2015 and 2014:

| | 2015 | | 2014 | |
|---------------------|-------------------|-------------------|-------------------|-------------------|
| | Market | Cost | Market | Cost |
| Money market funds | \$ 177,559 | \$ 177,893 | \$ 179,395 | \$ 179,395 |
| Fixed income funds | 41,161 | 41,754 | 42,456 | 42,721 |
| Equity mutual funds | 104,244 | 134,998 | 113,368 | 134,998 |
| Corporate bonds | 92,681 | 92,506 | 97,943 | 93,001 |
| Common stocks | 7,898 | 1,116 | 21,464 | 658 |
| | <u>\$ 423,543</u> | <u>\$ 448,267</u> | <u>\$ 454,626</u> | <u>\$ 450,773</u> |

Note 5 - Property and equipment

A summary of property and equipment at December 31, 2015 is as follows:

| | Foundation | MEC | Total |
|-------------------------------------------------------------|----------------------|-------------------|----------------------|
| Land and improvements | \$ 4,170,411 | \$ - | \$ 4,170,411 |
| Building and improvements, including leasehold improvements | 52,044,034 | 40,539 | 52,084,573 |
| Equipment, furniture and animals | 39,251,962 | 326,022 | 39,577,984 |
| | <u>95,466,407</u> | <u>366,561</u> | <u>95,832,968</u> |
| Less accumulated depreciation and amortization | <u>(63,105,946)</u> | <u>(263,722)</u> | <u>(63,369,668)</u> |
| Net property and equipment | <u>\$ 32,360,461</u> | <u>\$ 102,839</u> | <u>\$ 32,463,300</u> |

**Sea Research Foundation, Inc.
and Mystic Entertainment Company**

**Notes to Consolidated Financial Statements
December 31, 2015 and 2014**

A summary of property and equipment at December 31, 2014 is as follows:

| | Foundation | MEC | Total |
|-------------------------------------------------------------|----------------------|-------------------|----------------------|
| Land and improvements | \$ 4,092,949 | \$ - | \$ 4,092,949 |
| Building and improvements, including leasehold improvements | 51,909,415 | 28,127 | 51,937,542 |
| Equipment, furniture and animals | 39,995,150 | 321,422 | 40,316,572 |
| | 95,997,514 | 349,549 | 96,347,063 |
| Less accumulated depreciation and amortization | (60,820,274) | (225,900) | (61,046,174) |
| Net property and equipment | <u>\$ 35,177,240</u> | <u>\$ 123,649</u> | <u>\$ 35,300,889</u> |

As of December 31, 2015 and 2014, the Company incurred costs associated with various capital projects totaling \$490,320 and \$533,571, respectively, which have not been placed into service. Upon completion, these projects will be placed into service and depreciated over their applicable estimated useful lives.

Note 6 - Debt

In December 2013, SRF obtained a credit facility with various banks and other financial institutions totaling \$15,500,000 to refinance its existing debt. Webster Bank was named as the administrative agent. The term loan and line of credit have a first priority interest on real estate located in Mystic, Connecticut and substantially all personal property, intellectual property of SRF and pledge of subsidiary shares. The note payable has a second priority interest on real estate located in Mystic, Connecticut and substantially all personal property.

SRF has a \$2,000,000 revolving line of credit. The line matures September 2017 and accrues interest at the prime rate plus 1% as determined by Webster Bank or LIBOR rate plus 3% (in total 4.5% and 7.3% at December 31, 2015). The line has a mandatory 30 day clean up period from August 1 to September 30 in each calendar year. The balance outstanding as of December 31, 2015 and 2014 was \$550,000 and \$300,000, respectively.

On September 20, 2016, SRF entered into a Waiver and Second Amendment to Credit Agreement amending the fixed charge coverage ratio calculation and waiving past financial covenants in default.

Total interest expense for the years ended December 31, 2015 and 2014 was \$784,360 and \$786,689, respectively, for debt and capital leases.

**Sea Research Foundation, Inc.
and Mystic Entertainment Company**

**Notes to Consolidated Financial Statements
December 31, 2015 and 2014**

Long-term debt outstanding at December 31, 2015 and 2014 is as follows:

| | 2015 | 2014 |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------|---------------|
| SRF has a term loan payable with a variable interest rate of LIBOR plus 3% (4.7% at December 31, 2015) maturing in December 2023. Monthly payments of principal are based on a 30 year amortization averaging \$10,920. The loan agreement requires the maintenance of certain financial covenants which were met during the year. | \$ 9,491,230 | \$ 9,629,878 |
| SRF has a note payable with an interest rate of 5% maturing in December 2023. Monthly payments including principal and interest are \$16,105. Penalties will be incurred if employment criteria are not met by December 31, 2015. | 2,909,214 | 2,955,739 |
| | 12,400,444 | 12,585,617 |
| Less amount due within one year | (195,961) | (185,174) |
| Total | \$ 12,204,483 | \$ 12,400,443 |

Future maturities of long-term debt in each of the five years subsequent to 2015 and thereafter are as follows:

| | | |
|------------|----|---------------|
| 2016 | \$ | 195,961 |
| 2017 | | 207,376 |
| 2018 | | 219,462 |
| 2019 | | 233,118 |
| 2020 | | 246,712 |
| Thereafter | | 11,297,815 |
| | | \$ 12,400,444 |

Note 7 - Interest rate swap agreement

SRF entered into an interest rate swap agreement in December 2013 to reduce the impact of changes in interest rates on its floating rate term loan. At December 31, 2015 and 2014, the interest rate swap agreement had a notional amount of \$9,750,000. That agreement effectively changes SRF's interest rate exposure on its floating rate to a fixed rate of 5.95%. The interest rate swap agreement matures on December 16, 2023. The carrying value of the liability at December 31, 2015 and 2014 was \$785,144 and \$723,785, respectively, which is its fair value. SRF is exposed to credit loss in the event of nonperformance by the counterparty to the interest rate swap agreement. However, SRF does not anticipate nonperformance by the counterparty.

**Sea Research Foundation, Inc.
and Mystic Entertainment Company**

**Notes to Consolidated Financial Statements
December 31, 2015 and 2014**

Note 8 - Endowment

The Foundation's endowment includes all board-designated endowment funds, which are included in unrestricted net assets on the accompanying consolidated statements of financial position. As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions. There are no donor-restricted endowment funds as of December 31, 2015 and 2014.

Changes in endowment net assets for the years ended December 31, 2015 and 2014 was as follows:

| | <u>2015</u> | <u>2014</u> |
|----------------------------------------------------------|-------------------|-------------------|
| Board designated endowment net, assets beginning of year | \$ 190,573 | \$ 191,672 |
| Investment fees | (1,195) | (1,117) |
| Net realized and unrealized gain (loss) | <u>(73)</u> | <u>18</u> |
| | | |
| Board designated endowment net assets, end of year | <u>\$ 189,305</u> | <u>\$ 190,573</u> |

Note 9 - Temporarily restricted net assets

Temporarily restricted net assets as of December 31, 2015 and 2014 are comprised of the following:

| | <u>2015</u> | <u>2014</u> |
|----------------------------------------|-------------------|-------------------|
| Time or use restricted | | |
| Research and Education Center | \$ 360,311 | \$ 265,411 |
| Various aquarium projects and programs | 322,074 | 363,483 |
| Time restrictions | <u>303,867</u> | <u>302,757</u> |
| | | |
| Total temporarily restricted | <u>\$ 986,252</u> | <u>\$ 931,651</u> |

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes, lapse of time restrictions or by occurrence of other events specified by donors as follows:

| | <u>2015</u> | <u>2014</u> |
|--------------------------------------------|-------------------|-------------------|
| Mystic Aquarium | | |
| Purpose and time restrictions accomplished | \$ 138,550 | \$ 579,983 |
| Ocean Exploration Center | | |
| Purpose restrictions accomplished | <u>-</u> | <u>75,604</u> |
| | | |
| Total | <u>\$ 138,550</u> | <u>\$ 655,587</u> |

**Sea Research Foundation, Inc.
and Mystic Entertainment Company**

**Notes to Consolidated Financial Statements
December 31, 2015 and 2014**

Note 10 - Lease obligations

The Foundation leases certain real estate, vehicles and office equipment under operating leases, which expire at various times through December 2017. The Foundation's total rental expense under these leases was \$302,568 and \$232,086 in the years ended December 31, 2015 and 2014, respectively.

Future commitments under operating leases are as follows:

| | | |
|------|----|---------------|
| 2016 | \$ | 19,222 |
| 2017 | | 17,159 |
| | | <u>36,381</u> |
| | \$ | <u>36,381</u> |

The Foundation entered into lease agreements for various equipment during 2015 and 2014. These obligations are treated as capital leases and have been recorded in the accompanying consolidated financial statements at the present value of future minimum lease payments.

The capitalized cost of \$238,564 less accumulated amortization of \$34,528 and \$13,364 is included in property and equipment as of December 31, 2015 and 2014, respectively. Amortization expense for this equipment for the year ended December 31, 2015 and 2014 was \$21,164 and \$13,364, respectively.

Future commitments under capital leases are as follows:

| | | |
|-----------------------|----|-----------------|
| 2016 | \$ | 57,747 |
| 2017 | | 57,747 |
| 2018 | | 57,747 |
| 2019 | | 48,235 |
| | | <u>221,476</u> |
| Total payments | | 221,476 |
| Less interest portion | | <u>(26,576)</u> |
| | | 194,900 |
| Less current portion | | <u>(46,349)</u> |
| Long-term portion | \$ | <u>148,551</u> |

Note 11 - Retirement plan

The Foundation has a defined contribution plan (the "Plan") available to all eligible employees who have completed one year of service and who are at least twenty-one years of age. Each year, participants may contribute up to 50% of pretax annual compensation, as defined in the Plan. The Plan provides for discretionary matching contributions determined each year by the Foundation. The Foundation elected a discretionary matching contribution equal to 25% of elective deferrals, up to a maximum contribution equal to 2% of compensation.

Although additional profit sharing amounts may be contributed at the option of the Foundation's Board of Trustees, there was no such profit sharing contribution for the years ended December 31,

**Sea Research Foundation, Inc.
and Mystic Entertainment Company**

**Notes to Consolidated Financial Statements
December 31, 2015 and 2014**

2015 and 2014. The Foundation's total contribution to the Plan during the years ended December 31, 2015 and 2014 was \$52,898 and \$49,312, respectively.

In addition to the pension plan described above, the Foundation also has non-qualified deferred compensation plans for certain employees. Contributions for the years ended December 31, 2015 and 2014 was \$29,829 and \$29,533, respectively and are included in salaries and employee benefits in the statement of functional expenses.

Note 12 - Income taxes

MEC's deferred tax asset results from federal and state net operating loss carryforwards of approximately \$1,004,000 and \$1,375,000, respectively, as of December 31, 2015 and 2014. At this time, management has determined that it is more likely than not that all of the deferred tax asset will not be utilized in future years. Therefore, a valuation allowance has been established for the entire tax asset.

MEC's total deferred tax assets at December 31, 2015 and 2014 are as follows:

| | <u>2015</u> | <u>2014</u> |
|--------------------------|------------------|------------------|
| Total deferred tax asset | \$ 306,678 | \$ 454,770 |
| Less valuation allowance | <u>(306,678)</u> | <u>(454,770)</u> |
| Net deferred tax assets | <u>\$ -</u> | <u>\$ -</u> |

Note 13 - Related party transactions

The Foundation shared common board members with the JASON Project ("JASON") through February 2015. Through various contracts, the Foundation provided educational, technology, consulting, accounting and management services to JASON. Management and accounting services required a monthly fee of \$41,667 plus travel and out of pocket expenses. On February 10, 2015, the agreement to manage JASON ended and management responsibility of JASON was transferred to an unrelated third party. On April 17, 2015, a demand for arbitration was filed by the Foundation with the American Arbitration Association seeking payment as provided in the management agreement. An allowance was recorded against the receivable as a result of the termination of the agreement. JASON also raised counterclaims against the Foundation. The arbitration claims were subsequently settled. (see Note 16).

The Foundation and Ocean Exploration Trust ("OET") shared a common board member through May 2014. Activities with OET principally involved undersea research, field programs and other programs. In May 2014, the agreement with OET was terminated by OET. Payment under the collaboration agreement between the parties was \$101,439 through May 31, 2014. As part of the transition, the parties mutually agreed to enter into a new agreement that required OET to provide educational activities through August 2014. In exchange, SRF agreed to lease equipment to OET for seven years through May 2021. At the end of this lease term, OET may purchase the leased equipment at its fair market value.

**Sea Research Foundation, Inc.
and Mystic Entertainment Company**

**Notes to Consolidated Financial Statements
December 31, 2015 and 2014**

Note 14 - Pledges receivable

As of December 31, 2015 and 2014, unconditional pledges receivable are expected to be realized in the following periods:

| | 2015 | 2014 |
|----------------------|------------|------------|
| In one year or less | \$ 376,486 | \$ 389,665 |
| In one to five years | 303,712 | 324,494 |
| Less discount | (24,570) | (25,927) |
| Total | \$ 655,628 | \$ 688,232 |

Amounts are shown in the consolidated statements of financial position as of December 31, 2015 and 2014 as follows:

| | 2015 | 2014 |
|-------------------------|------------|------------|
| Current | \$ 376,486 | \$ 389,665 |
| Long-term | 279,142 | 298,567 |
| Net deferred tax assets | \$ 655,628 | \$ 688,232 |

Pledges expected to be received in more than one year have been discounted using a discount rate of 5.25% at December 31, 2015 and 2014.

Note 15 - Rental income

The Foundation leases certain retail space to an unrelated party that manages a gift shop consistent with the Foundation's mission. The lease expires June 30, 2021 and requires an annual base minimum rental of \$500,000. Additional lease income is received based on a percentage (33%) of monthly gross receipts in excess of \$50,000. Total lease income recognized in 2015 and 2014 was \$897,648 and \$873,619, respectively. Such amounts are included in auxiliary operations in the consolidated statements of activities.

Note 16 - Arbitration settlement

On August 11, 2016, SRF entered into a settlement agreement and mutual release with JASON for a net amount of \$1,077,000. This amount has been accrued at December 31, 2015 and has subsequently been paid to JASON.

Supplementary Information

**Sea Research Foundation, Inc.
and Mystic Entertainment Company**

**Consolidating Statement of Financial Position
December 31, 2015**

| | Mystic Entertainment Company | Sea Research Foundation, Inc. | Eliminating entries | Consolidated |
|------------------------------------------------------------|------------------------------------|----------------------------------|------------------------|----------------------|
| <u>Assets</u> | | | | |
| Current assets | | | | |
| Cash and cash equivalents | \$ 85,779 | \$ 1,004,197 | \$ - | \$ 1,089,976 |
| Grants and contributions receivable | - | 245,469 | - | 245,469 |
| Accounts receivable | 3,581 | 297,471 | - | 301,052 |
| Intercompany receivable (payable) | 322,682 | (322,682) | - | - |
| Prepaid expenses and other current assets | 15,048 | 339,361 | - | 354,409 |
| Pledges receivable, current portion | - | 376,486 | - | 376,486 |
| | <u>427,090</u> | <u>1,940,302</u> | <u>-</u> | <u>2,367,392</u> |
| Noncurrent assets | | | | |
| Pledges receivable, net of discount and current portion | - | 279,142 | - | 279,142 |
| Investments | - | 781,341 | (357,798) | 423,543 |
| Deferred financing costs, net of amortization | - | 416,526 | - | 416,526 |
| Construction in progress | - | 490,320 | - | 490,320 |
| Property and equipment, net of accumulated depreciation | 102,839 | 32,360,461 | - | 32,463,300 |
| | <u>\$ 529,929</u> | <u>\$ 36,268,092</u> | <u>\$ (357,798)</u> | <u>\$ 36,440,223</u> |
| <u>Liabilities and Net Assets</u> | | | | |
| Current liabilities | | | | |
| Accounts payable | \$ 47,056 | \$ 2,129,373 | \$ - | \$ 2,176,429 |
| Arbitration settlement | - | 1,077,000 | - | 1,077,000 |
| Line of credit | - | 550,000 | - | 550,000 |
| Notes payable, current portion | - | 195,961 | - | 195,961 |
| Deferred revenue and unearned membership | 52,666 | 1,511,655 | - | 1,564,321 |
| Accrued expenses | 72,409 | 543,263 | - | 615,672 |
| Capital lease obligations, current portion | - | 46,349 | - | 46,349 |
| | <u>172,131</u> | <u>6,053,601</u> | <u>-</u> | <u>6,225,732</u> |
| Long-term liabilities | | | | |
| Notes payable, net of current portion | - | 12,204,483 | - | 12,204,483 |
| Interest rate swap agreement liability | - | 785,144 | - | 785,144 |
| Capital lease obligation, long-term | - | 148,551 | - | 148,551 |
| | <u>-</u> | <u>13,138,178</u> | <u>-</u> | <u>13,138,178</u> |
| Total liabilities | <u>172,131</u> | <u>19,191,779</u> | <u>-</u> | <u>19,363,910</u> |
| Net assets | | | | |
| Unrestricted | 357,798 | 16,090,061 | (357,798) | 16,090,061 |
| Temporarily restricted | - | 986,252 | - | 986,252 |
| | <u>357,798</u> | <u>17,076,313</u> | <u>(357,798)</u> | <u>17,076,313</u> |
| | <u>\$ 529,929</u> | <u>\$ 36,268,092</u> | <u>\$ (357,798)</u> | <u>\$ 36,440,223</u> |

See Independent Auditor's Report.

**Sea Research Foundation, Inc.
and Mystic Entertainment Company**

**Consolidating Statement of Activities
December 31, 2015**

| | Mystic Entertainment Company | Sea Research Foundation, Inc. | Eliminating entries | Consolidated |
|-----------------------------------------------------------------------|------------------------------------|----------------------------------|------------------------|-------------------|
| Sea Research Foundation activities | | | | |
| Revenue from operations | | | | |
| Admissions | \$ - | \$ 10,497,743 | \$ - | \$ 10,497,743 |
| Memberships | - | 1,825,308 | - | 1,825,308 |
| Program income | - | 1,427,099 | - | 1,427,099 |
| Interest and dividends | - | 22,158 | - | 22,158 |
| Realized loss on investments | - | (1,951) | - | (1,951) |
| Grants and contracts - operations | - | 2,577,174 | - | 2,577,174 |
| Grants and contracts - capital | - | 175,000 | - | 175,000 |
| Contributions | - | 1,443,089 | - | 1,443,089 |
| Management fees and other revenue | - | 435,790 | - | 435,790 |
| Auxiliary operations | - | 2,510,725 | (263,507) | 2,247,218 |
| Total | - | 20,912,135 | (263,507) | 20,648,628 |
| Operating costs and expenses before depreciation | - | 20,502,804 | (232,777) | 20,270,027 |
| Income (deficiency) from Foundation operations before depreciation | - | 409,331 | (30,730) | 378,601 |
| Depreciation | - | 3,969,112 | - | 3,969,112 |
| Deficiency from Foundation operations | - | (3,559,781) | (30,730) | (3,590,511) |
| Non-operating revenues and expenses: | | | | |
| Arbitration settlement | - | (1,077,000) | - | (1,077,000) |
| Equity earnings and adjustment on subsidiary | - | 224,483 | (224,483) | - |
| Change in interest swap agreement | - | (61,359) | - | (61,359) |
| Unrealized loss on investments | - | (20,871) | - | (20,871) |
| Deficiency from Foundation activities | - | (4,494,528) | (255,213) | (4,749,741) |
| Mystic Entertainment activities | | | | |
| Operating revenue | 2,940,932 | - | (232,777) | 2,708,155 |
| Cost of goods sold | (1,253,800) | - | - | (1,253,800) |
| Net revenue | 1,687,132 | - | (232,777) | 1,454,355 |
| Operating expenses | (1,462,649) | - | 263,507 | (1,199,142) |
| Income from MEC activities | 224,483 | - | 30,730 | 255,213 |
| Change in net assets | 224,483 | (4,494,528) | (224,483) | (4,494,528) |
| Net assets, beginning of year | 133,315 | 21,570,841 | (133,315) | 21,570,841 |
| Net assets, end of year | \$ 357,798 | \$ 17,076,313 | \$ (357,798) | \$ 17,076,313 |

See Independent Auditor's Report.

COHN  REZNICK
ACCOUNTING • TAX • ADVISORY

Independent Member of Nexia International

cohnreznick.com