

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

**Consolidated Financial Statements
(With Supplementary Information)
and Independent Auditor's Report**

December 31, 2016 and 2015

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

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Independent Auditor's Report

To the Board of Trustees
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, 2016 and 2015, 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. The financial statements of Mystic Entertainment Company were not audited in accordance with *Government Auditing Standards*.

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, 2016 and 2015, 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 2016 consolidated financial statements as a whole. The consolidating information on pages 24 and 25 is presented for purposes of additional analysis of the 2016 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 2016 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 2016 consolidated financial statements. The consolidating information has been subjected to the auditing procedures applied in the audit of the 2016 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 2016 consolidated financial statements or to the 2016 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 2016 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 April 28, 2017, 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
April 28 2017

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

**Consolidated Statements of Financial Position
December 31, 2016 and 2015**

	<u>Assets</u>	
	2016	2015
Current assets		
Cash and cash equivalents	\$ 1,323,610	\$ 1,089,976
Grants and contributions receivable	224,053	245,469
Accounts receivable	203,659	301,052
Prepaid expenses and other current assets	324,696	354,409
Pledges receivable, current portion	597,797	376,486
Total current assets	2,673,815	2,367,392
Noncurrent assets		
Pledges receivable, net of discount and current portion	250,154	279,142
Investments	432,540	423,543
Construction in progress	570,038	490,320
Property and equipment, net of accumulated depreciation	30,495,960	32,463,300
	\$ 34,422,507	\$ 36,023,697
	<u>Liabilities and Net Assets</u>	
Current liabilities		
Accounts payable	\$ 1,628,065	\$ 2,176,429
Arbitration settlement	-	1,077,000
Line of credit	700,000	550,000
Notes payable, current portion	207,376	195,961
Deferred revenue and unearned membership fees	1,495,166	1,564,321
Accrued expenses	872,071	615,672
Capital lease obligations, current portion	53,483	46,349
Total current liabilities	4,956,161	6,225,732
Long-term liabilities		
Notes payable, net of current portion	11,632,649	11,787,957
Interest rate swap agreement liability	584,710	785,144
Capital lease obligations, long-term	118,293	148,551
Total long-term liabilities	12,335,652	12,721,652
Total liabilities	17,291,813	18,947,384
Commitments		
Net assets		
Unrestricted	15,654,537	16,090,061
Temporarily restricted	1,476,157	986,252
Total net assets	17,130,694	17,076,313
	\$ 34,422,507	\$ 36,023,697

See Notes to Consolidated Financial Statements.

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

**Consolidated Statement of Activities
Year Ended December 31, 2016
(with Comparative Totals for the Year Ended December 31, 2015)**

	Unrestricted net assets	Temporarily restricted net assets	Total	
			2016	2015
Sea Research Foundation activities				
Revenue from operations				
Admissions	\$ 11,678,709	\$ -	\$ 11,678,709	\$ 10,497,743
Memberships	1,920,469	-	1,920,469	1,825,308
Program income	1,473,862	-	1,473,862	1,427,099
Interest and dividends	13,089	-	13,089	22,158
Realized loss on investments	(2,192)	-	(2,192)	(1,951)
Grants and contracts - operations	3,073,944	-	3,073,944	2,577,174
Grants and contracts - capital	-	980,000	980,000	175,000
Contributions	960,427	97,105	1,057,532	1,443,089
Management fees and other revenue	309,936	-	309,936	435,790
Auxiliary operations	2,408,462	-	2,408,462	2,247,218
Net assets released from restriction	587,200	(587,200)	-	-
Total	22,423,906	489,905	22,913,811	20,648,628
Operating costs and expenses				
Exhibits and husbandry	9,248,234	-	9,248,234	9,160,540
Education and research	4,855,476	-	4,855,476	3,853,248
Visitor services	1,625,512	-	1,625,512	1,624,876
General and administrative	3,442,941	-	3,442,941	4,307,633
Development	1,561,703	-	1,561,703	1,111,810
Marketing	1,900,501	-	1,900,501	1,706,710
Auxiliary operations	456,933	-	456,933	551,635
Ocean Exploration Center	1,108,311	-	1,108,311	1,922,687
Total	24,199,611	-	24,199,611	24,239,139
Deficiency from Foundation operations	(1,775,705)	489,905	(1,285,800)	(3,590,511)
Non-operating revenue and expenses				
Arbitration settlement	-	-	-	(1,077,000)
Settlement revenue	653,213	-	653,213	-
Other income	108,921	-	108,921	-
Change in interest rate swap agreement	200,434	-	200,434	(61,359)
Unrealized gains on investments	9,493	-	9,493	(20,871)
Change in net assets from Foundation activities	(803,644)	489,905	(313,739)	(4,749,741)
Mystic Entertainment activities				
Operating revenue	3,106,533	-	3,106,533	2,708,155
Cost of goods sold	(1,470,965)	-	(1,470,965)	(1,253,800)
Net revenue	1,635,568	-	1,635,568	1,454,355
Operating expenses	(1,267,448)	-	(1,267,448)	(1,199,142)
Income from MEC activities	368,120	-	368,120	255,213
Change in net assets	(435,524)	489,905	54,381	(4,494,528)
Net assets, beginning	16,090,061	986,252	17,076,313	21,570,841
Net assets, end	\$ 15,654,537	\$ 1,476,157	\$ 17,130,694	\$ 17,076,313

See Notes to Consolidated Financial Statements.

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

**Consolidated Statement of Activities
Year Ended December 31, 2015**

	Unrestricted net assets	Temporarily restricted net assets	Total 2015
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	2,461,224	115,950	2,577,174
Grants and contracts - capital	175,000	-	175,000
Contributions	1,365,888	77,201	1,443,089
Management fees and other revenue	435,790	-	435,790
Auxiliary operations	2,247,218	-	2,247,218
Net assets released from restriction	138,550	(138,550)	-
Total	20,594,027	54,601	20,648,628
Operating costs and expenses			
Exhibits and husbandry	9,160,540	-	9,160,540
Education and research	3,853,248	-	3,853,248
Visitor services	1,624,876	-	1,624,876
General and administrative	4,307,633	-	4,307,633
Development	1,111,810	-	1,111,810
Marketing	1,706,710	-	1,706,710
Auxiliary operations	551,635	-	551,635
Ocean Exploration Center	1,922,687	-	1,922,687
Total	24,239,139	-	24,239,139
Deficiency from Foundation operations	(3,645,112)	54,601	(3,590,511)
Non-operating revenue and expenses			
Arbitration settlement	(1,077,000)	-	(1,077,000)
Change in interest rate swap agreement	(61,359)	-	(61,359)
Unrealized gains on investments	(20,871)	-	(20,871)
Change in net assets from Foundation activities	(4,804,342)	54,601	(4,749,741)
Mystic Entertainment activities			
Operating revenue	2,708,155	-	2,708,155
Cost of goods sold	(1,253,800)	-	(1,253,800)
Net revenue	1,454,355	-	1,454,355
Operating expenses	(1,199,142)	-	(1,199,142)
Income from MEC activities	255,213	-	255,213
Change in net assets	(4,549,129)	54,601	(4,494,528)
Net assets, beginning	20,639,190	931,651	21,570,841
Net assets, end	<u>\$ 16,090,061</u>	<u>\$ 986,252</u>	<u>\$ 17,076,313</u>

See Notes to Consolidated Financial Statements.

Sea Research Foundation, Inc.

**Consolidated Statement of Functional Expenses
Year Ended December 31, 2016**

	Exhibits and husbandry	Education and research	Visitor services	General and administrative	Development	Marketing	Auxiliary operations	Ocean Exploration Center	Total
Salaries and employee benefits	\$ 5,199,103	\$ 1,387,170	\$ 947,038	\$ 1,568,947	\$ 761,414	\$ 709,527	\$ -	\$ -	\$ 10,573,199
Travel	77,896	34,226	1,637	205,246	8,387	16,440	-	-	343,832
Utilities	604,039	528,534	60,404	135,909	30,202	30,202	75,505	45,303	1,510,098
General insurance	151,530	132,589	18,941	37,883	11,365	11,365	-	15,153	378,826
Supplies	81,905	29,252	30,978	43,099	44,431	3,079	-	-	232,744
Service contracts	236,411	7,191	23,864	-	-	1,560	-	-	269,026
Depreciation and amortization	1,436,101	384,309	-	150,202	-	-	-	990,241	2,960,853
Telephone	74,377	4,843	2,231	15,640	3,614	4,045	-	-	104,750
Dues and subscriptions	41,021	27,455	963	173,091	20,704	15,549	-	-	278,783
Bank and investment fees	245	-	405,127	9,921	2,955	-	-	-	418,248
Professional services	41,563	310,569	52,188	557,287	357,027	49,068	-	-	1,367,702
Interest expense	172,843	144,036	57,614	338,922	11,523	17,284	28,807	57,614	828,643
Vehicle operation	19,075	15,493	-	128,026	-	-	-	-	162,594
Property and other taxes	-	-	-	13,590	-	-	-	-	13,590
Advertising and promotions	6,515	600	11,079	-	265,003	1,034,706	-	-	1,317,903
Uniforms	14,570	1,150	7,700	1	-	-	-	-	23,421
Repairs and maintenance	97,783	1,298	-	-	-	-	689	-	99,770
Research expenses	89,915	4,716	-	-	34,183	-	-	-	128,814
Animal costs	429,883	-	-	-	-	-	-	-	429,883
Brine and chemicals	155,952	3,103	-	-	-	-	-	-	159,055
Education program	196,824	1,835,343	-	(200)	9,559	-	351,932	-	2,393,458
Membership program	-	-	1,095	-	-	-	-	-	1,095
Volunteer programs	20,544	-	-	9,544	-	-	-	-	30,088
Computer development	33,148	895	1,103	4,703	-	5,074	-	-	44,923
Offsite warehouse	19,151	2,037	-	1,737	-	-	-	-	22,925
Expedition expense	12,878	-	-	-	-	-	-	-	12,878
Other	34,962	667	3,550	49,393	1,336	2,602	-	-	92,510
Total	\$ 9,248,234	\$ 4,855,476	\$ 1,625,512	\$ 3,442,941	\$ 1,561,703	\$ 1,900,501	\$ 456,933	\$ 1,108,311	\$ 24,199,611

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.
and Mystic Entertainment Company**

**Consolidated Statements of Cash Flows
Years Ended December 31, 2016 and 2015**

	2016	2015
Cash flows from operating activities		
Change in net assets	\$ 54,381	\$ (4,494,528)
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	2,993,530	3,954,868
Capitalized financing costs	52,066	52,066
Bad debts	(55,060)	(554,917)
Unrealized and realized loss (gain) on investments	(7,301)	22,822
Pledge discount	(3,057)	(1,357)
In-kind deferred revenue	-	174,107
Change in interest swap agreement	(200,435)	61,359
(Increase) decrease in		
Accounts receivable	152,453	571,146
Pledges receivable	(189,266)	33,961
Prepaid expenses and other current assets	29,713	55,382
Grants and contributions receivable	21,416	57,892
(Decrease) increase in		
Accounts payable	(548,364)	667,630
Accrued expenses	256,399	(11,065)
Arbitration settlement	(1,077,000)	1,077,000
Deferred revenue and unearned membership fees	(69,155)	(354,560)
Net cash provided by operating activities	1,410,320	1,311,806
Cash flows from investing activities		
Property and equipment additions	(1,003,379)	(1,030,787)
Construction in progress additions	(79,718)	-
Proceeds from sale of investments	-	236,522
Purchase of investments	(1,696)	(228,260)
Net cash used in investing activities	(1,084,793)	(1,022,525)
Cash flows from financing activities		
Principal payments on notes payable	(195,958)	(185,174)
Payments on line of credit	150,000	250,000
Payments on capital leases	(45,935)	(36,062)
Net cash (used in) provided by financing activities	(91,893)	28,764
Net change in cash and cash equivalents	233,634	318,045
Cash and cash equivalents, beginning	1,089,976	771,931
Cash and cash equivalents, end	\$ 1,323,610	\$ 1,089,976
Supplemental disclosure of cash flow information		
Interest paid	\$ 779,151	\$ 766,511
Non-cash investing and financing activities		
Purchase of equipment through capital lease obligation	\$ 22,811	\$ 43,241

See Notes to Consolidated Financial Statements.

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

**Notes to Consolidated Financial Statements
December 31, 2016 and 2015**

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 the Foundation. 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, 2016 and 2015.

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 recognized when services are provided. These 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

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

**Notes to Consolidated Financial Statements
December 31, 2016 and 2015**

reclassifications between the applicable classes of net assets. Donor-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. The Foundation is also awarded grants award that have not yet been earned for financial reporting purposes. The most significant grant awarded in September 2016 was from the U.S. Department of Justice totaling \$2.5 million, which will be received and used in future periods.

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 revenue.

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, 2016 and 2015 were \$231,206 and \$203,879, 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.

Construction in progress

Construction in progress is recorded at cost as projects are in process. Depreciation is recorded when construction is substantially complete and the assets are placed in service. All current projects are expected to be completed during 2017.

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

**Notes to Consolidated Financial Statements
December 31, 2016 and 2015**

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>Assets</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.

Deferred financing costs

In 2016, the Company adopted new accounting guidance regarding the presentation on the consolidated statement of financial position of the costs of issuance of debt and related amortization expense in the consolidated statements of activities. The new guidance requires presenting such unamortized costs as a direct deduction from the face amount of the note payable (See Note 6- Notes payable). Amortization is required to be included with interest expense in the consolidated statements of functional expense and is computed using an imputed interest rate on the related note payable. Total expense for 2016 and 2015 was \$52,066.

Previously, the Company reflected unamortized debt issuance costs as deferred charges in the consolidated statements of financial position, and has retroactively reclassified the 2015 amounts to be consistent with the new debt deduction presentation. The reclassifications reduced total assets and notes payable at December 31, 2015 by \$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, 2016 and 2015, the Foundation paid no unrelated business income taxes.

Income tax expenses 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, 2016 and 2015. SRF's and MEC's federal and state tax returns prior to calendar year 2013 are closed and management

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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.

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 Trustees, 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 Trustee 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, 2016 and 2015 was \$907,196 and \$814,314, 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.

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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, 2016 and 2015 are believed to approximate fair value based on their maturities and current market conditions.

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 2016 consolidated financial statements have been reclassified to conform to the 2015 presentation.

Subsequent events

SRF has evaluated events and transactions for potential recognition or disclosure through April 28, 2017, which is the date the consolidated 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:

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- 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 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, 2016 are classified in the table below in one of the three categories described above:

	2016			Total
	Level 1	Level 2	Level 3	
Assets				
Mutual funds				
Money market funds	\$ 175,368	\$ -	\$ -	\$ 175,368
Fixed income funds	29,954	-	-	29,954
Equity mutual funds	111,308	-	-	111,308
Corporate bonds	-	109,488	-	109,488
Common stocks				
Services	6,422	-	-	6,422
	<u>6,422</u>	<u>-</u>	<u>-</u>	<u>6,422</u>
Total assets, at fair value	<u>\$ 323,052</u>	<u>\$ 109,488</u>	<u>\$ -</u>	<u>\$ 432,540</u>
Liabilities				
Interest rate swap	<u>\$ -</u>	<u>\$ 584,710</u>	<u>\$ -</u>	<u>\$ 584,710</u>

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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	\$ 330,862	92,681	\$ -	\$ 423,543
Liabilities				
Interest rate swap	\$ -	\$ 785,144	\$ -	\$ 785,144

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 corporate bonds and 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, 2016 and 2015.

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, 2016 and 2015.

Note 4 - Investments

The following is a summary of investments, by type, as of December 31, 2016 and 2015:

	2016		2015	
	Market	Cost	Market	Cost
Money market funds	\$ 175,368	\$ 175,368	\$ 177,559	\$ 179,395
Fixed income funds	29,954	31,350	41,161	42,721
Equity mutual funds	111,308	104,767	104,244	134,998
Corporate bonds	109,488	105,198	92,681	93,001
Common stocks	6,422	6,422	7,898	658
	\$ 432,540	\$ 423,105	\$ 423,543	\$ 450,773

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Note 5 - Property and equipment

A summary of property and equipment at December 31, 2016 is as follows:

	<u>Foundation</u>	<u>MEC</u>	<u>Total</u>
Land and improvements	\$ 4,170,411	\$ -	\$ 4,170,411
Building and improvements, including leasehold improvements	53,502,740	40,539	53,543,279
Equipment, furniture and animals	<u>38,812,539</u>	<u>332,928</u>	<u>39,145,467</u>
	96,485,690	373,467	96,859,157
Less accumulated depreciation and amortization	<u>(66,066,798)</u>	<u>(296,399)</u>	<u>(66,363,197)</u>
Net property and equipment	<u>\$ 30,418,892</u>	<u>\$ 77,068</u>	<u>\$ 30,495,960</u>

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

	<u>Foundation</u>	<u>MEC</u>	<u>Total</u>
Land and improvements	\$ 4,170,411	\$ -	\$ 4,170,411
Building and improvements, including leasehold improvements	52,908,713	40,539	52,949,252
Equipment, furniture and animals	<u>38,387,282</u>	<u>326,022</u>	<u>38,713,304</u>
	95,466,406	366,561	95,832,967
Less accumulated depreciation and amortization	<u>(63,105,946)</u>	<u>(263,721)</u>	<u>(63,369,667)</u>
Net property and equipment	<u>\$ 32,360,460</u>	<u>\$ 102,840</u>	<u>\$ 32,463,300</u>

As of December 31, 2016 and 2015, the Company incurred costs associated with various capital projects totaling \$570,038 and \$490,320, 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 - Notes payable

SRF has a credit facility with various banks and other financial institutions. Webster Bank is 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 4.75% or 4.69% at December 31, 2016). 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, 2016 and 2015 was \$700,000 and \$550,000, 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, 2016 and 2015 was \$776,577 and \$784,360, respectively, for debt and capital leases.

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Long-term debt outstanding at December 31, 2016 and 2015 is as follows:

	2016	2015
SRF has a term loan payable with a variable interest rate of LIBOR plus 3% (4.69% at December 31, 2016) and adjusted through an interest swap agreement (see Note 7) maturing in December 2023. Monthly payments of principal are based on a 30-year amortization averaging \$10,920. At December 31, 2016 and 2015 the related unamortized deferred debt financing balance of \$364,459 and \$416,526 is being amortized with an imputed interest rate of 4.19%. The loan agreement requires the maintenance of certain financial covenants which were met during the year.	\$ 9,344,176	\$ 9,491,230
SRF has a note payable with an interest rate of 5% maturing in December 2023. Monthly payments including principal and interest are \$16,105.	2,860,308	2,909,214
	12,204,484	12,400,444
Less amount due within one year	(207,376)	(195,961)
Less deferred financing	(364,459)	(416,526)
Total	\$ 11,632,649	\$ 11,787,957

Future maturities of long-term debt in each of the five years subsequent to 2016 and thereafter are as follows:

2017	\$ 207,376
2018	219,462
2019	233,118
2020	246,712
2021	261,103
Thereafter	11,036,713
	12,204,484
Less deferred financing	(364,459)
	\$ 11,840,025

Note 7 - Interest rate swap agreement

SRF has an interest rate swap agreement to reduce the impact of changes in interest rates on its floating rate term loan. At December 31, 2016 and 2015, 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, 2016 and 2015 was \$584,710 and \$785,144, 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.

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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, 2016 and 2015.

Changes in endowment net assets for the years ended December 31, 2016 and 2015 was as follows:

	2016	2015
Board designated endowment net, assets beginning	\$ 189,305	\$ 190,573
Investment fees	(1,511)	(1,195)
Net realized and unrealized gain (loss)	340	(73)
	\$ 188,134	\$ 189,305

Note 9 - Temporarily restricted net assets

Temporarily restricted net assets as of December 31, 2016 and 2015 are comprised of the following:

	2016	2015
Time or use restricted		
Research and Education Center	\$ 870,298	\$ 360,311
Various aquarium projects and programs	260,095	322,074
Time restrictions	345,764	303,867
	\$ 1,476,157	\$ 986,252

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:

	2016	2015
Mystic Aquarium		
Purpose and time restrictions accomplished	\$ 587,200	\$ 138,550
	\$ 587,200	\$ 138,550

Note 10 - Operating lease obligations

The Foundation leases certain real estate, vehicles and office equipment under operating leases, which expire at various times through April 2021. The Foundation's total rental expense under these leases was \$146,532 and \$302,568 for the years ended December 31, 2016 and 2015, respectively.

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Future commitments under operating leases are as follows:

2017	\$	88,432
2018		75,400
2019		68,512
2020		68,224
2021		17,056
		<u>317,624</u>
	\$	<u>317,624</u>

Note 11 - Capital lease obligations

The Foundation entered into lease agreements for various equipment during 2016 and 2015. 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 \$261,374 and \$238,564, respectively, less accumulated amortization of \$85,786 and \$34,528, is included in property and equipment as of December 31, 2016 and 2015, respectively. Amortization expense for this equipment for the years ended December 31, 2016 and 2015 was \$51,258 and \$21,164, respectively.

Future commitments under capital leases are as follows:

2017	\$	63,050
2018		63,050
2019		56,562
2020		5,303
2021		2,649
		<u>190,614</u>
Total payments		190,614
Less interest portion		(18,838)
		171,776
Less current portion		(53,483)
Long-term portion	\$	<u>118,293</u>

Note 12 - 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 contributions for the years ended December 31, 2016 and 2015. The Foundation's total contributions to the Plan during the years ended December 31, 2016 and 2015 were \$51,761 and \$52,898, respectively.

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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, 2016 and 2015 were \$28,483 and \$29,829, respectively, and are included in salaries and employee benefits in the statement of functional expenses.

Note 13 - Income taxes

MEC's deferred tax asset results from federal and state net operating loss carryforwards of approximately \$920,000 and \$1,004,000, respectively, as of December 31, 2016 and 2015. 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, 2016 and 2015 are as follows:

	<u>2016</u>	<u>2015</u>
Total deferred tax asset	\$ 200,098	\$ 306,678
Less valuation allowance	<u>(200,098)</u>	<u>(306,678)</u>
Net deferred tax assets	<u>\$ -</u>	<u>\$ -</u>

Note 14 - Pledges receivable

As of December 31, 2016 and 2015, unconditional pledges receivable are expected to be realized in the following periods:

	<u>2016</u>	<u>2015</u>
In one year or less	\$ 597,797	\$ 376,486
In one to five years	271,667	303,712
Less discount	<u>(21,513)</u>	<u>(24,570)</u>
Total	<u>\$ 847,951</u>	<u>\$ 655,628</u>

Amounts are shown in the consolidated statements of financial position as of December 31, 2016 and 2015 as follows:

	<u>2016</u>	<u>2015</u>
Current	\$ 597,797	\$ 376,486
Long-term	<u>250,154</u>	<u>279,142</u>
Total	<u>\$ 847,951</u>	<u>\$ 655,628</u>

Pledges expected to be received in more than one year have been discounted using a discount rate of 5.25% at December 31, 2016 and 2015.

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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 on 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 2016 and 2015 was \$933,338 and \$897,648, respectively. Such amounts are included in auxiliary operations in the consolidated statements of activities.

Note 16 - Arbitration settlement

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. On February 10, 2015, the agreement to manage JASON ended and management responsibility of JASON was transferred to an unrelated third party. 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 was accrued at December 31, 2015 and was paid during 2016.

Supplementary Information

**Sea Research Foundation, Inc.
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**Consolidating Statement of Financial Position
December 31, 2016**

	Mystic Entertainment Company	Sea Research Foundation, Inc.	Eliminating entries	Consolidated
<u>Assets</u>				
Current assets				
Cash and cash equivalents	\$ 93,956	\$ 1,229,654	\$ -	\$ 1,323,610
Grants and contributions receivable	-	224,053	-	224,053
Accounts receivable	8,339	195,320	-	203,659
Intercompany receivable (payable)	743,474	(743,474)	-	-
Prepaid expenses and other current assets	12,750	311,946	-	324,696
Pledges receivable, current portion	-	597,797	-	597,797
Total current assets	858,519	1,815,296	-	2,673,815
Noncurrent assets				
Pledges receivable, net of discount and current portion	-	250,154	-	250,154
Investments	-	1,187,390	(754,850)	432,540
Construction in progress	-	570,038	-	570,038
Property and equipment, net of accumulated depreciation	77,068	30,418,892	-	30,495,960
	<u>\$ 935,587</u>	<u>\$ 34,241,770</u>	<u>\$ (754,850)</u>	<u>\$ 34,422,507</u>
<u>Liabilities and Net Assets</u>				
Current liabilities				
Accounts payable	\$ 42,617	\$ 1,585,448	\$ -	\$ 1,628,065
Line of credit	-	700,000	-	700,000
Notes payable, current portion	-	207,376	-	207,376
Deferred revenue and unearned membership	33,816	1,461,350	-	1,495,166
Accrued expenses	104,304	767,767	-	872,071
Capital lease obligations, current portion	-	53,483	-	53,483
Total current liabilities	180,737	4,775,424	-	4,956,161
Long-term liabilities				
Notes payable, net of current portion	-	11,632,649	-	11,632,649
Interest rate swap agreement liability	-	584,710	-	584,710
Capital lease obligation, long-term	-	118,293	-	118,293
Total long-term liabilities	-	12,335,652	-	12,335,652
Total liabilities	180,737	17,111,076	-	17,291,813
Net assets				
Unrestricted	754,850	15,654,537	(754,850)	15,654,537
Temporarily restricted	-	1,476,157	-	1,476,157
Total net assets	754,850	17,130,694	(754,850)	17,130,694
	<u>\$ 935,587</u>	<u>\$ 34,241,770</u>	<u>\$ (754,850)</u>	<u>\$ 34,422,507</u>

See Independent Auditor's Report.

**Sea Research Foundation, Inc.
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**Consolidating Statement of Activities
Year Ended December 31, 2016**

	Mystic Entertainment Company	Sea Research Foundation, Inc.	Eliminating entries	Consolidated
Sea Research Foundation activities				
Revenue from operations				
Admissions	\$ -	\$ 11,678,709	\$ -	\$ 11,678,709
Memberships	-	1,920,469	-	1,920,469
Program income	-	1,473,862	-	1,473,862
Interest and dividends	-	13,089	-	13,089
Realized loss on investments	-	(2,192)	-	(2,192)
Grants and contracts - operations	-	3,073,944	-	3,073,944
Grants and contracts - capital	-	980,000	-	980,000
Contributions	-	1,057,532	-	1,057,532
Management fees and other revenue	-	309,936	-	309,936
Auxiliary operations	-	2,647,062	(238,600)	2,408,462
Total	-	23,152,411	(238,600)	22,913,811
Operating costs and expenses before depreciation				
	-	21,506,290	(267,532)	21,238,758
Income from Foundation operations before depreciation				
	-	1,646,121	28,932	1,675,053
Depreciation				
	-	2,960,853	-	2,960,853
Deficiency from Foundation operations				
	-	(1,314,732)	28,932	(1,285,800)
Non-operating revenues and expenses:				
Settlement revenue	-	653,213	-	653,213
Other income	-	108,921	-	108,921
Equity earnings and adjustment on subsidiary	-	397,052	(397,052)	-
Change in interest swap agreement	-	200,434	-	200,434
Unrealized gain on investments	-	9,493	-	9,493
Income (deficiency) from Foundation activities				
	-	54,381	(368,120)	(313,739)
Mystic Entertainment activities				
Operating revenue	3,374,065	-	(267,532)	3,106,533
Cost of goods sold	(1,470,965)	-	-	(1,470,965)
Net revenue	1,903,100	-	(267,532)	1,635,568
Operating expenses	(1,506,048)	-	238,600	(1,267,448)
Income from MEC activities				
	397,052	-	(28,932)	368,120
Change in net assets				
	397,052	54,381	(397,052)	54,381
Net assets, beginning				
	357,798	17,076,313	(357,798)	17,076,313
Net assets, end				
	\$ 754,850	\$ 17,130,694	\$ (754,850)	\$ 17,130,694

See Independent Auditor's Report.