

**Consolidated Financial Statements and Report of  
Independent Certified Public Accountants**

**Monterey Bay Aquarium Foundation**

**December 31, 2017 and 2016**

# Contents

	<b>Page</b>
Report of Independent Certified Public Accountants	3-4
Consolidated Statements of Financial Position	5
Consolidated Statements of Activities and Changes in Net Assets	6
Consolidated Statements of Cash Flows	7
Notes to Consolidated Financial Statements	8



REPORT OF INDEPENDENT CERTIFIED  
PUBLIC ACCOUNTANTS

To the Board of Trustees of the  
Monterey Bay Aquarium Foundation

Grant Thornton LLP  
10 Almaden Boulevard, Suite 800  
San Jose, CA 95113-2015

T 408.275.9000  
F 408.275.0582  
[www.GrantThornton.com](http://www.GrantThornton.com)

We have audited the accompanying consolidated financial statements of Monterey Bay Aquarium Foundation and its supporting organization, which comprise the consolidated statements of financial position as of December 31, 2017 and 2016, and the related consolidated statements of activities and changes in net assets, 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. 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 Monterey Bay Aquarium Foundation and its supporting organization as of December 31, 2017 and 2016, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*Grant Thornton LLP*

San Jose, California  
August 7, 2018

**Monterey Bay Aquarium Foundation**

**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

**December 31, 2017 and 2016**

ASSETS	2017	2016
<b>Assets:</b>		
Cash and cash equivalents	\$ 47,209,000	\$ 36,903,000
Accounts receivable	2,694,000	1,990,000
Prepaid expenses and other assets	784,000	1,085,000
Pledges and grants receivable, net	18,179,000	44,408,000
Short-term investments	10,710,000	8,750,000
Beneficial interest in split-interest agreements	11,257,000	12,385,000
Cash restricted for long-term purposes	237,000	52,000
Investments	268,799,000	216,693,000
Property, equipment, and exhibits, net	139,480,000	139,323,000
	<b>\$ 499,349,000</b>	<b>\$ 461,589,000</b>
<b>Total assets</b>	<b>\$ 499,349,000</b>	<b>\$ 461,589,000</b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>Liabilities:</b>		
Accounts payable and accrued liabilities	\$ 10,550,000	\$ 8,369,000
Deferred revenue	9,896,000	9,861,000
Gift annuity payment liability	130,000	137,000
	<b>20,576,000</b>	<b>18,367,000</b>
<b>Total liabilities</b>	<b>20,576,000</b>	<b>18,367,000</b>
<b>Net assets:</b>		
<b>Unrestricted</b>		
Funds available for operations	187,220,000	169,707,000
Funds functioning as endowment	214,566,000	174,952,000
<b>Total unrestricted net assets</b>	<b>401,786,000</b>	<b>344,659,000</b>
Temporarily restricted	59,535,000	81,608,000
Permanently restricted	17,452,000	16,955,000
<b>Total net assets</b>	<b>478,773,000</b>	<b>443,222,000</b>
<b>Total liabilities and net assets</b>	<b>\$ 499,349,000</b>	<b>\$ 461,589,000</b>

## Monterey Bay Aquarium Foundation

### CONSOLIDATED STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

For the years ended December 31, 2017 and 2016

	2017				2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>SUPPORT AND REVENUES:</b>								
Admissions	\$ 48,721,000	\$ -	\$ -	\$ 48,721,000	\$ 45,924,000	\$ -	\$ -	\$ 45,924,000
Contributions and grants	18,566,000	8,579,000	497,000	27,642,000	9,677,000	54,891,000	248,000	64,816,000
Memberships	13,450,000	-	-	13,450,000	12,871,000	-	-	12,871,000
Merchandising and food services	4,464,000	-	-	4,464,000	4,202,000	-	-	4,202,000
Endowment distribution	5,515,000	658,000	-	6,173,000	4,362,000	524,000	-	4,886,000
Programs	1,226,000	-	-	1,226,000	1,490,000	-	-	1,490,000
Other, net	2,502,000	-	-	2,502,000	2,524,000	-	-	2,524,000
Net assets released from restrictions	34,205,000	(34,205,000)	-	-	14,404,000	(14,404,000)	-	-
Total support and revenues	<u>128,649,000</u>	<u>(24,968,000)</u>	<u>497,000</u>	<u>104,178,000</u>	<u>95,454,000</u>	<u>41,011,000</u>	<u>248,000</u>	<u>136,713,000</u>
<b>EXPENSES:</b>								
<b>Program services:</b>								
Marine life exhibition and care	38,165,000	-	-	38,165,000	35,531,000	-	-	35,531,000
Education and outreach	11,086,000	-	-	11,086,000	12,467,000	-	-	12,467,000
Guest services and marketing	15,927,000	-	-	15,927,000	14,199,000	-	-	14,199,000
Conservation and science	9,724,000	-	-	9,724,000	9,065,000	-	-	9,065,000
Merchandising and food services	2,778,000	-	-	2,778,000	2,790,000	-	-	2,790,000
Total program services expenses	<u>77,680,000</u>	<u>-</u>	<u>-</u>	<u>77,680,000</u>	<u>74,052,000</u>	<u>-</u>	<u>-</u>	<u>74,052,000</u>
<b>Support services:</b>								
Management and general	12,075,000	-	-	12,075,000	11,664,000	-	-	11,664,000
Development	3,129,000	-	-	3,129,000	3,742,000	-	-	3,742,000
Membership services	1,735,000	-	-	1,735,000	1,816,000	-	-	1,816,000
Rental facilities expense	1,270,000	-	-	1,270,000	1,527,000	-	-	1,527,000
Total expenses	<u>95,889,000</u>	<u>-</u>	<u>-</u>	<u>95,889,000</u>	<u>92,801,000</u>	<u>-</u>	<u>-</u>	<u>92,801,000</u>
<b>NON-OPERATING ACTIVITIES:</b>								
Dividends and interest	1,718,000	196,000	-	1,914,000	1,497,000	177,000	-	1,674,000
Net realized and unrealized gains (losses) on investments	28,220,000	3,357,000	-	31,577,000	6,812,000	804,000	-	7,616,000
Unrealized gain on real estate property holding	-	-	-	-	154,000	-	-	154,000
Total investment income	<u>29,938,000</u>	<u>3,553,000</u>	<u>-</u>	<u>33,491,000</u>	<u>8,463,000</u>	<u>981,000</u>	<u>-</u>	<u>9,444,000</u>
Unrealized gains (losses) on disposal of fixed assets	(56,000)	-	-	(56,000)	-	-	-	-
Endowment distribution	(5,515,000)	(658,000)	-	(6,173,000)	(4,362,000)	(524,000)	-	(4,886,000)
Total non-operating activities	<u>24,367,000</u>	<u>2,895,000</u>	<u>-</u>	<u>27,262,000</u>	<u>4,101,000</u>	<u>457,000</u>	<u>-</u>	<u>4,558,000</u>
<b>INCREASE (DECREASE) IN NET ASSETS</b>	<u>57,127,000</u>	<u>(22,073,000)</u>	<u>497,000</u>	<u>35,551,000</u>	<u>6,754,000</u>	<u>41,468,000</u>	<u>248,000</u>	<u>48,470,000</u>
<b>NET ASSETS:</b>								
Beginning of year	<u>344,659,000</u>	<u>81,608,000</u>	<u>16,955,000</u>	<u>443,222,000</u>	<u>337,905,000</u>	<u>40,140,000</u>	<u>16,707,000</u>	<u>394,752,000</u>
End of year	<u>\$ 401,786,000</u>	<u>\$ 59,535,000</u>	<u>\$ 17,452,000</u>	<u>\$ 478,773,000</u>	<u>\$ 344,659,000</u>	<u>\$ 81,608,000</u>	<u>\$ 16,955,000</u>	<u>\$ 443,222,000</u>

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

**Monterey Bay Aquarium Foundation**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**For the years ended December 31, 2017 and 2016**

	2017	2016
Cash flows from operating activities:		
Increase in net assets	\$ 35,551,000	\$ 48,470,000
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	14,061,000	12,247,000
Net provision for doubtful accounts	35,000	59,000
Change in discount on multi-year pledges receivable	29,000	(1,391,000)
Contributions of securities	(2,464,000)	(2,173,000)
Contributions restricted for endowment in investments	(497,000)	(186,000)
Loss on retirement of property, equipment, and exhibits	56,000	400,000
Unrealized gain on real estate property holding	-	(154,000)
Net loss (gain) on investments	(31,612,000)	(7,627,000)
Effect of change in:		
Receivable, prepaid expenses, and other assets	(406,000)	496,000
Pledges and grants receivable, net	26,168,000	(13,160,000)
Beneficial interest in split-interest agreements	1,128,000	(11,885,000)
Accounts payable and accrued liabilities	301,000	(664,000)
Deferred revenue	35,000	1,483,000
Gift annuity payment liability	(7,000)	(17,000)
Net cash provided by operating activities	42,378,000	25,898,000
Cash flows from investing activities:		
Purchases of investments	(89,781,000)	(68,339,000)
Proceeds from sale of investments	69,792,000	61,937,000
Cash restricted for long term purposes	(185,000)	(40,000)
Additions to property, equipment and exhibits	(12,395,000)	(7,871,000)
Net cash used in investing activities	(32,569,000)	(14,313,000)
Cash flows from financing activities:		
Proceeds from contributions restricted for endowment	497,000	186,000
Net cash provided by financing activities	497,000	186,000
Net increase in cash and cash equivalents	10,306,000	11,771,000
Cash and cash equivalents, beginning of year	36,903,000	25,132,000
Cash and cash equivalents, end of year	\$ 47,209,000	\$ 36,903,000
Supplemental disclosures of noncash activities:		
Accounts payable for capital projects	\$ 2,648,000	\$ 767,000

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

## Monterey Bay Aquarium Foundation

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2017 and 2016

#### NOTE 1 – SUMMARY OF ACCOUNTING POLICIES

##### Organization

The Monterey Bay Aquarium Foundation and its supporting organization, Monterey Bay Aquarium Support Services (“MBASS”), (collectively, the “Aquarium”) are California not-for-profit corporations founded in 1978 and 2001, respectively. The Aquarium’s mission is to inspire conservation of the ocean. It was created with an initial gift from David and Lucile Packard. The Aquarium facilities opened to the public in 1984. The Aquarium’s major programs include a public aquarium whose exhibits focus primarily, but not exclusively, on marine life of Monterey Bay and California’s central coast; education programs serving students from preschool through college as well as primary- and secondary-school educators; and research and conservation initiatives which include (a) the long-term survival of the southern sea otter, (b) understanding and conserving tunas and other highly migratory animals, (c) promoting seafood sustainability, and (d) conducting and communicating scientific research that promotes marine conservation and informs ocean policy.

##### Basis of Presentation

The accompanying consolidated financial statements have been prepared using the accrual basis of accounting in accordance with generally accepted accounting principles of the United States of America (“GAAP”) and are presented on the basis of unrestricted, temporarily restricted, and permanently restricted net assets rounded to the thousands (000).

##### Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Monterey Bay Aquarium Foundation and its supporting organization, MBASS. The Monterey Bay Aquarium Foundation controls and has an economic interest in MBASS. Intercompany transactions and accounts have been eliminated in consolidation.

##### Cash, Cash Equivalents and Short-Term Investments

Cash and cash equivalents consists of cash and cash equivalents on hand, in demand deposit accounts, and in brokerage accounts, except amounts restricted for long-term purposes (which are classified as cash restricted for long-term purposes). Cash and cash equivalents have maturities of three months or less as of the purchase date. Cash and cash equivalents managed by the Aquarium’s investment manager, if any, are included in investments. Short term investments include liquid securities intended to be converted to cash within 12 months.

##### Pledges and Grants Receivable, Net

Pledges and grants receivable consist of unconditional promises to give that are expected to be collected in future years and grants classified as conditional promises to the extent that conditions have been met but reimbursement from the grantor has not yet been received. Pledges and grants receivable are reported as either temporarily or permanently restricted support unless explicit donor stipulations or circumstances surrounding the pledge make clear the donor intended it to be used to support activities of the current period.



**Monterey Bay Aquarium Foundation**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

**December 31, 2017 and 2016**

**NOTE 1 – SUMMARY OF ACCOUNTING POLICIES (continued)**

Pledges and Grants Receivable, Net (continued)

Pledges receivable are recorded at the present value of their estimated future cash flows. The discounts on these amounts are computed using risk-adjusted rates applicable in the years in which those promises are received. The changes in pledge discount estimates are included in contributions and grants in the accompanying consolidated statements of activities and changes in net assets. Pledges and grants receivable are reviewed for collectability and an allowance for doubtful pledges receivable is recorded based on management's judgment and analysis of the creditworthiness of the donors, past collection experience, and other relevant factors. Changes in the allowance are included in management and general in the accompanying consolidated statement of activities and changes in net assets.

Beneficial Interest in Split-Interest Agreements and Gift Annuity Payment Liability

Assets contributed by donors under charitable remainder trust agreements and controlled by third parties are recorded at fair value as measured by the present value of the estimated future distributions to be received by the Aquarium over the term of the agreement.

Assets contributed by donors under gift annuity agreements and controlled by the Aquarium are recorded at fair value with a corresponding liability to beneficiaries of the annuity agreements. Such liability is calculated as the present value of the estimated future cash flows to be distributed to the income beneficiaries over their expected lives. The Aquarium has determined such liability using investment returns consistent with the composition of portfolios, single or joint life expectancies from the Internal Revenue Service Publication 1457, and the risk-adjusted rates applicable in the years in which the agreements were effective.

Cash Restricted for Long-Term Purposes

Cash and cash equivalents restricted for long-term purposes consists of amounts in demand deposit accounts and in brokerage accounts.

Investments

Investments are reflected on the consolidated statements of financial position at fair value. Changes in realized and unrealized gains and losses resulting from changes in fair value are reflected in the consolidated statements of activities and changes in net assets as non-operating activities. Dividends and interest are recognized as they are earned. Investments primarily consist of all funds managed by the Aquarium's investment manager and all securities in brokerage accounts.

Additionally, investments include a commercial real estate property in Monterey, California about one mile from the main facility. The property was acquired in 2001 with the intention that it be utilized for staff offices and other Aquarium purposes, and so has been included in property, equipment, and exhibits, net on the consolidated statements of financial position.

## Monterey Bay Aquarium Foundation

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

December 31, 2017 and 2016

#### NOTE 1 – SUMMARY OF ACCOUNTING POLICIES (continued)

##### Investments (continued)

In 2015, it was determined that the portion of the property not utilized for such purposes should be classified as investments on the consolidated statement of financial position at fair value as of December 31, 2015. There are three generally accepted approaches to developing an opinion of value: Cost, Sales Comparison and Income Capitalization. The Aquarium considered each valuation methodology and determined the income capitalization approach, which considers the income-generating capacity of the property, would be the most meaningful valuation methodology.

##### Property, Equipment, and Exhibits, Net

Property, equipment, and exhibits are recorded at cost or, if donated, at fair value at the date of donation. The assets are capitalized if the useful life is greater than one year and greater than \$5,000 and assets are depreciated using the straight-line method over their estimated useful lives, which generally are as follows:

<u>Asset</u>	<u>Years</u>
Buildings and improvements	10-40
Exhibits	2-15
Equipment, furniture, and fixtures	2-15

Capitalized costs for self-constructed property, equipment, and exhibits assets include direct labor and benefits for employees specifically identified with the project. The assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. The costs of purchasing or collecting live animals are expensed as incurred.

##### Unrestricted Net Assets

Unrestricted net assets represent unrestricted resources available to support the Aquarium's operations and temporarily restricted resources which have become available for use by the Aquarium in accordance with the intentions of donors. Unrestricted net assets include funds functioning as endowment through designation by the Aquarium's Board of Trustees ("Board").

Temporarily restricted net assets represent gifts that are subject to donor-imposed purpose or time restrictions that can be fulfilled either by actions of the Aquarium pursuant to those restrictions and/or with the passage of time. Upon satisfaction of such restrictions, net assets are released from temporarily restricted net assets and recognized as unrestricted net assets. Temporarily restricted net assets also include undistributed earnings from donor-restricted endowments, which are released from temporarily restricted net assets and recognized as unrestricted net assets upon Board approval of annual endowment distributions.

##### Permanently Restricted Net Assets

Permanently restricted net assets represent gifts with donor-imposed restrictions that the original gift amounts be maintained in perpetuity as an endowment.

## Monterey Bay Aquarium Foundation

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

December 31, 2017 and 2016

#### NOTE 1 – SUMMARY OF ACCOUNTING POLICIES (continued)

##### Financial Instruments

Assets and liabilities included in the Aquarium's consolidated statements of financial position which are considered to be financial instruments are cash and cash equivalents, accounts receivable, pledges and grants receivable, beneficial interest in split-interest agreements, cash restricted for long-term purposes, investments, accounts payable and accrued liabilities, and gift annuity payment liability.

For cash and cash equivalents, accounts receivable, cash restricted for long-term purposes, and accounts payable and accrued liabilities, the carrying amounts represent a reasonable estimate of the fair value due to their short maturity. Pledges and grants receivable have been discounted using applicable risk-adjusted rates to approximate fair value as described above. Beneficial interest in split-interest agreements and gift annuity payment liability are reflected at their estimated fair values using the methodology described above. Investments are reflected at estimated fair value as described below.

##### Fair Value Measurements

Assets and liabilities (subject to the standard and thus measured and reported at fair value) are classified and disclosed within the following valuation hierarchy:

Level I - Quoted prices are available for identical financial instruments in active markets as of the reporting date, without adjustment. Level I include listed equity securities held in the name of the Aquarium, and exclude listed equities and other securities held indirectly through commingled funds.

Level II - Price inputs are quoted prices for similar financial instruments in active markets; quoted prices for identical or similar financial instruments in markets that are not active; model-derived valuations in which all significant inputs or significant value-drivers are observable in active markets.

Level III - Pricing inputs are unobservable and include situations where there is little, if any, market activity. The inputs into the determination of fair value require significant management judgment or estimation. Level III includes debt and equity securities issued by private entities.

The Aquarium's policy is to recognize transfers between Levels I, II, and III as of the end of the fiscal year during which the event or circumstances that caused the transfer occurred.

##### Concentrations of Credit Risk

Financial instruments which potentially subject the Aquarium to credit risk consist primarily of cash and cash equivalents, receivables, and investments. The Aquarium maintains its cash and cash equivalents in various major financial institution accounts and money market funds that, at times, may exceed federally insured limits. The Aquarium has not experienced, nor does it anticipate, any losses in such accounts. The Aquarium attempts to limit its credit risk associated with investments through diversification and by utilizing the expertise and processes of third party investment managers.

**Monterey Bay Aquarium Foundation**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

**December 31, 2017 and 2016**

**NOTE 1 – SUMMARY OF ACCOUNTING POLICIES (continued)**

Concentrations of Credit Risk (continued)

Receivables consist primarily of pledges due from donors. The Aquarium closely monitors these receivables and has not experienced, nor does it anticipate, significant credit losses. The Aquarium had three donors as of December 31, 2017 whose combined pledges accounted for 46% of the total pledges receivable.

Revenue Recognition

Admissions revenue is recognized on the date of admission or upon expiration of prepaid tickets, which expire 12 months from date of purchase. Prepayments are recorded as deferred revenue when collected.

Contributions and unconditional grants are recognized as support and revenues when they are received or unconditionally pledged. The Aquarium reports such gifts as restricted support and revenues if they are subject to time or donor-imposed restrictions. Temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statements of activities and changes in net assets as net assets released from restrictions when a stipulated time restriction ends and/or purpose restriction is accomplished. However, temporarily restricted contributions and grants are reported as unrestricted support and revenues if the restriction is met in the same calendar year that the gift is received. Conditional grants (reciprocal transfers between two entities in which goods and services of equal value is exchanged) are not recorded as other support and revenues until allowable expenditures are incurred.

Contributions of services are recorded at estimated fair value when received if such services require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased, if not donated. During 2017 and 2016, the value of such services (recognized as support and revenues and expenses in the consolidated statements of activities and changes in net assets) was \$290,000 and \$271,000, respectively, and consisted solely of professional diver services.

Contributions of food, equipment, and other goods are recorded at estimated fair value when received. During 2017 and 2016, the value of such contributions (recognized as support and revenues and expenses in the consolidated statements of activities and changes in net assets) was \$66,000 and \$225,000, respectively.

Memberships are recorded as deferred revenue and recognized as unrestricted support and revenues ratably over the membership period, which is one to three years. Merchandising and food services revenue is based on a percentage-of-revenue commission earned from the third-party management company which conducts these operations. Programs revenue for enhanced visitor experience is recognized when the service is provided.

Other revenue primarily consists of rental income which is recognized on a straight-line basis over the rental period and includes storage and parking fees and any reimbursements from tenants for common area maintenance, insurance, and real estate tax expenses.

## Monterey Bay Aquarium Foundation

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

December 31, 2017 and 2016

#### NOTE 1 – SUMMARY OF ACCOUNTING POLICIES (continued)

##### Functional Allocation of Expenses

Certain expenses, such as facilities operations, depreciation, property taxes, and volunteer resources, are allocated among program services and support services based primarily on space occupied and on estimates made by the Aquarium's management. Allocated expenses incurred during 2017 and 2016 were \$34,500,000 and \$33,712,000, respectively. For 2017 and 2016, such expenses allocated to development (fundraising) were 0.9% and 0.9%, respectively, of total allocated expenses.

##### Advertising Costs

Advertising costs are expensed as incurred and primarily included in guest services and marketing on the consolidated statements of activities and changes in net assets. Advertising expenses incurred during 2017 and 2016 were \$7,654,000 and \$8,746,000, respectively, and consist of the direct costs associated with the creation, production, and placement of the Aquarium's advertising in various media.

##### Income Taxes

The Monterey Bay Aquarium Foundation and MBASS follow guidance that clarifies the accounting for uncertainty in tax positions taken or expected to be taken in a tax return, including issues relating to financial statement recognition and measurement. This guidance provides that the tax effects from an uncertain tax position can only be recognized in the financial statements if the position is "more-likely-than-not" to be sustained if the position were to be challenged by a taxing authority. The assessment of the tax position is based solely on the technical merits of the position, without regard to the likelihood that the tax position may be challenged.

The Monterey Bay Aquarium Foundation and MBASS are exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code, though it is subject to tax on income unrelated to its exempt purpose, unless that income is otherwise excluded by the Code. They are also exempt from California state franchise taxes under Section 23701(d) of the California Revenue and Taxation Code. The Monterey Bay Aquarium Foundation and MBASS have processes presently in place to ensure the maintenance of its tax-exempt status; to identify and report unrelated income; to determine its filing and tax obligations in jurisdictions for which it was nexus; and to identify and evaluate other matters that may be considered tax positions. The Monterey Bay Aquarium Foundation and MBASS has determined that there are no material uncertain tax positions that require recognition or disclosure in the financial statements.

##### Use of Estimates

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, as well as disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. Significant estimates include allowance for doubtful pledges receivable; the discount rate on multi-year pledges receivable and beneficial interest in split-interest agreements; the valuation of nonmarketable investments and the useful lives of property, equipment and exhibits. Actual results could differ from those estimates.

## Monterey Bay Aquarium Foundation

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

December 31, 2017 and 2016

#### NOTE 1 – SUMMARY OF ACCOUNTING POLICIES (continued)

##### Recent Accounting Pronouncements

In June 2018, the FASB issued ASU No. 2018-08, *Not-For-Profit Entities (Topic 958): Clarifying the Scope and Guidance for Contributions Received and Contributions Made*. This new guidance clarifies the evaluation of whether an exchange of assets is a contribution or an exchange transaction. It also clarifies the criteria to evaluate whether a contribution has a donor-imposed condition and how that impacts revenue recognition. This guidance is effective for years beginning after December 15, 2018 and changes will be applied on a modified prospective basis. The Aquarium is currently evaluating the impact on the consolidated financial statements.

In November 2016, the FASB issued ASU No. 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash (a consensus of the FASB Emerging Issues Task Force)*. The amendments require that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and restricted cash or restricted cash equivalents. Therefore, the amounts should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The amendments in the update are effective for fiscal years beginning after December 15, 2018 with early application permitted. The Aquarium has not yet adopted the update and does not expect a material impact to the consolidated financial statements upon adoption.

In August 2016, FASB issued ASU No. 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*. This new guidance addresses eight specific cash flow issues with the objective of reducing the existing diversity in practice. The guidance is effective for annual financial statements issued beginning after December 15, 2018. The Aquarium has not yet adopted the update and does not expect a material impact to the consolidated financial statements upon adoption.

In August 2016, the FASB issued ASU No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The new guidance simplifies and improves how not-for-profit entities classify net assets as well as the information presented in financial statements and notes about liquidity, financial performance and cash flows. This guidance is effective for annual financial statements issued beginning after December 15, 2017. The Aquarium is currently evaluating the impact on the consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. The amendments in this update will supersede much of the existing authoritative guidance for leases. This guidance requires lessees, among other things, to recognize right-of-use assets and liabilities on their balance sheet for all leases with lease terms longer than twelve months. The amendments in the update are effective for fiscal years beginning after December 15, 2019 with early application permitted. The Aquarium is currently evaluating the impact on the consolidated financial statements.

**Monterey Bay Aquarium Foundation**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

**December 31, 2017 and 2016**

**NOTE 1 – SUMMARY OF ACCOUNTING POLICIES (continued)**

Recent Accounting Pronouncements (continued)

In May 2014, FASB issued ASU 2014-09, Revenue from Contracts with Customers. This guidance along with subsequent amendments provides a new model for revenue recognition and disclosures for all entities enter into contracts with customers to transfer goods or services. In August 2015, the FASB issued ASU 2015-14, Revenue from Contracts with Customers: Deferral of the Effective Date, to defer the effective date of this new standard by one year. This guidance is effective for years beginning after December 15, 2018. The Aquarium is currently evaluating the impact on the consolidated financial statements.

**NOTE 2 – PLEDGES AND GRANTS RECEIVABLE, NET**

Pledges and grants receivable as of December 31 are expected to be collected as follows:

	<u>2017</u>	<u>2016</u>
In one year or less	\$ 9,710,000	\$ 28,527,000
Between one and five years	8,754,000	16,806,000
Greater than five years	<u>700,000</u>	<u>10,000</u>
Subtotal	19,164,000	45,343,000
Less discounts on multi-year pledges receivable	(924,000)	(895,000)
Less allowance for doubtful pledges receivable	<u>(61,000)</u>	<u>(40,000)</u>
Total pledges and grants receivable, net	<u>\$ 18,179,000</u>	<u>\$ 44,408,000</u>

The present value discount rates for 2017 and 2016 ranged from 1.03% to 6.00%.

Pledges and grants receivable for conditional contributions are not reported in the consolidated financial statements until the conditions are met. Such amounts totaled \$23,000 and \$113,000 as of December 31, 2017 and 2016, respectively.

**NOTE 3 – BENEFICIAL INTEREST IN SPLIT-INTEREST AGREEMENTS**

The Aquarium's beneficial interest in split-interest agreements consists of invested assets contributed by donors under charitable remainder and lead trust agreements and gift annuity agreements. Management establishes the fair value of the assets using the valuation techniques described in Note 1, above.

**Monterey Bay Aquarium Foundation**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

**December 31, 2017 and 2016**

**NOTE 3 – BENEFICIAL INTEREST IN SPLIT-INTEREST AGREEMENTS (Continued)**

As of December 31, 2017, the Aquarium's beneficial interest in split-interest agreements consisted of the following:

	<u>Total</u>	<u>Level I</u>	<u>Level II</u>	<u>Level III</u>
Cash equivalents	\$ 12,000	\$ 12,000	\$ -	\$ -
Fixed income funds	93,000	93,000	-	-
Equity/Other funds	47,000	47,000	-	-
Interest in charitable trusts	<u>11,105,000</u>	<u>-</u>	<u>-</u>	<u>11,105,000</u>
<b>Total</b>	<b><u>\$ 11,257,000</u></b>	<b><u>\$ 152,000</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 11,105,000</u></b>

As of December 31, 2016, the Aquarium's beneficial interest in split-interest agreements consisted of the following:

	<u>Total</u>	<u>Level I</u>	<u>Level II</u>	<u>Level III</u>
Cash equivalents	\$ 13,000	\$ 13,000	\$ -	\$ -
Fixed income funds	104,000	104,000	-	-
Equity/Other funds	51,000	51,000	-	-
Interest in charitable trusts	<u>12,217,000</u>	<u>-</u>	<u>-</u>	<u>12,217,000</u>
<b>Total</b>	<b><u>\$ 12,385,000</u></b>	<b><u>\$ 168,000</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 12,217,000</u></b>

The changes in beneficial interest in split-interest agreements related to Level III investments for 2017 and 2016 were as follows:

Balance as of December 31, 2015	\$ 297,000
Change in value of agreements	(5,000)
New agreement, net of discount	<u>11,925,000</u>
Balance as of December 31, 2016	12,217,000
Change in the value of agreements	<u>(1,112,000)</u>
Balance as of December 31, 2017	<b><u>\$ 11,105,000</u></b>



## Monterey Bay Aquarium Foundation

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

December 31, 2017 and 2016

#### NOTE 3 – BENEFICIAL INTEREST IN SPLIT-INTEREST AGREEMENTS (continued)

Changes in value related to Level III beneficial interest in split-interest were reported in contributions and grants in the consolidated statements of activities and changes in net assets.

The present value discount rates for 2017 and 2016 ranged from 3.5% to 5.2% and the agreements are estimated to be outstanding for the lifetime of the donors.

#### NOTE 4 – INVESTMENTS

The Aquarium's investments are primarily managed by Commonfund through a fund-of-funds approach in a diversified portfolio governed by the Aquarium's investment policy, which sets asset allocation ranges for marketable and nonmarketable investments, as well as equity, fixed income, real assets, and hedge investments. In addition to the investment portfolio the Aquarium also owns a commercial real estate property in Monterey, California. In 2015, it was determined that the majority of the property should be classified as an investment (Level III), rather than solely as an operating asset. The real estate property holding was valued utilizing the income capitalization approach. As of December 2017 and 2016, the Aquarium classified \$19,516,000 and \$19,516,000 as an investment and \$3,928,000 and \$4,029,000 as an operating asset in property equipment and exhibits, net, respectively. An unrealized gain of \$0 and \$154,000 was recorded as of December 31, 2017 and 2016.

Management establishes the fair value of Level I investments based on quoted market prices. Management establishes the fair value of investments held at NAV through a documented valuation process including review of audited financial statements for the investment funds, verification of the fair value of marketable securities in the funds, regular review of fund manager valuation approaches, and monitoring of fund activities. Because of the inherent uncertainty of valuation of nonmarketable investments, the estimated values may differ significantly from the values that would have been used had a ready market for the securities existed, and the differences could be material.

Excluding fees charged directly to the funds by sub-managers, investment expenses incurred during 2017 and 2016 were \$293,000 and \$205,000, respectively, and were reported as a reduction of dividends and interest in the consolidated statements of activities and changes in net assets.

**Monterey Bay Aquarium Foundation**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

**December 31, 2017 and 2016**

**NOTE 4 – INVESTMENTS (continued)**

As of December 31, 2017, the Aquarium's investments consisted of short term and long term certificates of deposits of \$19,255,000, and the following assets which are classified by level within the valuation hierarchy as follows:

	<u>Total</u>	<u>Level I</u>	<u>Level II</u>	<u>Level III</u>
Money market fund	\$ 9,883,000	\$ 9,883,000	\$ -	\$ -
Real estate property holding	19,516,000	-	-	19,516,000
<u>Assets valued at NAV:</u>				
Global equity fund	135,385,000	-	-	-
Fixed income strategies	27,780,000	-	-	-
Hedge fund strategies	33,956,000	-	-	-
Private capital funds	14,218,000	-	-	-
Global distressed funds	937,000	-	-	-
Natural resource funds	6,192,000	-	-	-
Real estate funds	12,387,000	-	-	-
Total investments	<u>\$ 260,254,000</u>	<u>\$ 9,883,000</u>	<u>\$ -</u>	<u>\$ 19,516,000</u>

As of December 31, 2016, the Aquarium's investments consisted of short term and long term certificates of deposits of \$10,000,000 and the following assets which are classified by level within the valuation hierarchy as follows:

	<u>Total</u>	<u>Level I</u>	<u>Level II</u>	<u>Level III</u>
Money market fund	\$ 13,471,000	\$ 13,471,000	\$ -	\$ -
Real estate property holding	19,516,000	-	-	19,516,000
<u>Assets valued at NAV:</u>				
Global equity fund	114,636,000	-	-	-
Fixed income strategies	9,385,000	-	-	-
Hedge fund strategies	28,197,000	-	-	-
Private capital funds	11,307,000	-	-	-
Global distressed funds	1,125,000	-	-	-
Natural resource funds	5,645,000	-	-	-
Real estate funds	12,161,000	-	-	-
Total investments	<u>\$ 215,443,000</u>	<u>\$ 13,471,000</u>	<u>\$ -</u>	<u>\$ 19,516,000</u>

There were no transfers between Levels I, II, and III for the years ended December 31, 2017 or 2016.

**Monterey Bay Aquarium Foundation**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

**December 31, 2017 and 2016**

**NOTE 4 – INVESTMENTS (continued)**

The Aquarium utilizes the NAV as the practical expedient to value funds for which the underlying investment funds (a) do not have a readily determinable fair value and (b) prepare their consolidated financial statements consistent with the measurement principles of an investment company or have the attributes of an investment company. The administrator of the funds held by the Aquarium, appointed by and under supervision of Commonfund, provides the NAV's considering variables such as the actual market exchanges and/or trade quotations provided by third parties. The Aquarium reviews and evaluates NAV's provided by the funds' administrator including assessing methods, assumptions and the valuations provided by the funds' administrator and believes that the carrying amounts of these investments are reasonable estimates of fair value.

**Monterey Bay Aquarium Foundation**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

**December 31, 2017 and 2016**

**NOTE 4 – INVESTMENTS (continued)**

The following table lists attributes of investments carried at NAV as of December 31:

Fund Type	2017			2016			Remaining Life	Redemption Terms	Redemption Restrictions
	NAV	Number of Funds	Unfunded Commitments	NAV	Number of Funds	Unfunded Commitments			
Global Equity fund	\$ 135,385,000	1	\$ -	\$ 114,636,000	1	\$ -	N.A.	Monthly with 5 business days notice	None
Private capital funds	14,218,000	8	20,600,000	11,307,000	7	17,385,000	7 - 12 years	No redemption permitted	No redemption permitted
Distressed debt funds	937,000	2	630,000	1,125,000	2	630,000	3-9 Years	Ranges between no redemption permitted and annual redemption with 120 days notice	One fund has a side pocket and carries a 20% gate provision
Fixed income funds	27,780,000	2	-	9,385,000	1	-	N.A.	Monthly with 5 business days notice	None
Hedge funds	33,956,000	3	-	28,197,000	4	-	N.A.	90 – 95 days notice	Redemptions may be limited or suspended under certain circumstances.
Natural resource funds	6,192,000	3	1,154,000	5,645,000	3	1,946,000	7 - 12 years	No redemption permitted	No redemption permitted
Private real estate funds	12,387,000	3	2,890,000	12,161,000	3	3,020,000	2 of 3 is open end, 1 of 3 are closed end with 8 and 12 years remaining life.	1 of 3 with monthly liquidity, 1 of 3 with quarterly redemption with 120 days notice, 2 of 3 with no redemption permitted.	1 of 3 with monthly liquidity, 1 of 3 are subject to available cash and minimum investment balance requirements, 2 of 3 do not permit redemptions.
<b>Total</b>	<b>\$ 230,855,000</b>	<b>22</b>	<b>\$ 25,274,000</b>	<b>\$ 182,456,000</b>	<b>21</b>	<b>\$ 22,981,000</b>			

The Aquarium has non-cancellable commitments under partnership agreements with Commonfund to make additional capital contributions to certain investment funds noted in the table above. The Aquarium intends to fund such commitments through reallocations within the investment portfolio.

**Monterey Bay Aquarium Foundation**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

**December 31, 2017 and 2016**

**NOTE 5 – PROPERTY, EQUIPMENT, AND EXHIBITS, NET**

Property, equipment, and exhibits, net consist of the following as of December 31:

	<u>2017</u>	<u>2016</u>
Land	\$ 24,373,000	\$ 24,373,000
Buildings and building improvements	163,109,000	161,676,000
Exhibits	59,675,000	64,854,000
Equipment, furniture and fixtures	<u>29,932,000</u>	<u>35,853,000</u>
	277,089,000	286,756,000
Less accumulated depreciation	<u>(152,307,000)</u>	<u>(151,554,000)</u>
	124,782,000	135,202,000
Capital projects in process	<u>14,698,000</u>	<u>4,121,000</u>
Property, equipment and exhibits, net	<u>\$ 139,480,000</u>	<u>\$ 139,323,000</u>

Depreciation expense for the years ended December 31, 2017 and 2016 was \$14,061,000 and \$12,247,000, respectively. Losses from the write-off of the remaining book value associated with assets that were replaced in 2017 and 2016 were \$56,000 and \$400,000, respectively. Asset additions in 2017 and 2016 were \$14,475,000 and \$8,638,000, respectively. In 2017, asset additions include the beginning construction of the Bechtel Family Center for Ocean Education and Leadership and the Animal Care Center, completing the new Soaring with Seabirds exhibit, and other Aquarium infrastructure projects.

The Aquarium owns a commercial real estate property in Monterey, California. As of December 31, 2017 and 2016, the portion of the property classified as buildings was \$3,928,000 and \$4,029,000. See Note 4 for more information.

**Monterey Bay Aquarium Foundation**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

**December 31, 2017 and 2016**

**NOTE 6 – TEMPORARILY RESTRICTED NET ASSETS**

Temporarily restricted net assets are available as follows as of December 31:

<u>Temporarily restricted net assets:</u>	<u>2017</u>	<u>2016</u>
Purpose-restricted:		
Seafood Watch – sustainable seafood initiative	\$ 6,940,000	\$ 19,565,000
Education programs and facility	19,207,000	27,207,000
Conservation and science	10,498,000	1,423,000
Animal Care Center	718,000	-
Other	<u>253,000</u>	<u>103,000</u>
 Total purpose-restricted	 37,616,000	 48,298,000
 Time-restricted:		
Pledges receivable and beneficial interest in split-interest agreements without a purpose restriction	14,105,000	28,391,000
Undistributed endowment earnings	<u>7,814,000</u>	<u>4,919,000</u>
 Total temporarily restricted net assets	 <u>\$ 59,535,000</u>	 <u>\$ 81,608,000</u>

Temporarily restricted net assets released from restriction include earnings from donor restricted endowment approved for endowment distribution by the Board and net assets released from restrictions by incurring expenses satisfying the donor-restricted purposes or time requirements as summarized in the table below:

<u>Net assets released from restriction:</u>	<u>2017</u>	<u>2016</u>
Purpose-restricted:		
Seafood Watch – sustainable seafood initiative	\$ 2,643,000	\$ 3,266,000
Education programs and facility	12,037,000	5,560,000
Conservation and science	4,152,000	1,795,000
Free school visits	-	1,000,000
Other	<u>50,000</u>	<u>100,000</u>
 Total purpose-restricted	 18,882,000	 11,721,000
 Time-restricted:	 14,665,000	 2,159,000
 Endowment distribution	 <u>658,000</u>	 <u>524,000</u>
 Total net assets released from restrictions	 <u>\$ 34,205,000</u>	 <u>\$ 14,404,000</u>

**Monterey Bay Aquarium Foundation**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

**December 31, 2017 and 2016**

**NOTE 7 – ENDOWMENT**

The Aquarium’s endowment funds consist of (a) unrestricted funds functioning as endowment through designation by the Board and (b) donor-restricted endowment funds. The earnings of the Aquarium’s endowment funds support education programs, conservation and science programs, and the mission of the Aquarium. Net assets associated with endowment funds, including unrestricted funds functioning as endowment, are classified and reported based on the existence or absence of donor-imposed restrictions.

Effective January 1, 2009, the state of California adopted the Uniform Prudent Management of Institutional Funds Act (“UPMIFA”), which governs the management and use of donor-restricted endowment funds held by charitable institutions in the state of California. GAAP provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of UPMIFA, and also improves disclosures about an organization’s endowment funds (both donor-restricted and funds functioning as endowment).

Consistent with UPMIFA and Board policy, the Aquarium classifies as permanently restricted net assets the original value of gifts (including subsequent gifts) of donor-restricted endowment and, if applicable, accumulations of donor-restricted endowment as required by the donor. Accumulated earnings of donor-restricted endowment are classified as temporarily restricted net assets until distributed in accordance with UPMIFA and Board policy.

As of December 31, 2017, the Aquarium’s endowment net asset composition by type of fund was as follows:

	Funds			
	Functioning as Endowment	Temporarily Restricted	Permanently Restricted	Total
Funds functioning as endowment	\$ 214,566,000	\$ -	\$ -	\$ 214,566,000
Board redesignated funds	-	-	-	-
Donor-restricted endowment funds	-	7,814,000	17,452,000	25,266,000
<b>Total endowment funds</b>	<b>\$ 214,566,000</b>	<b>\$ 7,814,000</b>	<b>\$ 17,452,000</b>	<b>\$ 239,832,000</b>

As of December 31, 2016, the Aquarium’s endowment net asset composition by type of fund was as follows:

	Funds			
	Functioning as Endowment	Temporarily Restricted	Permanently Restricted	Total
Funds functioning as endowment	\$ 111,230,000	\$ -	\$ -	\$ 111,230,000
Board redesignated funds	63,722,000	-	-	63,722,000
Donor-restricted endowment funds	-	4,919,000	16,955,000	21,874,000
<b>Total endowment funds</b>	<b>\$ 174,952,000</b>	<b>\$ 4,919,000</b>	<b>\$ 16,955,000</b>	<b>\$ 196,826,000</b>

**Monterey Bay Aquarium Foundation**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

**December 31, 2017 and 2016**

**NOTE 7 – ENDOWMENT (continued)**

During 2017, the Aquarium’s endowment net assets changes were as follows:

	<u>Funds Functioning as Endowment</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 174,952,000	\$ 4,919,000	\$ 16,955,000	\$ 196,826,000
Investment return				
Investment income	1,649,000	196,000	-	1,845,000
Net realized and unrealized gains	28,253,000	3,357,000	-	31,610,000
Total investment return	29,902,000	3,553,000	-	33,455,000
Contributions	15,227,000	-	497,000	15,724,000
Endowment distribution	(5,515,000)	(658,000)	-	(6,173,000)
Other changes:				
Change in discount	-	-	15,000	15,000
Change in value of annuity	-	-	(15,000)	(15,000)
Endowment net assets, end of year	<u>\$ 214,566,000</u>	<u>\$ 7,814,000</u>	<u>\$ 17,452,000</u>	<u>\$ 239,832,000</u>

During 2016, the Aquarium’s endowment net assets changes were as follows:

	<u>Funds Functioning as Endowment</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 106,233,000	\$ 4,462,000	\$ 16,707,000	\$ 127,402,000
Investment return				
Investment income	1,221,000	177,000	-	1,398,000
Net realized and unrealized gains	5,555,000	804,000	-	6,359,000
Total investment return	6,776,000	981,000	-	7,757,000
Contributions	2,583,000	-	195,000	2,778,000
Endowment distribution	(4,362,000)	(524,000)	-	(4,886,000)
Other changes:				
Net assets redesignated	62,306,000	-	-	62,306,000
Investment return redesignated	1,416,000	-	-	1,416,000
Change in discount	-	-	57,000	57,000
Change in value of annuity	-	-	(4,000)	(4,000)
Endowment net assets, end of year	<u>\$ 174,952,000</u>	<u>\$ 4,919,000</u>	<u>\$ 16,955,000</u>	<u>\$ 196,826,000</u>



**Monterey Bay Aquarium Foundation**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

**December 31, 2017 and 2016**

**NOTE 7 – ENDOWMENT (continued)**

Permanently restricted net assets consist of the following as of December 31:

	<u>2017</u>	<u>2016</u>
Composition of permanently restricted net assets:		
Cash restricted for long term purposes	\$ 237,000	\$ 52,000
Pledges receivable	440,000	832,000
Beneficial interest in split-interest agreements	77,000	82,000
Investments	16,756,000	16,050,000
Gift annuity payment liability	<u>(58,000)</u>	<u>(61,000)</u>
Permanently restricted net assets	<u>\$ 17,452,000</u>	<u>\$ 16,955,000</u>

These balances represent the portion of perpetual endowment funds that is required to be retained permanently by donor stipulation or law. From time to time the fair value of assets associated with individual funds of donor-restricted endowment may fall below the level required to be retained as funds of perpetual duration. If deficits exist, they are classified in unrestricted net assets. The Aquarium does not authorize spending from such funds.

The Board has adopted an investment policy which governs the management and oversight of the Aquarium's endowment funds and other investments (portfolio). The policy sets forth the objectives for the portfolio, the strategies to achieve the objectives, procedures for monitoring and control, and the delineation of duties for those responsible for the Aquarium's investments. The Finance Committee of the Board is responsible for implementation of the investment policy. The policy is intended to allow for sufficient flexibility in the management oversight process to capture investment opportunities as they may occur, while at the same time setting forth reasonable risk control parameters to ensure prudence and care in the execution of the investment program. Investment assets are managed on a total return basis, with emphasis on both preservation of capital and acceptance of investment risk necessary to achieve favorable performance on a risk-adjusted basis. The policy calls for risk management of the investment program to be informed by both the investment and operational risks to which the portfolio is exposed, with an objective to minimize operational risks and require appropriate compensation for acceptable investment risks. Other objectives are to (a) provide a total return that, over the long term, exceeds inflation and optimizes the investment return on fund assets corresponding to a level of risk deemed appropriate by the Finance Committee, (b) outperform a policy portfolio benchmark return, after fees, at a comparable level of risk over five-year rolling periods, and (c) diversify investments to reduce the impact of losses in single investments, industries, or asset classes.

The Aquarium's Board determines the method to be used to appropriate endowment funds for expenditure. The Aquarium's endowment spending policy is based on a spending rate percentage applied to the three-year trailing average of the endowment's market value. Since 2016, the Board policy spending rate percentage has been 4.00% for funds functioning as endowment and earnings from donor-restricted endowment. The investment portfolio return, net of investment fees, is expected to be in excess of the policy spending rate over the long term. The annual endowment distribution amount is approved by the Board in conjunction with its approval of the annual budget.

**Monterey Bay Aquarium Foundation**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

**December 31, 2017 and 2016**

**NOTE 7 – ENDOWMENT (continued)**

In accordance with Board policy the difference, if any, of net investment return on funds functioning as endowment in comparison to the related endowment spending distribution is recorded as a change to funds functioning as endowment. Such designations resulted in an increase in funds functioning as endowment of \$24,387,000 in 2017 and of \$4,082,000 in 2016.

**NOTE 8 – EMPLOYEE BENEFIT PLANS**

The Aquarium maintains a defined contribution plan for employees. Eligible employees may make voluntary contributions to the plan within applicable limits as established by the Internal Revenue Code. The Aquarium currently makes employer contributions equal to a maximum of 10% of eligible compensation. In order to maximize the employer contributions, the employee is required to make a matching contribution of 4%. The Aquarium's non-elective contribution was 6% in 2017 and 2016. Retirement plan expense was \$2,886,000 and \$2,685,000 in 2017 and 2016, respectively.

**NOTE 9 – COMMITMENTS AND CONTINGENCIES**

Lawsuits and claims are filed from time to time against the Aquarium in the ordinary course of business. Management does not believe that any outstanding matters will have a material adverse impact on the consolidated financial statements.

The Aquarium derives a portion of its revenue from various federally funded programs which are subject to review and audit by governmental agencies. Management believes that the Aquarium is in material compliance with the standards set forth by the federal governmental agencies and that the outcome of reviews and audits conducted by such agencies, if any, will not have a significant effect on the financial position or results of activities of the Aquarium.

**NOTE 10 – RELATED-PARTY TRANSACTIONS**

During 2017 and 2016, contributions from certain members of the Board and entities with common board members totaled \$7,532,000 and \$18,503,000, respectively. Undiscounted pledges and accounts receivable from such related parties were \$21,239,000 and \$23,663,000 as of December 31, 2017 and 2016, respectively. Legal services were also provided by certain officers and members of the Board totaling \$72,000 and \$64,000 during 2017 and 2016, respectively.

**Monterey Bay Aquarium Foundation**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

**December 31, 2017 and 2016**

**NOTE 11 – COMMITMENTS**

Lease Commitments

The Aquarium leases office space in Monterey, California and Pacific Grove, California under non-cancelable operating leases whose terms expire in July 2018 and March 2022, respectively. Future minimum rental payments under these leases as of December 31, 2017 are as follows:

Years ending December 31,	
2018	\$ 165,000
2019	136,000
2020	136,000
2021	136,000
2022	34,000
Total	<u>\$ 607,000</u>

Rent expense was \$178,000 and \$206,000 for 2017 and 2016, respectively. As of December 31, 2017 and 2016, the remaining book value was 1,484,000 and \$702,000 of tenant improvements at the Pacific Grove office space, which are included in property, equipment and exhibits, net on the consolidated statements of financial position, respectively.

Contract Commitments

As of December 31, 2017 and 2016, the Aquarium had future construction contract commitments for new construction and renovation of \$24,029,000 and \$0, respectively.

**NOTE 12 – RENTAL INCOME**

The Aquarium leases space in several real properties located in Monterey, California to unrelated parties under cancelable and non-cancelable operating leases (excluding option periods) expiring through 2020. Minimum future rental revenues from operating leases having non-cancelable lease terms are as follows:

Years ending December 31,	
2018	\$ 895,000
2019	453,000
2020	307,000
2021	119,000
Total	<u>\$ 1,774,000</u>

**Monterey Bay Aquarium Foundation**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

**December 31, 2017 and 2016**

**NOTE 12 – RENTAL INCOME (continued)**

Property held for lease, by major property class, consisted of the following as of December 31:

	<u>2017</u>	<u>2016</u>
<u>Property Plant &amp; Exhibits:</u>		
Land and land improvements	\$ 3,459,000	\$ 13,511,000
Buildings and building improvements	1,419,000	1,949,000
Equipment, furniture and fixtures	<u>205,000</u>	<u>-</u>
	5,083,000	15,460,000
Less accumulated depreciation	<u>(1,623,000)</u>	<u>(1,203,000)</u>
Property held for lease, net	<u>\$ 3,460,000</u>	<u>\$ 14,257,000</u>
<u>Investments:</u>		
Real estate property holding	<u>\$ 19,516,000</u>	<u>\$ 19,516,000</u>

Property held for lease is included in property, equipment, and exhibits, net on the consolidated statements of financial position. Rental income is included in other revenue on the consolidated statements of activities and changes in net assets.

**NOTE 13 – SUBSEQUENT EVENTS**

The Aquarium has evaluated subsequent events for the period from December 31, 2017 through August 7, 2018, the date these consolidated financial statements were issued, and has determined that no subsequent events have occurred of a nature that would require recognition or disclosure.