

Consolidated Financial Statements and  
Report of Independent Certified Public  
Accountants

**Monterey Bay Aquarium Foundation**

December 31, 2018

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

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## REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Trustees of the  
Monterey Bay Aquarium Foundation

We have audited the accompanying consolidated financial statements of Monterey Bay Aquarium Foundation and its supporting organization, which comprise the consolidated balance sheet as of December 31, 2018, and the related consolidated statements of activities, and changes in net assets, and cash flows for the year then ended, and the related notes to the financial statements.

### Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these 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, 2018, and the results of its operations, and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

*Grant Thornton LLP*

San Jose, California  
July 29, 2019

**Monterey Bay Aquarium Foundation**  
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**December 31, 2018**

	<b>2018</b>
<b>ASSETS</b>	
<b>ASSETS</b>	
Cash and cash equivalents	\$ 17,239,000
Accounts receivable	3,156,000
Prepaid expenses and other assets	1,614,000
Pledges and grants receivable, net	10,606,000
Beneficial interest in split-interest agreements	9,669,000
Investments	312,632,000
Property, equipment, and exhibits, net	155,232,000
Total assets	\$ 510,148,000
<b>LIABILITIES AND NET ASSETS</b>	
<b>LIABILITIES</b>	
Accounts payable and accrued liabilities	\$ 13,475,000
Deferred revenue	9,790,000
Gift annuity payment liability	123,000
Total liabilities	23,388,000
<b>NET ASSETS</b>	
Without donor restrictions	
Undesignated	221,065,000
Board designated	201,155,000
Total without donor restrictions	422,220,000
With donor restrictions	64,540,000
Total net assets	486,760,000
Total liabilities and net assets	\$ 510,148,000

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

**Monterey Bay Aquarium Foundation**

**CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS**

**For the year ended December 31, 2018**

	<b>2018</b>		<b>Total</b>
	<b>Without donor restrictions</b>	<b>With donor restrictions</b>	
<b>Support and revenues</b>			
Admissions	\$ 47,776,000	\$ -	\$ 47,776,000
Contributions and grants	14,666,000	29,819,000	44,485,000
Memberships	13,858,000	-	13,858,000
Merchandising and food services	4,656,000	-	4,656,000
Endowment distribution	6,266,000	724,000	6,990,000
Programs	1,247,000	-	1,247,000
Other revenue	8,462,000	-	8,462,000
Net assets released from restrictions	40,799,000	(40,799,000)	-
<b>Total support and revenues</b>	<b>137,730,000</b>	<b>(10,256,000)</b>	<b>127,474,000</b>
<b>Expenses</b>			
<b>Program services</b>			
Animal care and aquarium experience	51,187,000	-	51,187,000
Education and outreach	22,828,000	-	22,828,000
Conservation and science	12,930,000	-	12,930,000
<b>Total program services expenses</b>	<b>86,945,000</b>	<b>-</b>	<b>86,945,000</b>
<b>Support services</b>			
Management and general	9,268,000	-	9,268,000
Development	3,688,000	-	3,688,000
Membership services	1,969,000	-	1,969,000
Rental facilities expense	939,000	-	939,000
<b>Total expenses</b>	<b>102,809,000</b>	<b>-</b>	<b>102,809,000</b>
<b>Non-operating activities</b>			
Dividends and interest	3,636,000	-	3,636,000
Net realized and unrealized gains (losses) on investments	(11,768,000)	(1,364,000)	(13,132,000)
<b>Total investment income/expense</b>	<b>(8,132,000)</b>	<b>(1,364,000)</b>	<b>(9,496,000)</b>
Allowance for uncollectible grants and contributions	-	(103,000)	(103,000)
Unrealized (loss) on disposal of fixed assets	(89,000)	-	(89,000)
Endowment distribution	(6,266,000)	(724,000)	(6,990,000)
<b>Total non-operating activities</b>	<b>(14,487,000)</b>	<b>(2,191,000)</b>	<b>(16,678,000)</b>
<b>Increase (decrease) in net assets</b>	<b>20,434,000</b>	<b>(12,447,000)</b>	<b>7,987,000</b>
<b>NET ASSETS</b>			
Beginning of year	401,786,000	76,987,000	478,773,000
End of year	\$ 422,220,000	\$ 64,540,000	\$ 486,760,000

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

**Monterey Bay Aquarium Foundation**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**  
**For the year ended December 31, 2018**

	<b>2018</b>
<b>Cash flows from operating activities</b>	
Increase in net assets	\$ 7,987,000
Adjustments to reconcile increase in net assets to net cash provided by operating activities	
Depreciation	11,732,000
Net provision for doubtful accounts	30,000
Change in discount on multi-year pledges receivable	(274,000)
Contributions of securities	(6,099,000)
Contributions restricted for endowment in investments	(8,911,000)
Loss on retirement of property, equipment, and exhibits	89,000
Net loss on investments	13,116,000
Effect of change in	
Receivable, prepaid expenses, and other assets	(1,489,000)
Pledges and grants receivable, net	7,819,000
Beneficial interest in split-interest agreements	1,588,000
Accounts payable and accrued liabilities	760,000
Deferred revenue	(106,000)
Gift annuity payment liability	(7,000)
Net cash provided by operating activities	26,235,000
<b>Cash flows from investing activities</b>	
Purchases of investments	(288,751,000)
Proceeds from sale of investments	248,806,000
Proceeds from sale of property	39,000
Additions to property, equipment and exhibits	(25,447,000)
Net cash used in investing activities	(65,353,000)
<b>Cash flows from financing activities</b>	
Proceeds from contributions restricted for endowment	8,911,000
Net cash provided by financing activities	8,911,000
<b>Net decrease in cash and cash equivalents</b>	(30,207,000)
<b>Cash and cash equivalents, beginning of year</b>	47,446,000
<b>Cash and cash equivalents, end of year</b>	\$ 17,239,000
<b>Supplemental disclosures of noncash activities</b>	
Accounts payable for capital projects	\$ 4,824,000

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

## Monterey Bay Aquarium Foundation

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2018

#### NOTE A – 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**

During 2018, the Aquarium adopted Financial Accounting Standards Board (“FASB”) Accounting Standards Update (“ASU”) No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements for Not-for-Profit Entities*. The ASU amended the current reporting model for not-for-profit organizations and required certain additional disclosures. The significant changes include:

- Requiring the presentation of two net asset classes classified as “net assets without donor restrictions” and “net assets with donor restrictions”;
- Modifying the presentation of underwater endowment funds and related disclosures;
- Requiring the use of the placed in service approach to recognize the satisfaction of restrictions on gifts used to acquire or construct long-lived assets, absent explicit donor stipulations otherwise;
- Requiring that all not-for-profits present an analysis of expenses by function and nature in a separate statement on in the notes to the financial statements;
- Requiring disclosure of quantitative and qualitative information on liquidity;
- Presenting investment return net of external and direct internal investment expenses; and,
- Modifying other financial statement reporting requirements and disclosures intended to increase the usefulness to the reader.

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 net assets without donor restrictions and net assets with donor restrictions rounded to the thousands (000).

**Monterey Bay Aquarium Foundation**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**December 31, 2018**

**NOTE A – SUMMARY OF ACCOUNTING POLICIES - Continued**

**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 and Cash Equivalents**

Cash and cash equivalents consists of cash and cash equivalents on hand, in demand deposit accounts, and in brokerage accounts, except those being held for investment purposes. The Aquarium considers Cash and cash equivalents deposits with maturities of three months or less at the time of purchase. Cash and cash equivalents managed by the Aquarium's investment manager, if any, are included in investments.

**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 contributions and grants with donor restrictions 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.

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 statement 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.

**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.

Monterey Bay Aquarium Foundation

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2018

NOTE A – SUMMARY OF ACCOUNTING POLICIES - Continued

**Investments**

Investments are reflected on the consolidated statement 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 statement 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 and is split between property, equipment, and exhibits, net on the consolidated statement of financial position and investments at fair value. 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 \$25,000 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.

**Net Assets without Donor Restrictions**

Net assets without donor restrictions represent resources which do not have donor-imposed stipulations available to support the Aquarium’s operations. Net assets without donor restrictions include funds functioning as endowment through designation by the Aquarium’s Board of Trustees (“Board”).

**Net Assets with Donor Restrictions**

Net assets with donor restrictions 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 net assets with donor restrictions and recognized as net assets without donor restrictions.

## Monterey Bay Aquarium Foundation

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2018

#### NOTE A – SUMMARY OF ACCOUNTING POLICIES - Continued

##### **Net Assets with Donor Restrictions** - Continued

Other net assets with donor restrictions include gifts with donor imposed restrictions that the original gift amounts be maintained in perpetuity as an endowment, with only the income to be used to support operations or another specified purpose. Such undistributed earnings from donor-restricted endowments, remain as net assets with donor restrictions until appropriated for current year operations upon Board approval of annual endowment distributions and utilized in accordance with their purpose restriction (if any), at which time they become net assets without donor restrictions.

##### **Financial Instruments**

Assets and liabilities included in the Aquarium's consolidated statement 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, investments, accounts payable and accrued liabilities, and gift annuity payment liability.

For cash and cash equivalents, accounts receivable, 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

December 31, 2018

#### NOTE A – 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 3 donors as of December 31, 2018 whose combined pledges accounted for 52% of the total pledges receivable.

##### Revenue Recognition

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

Contributions and grants are recognized as revenues when they are received or unconditionally pledged. The Aquarium reports gifts of cash and other assets as support with donor restrictions if they are subject to time or donor-imposed restrictions. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the accompanying consolidated statement of activities and changes in net assets as net assets released from restrictions. Contributions which carry only a donor imposed time restriction are reported as undesignated support and revenues if the restriction is met in the same calendar year that the gift is received. Conditional grants (matching gifts or government grants requiring Aquarium match or other conditions be met) are not recorded as other support and revenues until allowable expenditures are incurred and any conditions are met.

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 2018, the value of such services (recognized as support and revenues and expenses in the consolidated statement of activities and changes in net assets) was \$320,000 consisted primarily of professional diver services.

Contributions of food, equipment, and other goods are recorded at estimated fair value when received. During 2018 the value of such contributions (recognized as support and revenues and expenses in the consolidated statement of activities and changes in net assets) was \$45,000.

Memberships are recorded as deferred revenue and recognized as undesignated 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.

##### 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 2018 were \$33,432,000. Such expenses allocated to development (fundraising) were 0.76% of total allocated expenses.

## Monterey Bay Aquarium Foundation

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2018

#### NOTE A – SUMMARY OF ACCOUNTING POLICIES - Continued

##### Advertising Costs

Advertising costs are expensed as incurred and primarily included in guest services and marketing on the consolidated statement of activities and changes in net assets. Advertising expenses incurred during the year were \$7,140,000, 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 have 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, and the determination of functional expense allocations. Actual results could differ from those estimates.

##### 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 has not yet adopted the update and does not expect a material impact to the consolidated financial statements.

Monterey Bay Aquarium Foundation

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2018

**NOTE A – SUMMARY OF ACCOUNTING POLICIES** - Continued

**Recent Accounting Pronouncements** - Continued

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 explains 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, the 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 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.

In May 2014, the 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 that 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 B – PLEDGES AND GRANTS RECEIVABLE, NET**

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

	2018
In one year or less	\$ 4,593,000
Between one and five years	6,551,000
Greater than five years	200,000
Subtotal	<u>11,344,000</u>
Less discounts on multi-year pledges receivable	(650,000)
Less allowance for doubtful pledges receivable	<u>(88,000)</u>
Total pledges and grants receivable, net	<u><u>\$ 10,606,000</u></u>

**Monterey Bay Aquarium Foundation**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**December 31, 2018**

**NOTE B – PLEDGES AND GRANTS RECEIVABLE, NET - Continued**

The present value discount rates for 2018 ranged from 2.56% to 7.00%.

Pledges and grants receivable for conditional contributions are not reported in the consolidated financial statements until the conditions are met. Such amounts totaled \$202,000 as of December 31, 2018.

**NOTE C – 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 A, above.

As of December 31, 2018, 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	\$ 5,000	\$ 5,000	\$ -	\$ -
Fixed income funds	69,000	69,000	-	-
Equity/other funds	43,000	43,000	-	-
Interest in charitable trusts	<u>9,552,000</u>	<u>-</u>	<u>-</u>	<u>9,552,000</u>
Total	<u>\$ 9,669,000</u>	<u>\$ 117,000</u>	<u>\$ -</u>	<u>\$ 9,552,000</u>

The changes in beneficial interest in split-interest agreements related to Level III investments for 2018 were as follows:

Balance as of December 31, 2017	\$ 11,105,000
Change in the value of agreements	<u>(1,553,000)</u>
Balance as of December 31, 2018	<u>\$ 9,552,000</u>

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

The present value discount rates for 2018 ranged from 3.60% to 5.20%, and the agreements are estimated to be outstanding for the lifetime of the donors.

**Monterey Bay Aquarium Foundation**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**December 31, 2018**

**NOTE D – 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 2018, the Aquarium classified \$19,516,000 as an investment and \$4,539,000 as an operating asset in property equipment and exhibits, net, respectively.

Management establishes the fair value of Level I investments based on quoted market prices. Management establishes the fair value of investments held at net asset value (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.

As of December 31, 2018, the Aquarium’s investments consisted of short term and long term certificates of deposits \$4,993,000 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	\$ 12,846,000	\$ 12,846,000	\$ -	\$ -
US Treasuries	55,631,000	55,631,000	-	-
Real estate property holding	19,516,000	-	-	19,516,000
Assets valued at NAV				
Global equity fund	109,530,000			
Fixed income strategies	34,353,000			
Diversifying strategies	31,172,000			
Private capital funds	18,865,000			
Global distressed funds	594,000			
Natural resource funds	5,569,000			
Real estate funds	19,563,000			
Total investments	<u>\$ 307,639,000</u>	<u>\$ 68,477,000</u>	<u>\$ -</u>	<u>\$ 19,516,000</u>

There were no transfers between Levels I, II, and III for the year ended December 31, 2018.

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**

**December 31, 2018**

**NOTE D – INVESTMENTS - Continued**

The following table lists attributes of investments carried at NAV as of December 31, 2018:

<b>Fund type</b>	<b>NAV</b>	<b>Number of funds</b>	<b>Unfunded commitments</b>	<b>Remaining life</b>	<b>Redemption terms</b>	<b>Redemption restrictions</b>
Global equity	\$ 109,530,000	1	\$ -	N.A.	Monthly with 5 business days notice	None
Private capital	18,865,000	8	16,253,375	1 - 14 years	No redemption permitted	No redemption permitted
Global distressed	594,000	2	629,960	1 year and no scheduled termination	No redemption permitted	No redemption permitted
Fixed income	34,353,000	2	-	N.A.	Monthly with 5 business days notice	None
Diversifying strategies	31,172,000	1	-	N.A.	90 - 95 days notice	Redemptions may be limited or suspended under certain circumstances
Natural resource	5,569,000	3	679,810	1 - 8 years	No redemption permitted	No redemption permitted
Real estate	19,563,000	5	14,298,501	2 are open end, 3 are closed end with 3 - 20 years remaining life	1 with daily redemption, 1 with quarterly redemption with 120 days notice, 3 with no redemption permitted	1 with no restrictions, 1 with quarterly liquidity, 3 do not permit redemptions
<b>Total</b>	<b>\$ 219,646,000</b>	<b>22</b>	<b>\$ 31,861,646</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**

**December 31, 2018**

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

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

	<u>2018</u>
Land	\$ 26,226,000
Buildings and building improvements	172,229,000
Exhibits	59,675,000
Equipment, furniture, and fixtures	29,189,000
	<u>287,319,000</u>
Less accumulated depreciation	<u>(163,206,000)</u>
	124,113,000
Capital projects in process	<u>31,119,000</u>
Property, equipment and exhibits, net	<u><u>\$ 155,232,000</u></u>

Depreciation expense for the year ended December 31, 2018 was \$11,732,000. Losses from the disposition of assets were replaced in 2018 were \$89,000. Asset additions in 2018 were \$27,613,000. In 2018, asset additions include the completion of the Juli Plant Grainger Animal Care Center, continued construction of the Bechtel Family Center for Ocean Education and Leadership, and other Aquarium infrastructure projects.

The Aquarium owns a commercial real estate property in Monterey, California. At December 31, 2018, the portion of the property classified as buildings was \$4,539,000. See Note D for more information.

**NOTE F – NET ASSETS**

**Net Assets without Donor Restrictions**

The Aquarium's net assets without donor restrictions include Board-designated funds functioning as endowment:

Net assets - undesignated	\$ 221,065,000
Board designated funds functioning as endowment	<u>201,155,000</u>
Total net assets without donor restrictions	<u><u>\$ 422,220,000</u></u>

**Monterey Bay Aquarium Foundation**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**December 31, 2018**

**NOTE F – NET ASSETS - Continued**

**Net Assets with Donor Restrictions**

The Aquarium's net assets with donor restrictions at December 31, 2018 consist of the following:

	2018
<b>Subject to expenditure for a specified purpose</b>	
Education programs and facility	\$ 4,210,000
Animal Care Center programs and facility	1,224,000
Conservation and science	15,375,000
	20,809,000
<b>Subject to passage of time</b>	
Pledges receivable and beneficial interest in split-interest agreements without a purpose restriction	11,657,000
Undistributed endowment earnings	5,753,000
	38,219,000
<b>Net assets restricted in perpetuity</b>	26,321,000
Total with donor restrictions	\$ 64,540,000

Net assets with donor restrictions released during 2018 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:

	2018
Net assets released from restriction	
Subject to expenditure for a specific purpose	
Education facility and programs	\$ 18,637,000
Animal Care Center facility and programs	4,469,000
Conservation and science	13,493,000
Other	269,000
	36,868,000
Subject to passage of time	
Collection of pledges receivable	3,207,000
Endowment distribution	724,000
	4,000,000
Total net assets released from restrictions	\$ 40,799,000

The Aquarium's endowment funds consist of (a) undesignated 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 undesignated funds functioning as endowment, are classified and reported based on the existence or absence of donor-imposed restrictions.

**Monterey Bay Aquarium Foundation**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**December 31, 2018**

**NOTE G – ENDOWMENT**

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 with donor restrictions and funds functioning as endowment).

Consistent with UPMIFA and Board policy, the Aquarium classifies the corpus of funds subject to UPMIFA 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 with donor restrictions until distributed in accordance with UPMIFA and Board policy.

Information regarding the endowment net assets as of December 31, 2018 and changes during the year is presented below.

	Without donor restrictions	Subject to time restriction	Restricted in perpetuity	Subtotal with donor restrictions	Total
Endowment net assets, beginning of year	\$ 214,566,000	\$ 7,814,000	\$ 17,452,000	\$ 25,266,000	\$ 239,832,000
Total investment return	(8,901,000)	(1,338,000)	-	(1,338,000)	(10,239,000)
Contributions	1,756,000	-	8,910,000	8,910,000	10,666,000
Endowment distribution	(6,266,000)	(724,000)	-	(724,000)	(6,990,000)
Other changes					
Change in discount	-	-	(31,000)	(31,000)	(31,000)
Change in value of annuity	-	-	(10,000)	(10,000)	(10,000)
Endowment net assets, end of year	<u>\$ 201,155,000</u>	<u>\$ 5,752,000</u>	<u>\$ 26,321,000</u>	<u>\$ 32,073,000</u>	<u>\$ 233,228,000</u>

Net assets restricted in perpetuity consist of the following as of December 31:

	2018
Cash restricted for long-term purposes	\$ 277,000
Pledges receivable	300,000
Beneficial interest in split-interest agreements	63,000
Investments	25,736,000
Gift annuity payment liability	(55,000)
Net assets restricted in perpetuity	<u>\$ 26,321,000</u>

Monterey Bay Aquarium Foundation

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2018

**NOTE G – ENDOWMENT** - Continued

From time to time the fair value of assets of individual donor restricted endowment funds may fall below the level required to be maintained in perpetuity in accordance with UPMIFA or the applicable donor gift document, creating and “underwater” endowment fund. It is the policy of the Aquarium not to spend from such funds. Two of the Aquarium’s newly established endowment funds were underwater as of December 31, 2018 as follows:

<b>Funds with deficiencies</b>	
Fair value of endowment funds	\$ 3,836,000
Original gift corpus	<u>4,112,000</u>
Underwater deficiency	<u>\$ (276,000)</u>

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.

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 designation resulted in a decrease in funds functioning as endowment of \$15,170,000 in 2018.

**Monterey Bay Aquarium Foundation**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**December 31, 2018**

**NOTE H – 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 10.00% of eligible compensation. In order to maximize the employer contributions, the employee is required to make a matching contribution of 4.00%. The Aquarium's non-elective contribution was 6.00% in 2018. Retirement plan expense was \$2,959,000 in 2018.

**NOTE I – 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 J – RELATED-PARTY TRANSACTIONS**

During 2018, contributions from certain members of the Board and entities with common board members totaled \$6,469,000. Undiscounted pledges and accounts receivable from such related parties were \$16,330,000 as of December 31, 2018. Grants, legal and other professional services provided by certain officers and entities with common board members totaled \$246,000 during 2018.

**NOTE K – 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 2020 and March 2022, respectively. Future minimum rental payments under these leases as of December 31, 2018 are as follows:

Years ending December 31,		
2019	\$	203,000
2020		177,000
2021		152,000
2022		38,000
Total	\$	<u>570,000</u>

Monterey Bay Aquarium Foundation

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2018

**NOTE K – COMMITMENTS** - Continued

**Lease Commitments** - Continued

Rent expense was \$198,000 for 2018. As of December 31, 2018, the remaining book value was \$1,318,000 of tenant improvements at the Pacific Grove office space, which is included in property, equipment and exhibits, net on the consolidated statement of financial position.

**Contract Commitments**

As of December 31, 2018 the Aquarium had future construction contract commitments for new construction and renovation of \$6,649,000 and contract commitments of \$225,000.

**NOTE L – 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 2022. Minimum future rental revenues from operating leases having non-cancelable lease terms are as follows:

Years ending December 31,	
2019	\$ 872,000
2020	580,000
2021	432,000
2022	342,000
Total	<u>\$ 2,226,000</u>

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

	2018
Property, plant, and exhibits	
Land and land improvements	\$ 2,986,000
Buildings and building improvements	548,000
Equipment, furniture, and fixtures	31,000
	<u>3,565,000</u>
Less accumulated depreciation	<u>(297,000)</u>
Property held for lease, net	<u>\$ 3,268,000</u>
Investments	
Real estate property holding	<u>\$ 19,516,000</u>

## Monterey Bay Aquarium Foundation

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2018

#### NOTE L – RENTAL INCOME - Continued

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

#### NOTE M – ANALYSIS OF EXPENSE

The Aquarium's expenses by functional and natural classification for the year ending December 31, 2018 are shown below:

	Animal care and aquarium experience	Education and outreach	Conservation and science	Management and general	Development	Membership services	Rental facilities expense	Total
Cost of sales	\$ 618,000	\$ 4,550,000	\$ 1,000	\$ -	\$ -	\$ 37,000	\$ -	\$ 5,205,000
Personnel and related expenses	25,182,000	7,336,000	6,728,000	4,526,000	2,235,000	753,000	10,000	46,770,000
Occupancy, equipment and repairs	6,725,000	875,000	296,000	508,000	139,000	229,000	276,000	9,050,000
Outside services and fees	5,799,000	8,556,000	3,817,000	2,145,000	935,000	568,000	515,000	22,335,000
Supplies	2,658,000	299,000	782,000	97,000	210,000	322,000	12,000	4,380,000
Grants and contributions	61,000	226,000	226,000	162,000	15,000	20,000	-	710,000
Conferences and travel	865,000	486,000	871,000	262,000	133,000	10,000	-	2,627,000
Depreciation	9,280,000	500,000	210,000	1,567,000	20,000	30,000	125,000	11,732,000
All expenses	<u>\$ 51,187,000</u>	<u>\$ 22,828,000</u>	<u>\$ 12,930,000</u>	<u>\$ 9,268,000</u>	<u>\$ 3,688,000</u>	<u>\$ 1,969,000</u>	<u>\$ 939,000</u>	<u>\$ 102,809,000</u>

Expenses which apply to more than one functional category have been allocated based upon various methods determined appropriate by management. Depreciation expense is assigned either by direct identification or based upon square footage used by various departments. Planning, maintenance, facilities, security and general IT expenses are allocated based upon square footage used by various departments. Volunteer engagement expenses are allocated based upon the number of volunteers working in each department. Certain salaries and marketing expenses are allocated based upon management's estimate of level of effort. All other costs are charged directly to the appropriate department and functional category. Marketing and advertising expenses are included in the category "Outside services and fees".

#### NOTE N – LIQUIDITY

The Aquarium's financial assets as of December 31, 2018, reduced by amounts not available for general expenditure within one year, are presented in the table below. Financial assets are considered unavailable when illiquid or not convertible to cash within one year, trust assets, assets held for others, endowments and accumulated earnings net of appropriations within one year and board designated endowments. These board designations could be drawn upon if the board approves that action.

**Monterey Bay Aquarium Foundation**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**December 31, 2018**

**NOTE N – LIQUIDITY - Continued**

Financial assets available to meet cash needs for general expenditures with one year as of December 31, 2018:

<b>Financial assets</b>	
Cash and cash equivalents	\$ 17,239,000
Accounts receivable	3,156,000
Pledges and grants receivable, net	10,606,000
Investments	312,632,000
Total financial assets	<u>343,633,000</u>
Pledge receivables scheduled to be collected in more than one year	(5,887,000)
Investment in real estate	(19,516,000)
Endowment funds with donor restrictions	(32,065,000)
Board designated endowment	(201,155,000)
Appropriation for 2019	<u>8,600,000</u>
Financial assets available to meet cash needs for general expenditures within one year	<u><u>\$ 93,610,000</u></u>

The Aquarium is supported by earned revenue, contributions, and endowment support. As part of the Aquarium's liquidity management, the Aquarium maintains sufficient resources to be available as its general operations, liabilities, and other obligations require. Cash required to meet operating needs is invested in short-term accounts.

**NOTE O - SUBSEQUENT EVENTS**

The Aquarium has evaluated subsequent events for the period from December 31, 2018 through July 29, 2019, 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.