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Advisory, Tax
and Assurance

Monterey Bay Aquarium Foundation

December 31, 2023

Independent Auditors' Report and
Financial Statements

Monterey Bay Aquarium Foundation

Independent Auditors' Report and Financial Statements

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Independent Auditors' Report

TO THE BOARD OF TRUSTEES OF
MONTEREY BAY AQUARIUM FOUNDATION
Monterey, California

Opinion

We have audited the financial statements of **MONTEREY BAY AQUARIUM FOUNDATION (the Aquarium)**, which comprise the statement of financial position as of December 31, 2023, the related statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Aquarium as of December 31, 2023, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Aquarium and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Aquarium's ability to continue as a going concern for one year from the date of this report.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- exercise professional judgment and maintain professional skepticism throughout the audit.
- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- obtain an understanding of internal control relevant to the audit 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 Aquarium's internal control. Accordingly, no such opinion is expressed.
- evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Aquarium's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Report on Summarized Comparative Information

We have previously audited the Aquarium's 2022 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated July 31, 2023. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2022, is consistent, in all material respects, with the audited financial statements from which it has been derived.

A handwritten signature in black ink that reads "Hood & Strong LLP". The signature is written in a cursive, flowing style.

San Francisco, California
August 9, 2024

Monterey Bay Aquarium Foundation

Statement of Financial Position (in thousands)

Year Ended December 31, 2023 (with comparative totals for 2022)

	2023	2022
Assets		
Cash and cash equivalents	\$ 11,256	\$ 9,897
Accounts receivable	3,793	2,835
Pledges and grants receivable, net	21,631	9,850
Investments	504,500	450,921
Prepaid expenses and other assets	2,260	1,736
Beneficial interest in split-interest agreements	4,697	6,245
Property, equipment, and exhibits, net	191,386	182,464
Total assets	\$ 739,523	\$ 663,948
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued liabilities	\$ 10,691	\$ 8,867
Salary and payroll related liabilities	4,794	4,239
Deferred revenue	8,832	8,672
Total liabilities	24,317	21,778
Net Assets:		
Undesignated	7,544	135,040
Invested in property, equipment and exhibits, net	191,386	182,464
Designated for infrastructure reserve	123,143	
Board-designated quasi-endowment	303,985	246,479
Total net assets without donor restrictions	626,058	563,983
Net assets with donor restrictions	89,148	78,187
Total net assets	715,206	642,170
Total liabilities and net assets	\$ 739,523	\$ 663,948

See accompanying notes to the financial statements.

Monterey Bay Aquarium Foundation

Statement of Activities and Changes in Net Assets (in thousands)

Year Ended December 31, 2023 (with comparative totals for 2022)

	Without Donor Restrictions	With Donor Restrictions	Total	2022 Total
Support and Revenues:				
Admissions	\$ 63,035		\$ 63,035	\$ 57,178
Contributions and grants	28,310	\$ 29,252	57,562	46,473
Memberships	13,669		13,669	12,282
Merchandising and food services	5,680		5,680	5,561
Endowment distribution	9,540	1,683	11,223	10,700
Tour and event revenue	5,427		5,427	4,392
Rental and parking	1,923		1,923	2,002
Other revenue	619		619	727
Net assets released from restrictions	23,046	(23,046)	-	-
Total support and revenues	151,249	7,889	159,138	139,315
Expenses:				
Program services:				
Animal care and aquarium experience	55,844		55,844	48,751
Education and outreach	25,561		25,561	21,520
Conservation and science	11,757		11,757	8,753
Total program services	93,162	-	93,162	79,024
Support Services:				
Management and general	12,083		12,083	9,978
Development	4,500		4,500	3,376
Membership services	2,384		2,384	1,977
Rental facilities expense	1,021		1,021	1,067
Total support services	19,988	-	19,988	16,398
Total expenses	113,150	-	113,150	95,422
Change in Net Assets Before Non-Operating and Other Changes in Net Assets	38,099	7,889	45,988	43,893
Non-Operating Activities:				
Investment income (loss), net	33,516	4,807	38,323	(35,661)
Allowance for uncollectible pledge receivables		(52)	(52)	(36)
Endowment distribution	(9,540)	(1,683)	(11,223)	(10,700)
Total non-operating activities	23,976	3,072	27,048	(46,397)
Other Changes in Net Assets:				
Reverse unrealized gain on investment (Note 1)			-	(4,593)
Depreciation adjustment (Note 1)			-	(550)
Total other changes in net assets	-	-	-	(5,143)
Change in Net Assets	62,075	10,961	73,036	(7,647)
Net Assets, beginning of year	563,983	78,187	642,170	649,817
Net Assets, end of year	\$ 626,058	\$ 89,148	\$ 715,206	\$ 642,170

See accompanying notes to the financial statements.

Monterey Bay Aquarium Foundation

Statement of Functional Expenses (in thousands)

Year Ended December 31, 2023 (with comparative totals for 2022)

	Program Services				Support Services					2023 Total	2022 Total
	Animal Care and Aquarium Experience	Education and Outreach	Conservation and Science	Total Program Services	Management and General	Development	Membership Services	Rental Facilities Expense	Total Support Services		
Personnel and related expenses	\$ 31,222	\$ 7,687	\$ 6,593	\$ 45,502	\$ 6,704	\$ 2,879	\$ 1,047		\$ 10,630	\$ 56,132	\$ 47,305
Cost of sales		3,817		3,817					-	3,817	3,293
Occupancy, equipment and repairs	9,990	1,383	164	11,537	1,086	97	345	\$ 238	1,766	13,303	11,820
Outside services and fees	3,818	10,433	3,490	17,741	1,623	1,247	730	451	4,051	21,792	16,698
Supplies	2,063	239	197	2,499	47	154	245	3	449	2,948	2,979
Grants	94	146	616	856	156	22	2		180	1,036	369
Conferences and travel	741	264	635	1,640	221	88	7		316	1,956	1,086
Depreciation	7,916	1,592	62	9,570	2,246	13	8	329	2,596	12,166	11,872
Total expense	\$ 55,844	\$ 25,561	\$ 11,757	\$ 93,162	\$ 12,083	\$ 4,500	\$ 2,384	\$ 1,021	\$ 19,988	\$ 113,150	\$ 95,422

See accompanying notes to the financial statements.

Monterey Bay Aquarium Foundation

Statement of Cash Flows (in thousands)

Year Ended December 31, 2023 (with comparative totals for 2022)

	2023	2022
Cash Flows from Operating Activities:		
Change in net assets	\$ 73,036	\$ (7,647)
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	12,166	11,872
Net (gain) loss on investments	(27,901)	38,763
Allowance for uncollectible pledge receivables	6	27
Change in discount on multi-year pledges receivable	(1,307)	(108)
Contributions restricted for endowment in investments	(2,286)	(788)
Net impact due to change in accounting for merger of MBASS into MBAF		5,143
Effect of change in		
Receivable, prepaid expenses, and other assets	(1,559)	(993)
Pledges and grants receivable, net	(10,483)	6,682
Beneficial interest in split-interest agreements	1,548	(341)
Accounts payable and accrued liabilities	364	(888)
Salary and payroll related liabilities	555	(1,036)
Deferred revenue	160	440
Net cash provided by operating activities	44,299	51,126
Cash Flows from Investing Activities:		
Purchases of investments	(649,326)	(1,065,419)
Proceeds from sale of investments	623,728	995,770
Additions to property, equipment and exhibits	(19,628)	(14,989)
Net cash used by investing activities	(45,226)	(84,638)
Cash Flows from Financing Activities:		
Proceeds from contributions restricted for endowment	2,286	788
Net cash provided by financing activities	2,286	788
Net Change in Cash and Cash Equivalents	1,359	(32,724)
Cash and Cash Equivalents - beginning of year	9,897	42,621
Cash and Cash Equivalents - end of year	\$ 11,256	\$ 9,897
Supplemental Disclosure:		
Accounts payable for capital projects	\$ 4,375	\$ 2,915

See accompanying notes to the financial statements.

Monterey Bay Aquarium Foundation

Notes to the Financial Statements (dollars in thousands)

Note 1 - Organization:

The Monterey Bay Aquarium Foundation (the "Aquarium") is a California not-for-profit corporation founded in 1978. The Aquarium's mission is to inspire conservation of the ocean. The Aquarium was created with an initial gift from David and Lucile Packard. The Aquarium facilities opened to the public in 1984. The website is www.montereybayaquarium.org. The Aquarium's annual financial statements are available on its website.

Effective August 22, 2022, the Aquarium's supporting organization Monterey Bay Aquarium Support Services ("MBASS") was merged into the Monterey Bay Aquarium Foundation and the corporation was dissolved. As a result of the merger, real property classified as an investment by MBASS and carried at fair value was reclassified by the Aquarium to property and recorded at cost. The previously unrealized gain of \$4,593 representing the difference between fair value and cost at the merger date, was written off and accumulated depreciation of \$550 was recorded.

Programs:

Animal Care and Aquarium Experience

The Aquarium's world-class exhibits and unique oceanfront location bring the wonders of the ocean to life for visitors. With over 200 exhibits and 80,000 plants and animals, the Aquarium is a window to the wonders of the ocean, focusing primarily on marine life of Monterey Bay and California's central coast.

Education and Outreach

Education and outreach programs inspiring teachers, students, and emerging teen leaders are based at the Aquarium's Bechtel Family Center for Ocean Education & Leadership, a 4-story, 26,000 square foot LEED gold facility completed in 2019. Free online courses for parents, caregivers, educators and students are provided to help young people find their voices as ocean conservation leaders and ensure a healthy future for the ocean.

Conservation and Science

Through conservation and science initiatives, Aquarium scientists are rebuilding sea otter populations, transforming fisheries and aquaculture around the world, and working to protect California's ocean. The Aquarium's policy experts work to address climate change and end plastic pollution. The Seafood Watch program works to shift the global marketplace to make seafood more sustainable.

Monterey Bay Aquarium Foundation

Notes to the Financial Statements (dollars in thousands)

Note 2 - Significant Accounting Policies:

Basis of Presentation

The financial statements have been prepared using the accrual basis of accounting in accordance with generally accepted accounting principles of the United States of America (U.S. GAAP). Accordingly, the Aquarium presents information regarding its net assets and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions.

Net assets without donor restrictions – this portion of net assets is not subject to time or donor-imposed restrictions and may be expended for any purpose in performing the primary objective of the Aquarium. Net assets without donor restrictions include funds functioning as endowment and an infrastructure reserve through designation by the Aquarium's Board of Trustees (the Board).

Net assets with donor restrictions – this portion of net assets consists of contributions 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. Also included in net assets with donor restrictions are the original gift amounts of endowment gifts which must be maintained in perpetuity, with the income to be used to support operations or another specified purpose.

Cash and Cash Equivalents

Cash and cash equivalents consist 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 all highly liquid investments with maturities of three months or less at the time of purchase to be cash equivalents. Cash and cash equivalents managed by the Aquarium's investment manager, if any, are included in investments.

Receivables and Contributions

Accounts receivable

Accounts receivable consist of credit card receipts awaiting settlement, rent receivables, and other various sources. The Aquarium measures expected credit losses on other receivables individually and on a collective basis. The Aquarium considers historical credit loss information that is adjusted for current conditions and reasonable and supportable forecasts. Management has established an allowance of \$3 as of December 31, 2023.

Monterey Bay Aquarium Foundation

Notes to the Financial Statements (dollars in thousands)

Pledges and grants receivable

Pledges and grants receivable consist of unconditional promises to give. Unconditional promises that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows using an appropriate discount rate when discounting has a material effect. Amortization of discounts is included in contribution revenue.

Conditional promises to give, that is, those with a measurable performance or other barrier, and a right of return, are not recognized until the conditions on which they depend are substantially met. Government grants and contracts are conditioned upon certain performance requirements and/or the incurrence of allowable qualifying expenses.

Contributions

Contributions and grants are recognized when the donor/grantor makes an unconditional promise to give to the Aquarium. Amounts that are restricted by the donor/grantor are reported as increases in net assets with donor restrictions. When donor restrictions expire, that is, when a stipulated time restriction ends or a purpose restriction is fulfilled, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the 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 in which the gift is received. The Aquarium records fundraising event revenue equal to the fair value of direct benefits to donors, and contribution income for the excess received when the event takes place.

The Aquarium is the beneficiary under various wills and trust agreements, the total realizable amount of which is not presently determinable. Such amounts are recognized in the Aquarium's financial statements as bequests receivable when clear title is established, and the proceeds are measurable. The amount recorded must be reasonably estimated using the court documents or through communication with the estate's attorneys and/or Trustees. In any given year, the Aquarium will hold its books of record open through the end of February to record bequest revenue.

Revenue Recognition

The Aquarium recognizes revenue when control of the promised goods or services is transferred to the Aquarium's customers in an amount that reflects the consideration the Aquarium expects to be entitled to in exchange for those goods or services using a five-step model as follows:

- identify the contract with a customer
- identify the performance obligations in the contract
- determine the transaction price

Monterey Bay Aquarium Foundation

Notes to the Financial Statements (dollars in thousands)

- allocate the transaction price to the performance obligations in the contract
- recognize revenue when or as performance obligations are satisfied

The Aquarium recognizes revenue as performance obligations within a contract are satisfied. The revenue streams noted below do not include significant financing components as performance obligations are satisfied within a year of receipt of payment. In addition, there are no consideration amounts that are variable. Because the contracts for the revenue streams noted below have an original expected duration of one year or less, the Aquarium has elected the practical expedient not to disclose the value of unsatisfied performance obligations and expected timing of completion related to these revenues. Payments received in advance of the Aquarium satisfying its performance obligations are recorded as deferred revenue in the Statement of Financial Position.

The Aquarium's earned revenue is primarily derived from admissions fees, membership fees, Aquarium merchandising and food service sales, special events and tours, parking revenue, facility rentals, and Seafood Watch subscription revenue. Cost of sales expense is associated primarily with special event and tours and may include live performances, food and beverage, and other event components.

Admission revenue

Admissions revenue is recognized on the date of admission or six months after the performance date, whichever is earlier. Prepayments are recorded as deferred revenue when collected.

Membership fees

Memberships purchased include a performance obligation to provide various benefits over the membership period, which is one to three years. The primary benefit included in all memberships is unlimited admission during the term. Other benefits included are considered immaterial (quarterly newsletter) or are tied to the admission (on-premises merchandise and food service discounts). Memberships are recorded as deferred revenue and recognized as membership revenue ratably over the membership period.

Merchandising and food services

Merchandising and food services revenue is based on a percentage-of-revenue commission earned from the third-party management company which conducts these operations. Program revenue for enhanced visitor experience is recognized when the service is provided.

Government grants

Government grants awarded on a cost reimbursement basis are considered conditional grants and the revenue is recognized when the condition is met, that is, when allowable costs have been incurred.

Monterey Bay Aquarium Foundation

Notes to the Financial Statements (dollars in thousands)

Rental and parking revenue

Rental and parking revenue 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.

Other revenue

Other revenue consists primarily of Seafood Watch subscription revenue which is recognized on a straight-line basis over the term of the subscription which is generally twelve months.

Investments

The Aquarium reports investments at fair value. Realized and unrealized gains and losses resulting from changes in fair value are reflected in the Statement of Activities and Changes in Net Assets as non-operating activities. Dividends and interest are recognized as they are earned. Investments received through gifts are recorded at estimated fair value at the date of donation.

In addition, the Aquarium reports certain investments using the Net Asset Value (NAV) per share as determined by investment managers under the so-called practical expedient. The practical expedient allows NAV per share to represent fair value for reporting purposes when the criteria for using this method are met. On an annual basis, management reviews the audited financial statements for each investment and compares the value reported by the fund manager to the value contained in the audited financial statements to assess the reasonableness of the valuation. Management also use investment experts and consultants to facilitate this process.

For cash flow purposes, purchases of investments represent the total additions to the portfolio from revenues received during the year. Proceeds from the sale of investments represent the withdrawals used for grants and operations.

Fair Value Measurements

The Aquarium carries certain assets and liabilities at fair value. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurement standards also require the Aquarium to classify these financial instruments into a three-level hierarchy. The Aquarium classifies its financial assets and liabilities according to these three levels and maximizes the use of observable inputs and minimizes the use of unobservable inputs when measuring fair value.

Level 1 - Unadjusted quoted market prices in active markets for identical assets or liabilities that the Aquarium has the ability to access at the measurement date.

Level 2 - Observable inputs other than quoted market prices included within Level 1 for the asset or liability, either directly or indirectly.

Monterey Bay Aquarium Foundation

Notes to the Financial Statements (dollars in thousands)

Level 3 - Unobservable inputs for the asset or liability that are not corroborated by market data.

Beneficial Interest in Split-Interest Agreements

Assets contributed by donors under 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. The 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 the estimated 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.

Property, Equipment, and Exhibits, Net

Property, equipment, and exhibits are recorded at cost or, if donated, at fair value at the date of donation. Assets are capitalized if their useful life is greater than one year and their cost is greater than \$25,000. Assets are depreciated using the straight-line method over their estimated useful lives, which generally are as follows:

<u>Assets</u>	<u>Years</u>
Buildings and improvements	5 - 40
Exhibits	3 - 15
Equipment, furniture, and fixtures	3 - 20

The capitalized costs of 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.

Deferred Revenue

Deferred revenue relates to annual memberships, and other miscellaneous items and are recognized as revenue upon performance of the underlying obligation. As noted above, membership revenue is deferred and recognized ratably over the duration of the membership period.

Monterey Bay Aquarium Foundation

Notes to the Financial Statements (dollars in thousands)

The following table provides information about significant changes in deferred membership revenue and other contract liabilities for the year ended December 31, 2023:

Deferred membership revenue, beginning of year	\$	7,382
Revenue recognized and earned during the year		(6,289)
Increase in deferred revenue due to cash received during the period		6,464
Deferred membership revenue, end of year	\$	7,557
Other contract liabilities, beginning of year	\$	1,290
Revenue recognized and earned during the year		(224)
Increase in contract liabilities due to cash received during the period		209
Other contract liabilities, end of year	\$	1,275
Total deferred revenue	\$	8,832

Operating and Non-Operating Classifications

Operating revenue and expense in the Statement of Activities and Changes in Net Assets include the operating activities associated with furthering the Aquarium's charitable and educational mission. Non-operating income (expense) includes amounts which, due to their nonrecurring or variable nature, are not considered by management as part of operations. Specific items include (a) investment income and net gains (losses) in excess of the spending rate approved by the Board for use in operations; (b) provision for credit losses; (c) gain or loss on disposal of fixed assets; and (d) endowment income appropriations for operations.

Functional Expense Allocations

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."

Monterey Bay Aquarium Foundation

Notes to the Financial Statements (dollars in thousands)

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Advertising Costs

Advertising costs are expensed as incurred and primarily included in Education and outreach on the Statement of Activities and Changes in Net Assets. Advertising expenses incurred during 2023 was \$7,203 and consisted of the direct costs associated with the creation, production, and placement of the Aquarium's advertising in various media.

Tax Exempt Status

The Monterey Bay Aquarium Foundation is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code, however, it is subject to tax on income unrelated to its exempt purpose, unless that income is otherwise excluded by the Code. The Aquarium is also exempt from California state franchise taxes under Section 23701d of the California Revenue and Taxation Code.

As of December 31, 2023, management evaluated the Aquarium's tax positions and concluded that the Aquarium had maintained its tax-exempt status and had taken no material uncertain tax positions that require adjustment to or disclosure in the financial statements.

Comparative Financial Statements and Reclassifications

The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. GAAP. Accordingly, such information should be read in conjunction with the Aquarium's financial statements for the year ended December 31, 2022, from which the summarized information was derived.

Certain reclassifications have been made to the 2022 financial statements to conform to the 2023 presentation. The reclassifications had no impact on net assets or the change in net assets.

Monterey Bay Aquarium Foundation

Notes to the Financial Statements (dollars in thousands)

Recent Accounting Pronouncements

Pronouncements Adopted

In June 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, which created a new credit impairment standard for financial assets measured at amortized cost. The ASU requires the allowance for credit losses to reflect all losses expected to occur over the remaining life of financial assets such as loans and trade receivables, rather than incurred losses through the date of the financial statements. Changes in the allowance for credit losses are recorded in the statement of income as the amounts expected to be collected change. Contribution pledges receivable are excluded from this standard. The Aquarium adopted the standard on January 1, 2023. The standard did not have a material impact on the financial statements or disclosures.

Subsequent Events

The Aquarium has evaluated events for the period from December 31, 2023 through August 9, 2024, the date these financial statements were available to be issued and has determined that no other subsequent events have occurred of a nature that would require recognition or disclosure in the financial statements except as disclosed in Note 5.

Note 3 - Pledges and Grants Receivable, Net:

Pledge and grants receivable are expected to be collected as follows as of December 31, 2023:

In one year or less	\$	11,026
Between one and five years		12,356
		<hr/>
Subtotal		23,382
Less:		
Discounts on multi-year pledges receivable		(1,725)
Allowance for doubtful pledges receivable		(26)
		<hr/>
	\$	21,631
		<hr/>

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Notes to the Financial Statements (dollars in thousands)

Note 4 - Investments:

The Aquarium's investments consisted of the following at December 31, 2023:

Cash and cash equivalents	\$	55,987
Fixed income		182,381
Equities		74,559
Alternative investment		191,573
<hr/>		
Total	\$	504,500

The Aquarium's investment income (loss) consisted of the following for the year ended December 31, 2023:

Realized and unrealized gain	\$	27,886
Fees (management and performance)		(1,380)
Dividends and interest		11,817
<hr/>		
Investment income, net	\$	38,323

The Aquarium's alternative investments are managed in a diversified portfolio governed by the Aquarium's investment policy, which sets asset allocation ranges for marketable and nonmarketable investments.

Investments, in general, are exposed to various risks, such as interest rate risk, credit risk, and overall market volatility. Due to the level of risk associated with certain investments, it is reasonably possible that changes in the values of investments will occur in the near term and that such changes could materially affect the amounts reported in the financial statements.

Monterey Bay Aquarium Foundation

Notes to the Financial Statements (dollars in thousands)

Note 5 - Fair Value Measurements and Net Asset Value:

Fair Value Measurement

The table below presents the balances of assets measured at fair value on a recurring basis at December 31, 2023:

	Total	Level 1	Level 2	Level 3	NAV(a)
Cash and Cash Equivalents	\$ 55,987	\$ 52,664	\$ 3,323		
Fixed Income:					
U.S. government and agency	134,191		134,191		
Fixed income funds	48,190	48,190			
Equities mutual fund/ETF	74,559	74,559			
Alternative Investments	191,573				\$ 191,573
Subtotal	504,500	175,413	137,514	\$ -	191,573
Charitable trust assets	111			111	
Beneficial interest in charitable trusts	4,586			4,586	
Total assets measured at fair value	\$ 509,197	\$ 175,413	\$ 137,514	\$ 4,697	\$ 191,573

Assets associated with charitable trust assets and beneficial interest in split-interest agreements consisted primarily of cash equivalents, equities, fixed income, various mutual funds, and exchange-traded funds.

- (a) In accordance with FASB Accounting Standards Codification (ASC) subtopic 820-10, certain investments that are measured at fair value using the NAV per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the Statement of Financial Position.

Monterey Bay Aquarium Foundation

Notes to the Financial Statements (dollars in thousands)

Net Asset Value

The Aquarium uses NAV as a practical expedient to determine the fair value of all the underlying investments which do not have a readily determinable fair value and prepare their financial statements consistent with the measurement principles of an investment company or have the attributes of an investment company. The following table lists investments valued at NAV by major category as of December 31, 2023:

Strategies	# of Funds	Valuation	Unfunded Commitment	Redemption Frequency	Redemption Notice Period
Domestic equities (a)	1	\$ 19,382		3 months	60 days
Global equities (b)	4	52,224		3 months – 2 years	1-120 days
Fixed income (c)	1	6,778		1 month	30 days
Diversifying strategies (d)	3	17,095		quarterly - 1/4 after 1 year; quarterly after 2 years	30-60 days
Multi strategy (e)	1	29,607		3 months – 2 years	45-60 days
Natural resource (f)	3	3,549	\$ 250	None	N/A
Real estate (g)	5	17,135	10,430	None	N/A
Private equity (h)	20	45,565	13,923	None	N/A
Private credit (i)	2	238	1,918	None	N/A
Total	40	\$ 191,573	\$ 26,521		

The Aquarium has noncancellable commitments under partnership agreements 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. Subsequent to year end, the Aquarium entered into additional investment commitments of \$27,950.

- a) The domestic equity fund is actively managed and invested in diversified portfolio of common stocks and equity-linked securities in the domestic public equity market.
- b) The global equity funds are all actively managed and invested in diversified portfolio of common stocks and equity-linked securities in the global public equity markets.
- c) The fixed income strategies are actively managed, diversified portfolios of credit securities including global sovereign debt, dollar-denominated high yield bonds, bank loans, non-U.S. currency exposure, non-agency residential mortgages, and other structured credit commingled partnerships and registered investment companies.

Monterey Bay Aquarium Foundation

Notes to the Financial Statements (dollars in thousands)

- d) One fund is redeemable quarterly, the second fund is redeemable 1/4 after 1 year every 6 months and the third fund is redeemable quarterly after 2 years.
- e) The multi-strategy funds is made up of five (5) separate tranches of investments and are actively managed and invested in a diversified portfolio of global equities, fixed income, and real estate.
- f) The natural resources funds consist of investments in natural resource-related investments with the objective of long-term growth of capital with no redemption rights.
- g) Real estate funds are invested in U.S. and non-U.S. 3rd party commingled investment vehicles, private real estate funds, real estate investment trusts (REITs) and publicly traded REITs.
- h) The private equity target funds that make venture capital investments in global emerging growth companies with objective of obtaining long-term capital growth. There are no redemption rights with the funds having a remaining life of 1 to 11 years.
- i) The private credit funds are invested in U.S. and non-U.S. debt instruments including secured loans, mezzanine debt, and distressed debt. These funds have no redemption rights.

Note 6 - Property, Equipment, and Exhibits, Net:

Property, equipment, and exhibits, net consisted of the following as of December 31, 2023:

Land	\$	40,511
Buildings and building improvements		227,658
Exhibits		71,072
Equipment, furniture, and fixtures		42,757
Capital projects in process		23,418
		<hr/>
		405,416
Less accumulated depreciation		(214,030)
		<hr/>
Property, equipment and exhibits, net	\$	191,386

Depreciation expense for the year ended December 31, 2023 was \$12,166.

Contract Commitments

As of December 31, 2023, the Aquarium had future construction contract commitments for construction and renovation of \$16,795 and contract commitments of \$373,622.

Monterey Bay Aquarium Foundation

Notes to the Financial Statements (dollars in thousands)

Note 7 - Beneficial Interest in Split-Interest Agreements:

Charitable trust assets consisted of the following as of December 31, 2023:

Charitable trust assets	\$	111
Beneficial interest in charitable trusts		4,586
		<hr/>
Total	\$	4,697

Note 8 - Net Assets With Donor Restrictions:

Net assets with donor restrictions consisted of the following as of December 31, 2023:

Subject to expenditure for a specified purpose:

Education programs and facility	\$	1,583
Animal Care Center programs and facility		12,500
Exhibit design, construction and maintenance		4,275
Conservation and science		8,238

Subject to passage of time:

Pledges receivable and beneficial interest in split-interest agreements		
without a purpose restriction		11,871
Undistributed endowment earnings		14,880

Net assets restricted in perpetuity		35,801
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Total net assets with donor restrictions	\$	89,148
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Monterey Bay Aquarium Foundation

Notes to the Financial Statements (dollars in thousands)

Net assets with donor restrictions released during 2023 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:

Net assets released from restriction:

Subject to expenditure for a specific purpose:

Education facility and programs	\$ 1,405
Animal Care Center programs and facility	269
Conservation and science	1,925
New exhibit design and construction	15,036

Subject to passage of time:

Collection of pledges receivable	2,735
Endowment distribution	1,676

Total net assets released from restrictions	\$ 23,046
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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 from 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.

Note 9 - Endowment:

The Aquarium follows the guidance of the FASB ASC Topic 958-205 "Endowments of Not-for-Profit Organizations – Net Assets Classification of Funds Subject to Enacted Version of the *Uniform Prudent Management of Institutional Funds Act* (UPMIFA), and Enhanced Disclosures for All Endowment Funds." The State of California adopted a version of UPMIFA as its State Prudent Management of Institutional Funds Act (SPMIFA).

Interpretation of Relevant Law

The Board has determined that the Aquarium holds net assets that meet the definition of endowment funds under SPMIFA.

Monterey Bay Aquarium Foundation

Notes to the Financial Statements (dollars in thousands)

The corpus value of funds subject to SPMIFA represents the fair value of the original gift as of the gift date and the original value of subsequent gifts and is classified as with donor restriction in cases where the donor indicated that a portion of the fund be retained in perpetuity. The excess balance is classified as with donor restrictions until appropriated, at which time the appropriation is reclassified to net assets without donor restrictions.

In accordance with SPMIFA, the Aquarium considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the fund, (2) the purposes of the Aquarium and the donor-restricted endowment fund, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of the Foundation, and (7) the investment policies of the Aquarium.

Investment and Spending Policies

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 the 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. The Board's spending policy 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 the Financial Statements (dollars in thousands)

Information regarding the endowment net assets as of December 31, 2023 and changes during the year then ended are presented below.

	Without Donor <u>Restrictions</u>	With Donor <u>Restrictions</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 246,479	\$ 45,286	\$ 291,765
Total investment return, net	24,040	4,842	28,882
Contributions	3,006	2,286	5,292
Endowment distribution	(9,540)	(1,682)	(11,222)
Transfer from operating	40,000		40,000
Other Changes:			
Change in discount		(45)	(45)
Change in value of annuity		(6)	(6)
Endowment net assets, end of year	\$ 303,985	\$ 50,681	\$ 354,666

Monterey Bay Aquarium Foundation

Notes to the Financial Statements (dollars in thousands)

Note 10 - Availability of Financial Assets and Liquidity:

The Aquarium's financial assets available within one year for general expenditures were as follows:

Financial assets	
Cash and cash equivalents	\$ 11,256
Accounts receivable	3,793
Pledges and grants receivable, net	21,631
Investments	504,500
<hr/>	
Total financial assets	541,180
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Less amounts not available to be used within one year:	
Net assets with donor restrictions:	
Pledge receivables expected to be collected beyond one year	(12,356)
Endowment funds with donor restrictions	(50,681)
Other donor-restricted contributions	(26,111)
Board designated quasi-endowment	(303,985)
Designated for infrastructure reserve	(123,143)
Add amounts available to be used within one year:	
Endowment appropriation for 2024	12,000
Net assets with donor restrictions to be met in less than one year	12,000
Infrastructure reserve to be used for capital projects in 2024	26,000
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	(466,276)
<hr/>	
Financial assets available to meet cash needs for general expenditures within one year	\$ 74,904
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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. 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, Board-designated quasi-endowment, and infrastructure reserve. These Board designations could be drawn upon if the Board approves that action.

Monterey Bay Aquarium Foundation

Notes to the Financial Statements (dollars in thousands)

Note 11 - Rental Income:

The Aquarium leases space in several properties located in Monterey, California to unrelated parties under cancelable and noncancelable operating leases expiring through 2031, excluding optional extensions. Minimum future rental revenues from operating leases having noncancelable lease terms are as follows:

Year Ending December 31,	
2024	\$ 400
2025	118
2026	66
2027	66
2028	66
Thereafter	198
Total	\$ 914

Property held for lease, by major property class, consisted of the following as of December 31, 2023:

Property, plant, and exhibits	
Land and land improvements	\$ 13,261
Buildings and building improvements	4,095
Equipment, furniture, and fixtures	31
	17,387
Less accumulated depreciation	(1,718)
Property held for lease, net	\$ 15,669

Property held for lease is included in property, equipment, and exhibits, net on the Statement of Financial Position. Rental income is included in other revenue on the Statement of Activities and Changes in Net Assets.

Monterey Bay Aquarium Foundation

Notes to the Financial Statements (dollars in thousands)

Note 12 - Employee Plan Benefits:

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. In 2023, the Aquarium made matching contributions for the first 4% of employee contributions as well as discretionary employer contributions. Retirement plan expense for 2023 was \$2,640.

Note 13 - Related Party Transactions:

During 2023, contributions from certain members of the Board and entities with common board members totaled \$32,520. Undiscounted pledges and accounts receivable from such related parties were \$19,656 as of December 31, 2023.

Note 14 - Concentrations of Credit Risk and Contingencies:

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.

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 whose contributions made up 41% of total contributions revenue for the year ended December 31, 2023. The Aquarium had two donors as of December 31, 2023 whose pledges accounted for 66% of the total pledges receivable.

Contingencies

Lawsuits and claims are filed from time to time against the Aquarium in the ordinary course of business. The Aquarium records a provision for a contingent liability when it is both probable that the liability has been incurred and the amount of the liability can be reasonably estimated. Management does not believe that any pending litigation will have a material adverse impact on the Aquarium's financial position or results of activities.

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.