

SEATTLE AQUARIUM

Financial Statements

For the Year Ended December 31, 2019

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Independent Auditor's Report

**To the Board of Directors
Seattle Aquarium Society
Seattle, Washington**

We have audited the accompanying financial statements of Seattle Aquarium Society (dba Seattle Aquarium, herein referred to as the "Aquarium"), which comprise the balance sheet as of December 31, 2019, and 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.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 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 financial statements based on our audit. We conducted our audit 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Aquarium as of December 31, 2019, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Effect of Adopting New Accounting Standard

As discussed in Note 1, the Aquarium adopted the Financial Accounting Standards Board's Accounting Standards Update ("ASU") 2014-09, *Revenue from Contracts with Customers (Topic 606)*, and related ASUs, for the year ended December 31, 2019. Our opinion is not modified with respect to this matter.

Report on Summarized Comparative Information

We have previously audited the Aquarium's 2018 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated April 11, 2019. As part of our audit of the 2019 financial statements, we also audited the adjustments described in Note 1 that were applied to retroactively apply the requirements of ASU 2014-19 to the 2018 financial statements. In our opinion, such adjustments are appropriate and have been properly applied. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2018 is consistent, in all material respects, with the audited financial statements from which it has been derived after adjustment for retrospective application of ASU 2014-19.

Clark Nuber P.S.

Certified Public Accountants
April 16, 2020

SEATTLE AQUARIUM

Balance Sheet
 December 31, 2019
 (With Comparative Totals for 2018)

| | <u>2019</u> | <u>2018</u> |
|---|-----------------------------|-----------------------------|
| Assets | | |
| Current Assets: | | |
| Cash and cash equivalents | \$ 13,035,671 | \$ 4,774,091 |
| Accounts receivable | 2,039,622 | 679,317 |
| Current portion of grants and contributions receivable, net | 3,081,224 | 2,967,371 |
| Investments | 1,266,375 | 762,798 |
| Prepaid expenses | 393,437 | 411,729 |
| | <u>19,816,329</u> | <u>9,595,306</u> |
| Total Current Assets | 19,816,329 | 9,595,306 |
| Long-term portion of grants and contributions receivable | 4,485,760 | 3,224,866 |
| Facility expansion project costs | 4,374,828 | 2,282,198 |
| Property and equipment, net | 2,087,238 | 2,254,808 |
| | <u>2,087,238</u> | <u>2,254,808</u> |
| Total Assets | <u>30,764,155</u> | <u>17,357,178</u> |
| Liabilities and Net Assets | | |
| Current Liabilities: | | |
| Accounts payable | \$ 954,015 | \$ 645,241 |
| Lease incentive | 190,960 | 214,830 |
| Deferred revenue from memberships | 613,682 | 659,287 |
| Accrued expenses | 1,859,437 | 1,610,093 |
| | <u>1,859,437</u> | <u>1,610,093</u> |
| Total Current Liabilities | 3,618,094 | 3,129,451 |
| Net Assets: | | |
| Without donor restrictions | 7,023,108 | 6,832,381 |
| With donor restrictions | 20,122,953 | 7,395,346 |
| | <u>20,122,953</u> | <u>7,395,346</u> |
| Total Net Assets | <u>27,146,061</u> | <u>14,227,727</u> |
| Total Liabilities and Net Assets | <u>\$ 30,764,155</u> | <u>\$ 17,357,178</u> |

See accompanying notes.

SEATTLE AQUARIUM

Statement of Activities and Changes in Net Assets
For the Year Ended December 31, 2019
(With Comparative Totals for 2018)

| | Without Donor Restrictions | With Donor Restrictions | 2019 Total | 2018 Total |
|--|-------------------------------|----------------------------|----------------------|----------------------|
| Operating Revenues: | | | | |
| Admissions | \$ 13,771,682 | \$ - | \$ 13,771,682 | \$ 13,345,171 |
| Membership | 1,360,435 | - | 1,360,435 | 1,509,785 |
| Concessions | 1,437,183 | - | 1,437,183 | 1,579,170 |
| Contributions and grants | 781,134 | 644,833 | 1,425,967 | 1,670,483 |
| Special events, net of \$678,237 (2018 - \$731,902) of expenses | 728,271 | - | 728,271 | 664,544 |
| In-kind contributions | 7,724 | - | 7,724 | 319,065 |
| After hours events | 150,560 | - | 150,560 | 53,700 |
| Other income | 190,517 | - | 190,517 | 164,031 |
| Restricted net assets released from restrictions | 489,146 | (489,146) | - | - |
| Total Operating Revenues | 18,916,652 | 155,687 | 19,072,339 | 19,305,949 |
| Operating Expenses: | | | | |
| Program | 14,732,975 | - | 14,732,975 | 14,503,223 |
| Management and general | 2,573,698 | - | 2,573,698 | 2,446,788 |
| Fundraising | 1,419,252 | - | 1,419,252 | 1,347,857 |
| Total Operating Expenses | 18,725,925 | - | 18,725,925 | 18,297,868 |
| Change in Net Assets | | | | |
| From Operating Activities | 190,727 | 155,687 | 346,414 | 1,008,081 |
| Facility Expansion Project: | | | | |
| Contributions | - | 12,884,603 | 12,884,603 | 5,918,053 |
| Restricted net assets released from restrictions | 312,683 | (312,683) | - | - |
| Project expenses | (60,000) | - | (60,000) | (1,111,837) |
| Fundraising expenses | (252,683) | - | (252,683) | (269,435) |
| Net Facilities Expansion Project | - | 12,571,920 | 12,571,920 | 4,536,781 |
| Total Change in Net Assets | 190,727 | 12,727,607 | 12,918,334 | 5,544,862 |
| Net assets, beginning of year | 6,832,381 | 7,395,346 | 14,227,727 | 8,682,865 |
| Net Assets, End of Year | \$ 7,023,108 | \$ 20,122,953 | \$ 27,146,061 | \$ 14,227,727 |

See accompanying notes.

SEATTLE AQUARIUM

**Statement of Functional Expenses
For the Year Ended December 31, 2019
(With Comparative Totals for 2018)**

| | Program | Management and General | Fundraising | 2019 Total | 2018 Total |
|----------------------------------|-----------------------------|----------------------------|----------------------------|-----------------------------|-----------------------------|
| Personnel related expenses | \$ 9,403,864 | \$ 1,619,320 | \$ 1,267,390 | \$ 12,290,574 | \$ 11,493,072 |
| Office expense | 1,641,400 | 474,109 | 178,895 | 2,294,404 | 3,178,375 |
| Professional fees | 516,204 | 214,273 | 147,520 | 877,997 | 862,083 |
| Animal and operating costs | 565,615 | 16,349 | 4,207 | 586,171 | 615,453 |
| Advertising | 542,253 | 28,073 | - | 570,326 | 559,480 |
| Bank fees | 447,699 | 1,487 | 32,072 | 481,258 | 526,287 |
| Taxes | 390,304 | - | - | 390,304 | 260,040 |
| Computer expense | 234,640 | 87,320 | 25,500 | 347,460 | 418,194 |
| Depreciation and amortization | 248,814 | 60,085 | - | 308,899 | 300,765 |
| Equipment | 210,712 | 23,132 | 2,739 | 236,583 | 278,967 |
| Travel | 176,534 | 10,289 | 10,546 | 197,369 | 149,967 |
| Facility expense | 181,171 | 9,068 | - | 190,239 | 377,306 |
| Gift shop payments to City | 169,000 | - | - | 169,000 | 175,000 |
| Meals and entertainment | 48,703 | 27,619 | 3,066 | 79,388 | 90,384 |
| Miscellaneous expense | 8,506 | 2,332 | - | 10,838 | 5,679 |
| In-kind expense | 7,556 | 242 | - | 7,798 | 319,065 |
| Bad debt expense | - | - | - | - | 69,023 |
| Special events expenses | - | - | 678,237 | 678,237 | 731,902 |
| Total expenses | 14,792,975 | 2,573,698 | 2,350,172 | 19,716,845 | 20,411,042 |
| Less special events expenses | - | - | (678,237) | (678,237) | (731,902) |
| Less facility expansion expenses | (60,000) | - | (252,683) | (312,683) | (1,381,272) |
| Total Operating Expenses | <u>\$ 14,732,975</u> | <u>\$ 2,573,698</u> | <u>\$ 1,419,252</u> | <u>\$ 18,725,925</u> | <u>\$ 18,297,868</u> |

See accompanying notes.

SEATTLE AQUARIUM

Statement of Cash Flows
For the Year Ended December 31, 2019
(With Comparative Totals for 2018)

| | <u>2019</u> | <u>2018</u> |
|---|----------------------|---------------------|
| Cash Flows From Operating Activities: | | |
| Change in net assets | \$ 12,918,334 | \$ 5,544,862 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities- | | |
| Conversion of note payable to contribution | - | (500,000) |
| Donation of strategic master plan costs | - | 1,054,838 |
| Loss on disposal of property and equipment | 16,877 | 29,871 |
| Depreciation and amortization | 308,899 | 300,765 |
| Change in assets and liabilities: | | |
| Accounts receivable | (1,360,305) | (10,504) |
| Grants and contributions receivable | (1,374,747) | (4,549,065) |
| Prepaid expenses | 18,292 | (56,597) |
| Investments | (499,912) | - |
| Accounts payable | (133,340) | (18,320) |
| Lease incentive liability | (23,870) | 214,830 |
| Deferred revenue | (45,605) | (34,642) |
| Accrued expenses | 249,344 | 124,817 |
| Net Cash Provided by Operating Activities | 10,073,967 | 2,100,855 |
| Cash Flows From Investing Activities: | | |
| Purchases of property and equipment | (150,482) | (166,200) |
| Purchases of facility expansion project costs | (1,658,240) | (958,115) |
| Purchases of investments | (3,665) | (2,779) |
| Net Cash Used by Investing Activities | (1,812,387) | (1,127,094) |
| Net Change in Cash and Cash Equivalents | 8,261,580 | 973,761 |
| Cash and cash equivalents balance, beginning of year | 4,774,091 | 3,800,330 |
| Cash and Cash Equivalents Balance, End of Year | \$ 13,035,671 | \$ 4,774,091 |
| Supplementary Disclosure of Noncash Investing Activities: | | |
| Facility expansion project costs in accounts payable | \$ 515,911 | \$ 81,521 |
| Property and equipment additions in accounts payable | \$ 7,724 | \$ - |

See accompanying notes.

SEATTLE AQUARIUM

Notes to Financial Statements For the Year Ended December 31, 2019 (With Comparative Totals for 2018)

Note 1 - Organization and Summary of Significant Accounting Policies

Seattle Aquarium Society (dba Seattle Aquarium, herein referred to as the "Aquarium") is a nonprofit corporation whose primary purpose is to manage the day-to-day operations of the Seattle Aquarium on behalf of the City of Seattle ("the City") in support of the Aquarium's mission: *Inspiring Conservation of Our Marine Environment*.

Basis of Presentation - Net assets and revenues, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Aquarium and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions - Net assets that are not subject to donor-imposed stipulations.

Net Assets With Donor Restrictions - Net assets subject to donor-imposed stipulations that may or will be met either by actions of the Aquarium and/or the passage of time.

Revenues are reported as increases in net assets without donor restrictions unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulation or by law. Expirations of restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets.

Contributions of long-lived assets and contributions restricted to acquire long-lived assets are reported as contributions with donor restrictions and are released from restriction when placed in service.

Cash and Cash Equivalents - The Aquarium considers all cash accounts which are not subject to withdrawal restrictions or penalties, and all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents. The Aquarium holds cash that typically exceeds the Federal Deposit Insurance Corporation insurance limits.

Receivables - Receivables are stated at the amount management expects to collect. Management provides for probable uncollectible amounts through a charge to net assets and a credit to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to trade accounts receivable. Changes in the valuation allowance have not been material to the financial statements.

Investments - Investments consist of cash equivalents, certificates of deposits, and equity securities. Investments in certificates of deposit are reported at original cost plus accrued interest, which approximates fair value. Investments in equity securities have fair values based on unadjusted quoted market prices for identical instruments in active markets and are reported as level 1 in the fair value hierarchy.

Level 1 equity securities held as of December 31, 2019 and 2018 totaled \$499,912 and \$0, respectively. The Aquarium's policy is to sell all donated equity securities received as soon as practicable. As the equity security was received on December 31, 2019, this was not executed. The equity securities were subsequently sold on January 2, 2020.

SEATTLE AQUARIUM

Notes to Financial Statements For the Year Ended December 31, 2019 (With Comparative Totals for 2018)

Note 1 - Continued

Property and Equipment - Property and equipment are stated at cost if purchased or fair value if contributed. The Aquarium follows the practice of capitalizing all expenditures for property and equipment over \$5,000. Depreciation is provided on the straight-line basis over the estimated useful lives of the assets. The estimated useful lives for computer equipment, software, furniture and fixtures and other equipment are two to five years. The estimated useful lives for vehicles are five to ten years. The useful lives of exhibits and Aquarium improvements are equal to the lesser of their useful lives or the term of the Agreement described in Note 2. Estimated useful life of tenant improvements is the lesser of the useful life of those improvements or the lease.

Donated Materials and Services - Donated services are recognized if the services create or enhance nonfinancial assets or require specialized skills, are performed by people with those skills, and would otherwise need to be purchased by the Aquarium. Donated services and materials are reflected in the statement of activities and changes in net assets at their estimated fair value at the date of receipt of the service or gift.

Donated services and materials received during 2019 and 2018 totaled \$235,333 and \$649,504, respectively, which was used for program activities, special fundraising events and other fundraising activities.

Revenue Recognition - The Aquarium operates an aquarium and earns revenues from the sale of admissions. Admissions are generally purchased by customers in advance or on the date of entry to the aquarium and are nonrefundable. Revenues from admissions are recognized when the performance obligation of providing access to the aquarium is met on the date of entry to the aquarium. The Aquarium also earns revenues from the sales of memberships, which are nonrefundable, and provides the member access to the aquarium during the annual membership period. The Aquarium recognizes memberships ratably as the performance obligation is met over the membership period.

The Aquarium recognizes contributions when cash, securities or other assets; an unconditional promise to give; or a notification of a beneficial interest is received. Conditional promises to give are not recognized as revenues until the conditions on which they depend have been met. Government contracts and grants are conditioned upon certain performance requirements and the incurrence of allowable qualifying expenses. Conditional promises to give are further described in Note 4.

Advertising - The Aquarium expenses advertising as incurred. Advertising and marketing expenses totaled \$570,326 and \$559,480 for the years ended December 31, 2019 and 2018, respectively.

Federal Income Tax - The Aquarium has been notified by the Internal Revenue Service that it is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code (IRC), with the exception of income from any activities that are not related to the Aquarium's tax-exempt purpose. The Aquarium is also exempt from private foundation status under Section 509(a)(1) of the IRC.

SEATTLE AQUARIUM

Notes to Financial Statements For the Year Ended December 31, 2019 (With Comparative Totals for 2018)

Note 1 - Continued

Allocation of Functional Expenses - The costs of providing various programs and other activities have been summarized on a functional basis in the statement of activities and changes in net assets. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Those expenses include the salaries and related costs of certain management staff and the information technology department, which are allocated based on estimates of the level of effort spent on program and supporting services activities.

Program expenses are those expenses that are incurred for conservation, education and the maintenance of a living collection of marine life representative of the Puget Sound and the Pacific Ocean. These costs are directly in support of the Aquarium's mission, Inspiring Conservation of our Marine Environment, to encourage visitors and the general public to conserve and protect not just Puget Sound, but the Pacific and all of the one world ocean.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) requires management to make estimates and assumptions that 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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

Comparative Totals - The financial information includes 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, 2018, from which the summarized information was derived. Certain prior year balances have been restated in accordance with the accounting pronouncements noted below.

New Accounting Pronouncements - During the year ended December 31, 2019, the Aquarium adopted the Financial Accounting Standards Board's Accounting Standards Update (ASU) No. 2014-09 - *Revenue from Contracts with Customers (Topic 606)* and other related ASUs. These ASUs replaced the existing revenue recognition guidance in U.S. GAAP and require entities to recognize revenues when control of the promised goods or services is transferred to customers at an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods or services.

The primary effect of adoption of these ASUs for the Aquarium is that of memberships are recognized over the membership period, whereas previously they were recognized on the date of sale.

SEATTLE AQUARIUM

Notes to Financial Statements For the Year Ended December 31, 2019 (With Comparative Totals for 2018)

Note 1 - Continued

The Aquarium elected to adopt the changes from these ASUs using the full retrospective method, which required the Aquarium to restate the 2018 financial statements. The effect of this change is presented in the tables below:

| | 2018 | | |
|--|---------------------------|--------------|-------------|
| | As Previously Reported | Restatements | As Restated |
| Impacted Lines - Balance Sheet: | | | |
| Liabilities- | | | |
| Deferred revenue | \$ - | \$ 659,287 | \$ 659,287 |
| Net Assets: | | | |
| Beginning net assets | 9,376,794 | (693,929) | 8,682,865 |
| Ending net assets | 14,887,014 | (659,287) | 14,227,727 |
| Impacted Lines - Statement of Activities: | | | |
| Membership revenue | 1,475,143 | 34,642 | 1,509,785 |
| Change in net assets | 5,510,220 | 34,642 | 5,544,862 |

Adoption of the standards related to revenue recognition had no impact to cash from or used in operating, financing, or investing in our statement of cash flows.

Note 2 - Operations and Management Agreement

The Aquarium entered into an Operations and Management Agreement (the "Agreement") with the City's Superintendent of Parks and Recreation to operate and manage the Aquarium effective July 1, 2010 through June 30, 2030. The City will continue to own the aquarium building and will remain responsible for insurance and capital maintenance of the buildings and piers for the duration of the Agreement. Under the Agreement, the Aquarium is responsible for funding a minimum of \$10,000,000 of new or refurbished exhibits or visitor amenities by June 30, 2030, with at least \$5,000,000 of expenditures occurring on or before June 30, 2020. Total expenditures incurred toward this commitment as of December 31, 2019 were \$9,460,000 which includes certain capitalized costs and expenses incurred. The City's obligations under the Agreement includes funding \$8,000,000 of capital maintenance projects, together with such other capital maintenance as may be required to keep the aquarium building open and operating. The \$8,000,000 funding was fully expended as of December 31, 2017.

As part of the Agreement, the Aquarium is committed to pay approximately \$180,000 annually to the City from the Aquarium's café and gift shop commission revenue through 2025. Payments to the City during 2019 and 2018 for this obligation totaled \$169,000 and \$175,000, respectively, and have been reported as program expenses in the statement of activities and changes in net assets.

SEATTLE AQUARIUM

Notes to Financial Statements For the Year Ended December 31, 2019 (With Comparative Totals for 2018)

Note 3 - Aquarium Expansion

In 2013, the Aquarium and the City executed a memorandum of agreement (the "2013 MOA") regarding master planning efforts for the organization. On September 25, 2017, the City Council unanimously approved an amendment to the MOA that identifies the Ocean Pavilion, a new building on the Aquarium Plaza at the base of the Overlook Walk, as the Aquarium's expansion project and reaffirms the City's commitment to provide funding as part of a combination of public and private philanthropic sources. On July 23, 2018, the City Council unanimously approved a memorandum of understanding (the "2018 MOU") that authorized up to \$4.7 million for design and development work. On December 9, 2019, the City Council unanimously approved a funding agreement for the Ocean Pavilion that formally committed the \$34 million of City funds to the project.

The Aquarium's expenditures for design and related costs of the facilities expansion are capitalized on the balance sheet and totaled \$4,374,828 and \$2,282,197 December 31, 2019 and 2018, respectively. During the design process, the Aquarium incurred and capitalized assets of \$1,054,838 for design costs related to future renovations of Pier 59, which in turn were donated to the City of Seattle in 2018.

Note 4 - Grants and Contributions Receivable

Unconditional grants and contributions receivable consisted of the following at December 31:

| | Facility Expansion Project | Other Receivables | 2019 Total | 2018 Total |
|---|----------------------------------|-------------------------|----------------------------|----------------------------|
| Receivables due in less than one year | \$ 3,237,822 | \$ 84,683 | \$ 3,322,505 | \$ 3,038,871 |
| Receivables due in one to five years | <u>4,515,341</u> | <u>50,000</u> | <u>4,565,341</u> | <u>3,289,286</u> |
| Total grants and contributions receivable | 7,753,163 | 134,683 | 7,887,846 | 6,328,157 |
| Less discount to present value of long-term receivables | (78,784) | (797) | (79,581) | (64,420) |
| Less allowance for uncollectible amounts | (195,000) | (46,281) | (241,281) | (71,500) |
| Less current portion | <u>(3,042,822)</u> | <u>(38,402)</u> | <u>(3,081,224)</u> | <u>(2,967,371)</u> |
| Long-term Portion of Grants and Contributions Receivable | <u>\$ 4,436,557</u> | <u>\$ 49,203</u> | <u>\$ 4,485,760</u> | <u>\$ 3,224,866</u> |

Amounts included under Facility Expansion Projects consist of unconditional promises to give that are restricted by donors for use in the Aquarium's expansion project described in Note 3.

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Notes to Financial Statements For the Year Ended December 31, 2019 (With Comparative Totals for 2018)

Note 4 - Continued

At December 31, 2019 and 2018, approximately 41% and 56%, respectively, of the balance consisted of grants and contributions from three individual and foundation grantors.

The Aquarium had conditional grants receivable of \$4.4 million and \$1.7 million as of December 31, 2019 and 2018, respectively. Revenue for these conditional grants will be recognized in future periods when the conditions are met. Contributions receivable that contain stipulating conditions are not recognized in the accompanying statement of activities.

Note 5 - Property and Equipment

Property and equipment consisted of the following at December 31:

| | <u>2019</u> | <u>2018</u> |
|---|----------------------------|----------------------------|
| Computer equipment | \$ 530,653 | \$ 475,367 |
| Point-of-sale equipment | 72,190 | 72,190 |
| Furniture, fixtures and other equipment | 1,331,723 | 1,259,681 |
| Vehicles | 156,720 | 190,473 |
| Leasehold improvements | 566,681 | 566,681 |
| Exhibits and Aquarium improvements | <u>2,342,894</u> | <u>2,312,015</u> |
| | 5,000,861 | 4,876,407 |
| Less accumulated depreciation | <u>(2,913,623)</u> | <u>(2,621,599)</u> |
| Property and Equipment, Net | <u>\$ 2,087,238</u> | <u>\$ 2,254,808</u> |

Note 6 - Line of Credit

The Aquarium has an unsecured line of credit with a bank in the amount of \$1,000,000. The line will be available to the Aquarium until January 2021. Interest shall accrue on the unpaid outstanding principal balance of the credit at the prime rate set by the bank. As of December 31, 2019 and 2018, there were no draws on any line by the Aquarium.

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Notes to Financial Statements For the Year Ended December 31, 2019 (With Comparative Totals for 2018)

Note 7 - Lease Commitments

Office Space Lease - The Aquarium is obligated under a lease agreement for office space in Seattle, Washington, which expires on December 31, 2027. Total rental expense was \$525,696 and \$506,652 for the years ended December 31, 2019 and 2018, respectively, which includes base monthly rents plus common area maintenance charges. This lease agreement also provides for certain lease incentives including leasehold improvements of approximately \$239,000. This resulted in a lease incentive liability of \$190,960 and \$214,830 as of December 31, 2019 and 2018, respectively. Future minimum rental commitments under this operating lease are as follows:

For the Year Ending December 31,

| | | |
|------------|-----------|-------------------------|
| 2020 | \$ | 426,776 |
| 2021 | | 399,712 |
| 2022 | | 411,716 |
| 2023 | | 424,078 |
| 2024 | | 436,799 |
| Thereafter | | <u>1,390,540</u> |
| | \$ | <u>3,489,621</u> |

Note 8 - Employee Related Commitments

The Aquarium has established a defined contribution benefit plan under IRC Section 403(b) that covers all employees who are 21 years of age or older. Qualifying employees are immediately 100% vested in the salary reduction amounts. The plan provides for an employer match of employees' voluntary contributions subject to certain terms and conditions. Vesting of the employer match occurs over 4 years, at the rate of 25% per year. The Aquarium contributed a total of \$338,462 and \$323,218 to the plan for the years ended December 31, 2019 and 2018, respectively.

Note 9 - Net Assets With Donor Restrictions

Net assets were restricted by donors for the following purposes at December 31:

| | <u>2019</u> | <u>2018</u> |
|---|-----------------------------|----------------------------|
| Purpose restrictions- | | |
| Education | \$ 801,780 | \$ 711,237 |
| Life sciences | 88,115 | 69,664 |
| Other programs | 69,514 | 122,026 |
| Endowment | 99,205 | - |
| Facility expansion project | <u>19,064,339</u> | <u>6,492,419</u> |
| Total Net Assets With Donor Restrictions | <u>\$ 20,122,953</u> | <u>\$ 7,395,346</u> |

SEATTLE AQUARIUM

Notes to Financial Statements For the Year Ended December 31, 2019 (With Comparative Totals for 2018)

Note 10 - Concessions Agreements

Sodexo Agreement - A ten-year agreement was executed between Sodexo and the Aquarium on November 17, 2006, whereby Sodexo operates the café and catering business for the Aquarium, remitting commission revenue monthly to the Aquarium. Commissions are based on a percentage of gross receipts, as defined in the agreement, and totaled \$591,255 and \$684,479 for the years ended December 31, 2019 and 2018, respectively. This agreement was renewed in 2016 for an extended five-year term through November 2021. As part of the extension Sodexo is was obligated to invest at least \$500,000 for capital investments in the café and related space; that work was completed during 2017. If the agreement is terminated before the end of the five-year extended term the Aquarium will repay Sodexo the unamortized portion of the capital investment cost.

Event Network Agreement - A ten-year agreement was executed between Event Network and the Aquarium on December 19, 2006, whereby Event Network operates the Aquarium gift store, remitting commission revenue monthly to the Aquarium. The agreement was amended during 2016 to extend the term through June 30, 2022. Commissions are based on a percentage of gross receipts, as defined in the agreement and totaled \$814,928 and \$863,691 for the years ended December 31, 2019 and 2018, respectively.

Note 11 - Liquidity and Availability of Financial Assets

The Aquarium's primary sources of liquidity are cash, investments, accounts receivable and the current portion of operating grants and contributions receivable. Adjustments are made to exclude any assets with restrictions, such as donor and/or purpose restrictions, that are not available for operations. In addition, the Aquarium maintains an unsecured revolving line of credit in the amount of \$1,000,000. See Note 6 for additional information about the line of credit. See the Statement of Cash Flows for additional information about the sources and uses of cash in the operations of the Aquarium.

The table below shows the financial assets held by the Aquarium that could readily be made available within one year of the balance sheet date to meet general expenditures:

| | <u>2019</u> | <u>2018</u> |
|---|----------------------------|----------------------------|
| Cash and equivalents | \$ 13,035,671 | \$ 4,774,091 |
| Investments | 1,266,375 | 762,798 |
| Accounts receivable | 2,039,622 | 679,317 |
| Current portion of grants and contributions receivable | 3,081,224 | 2,967,371 |
| Adjustments for amounts not available for operations or not available within one year | <u>(11,262,365)</u> | <u>(1,888,399)</u> |
| Financial Assets Available to Meet Cash Needs for General Expenditures Within One Year | <u>\$ 8,160,527</u> | <u>\$ 7,295,178</u> |

SEATTLE AQUARIUM

Notes to Financial Statements For the Year Ended December 31, 2019 (With Comparative Totals for 2018)

Note 12 - Subsequent Event

The Aquarium evaluated its 2019 financial statements for subsequent events through April 16, 2020, which is the date the financial statements were available to be issued.

As a result of the spread of the coronavirus (COVID-19), and at the government's direction, on March 12, 2020, the Aquarium closed to public admissions through at least May 4, 2020. As a result, the Aquarium's operating revenues for 2020 will be negatively impacted. The extent of financial impact cannot be reasonably estimated at this time.

As one of the responses to the closure, the Aquarium applied for a Small Business Administration loan under the federal Paycheck Protection Program (PPP). The Aquarium's PPP loan in the amount of \$1,739,155 was approved on April 15, 2020.