

SEATTLE AQUARIUM

Financial Statements

For the Year Ended December 31, 2017

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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, 2017, 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, 2017, 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.

Report on Summarized Comparative Information

We have previously audited the Aquarium's 2016 financial statements, and we expressed an unmodified opinion on those audited financial statements in our report dated April 13, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2016 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Clark Nuber P.S.

Certified Public Accountants

April 12, 2018

SEATTLE AQUARIUM

Balance Sheet
 December 31, 2017
 (With Comparative Totals for 2016)

	<u>2017</u>	<u>2016</u>
Assets		
Current Assets:		
Cash and cash equivalents	\$ 3,800,330	\$ 3,240,297
Accounts receivable	668,813	429,969
Current portion of grants and contributions receivable, net	292,127	410,077
Investments	760,019	760,552
Prepaid expenses	<u>355,132</u>	<u>387,173</u>
Total Current Assets	5,876,421	5,228,068
Long-term portion of grants and contributions receivable	1,351,045	30,000
Facility expansion project costs	2,677,054	1,235,546
Property and equipment, net	<u>2,419,244</u>	<u>2,536,950</u>
Total Assets	<u>\$ 12,323,764</u>	<u>\$ 9,030,564</u>
Liabilities and Net Assets		
Current Liabilities:		
Accounts payable	\$ 961,694	\$ 575,695
Accrued expenses	1,485,276	1,361,728
Term loan, current portion	<u>100,000</u>	<u></u>
Total Current Liabilities	2,546,970	1,937,423
Term loan, net of current portion	<u>400,000</u>	<u></u>
Total Liabilities	2,946,970	1,937,423
Net Assets:		
Unrestricted	5,309,294	4,150,132
Temporarily restricted	<u>4,067,500</u>	<u>2,943,009</u>
Total Net Assets	<u>9,376,794</u>	<u>7,093,141</u>
Total Liabilities and Net Assets	<u>\$ 12,323,764</u>	<u>\$ 9,030,564</u>

See accompanying notes.

SEATTLE AQUARIUM

Statement of Activities and Changes in Net Assets
For the Year Ended December 31, 2017
(With Comparative Totals for 2016)

	Unrestricted	Temporarily Restricted	2017 Total	2016 Total
Operating Revenues:				
Admissions	\$ 12,748,720	\$ -	\$ 12,748,720	\$ 11,704,613
Membership	1,474,980		1,474,980	1,266,292
Concessions	1,419,074		1,419,074	1,277,229
Contributions and grants	633,005	445,134	1,078,139	1,004,173
Special events, net of \$578,390 (2016 - \$621,446) of expenses	745,456		745,456	793,501
Metropolitan Parks District funding				1,080,000
In-kind contributions	1,133		1,133	
Other income	194,655		194,655	199,744
Restricted net assets released from restrictions	726,843	(726,843)		
Total Operating Revenues	17,943,866	(281,709)	17,662,157	17,325,552
Operating Expenses:				
Program	13,167,776		13,167,776	13,055,634
Management and general	2,396,680		2,396,680	2,442,289
Fundraising	1,220,248		1,220,248	1,178,443
Total Operating Expenses	16,784,704		16,784,704	16,676,366
Change in Net Assets				
From Operating Activities	1,159,162	(281,709)	877,453	649,186
Facility Expansion Project:				
Contributions		1,814,143	1,814,143	50,000
Restricted net assets released from restrictions	407,943	(407,943)		
Project expenses	(193,064)		(193,064)	
Fundraising expenses	(214,879)		(214,879)	(145,307)
Net Facilities Expansion Project		1,406,200	1,406,200	(95,307)
Total Change in Net Assets	1,159,162	1,124,491	2,283,653	553,879
Net assets, beginning of year	4,150,132	2,943,009	7,093,141	6,539,262
Net Assets, End of Year	\$ 5,309,294	\$ 4,067,500	\$ 9,376,794	\$ 7,093,141

See accompanying notes.

SEATTLE AQUARIUM

**Statement of Functional Expenses
For the Year Ended December 31, 2017
(With Comparative Totals for 2016)**

	Program	Management and General	Fundraising	2017 Total	2016 Total
Personnel related expenses	\$ 8,287,877	\$ 1,446,614	\$ 998,464	\$ 10,732,955	\$ 10,469,440
Office expense	1,364,861	437,886	168,030	1,970,777	1,940,995
Professional fees	706,918	236,501	195,451	1,138,870	1,309,479
Animal and operating costs	645,949	16,371	1,608	663,928	726,852
Advertising	559,032	29,750		588,782	546,692
Bank fees	386,120	40,241		426,361	219,752
Depreciation and amortization	251,012	61,526		312,538	344,608
Equipment	233,337	39,975	5,843	279,155	299,747
Taxes	229,865			229,865	189,151
In-kind expense	193,064		1,133	194,197	
Gift shop payments to City	170,500			170,500	170,750
Computer expense	94,867	45,594	12,570	153,031	153,857
Travel	94,063	10,853	2,149	107,065	112,165
Facility expense	74,292	6,460		80,752	190,918
Bad debt expense	13,749	13,749	44,499	71,997	76,736
Miscellaneous expense	34,707	2,654	1,980	39,341	36,446
Meals and entertainment	20,627	8,506	3,400	32,533	34,034
Interest expense					51
Special events expenses			578,390	578,390	621,446
Total expenses	13,360,840	2,396,680	2,013,517	17,771,037	17,443,119
Less special events expenses			(578,390)	(578,390)	(621,446)
Less facility expansion expenses	(193,064)		(214,879)	(407,943)	(145,307)
Total Operating Expenses	\$ 13,167,776	\$ 2,396,680	\$ 1,220,248	\$ 16,784,704	\$ 16,676,366

See accompanying notes.

SEATTLE AQUARIUM

Statement of Cash Flows
For the Year Ended December 31, 2017
(With Comparative Totals for 2016)

	<u>2017</u>	<u>2016</u>
Cash Flows From Operating Activities:		
Change in net assets	\$ 2,283,653	\$ 553,879
Adjustments to reconcile change in net assets to net cash provided by operating activities-		
Facility expansion project in-kind expenses	193,065	
Depreciation and amortization	312,538	344,608
Change in assets and liabilities:		
Accounts receivable	(238,844)	1,662,491
Grants and contributions receivable	(1,203,095)	91,995
Prepaid expenses	32,041	(44,478)
Accounts payable	32,013	(533,402)
Accrued expenses	123,548	288,923
Net Cash Provided by Operating Activities	1,534,919	2,364,016
Cash Flows From Investing Activities:		
Purchases of property and equipment	(194,832)	(680,418)
Purchases of facility expansion project costs	(1,280,587)	
Proceeds from sale of investments		316,432
Purchases of investments	533	(315,904)
Net Cash Used by Investing Activities	(1,474,886)	(679,890)
Cash Flows From Financing Activities:		
Proceeds from contributions restricted for investment in exhibits		74,202
Proceeds from term loan	500,000	
Net Cash Provided by Financing Activities	500,000	74,202
Net Change in Cash and Cash Equivalents	560,033	1,758,328
Cash and cash equivalents balance, beginning of year	3,240,297	1,481,969
Cash and Cash Equivalents Balance, End of Year	\$ 3,800,330	\$ 3,240,297
Supplementary Disclosure of Noncash Investing Activities:		
Facility expansion project costs in accounts payable	\$ 379,654	\$ 25,668

See accompanying notes.

SEATTLE AQUARIUM

Notes to Financial Statements For the Year Ended December 31, 2017 (With Comparative Totals for 2016)

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:

Unrestricted Net Assets - Net assets that are not subject to donor-imposed stipulations.

Temporarily Restricted Net Assets - 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.

Permanently Restricted Net Assets - Net assets subject to donor-imposed stipulations that they be maintained permanently by the Aquarium. At December 31, 2017 and 2016, the Aquarium had no permanently restricted net assets.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expirations of temporary restrictions 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 temporarily restricted contributions and are released from restriction ratably over the life of the asset.

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 at times 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 and certificates of deposits. Investments in certificates of deposit are reported at original cost plus accrued interest, which approximates fair value.

SEATTLE AQUARIUM

Notes to Financial Statements For the Year Ended December 31, 2017 (With Comparative Totals for 2016)

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 2017 and 2016 totaled \$203,922 and \$211,574, respectively, which was used for special fundraising events and other fundraising activities.

Membership Revenue - Memberships are recorded as contributions and recognized as revenue when received.

Advertising - The Aquarium expenses advertising as incurred. Advertising and marketing expenses totaled \$588,782 and \$546,692 for the years ended December 31, 2017 and 2016, 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.

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.

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. These costs are 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 oceans of the planet.

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, 2016, from which the summarized information was derived.

SEATTLE AQUARIUM

Notes to Financial Statements For the Year Ended December 31, 2017 (With Comparative Totals for 2016)

Note 1 - Continued

Reclassifications - Reclassifications have been made to certain balances in the 2016 financial statements to conform to the presentation in the 2017 financial statements. There were no changes to previously reported total assets, liabilities, net assets, or change in net assets due to these reclassifications.

Subsequent Events - The Aquarium has evaluated subsequent events through April 12, 2018, the date on which the financial statements were available to be issued.

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, 2017 were \$6,089,032 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 2017 and 2016 for this obligation totaled \$170,500 and \$170,750, respectively, and has been reported as program expenses in the statement of activities and changes in net assets.

Note 3 - Facilities Master Planning for Expansion

In 2013, the Aquarium and the City executed a memorandum of agreement (the "2013 MOA") regarding master planning efforts for the organization. This includes an evaluation of how a potential Aquarium expansion could positively integrate into the City's larger central waterfront redevelopment plan. The 2013 MOA stipulates partial City funding for the Aquarium's planning efforts provided that private matching funds are raised and deployed in the creation of a final design for adoption by City Council at a future date. In 2015, the City Council unanimously approved the master plan document produced in collaboration with the Parks Department and Office of the Waterfront for the City of Seattle. 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.

The Aquarium's expenditures for design and related costs of the facilities expansion are capitalized on the balance sheet and totaled \$2,677,054 and \$1,235,546 at December 31, 2017 and 2016, respectively.

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Notes to Financial Statements For the Year Ended December 31, 2017 (With Comparative Totals for 2016)

Note 4 - Grants and Contributions Receivable

Grants and contributions receivable consisted of the following at December 31:

	<u>2017</u>	<u>2016</u>
Receivables due in less than one year	\$ 321,227	\$ 450,077
Receivables due in one to five years	<u>1,368,609</u>	<u>30,000</u>
Total grants and contributions receivable	1,689,836	480,077
Less discount to present value of long-term receivables	(17,564)	
Less allowance for uncollectible amounts	<u>(29,100)</u>	<u>(40,000)</u>
Net Grants and Contributions Receivable	<u>\$ 1,643,172</u>	<u>\$ 440,077</u>

Note 5 - Property and Equipment

Property and equipment consisted of the following at December 31:

	<u>2017</u>	<u>2016</u>
Computer equipment	\$ 549,875	\$ 466,537
Point-of-sale equipment	72,190	72,190
Furniture, fixtures and other equipment	1,237,829	1,237,829
Vehicles	190,473	156,720
Leasehold improvements	545,618	474,381
Exhibits and Aquarium improvements	<u>2,312,015</u>	<u>2,305,511</u>
	4,908,000	4,713,168
Less accumulated depreciation	<u>(2,488,756)</u>	<u>(2,176,218)</u>
Property and Equipment, Net	<u>\$ 2,419,244</u>	<u>\$ 2,536,950</u>

Note 6 - Term Loan

During 2017, the Aquarium received an unsecured term loan from a member of the board of directors in the amount of \$500,000 for the purposes of advancing schematic design for the facilities expansion project in absence of City funding. The loan is payable in five equal, annual installments beginning in December 2018 plus interest at a rate of 2.0%.

SEATTLE AQUARIUM

Notes to Financial Statements For the Year Ended December 31, 2017 (With Comparative Totals for 2016)

Note 7 - Line of Credit

The Aquarium has an unsecured revolving line of credit with a bank in the amount of \$1,000,000. The line will be available to the Aquarium until September 2018. Interest shall accrue on the unpaid outstanding principal balance of the credit at the greater of a floating rate equal to an index rate set by the bank plus 0.75% or the floor rate of 4.5%. As of December 31, 2017 and 2016, there were no draws on this line by the Aquarium.

Note 8 - 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 \$402,882 and \$414,042 for the years ended December 31, 2017 and 2016, respectively, which includes base monthly rents plus common area maintenance charges. Future minimum rental commitments under this operating lease are as follows:

For the Year Ending December 31,

2018	\$	365,791
2019		376,779
2020		388,066
2021		399,712
2022		411,716
Thereafter		<u>2,251,417</u>
	\$	<u><u>4,193,481</u></u>

Note 9 - 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 \$300,904 and \$277,541 to the plan for the years ended December 31, 2017 and 2016, respectively.

SEATTLE AQUARIUM

Notes to Financial Statements For the Year Ended December 31, 2017 (With Comparative Totals for 2016)

Note 10 - Temporarily Restricted Net Assets

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

	<u>2017</u>	<u>2016</u>
Time restrictions-		
Exhibits	\$ 1,589,472	\$ 1,717,101
Contributed property and equipment	103,189	125,353
Purpose restrictions-		
Education	111,001	347,951
Other programs	217,150	58,900
Life sciences	91,047	144,263
Facility expansion project	<u>1,955,641</u>	<u>549,441</u>
Total Temporarily Restricted Net Assets	<u>\$ 4,067,500</u>	<u>\$ 2,943,009</u>

Time restrictions for exhibits and contributed property and equipment are released from restriction ratably over the life of the related assets.

Note 11 - 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 \$595,230 and \$503,489 for the years ended December 31, 2017 and 2016, 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 \$823,844 and \$773,740 for the years ended December 31, 2017 and 2016, respectively.

Note 12 - Seawall Construction

In fall 2012, the City passed a bond issue related to replacing the aging seawall that runs underneath Alaskan Way and directly in front of the Aquarium. Work continued until early summer 2016, when it was complete for areas south of Waterfront Park to Coleman Dock. In January 2016, the work area expanded to include the area directly in front of the Seattle Aquarium and was completed in February 2017. Attendance at the Aquarium was not impacted by this construction.

SEATTLE AQUARIUM

Notes to Financial Statements For the Year Ended December 31, 2017 (With Comparative Totals for 2016)

Note 13 - Metropolitan Parks District Funds

On August 5, 2014, Proposition 1, "Parks for All" was approved by the citizens of the City of Seattle, creating the Seattle Park District to provide funding for specified park and recreation services through the Seattle Department of Parks and Recreation. In anticipation of impacts on Aquarium attendance related to the City's seawall replacement project, the City allocated funds to support Aquarium operations during 2016. The amount of support was \$1,080,000 in 2016. During 2017, the City provided funding in the amount of \$1,107,000 to support capital projects and facility maintenance.