

bay.org

**Financial Statements and
Independent Auditors' Report**

December 31, 2017

Barlow & Hughan LLP

CERTIFIED PUBLIC ACCOUNTANTS

BAY.ORG

DECEMBER 31, 2017

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INDEPENDENT AUDITORS' REPORT

BOARD OF DIRECTORS
BAY.ORG
SAN FRANCISCO, CALIFORNIA

We have audited the accompanying financial statements of BAY.ORG (a nonprofit public benefit corporation), which comprise the statement of financial position as of December 31, 2017, the related statements of activities and net assets and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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.

Auditors' 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 of 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 auditors' 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 auditors consider 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.

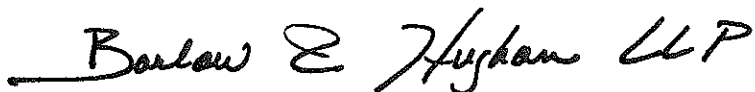
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of BAY.ORG as of December 31, 2017, 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.

Other Matter

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of functional expenses on page 16 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.



May 31, 2018

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STATEMENT OF FINANCIAL POSITION

DECEMBER 31, 2017

ASSETS

CURRENT ASSETS

Cash	\$1,320,971
Accounts and other receivables	239,265
Grants receivable	170,539
Gift shop inventories	70,522
Short-term investments	41,456
Prepaid loan fees, deposits and other assets	<u>217,304</u>
	2,060,057

NON-CURRENT ASSETS

Property and equipment - Pledged, net of depreciation	6,396,618
Cash restricted for loan payments	548,750
Construction in progress	190,991
Prepaid loan fees	151,714
Other assets	<u>28,126</u>

\$9,376,256

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts payable	\$ 492,014
Accrued expenses	315,302
Current portion of notes payable	502,718
Deferred income	<u>14,202</u>
	1,324,236

NON-CURRENT LIABILITIES

Notes payable	<u>4,250,000</u>
	<u>5,574,236</u>

UNRESTRICTED NET ASSETS

Funds available for operations	3,525,286
Board designated fund	<u>41,468</u>
	3,566,754

RESTRICTED NET ASSETS

Temporarily restricted	<u>235,266</u>
	<u>3,802,020</u>

\$9,376,256

See notes to financial statements.

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STATEMENT OF ACTIVITIES AND NET ASSETS

YEAR ENDED DECEMBER 31, 2017

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
REVENUES			
Operating revenues			
Ticket sales	\$ 9,247,310		\$ 9,247,310
Contracts	226,278		226,278
Other	<u>421,924</u>		<u>421,924</u>
	<u>9,895,512</u>		<u>9,895,512</u>
Gift shop revenues			
Sales	1,549,245		1,549,245
Cost of sales	<u>(720,335)</u>		<u>(720,335)</u>
	<u>828,910</u>		<u>828,910</u>
Public support	<u>484,400</u>	\$330,883	<u>815,283</u>
Special event			
Revenues	45,501		45,501
Expenses	<u>(20,785)</u>		<u>(20,785)</u>
	<u>24,716</u>		<u>24,716</u>
Net assets released from restriction	<u>243,777</u>	<u>(243,777)</u>	<u>11,564,421</u>
	<u>11,477,315</u>	<u>87,106</u>	<u>11,564,421</u>
EXPENSES			
Program services			
Exhibits	6,895,728		6,895,728
Education programs	1,824,637		1,824,637
Field restoration and conservation	1,230,046		1,230,046
Support services			
Management and general	1,229,581		1,229,581
Fundraising	<u>434,733</u>		<u>434,733</u>
	<u>11,614,725</u>		<u>11,614,725</u>
EXCESS OF EXPENSES OVER REVENUES FROM OPERATIONS	(137,410)	87,106	(50,304)
OTHER INCOME			
Interest and other	20,503		20,503
Net realized and unrealized gains on investments	<u>3,468</u>		<u>3,468</u>
EXCESS OF EXPENSES OVER REVENUES	(113,439)	87,106	(26,333)
NET ASSETS - Beginning of year	<u>3,680,193</u>	<u>148,160</u>	<u>3,828,353</u>
NET ASSETS - End of year	<u>\$ 3,566,754</u>	<u>\$235,266</u>	<u>\$ 3,802,020</u>

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See notes to financial statements.

CERTIFIED PUBLIC ACCOUNTANTS

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STATEMENT OF CASH FLOWS

YEAR ENDED DECEMBER 31, 2017

CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from visitors and customers	\$12,205,688
Cash paid to employees and suppliers	(11,227,701)
Cash paid to other organizations for their portion of sales of combined ticket packages	(771,061)
Cash received from contributions and grants	646,183
Interest paid	(115,564)
Interest received	<u>2,517</u>
Net cash provided by operating activities	<u>740,062</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of property and equipment	(381,592)
Construction of property, improvements and exhibits in progress	(190,991)
Purchase of investments	(31,635)
Proceeds from sale of investments	<u>9,738</u>
Net cash used for investing activities	<u>(594,480)</u>
CASH FLOWS FROM FINANCING ACTIVITIES	
Repayments of notes payable	<u>(756,536)</u>
NET DECREASE IN CASH	(610,954)
CASH - Beginning of year	<u>2,480,675</u>
CASH - End of year	1,869,721
LESS CASH SEPARATELY CLASSIFIED AS RESTRICTED	<u>548,750</u>
UNRESTRICTED CASH - End of year	<u>\$ 1,320,971</u>
SUPPLEMENTAL DISCLOSURE OF NON-CASH ACTIVITIES	
Value of securities distributed to pension plan participant	113,080
Value of securities donated to the organization	9,937
Cost of construction in progress placed in service during the year	6,549
Value of in-kind contributions used for operations and fundraising	2,201

See notes to financial statements.

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CERTIFIED PUBLIC ACCOUNTANTS

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STATEMENT OF CASH FLOWS (Continued)

YEAR ENDED DECEMBER 31, 2017

RECONCILIATION OF EXCESS OF EXPENSES OVER REVENUES
TO NET CASH PROVIDED BY OPERATING ACTIVITIES

Excess of expenses over revenues	\$ (26,333)
Items not requiring (providing) cash:	
Depreciation	795,685
Amortization	36,398
Net realized and unrealized gains on investments	(3,468)
Increase in pension liability related to increase in fair market value of plan assets	1,685
Decreases (increases) in assets:	
Accounts and other receivables	(64,590)
Grants receivable	(169,299)
Gift shop inventories	1,178
Prepaid loan fees, deposits and other assets	13,532
Increases (decreases) in liabilities:	
Accounts payable	178,357
Accrued expenses	(14,865)
Deferred income	(6,029)
Pension liability	<u>(2,189)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$740,062</u>

See notes to financial statements.

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CERTIFIED PUBLIC ACCOUNTANTS

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NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

History and Operations

bay.org (the Organization) is a nonprofit public benefit corporation incorporated in 2008 under the laws of the State of California. During 2014 the assets and activities of the Bay Institute of San Francisco were merged into the Bay Institute Aquarium Foundation, which then changed its name to bay.org to reflect the larger scope of its activities.

The mission of the Organization is to protect, restore, and inspire conservation of San Francisco Bay and its watershed, from the Sierra to the sea. The Organization achieves its mission and programs through its five divisions:

Aquarium of the Bay is located at PIER 39 in San Francisco. Throughout its 50,000 square foot building, the Aquarium provides a window to the Bay that reveals its distinctive ecosystems and seeks to educate and inspire preservation;

The Bay Institute is the leader in protecting and restoring the watershed which drains into San Francisco Bay. The Bay Institute develops and leads research, education, and advocacy programs to preserve the watershed which includes Suisun Bay, San Pablo Bay, San Francisco Bay and the Sacramento and San Joaquin rivers and their tributaries;

Sea Lion Center is located on PIER 39 in San Francisco. It provides free interpretive and educational programs about the sea lions and their history at PIER 39 and in San Francisco Bay;

EcoCenter at Heron's Head Park is a facility located near Bayview Hunter's Point in San Francisco. The facility is an educational research center and serves as a model for green building, sustainable resource use, environmental justice, and experiential learning for the students and teachers of the San Francisco Unified School District;

Bay Model Alliance provides a comprehensive learning center by showcasing a working hydriodic model of the San Francisco Bay and Sacramento - San Joaquin river delta system.

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NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Major programs of the Organization are:

Exhibits are open 364 days a year and display more than 30,000 local marine animals in specially designed galleries that focus on local marine habitats and concepts and commitment to the preservation and care of the animals on exhibit;

Education programs for over 20,000 students, teachers and chaperones annually from schools within the nine Bay Area counties at the Aquarium, the Sea Lion Center, the Bay Model, the EcoCenter, and at schools throughout the Bay Area;

Field restoration and conservation. The San Francisco Bay has been altered drastically from the pristine estuary that existed in the 1800's. One of the main goals of bay.org is to expand and accelerate the effort to protect and restore many of the wetlands that were drained. Furthermore the Organization employs policy expertise to promote reforms in the way California manages its water supplies and protects the ecological values of the San Francisco Bay-Delta estuary and its watershed.

Basis of Presentation

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board (FASB) in its Accounting Standards Codification (ASC) Topic 958 Not-For-Profit Entities. Under FASB ASC Topic 958, bay.org reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets, based upon the existence or absence of donor-imposed restrictions. The Organization had no permanently restricted net assets at the beginning or at the end of the year. Income is recognized as temporarily restricted if restrictions imposed by the donor are not satisfied by the end of the current year or if the funds have not been received by year end. Unrestricted net assets include funds separately designated by the Board of Directors.

Ticket sale revenues are recognized when redeemed for admission to the Aquarium. The Organization participates in various combined ticket packages with other local attractions. The Organization recognizes as revenue only its portion of these combined packages.

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NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Investments

Short-term investments are stated at market value. They are comprised of marketable securities. At December 31, 2017 the cost of the investments was \$39,656. This is wholly comprised of a board designated endowment fund whose goal is to save up to \$1 million in aggregate value. It had no contributions or expenditures during 2017.

Gift Shop Inventories

Inventories are stated at the lower of cost or net realizable value determined by the first-in, first-out method.

Accounts and Other Receivables

The Organization believes that as of December 31, 2017, all uncollectible accounts have been written off, and the allowance for doubtful receivables is zero.

Property and Equipment

Property and equipment are stated at cost. Depreciation of property and equipment is provided using the straight-line method using the following estimated useful lives:

	<u>Years</u>
Machinery	3-5
Furniture and fixtures	3-5
Exhibits	10
Buildings and improvements	19

Construction in Progress

Construction in progress was comprised of a custom-built research vessel not placed in service as of the end of the year.

Compensated Absences

Accumulated paid time off is accrued when earned. As of December 31, 2017 the liability for employees for compensated absences was \$145,705. The liability for compensated absences was included among the accrued expenses of the Organization.

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NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Deferred Income

Deferred income was comprised of advance admission tickets sold but not redeemed and prepayments for services not yet performed as of the end of the year.

Donated Goods and Services

A number of volunteers have donated significant amounts of their time to the Organization. These donated services are not reflected in the financial statements since they do not meet generally accepted criteria for recognition as contributed services.

The Organization received donated food and beverages, entertainment and event materials, and equipment valued by Management at \$2,201 in connection with an annual special event. These items were recognized as special events revenue and special event expenses in the accompanying financial statements.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Income Tax Status

The Organization qualifies as tax exempt organization under Section 501(c)(3) of the Internal Revenue Code and is therefore generally exempt from income taxes. Income taxes are payable, however, on revenue from sources unrelated to its tax exempt purpose. There was no such revenue during the year. The Organization's policy is to record interest and penalties as income taxes. For the year ended December 31, 2017 there were no such amounts incurred or recorded in the financial statements. In addition, the Organization has not taken an unsubstantiated tax position that would require provision of a liability under ASC 740, "Income Taxes." The Organization's informational returns are subject to examination by federal and state taxing authorities.

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NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017

2. CASH

The cash balance as of December 31, 2017 was comprised of the following:

Interest-bearing accounts	\$1,431,929
Non-interest-bearing accounts	401,652
Cash on hand	<u>36,140</u>
	1,869,721
Less restricted cash	<u>548,750</u>
	<u>\$1,320,971</u>

Under the terms of its bank loan, the Organization is required to maintain segregated cash balances from which it may not draw funds until the loan is fully repaid. This restricted cash is classified as a long-term asset based on the repayment terms of the loan.

3. PROPERTY AND EQUIPMENT

The property and equipment on December 31, 2017 consisted of the following:

Building situated on leased premises	\$ 7,999,173
Leasehold improvements	1,492,737
Exhibits	1,522,037
Furniture and office equipment	858,383
Operating equipment	331,014
Other	<u>66,824</u>
	12,270,168
Less accumulated depreciation	<u>5,873,550</u>
	<u>\$ 6,396,618</u>

The building and all improvements will revert to the lessors upon the conclusion of the leases as described in Note 4.

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NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017

4. COMMITMENTS AND CONTINGENCIES

The Organization leases the site on which it operates the Aquarium from unrelated parties under operating leases. Under the principal lease agreement, rent is payable to the Port of San Francisco annually, calculated at 4% of adjusted gross revenues or \$150,000, whichever is greater.

A sublease agreement with PIER 39 provides for a base rental charge of \$250,000 per year plus 2% of gross earned revenue above \$11,850,000.

Concurrent with the sublease arrangement with PIER 39, the Organization also leases the Sea Lion Center at PIER 39. The lease does not provide for separate rent payments.

The current term of these leases expires on March 31, 2019. The Organization has the option to renew the leases for various periods through December 31, 2028, and the leases may be subject to further renewals.

The Organization leases office space from the Port of San Francisco at Pier 35. The lease provides for monthly base rental charge of \$8,241. It expires on June 30, 2018.

The Organization leases storage space from the Port of San Francisco at Pier 26. The lease provides for monthly base rental charge of \$1,908. It expires October 30, 2018 and may be subject to renewal.

The Organization also leases the premises occupied by the Heron's Head Park EcoCenter from the City and County of San Francisco. The lease requires nominal lease payments and expires in February 2019.

Total rent expense for the year ended December 31, 2017 was \$787,644. The following, is a schedule of future minimum lease payments for the succeeding five years under operating leases with initial or remaining lease terms in excess of one year:

<u>Year Ending</u> <u>December 31,</u>	<u>Amount</u>
2018	\$469,605
2019	400,000
2020	150,000
2021	150,000
2022	150,000

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NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017

5. NOTES PAYABLE

In connection with the purchase of the assets of the Aquarium, the California Infrastructure and Economic Development Bank (the Bank) issued Variable Rate Revenue Bonds in the aggregate amount of \$6,500,000. The proceeds from these bonds were loaned to the Organization.

Under the terms of the agreement with the Bank, the Organization is required to make annual payments to a custodial bank through 2025 which will be used to retire the bonds, as well as maintain required segregated cash reserves and other specified levels of current and total net assets. During the period the bonds are outstanding the Organization will also pay interest at a variable rate and other loan fees to the custodial bank which administers the loan on behalf of the Bank. During the year ended December 31, 2017, the Organization paid \$87,387 in credit fees and interest and made principal payments of \$470,000. The principal balance on this note at December 31, 2017 was \$4,745,000.

During 2009 the Organization borrowed \$4,000,000 from a private foundation in order to finance the acquisition of the assets of the Aquarium. The note was repayable in annual installments of \$200,000 plus interest at 2%; the remaining principal was due in July of 2017. Interest expense on this note during the year ended December 31, 2017 was \$511. The note was repaid in full during the year.

Both notes are secured by the leasehold interests and other assets of the Organization.

During 2013, the Organization borrowed \$124,660 to finance an elevator modernization on its premises. The loan is repayable in monthly installments of \$2,454 including interest at 6.75% with the last payment due in April 2018. Interest expense on this note during the year ended December 31, 2017 was \$1,679. The principal balance on this note at December 31, 2017 was \$7,718. The note is secured by the leasehold improvements.

During 2017 the Organization paid off an unsecured loan payable to a former board member. The loan was repayable on demand and bears interest at 5%. Interest expense and principal payments on this loan during the year ended December 31, 2017 were \$531 and \$58,770 respectively.

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NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017

5. NOTES PAYABLE - Continued

The minimum principal payments due during the next five years under these notes are:

2018	\$ 502,718
2019	520,000
2020	545,000
2021	575,000
2022	610,000
Thereafter	<u>2,000,000</u>
	<u>\$4,752,718</u>

6. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets at December 31, 2017 were comprised of grants which had not been received by year end and grants which had been received but had one or more restrictions which were unsatisfied at year end. These amounts are summarized as follows:

Grants not received	\$113,500
Grants received but which included restrictions not fulfilled	<u>121,766</u>
	<u>\$235,266</u>

7. PENSION PLAN

The Organization has established a qualified retirement plan under section 403(b) of the Internal Revenue Code. The Organization does not make any contributions under this plan. The plan is managed by an outside consultant.

During 2017 the Organization also had a retirement plan under section 457 of the Internal Revenue Code for some of its employees. The assets of the plan were included among the assets of the Organization. The pension liability recorded by the Organization equalled the cumulative employer and employee contributions, net of withdrawals and adjusted by the change in fair value the plan assets. The change in fair value of the plan assets increased or decreased the pension liability and was not part of the revenues or expenses of the Organization. During 2017 all the assets of the retirement plan were distributed because all of the participants in the plan separated from the Organization.

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NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017

8. CONCENTRATIONS OF CREDIT RISK

The Organization maintains cash balances at financial institutions which are insured by the Federal Deposit Insurance Corporation. At December 31, 2017 the Organization had uninsured deposits with banks totaling approximately \$1,458,000 which included deposits against which there were outstanding checks.

At December 31, 2017 the Organization had marketable securities listed on national exchanges valued at \$41,456 subject to market fluctuation.

9. SUBSEQUENT EVENTS

In preparing the financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through the date the financial statements were available to be issued.

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ADDITIONAL INFORMATION

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 SCHEDULE OF FUNCTIONAL EXPENSES
 YEAR ENDED DECEMBER 31, 2017

	<u>Program Services</u>			<u>Support Services</u>		<u>Total</u>
	<u>Exhibits</u>	<u>Education Programs</u>	<u>Field Restoration and Conservation</u>	<u>Management and General</u>	<u>Fundraising</u>	
Employment costs	\$3,113,250	\$1,436,326	\$ 863,470	\$ 933,307	\$261,185	\$ 6,607,538
Deprecation	779,771			15,914		795,685
Rent	771,891			15,753		787,644
Office	397,982	96,407	90,462	9,923	59,933	654,707
Utilities	499,712	2,852				502,564
Professional fees	114,034	101,109	157,670	30,150	93,186	496,149
Operating expenses	380,409	32,307	3,393		9,952	426,061
Advertising	156,892	123,999	108,782		112	389,785
Administration	177,627	8,373	955	47,335	7,551	241,841
Contract services	207,239	8,129	2,500	3,252		221,120
Repairs and maintenance	154,663	7,605				162,268
Insurance	128,028	7,034	2,814	2,872	2,814	143,562
Interest				130,777		130,777
Amortization				36,398		36,398
Taxes and licences	<u>14,230</u>	<u>496</u>		<u>3,900</u>		<u>18,626</u>
	<u>\$6,895,728</u>	<u>\$1,824,637</u>	<u>\$1,230,046</u>	<u>\$1,229,581</u>	<u>\$434,733</u>	<u>\$11,614,725</u>

See notes to financial statements.

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DECEMBER 31, 2017

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