

**Sea Research Foundation, Inc.
and Mystic Entertainment Company**

**Consolidated Financial Statements
(With Supplementary Information)
and Independent Auditor's Report**

December 31, 2019 and 2018

**Sea Research Foundation, Inc.
and Mystic Entertainment Company**

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Independent Auditor's Report

To the Board of Trustees
Sea Research Foundation, Inc. and Mystic Entertainment Company

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Sea Research Foundation, Inc. (a nonprofit entity) and Mystic Entertainment Company (a wholly-owned for profit subsidiary of Sea Research Foundation, Inc.), which comprise the consolidated statements of financial position as of December 31, 2019 and 2018, and the related consolidated statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement. The financial statements of Mystic Entertainment Company were not audited in accordance with *Government Auditing Standards*.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Sea Research Foundation, Inc. and Mystic Entertainment Company as of December 31, 2019 and 2018, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Consolidating Information

Our audits were conducted for the purpose of forming an opinion on the 2019 consolidated financial statements as a whole. The consolidating information on pages 26 and 27 is presented for purposes of additional analysis of the 2019 consolidated financial statements rather than to present the financial position and results of operations of the individual companies, and is not a required part of the 2019 consolidated 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 2019 consolidated financial statements. The consolidating information has been subjected to the auditing procedures applied in the audit of the 2019 consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the 2019 consolidated financial statements or to the 2019 consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidating information is fairly stated in all material respects in relation to the 2019 consolidated financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 6, 2020, on our consideration of Sea Research Foundation, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Sea Research Foundation, Inc.'s internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Sea Research Foundation, Inc.'s internal control over financial reporting and compliance.



Hartford, Connecticut
November 6, 2020

**Sea Research Foundation, Inc.
and Mystic Entertainment Company**

**Consolidated Statements of Financial Position
December 31, 2019 and 2018**

	<u>Assets</u>	
	<u>2019</u>	<u>2018</u>
Current assets		
Cash and cash equivalents	\$ 1,213,363	\$ 2,591,074
Grants and contributions receivable, net	263,506	941,579
Accounts receivable, net	495,359	239,078
Prepaid expenses and other current assets	267,284	249,850
Promises to give	218,697	498,349
Total current assets	<u>2,458,209</u>	<u>4,519,930</u>
Noncurrent assets		
Promises to give, net of discount and current portion	113,585	91,728
Deferred compensation assets	253,397	139,382
Investments	233,680	397,419
Construction in progress	1,354,816	4,934,304
Property and equipment, net of accumulated depreciation	32,244,120	27,128,800
	<u>\$ 36,657,807</u>	<u>\$ 37,211,563</u>
	<u>Liabilities and Net Assets</u>	
Current liabilities		
Accounts payable	\$ 3,605,719	\$ 3,230,608
Line of credit	1,200,000	1,200,000
Notes payable, current portion	55,246	233,118
Deferred revenue and unearned membership fees	1,380,347	1,858,149
Accrued expenses	436,616	605,110
Capital lease obligations, current portion	6,040	54,153
Total current liabilities	<u>6,683,968</u>	<u>7,181,138</u>
Long-term liabilities		
Notes payable, net of current portion	11,276,439	11,284,201
Interest rate swap agreement liability	465,406	219,051
Deferred compensation	303,397	219,383
Capital lease obligations, long-term	2,603	12,169
Total long-term liabilities	<u>12,047,845</u>	<u>11,734,804</u>
Total liabilities	<u>18,731,813</u>	<u>18,915,942</u>
Commitments		
Net assets		
Without donor restrictions	17,468,834	17,714,711
With donor restrictions	457,160	580,910
Total net assets	<u>17,925,994</u>	<u>18,295,621</u>
	<u>\$ 36,657,807</u>	<u>\$ 37,211,563</u>

See Notes to Consolidated Financial Statements.

**Sea Research Foundation, Inc.
and Mystic Entertainment Company**

**Consolidated Statements of Activities
For the Year Ended December 31, 2019
(With Comparative Totals for 2018)**

	Without donor restrictions	With donor restrictions	Total	
			2019	2018
Sea Research Foundation activities				
Revenue from operations				
Admissions	\$ 12,423,144	\$ -	\$ 12,423,144	\$ 11,516,788
Memberships	2,064,163	-	2,064,163	1,990,350
Program income	1,486,380	-	1,486,380	1,555,095
Grants and contracts - operations	3,479,439	-	3,479,439	2,440,905
Grants and contracts - capital	2,323,577	-	2,323,577	3,627,764
Contributions	2,197,934	206,177	2,404,111	2,170,765
Management fees and other revenue	417,627	-	417,627	189,637
Auxiliary operations	2,391,261	-	2,391,261	2,553,123
Net assets released from restriction	329,927	(329,927)	-	-
Total	27,113,452	(123,750)	26,989,702	26,044,427
Operating costs and expenses				
Exhibits and husbandry	11,091,244	-	11,091,244	10,290,458
Education and research	5,405,185	-	5,405,185	4,369,688
Visitor services	2,094,851	-	2,094,851	1,841,757
General and administrative	4,073,310	-	4,073,310	3,446,061
Development	1,665,839	-	1,665,839	1,013,516
Marketing	1,753,981	-	1,753,981	1,704,025
Auxiliary operations	577,657	-	577,657	659,401
Total	26,662,067	-	26,662,067	23,324,906
Income (deficiency) from Foundation operations	451,385	(123,750)	327,635	2,719,521
Nonoperating revenue and expenses				
Change in interest rate swap agreement	(260,866)	-	(260,866)	188,327
Investment return, net	38,985	-	38,985	(29,765)
Change in net assets from Foundation activities	229,504	(123,750)	105,754	2,878,083
Mystic Entertainment activities				
Operating revenue	882,702	-	882,702	3,110,081
Cost of goods sold	(358,288)	-	(358,288)	(1,356,702)
Net revenue	524,414	-	524,414	1,753,379
Operating expenses	(960,244)	-	(960,244)	(1,318,289)
Income (loss) from MEC activities	(435,830)	-	(435,830)	435,090
Nonoperating income/expense				
Gain (loss) on disposal of assets	(39,160)	-	(39,160)	257
Interest expense	(391)	-	(391)	(382)
Net income (loss) before income tax expense	(475,381)	-	(475,381)	434,965
Income tax expense	-	-	-	(65,000)
Change in net assets	(245,877)	(123,750)	(369,627)	3,248,048
Net assets, beginning	17,714,711	580,910	18,295,621	15,047,573
Net assets, end	\$ 17,468,834	\$ 457,160	\$ 17,925,994	\$ 18,295,621

See Notes to Consolidated Financial Statements.

**Sea Research Foundation, Inc.
and Mystic Entertainment Company**

**Consolidated Statement of Activities
Year Ended December 31, 2018**

	Without donor restrictions	With donor restrictions	Total 2018
Sea Research Foundation activities			
Revenue from operations			
Admissions	\$ 11,516,788	\$ -	\$ 11,516,788
Memberships	1,990,350	-	1,990,350
Program income	1,555,095	-	1,555,095
Grants and contracts - operations	2,440,905	-	2,440,905
Grants and contracts - capital	3,627,764	-	3,627,764
Contributions	1,920,765	250,000	2,170,765
Management fees and other revenue	189,637	-	189,637
Auxiliary operations	2,553,123	-	2,553,123
Net assets released from restriction	601,985	(601,985)	-
Total	26,396,412	(351,985)	26,044,427
Operating costs and expenses			
Exhibits and husbandry	10,290,458	-	10,290,458
Education and research	4,369,688	-	4,369,688
Visitor services	1,841,757	-	1,841,757
General and administrative	3,446,061	-	3,446,061
Development	1,013,516	-	1,013,516
Marketing	1,704,025	-	1,704,025
Auxiliary operations	659,401	-	659,401
Total	23,324,906	-	23,324,906
Income (deficiency) from Foundation operations	3,071,506	(351,985)	2,719,521
Nonoperating revenue and expenses			
Change in interest rate swap agreement	188,327	-	188,327
Investment return, net	(29,765)	-	(29,765)
Change in net assets from Foundation activities	3,230,068	(351,985)	2,878,083
Mystic Entertainment activities			
Operating revenue	3,110,081	-	3,110,081
Cost of goods sold	(1,356,702)	-	(1,356,702)
Net revenue	1,753,379	-	1,753,379
Operating expenses	(1,318,289)	-	(1,318,289)
Income from MEC activities	435,090	-	435,090
Nonoperating income/expense			
Gain on disposal of assets	257	-	257
Interest expense	(382)	-	(382)
Net income before income tax expense	434,965	-	434,965
Income tax expense	(65,000)	-	(65,000)
Change in net assets	3,600,033	(351,985)	3,248,048
Net assets, beginning	14,114,678	932,895	15,047,573
Net assets, end	\$ 17,714,711	\$ 580,910	\$ 18,295,621

See Notes to Consolidated Financial Statements.

**Sea Research Foundation, Inc.
and Mystic Entertainment Company**

**Consolidated Statement of Functional Expenses
Year Ended December 31, 2019**

	Exhibits and husbandry	Education and research	Visitor services	General and administrative	Development	Marketing	Auxiliary operations	Total
Salaries and employee benefits	\$ 5,638,233	\$ 1,614,509	\$ 1,360,483	\$ 1,717,830	\$ 575,254	\$ 445,488	\$ -	\$ 11,351,797
Travel	61,641	67,483	9,701	110,189	14,767	9,203	-	272,984
Utilities	626,569	509,998	58,285	131,142	29,143	29,143	72,857	1,457,137
General insurance	166,257	132,250	18,893	37,786	11,336	11,336	-	377,858
Supplies	121,288	16,998	47,707	87,265	142,408	2,913	351	418,930
Service contracts	441,788	7,090	95,945	74	-	5,344	-	550,241
Depreciation and amortization	2,030,653	484,259	-	254,873	-	-	-	2,769,785
Telephone	87,859	1,961	546	4,501	447	846	-	96,160
Dues and subscriptions	25,393	16,802	-	185,652	24,300	2,561	-	254,708
Bank and investment fees	805	-	275,465	81,318	824	19	-	358,431
Professional services	266,955	80,000	89,087	581,196	459,590	57,053	-	1,533,881
Bad debts	-	-	-	222,662	-	-	-	222,662
Interest expense	340,665	212,915	85,166	127,750	17,033	25,550	42,583	851,662
Vehicle operation	46,071	16,273	-	279,284	-	-	-	341,628
Property and other taxes	2,102	-	-	35,088	-	-	-	37,190
Advertising and promotions	7,074	1,281	13,662	-	369,802	1,146,788	-	1,538,607
Uniforms	-	-	22,671	-	-	-	-	22,671
Repairs and maintenance	101,316	2,149	-	3,770	-	-	6,090	113,325
Research expenses	130,048	67,364	565	-	18,040	35	-	216,052
Animal costs	439,761	34,986	1,099	-	-	719	-	476,565
Brine and chemicals	196,373	-	-	-	-	-	-	196,373
Education program	204,683	2,104,456	-	-	-	-	453,226	2,762,365
Membership program	-	-	1,595	-	-	4,470	-	6,065
Volunteer programs	13,041	-	7,709	22,725	-	-	-	43,475
Computer development	55,542	24	6,272	398	-	10,936	2,550	75,722
Offsite warehouse	30,380	10,406	-	4,266	-	-	-	45,052
Expedition expense	5,380	-	-	-	-	591	-	5,971
Other	51,367	23,981	-	185,541	2,895	986	-	264,770
Total	\$ 11,091,244	\$ 5,405,185	\$ 2,094,851	\$ 4,073,310	\$ 1,665,839	\$ 1,753,981	\$ 577,657	\$ 26,662,067

See Notes to Consolidated Financial Statements.

**Sea Research Foundation, Inc.
and Mystic Entertainment Company**

**Consolidated Statement of Functional Expenses
Year Ended December 31, 2018**

	Exhibits and husbandry	Education and research	Visitor services	General and administrative	Development	Marketing	Auxiliary operations	Total
Salaries and employee benefits	\$ 5,389,100	\$ 1,440,805	\$ 1,135,619	\$ 1,320,391	\$ 559,044	\$ 603,001	\$ -	\$ 10,447,960
Travel	63,596	29,070	5,065	181,598	18,662	11,565	-	309,556
Utilities	548,505	446,457	51,024	114,801	25,512	25,512	63,780	1,275,591
General insurance	143,880	114,450	16,350	32,700	9,810	9,810	-	327,000
Supplies	101,229	36,776	52,235	57,723	9,980	14,528	-	272,471
Service contracts	251,715	7,003	84,963	-	-	-	-	343,681
Depreciation and amortization	2,295,322	407,232	-	214,332	-	-	-	2,916,886
Telephone	32,830	4,945	1,790	7,450	1,612	3,495	-	52,122
Dues and subscriptions	13,816	19,701	-	213,488	3,486	4,571	-	255,062
Bank and investment fees	318	-	291,509	22,710	-	-	-	314,537
Professional services	85,463	62,500	-	814,263	81,000	13,650	-	1,056,876
Bad debts	-	-	-	23,077	-	-	-	23,077
Interest expense	326,208	203,880	81,552	122,326	16,311	24,466	40,776	815,519
Vehicle operation	20,540	15,167	-	179,202	-	-	-	214,909
Property and other taxes	-	-	-	15,399	-	-	-	15,399
Advertising and promotions	3,322	350	9,526	-	277,773	978,834	-	1,269,805
Uniforms	3,156	(427)	21,187	(404)	(13)	90	-	23,589
Repairs and maintenance	74,500	6,471	-	501	-	-	-	81,472
Research expenses	77,042	63,667	1,942	-	6,242	-	-	148,893
Animal costs	376,483	32,426	-	-	-	-	-	408,909
Brine and chemicals	153,841	665	-	-	-	-	-	154,506
Education program	207,623	1,462,190	-	-	-	-	554,845	2,224,658
Membership program	-	-	96,824	-	-	-	-	96,824
Volunteer programs	20,232	-	-	13,231	-	-	-	33,463
Computer development	27,167	-	660	40	-	11,880	-	39,747
Offsite warehouse	17,803	7,658	-	10,500	-	-	-	35,961
Expedition expense	19,379	-	-	-	-	113	-	19,492
Other	37,388	8,702	(8,489)	102,733	4,097	2,510	-	146,941
Total	\$ 10,290,458	\$ 4,369,688	\$ 1,841,757	\$ 3,446,061	\$ 1,013,516	\$ 1,704,025	\$ 659,401	\$ 23,324,906

See Notes to Consolidated Financial Statements.

**Sea Research Foundation, Inc.
and Mystic Entertainment Company**

**Consolidated Statements of Cash Flows
Years Ended December 31, 2019 and 2018**

	2019	2018
Cash flows from operating activities		
Change in net assets	\$ (369,627)	\$ 3,248,048
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	2,777,898	2,936,984
Capitalized financing costs	52,066	52,066
Bad debts	222,662	23,077
Unrealized and realized (gain) loss on investments	(38,985)	29,765
Promises to give discount	4,278	24,093
Loss on disposal of property and equipment	89,656	-
Change in interest swap agreement	246,355	(188,327)
Bond funds for purchase of long-lived assets	(2,155,405)	(3,374,711)
(Increase) decrease in		
Accounts receivable	(478,943)	(67,736)
Promises to give receivable	253,517	(81,835)
Prepaid expenses and other current assets	(17,434)	55,337
Grants and contributions receivable	678,073	(589,405)
(Decrease) increase in		
Accounts payable	375,111	706,812
Accrued expenses	(168,494)	(322,286)
Deferred compensation	(30,001)	26,667
Deferred revenue and unearned membership fees	(477,802)	93,221
	<u>962,925</u>	<u>2,571,770</u>
Net cash provided by operating activities		
Cash flows from investing activities		
Property and equipment additions	(4,403,386)	(5,203,032)
Sale of investments	202,724	18,111
	<u>(4,200,662)</u>	<u>(5,184,921)</u>
Net cash used in investing activities		
Cash flows from financing activities		
Principal payments on notes payable	(237,700)	(219,461)
Proceeds from bond funds	2,155,405	3,374,711
Payments on capital leases	(57,679)	(49,254)
	<u>1,860,026</u>	<u>3,105,996</u>
Net cash provided by financing activities		
Net change in cash and cash equivalents	(1,377,711)	492,845
Cash and cash equivalents, beginning	<u>2,591,074</u>	<u>2,098,229</u>
Cash and cash equivalents, end	<u>\$ 1,213,363</u>	<u>\$ 2,591,074</u>
Supplemental disclosure of cash flow information		
Interest paid	<u>\$ 799,987</u>	<u>\$ 766,037</u>

See Notes to Consolidated Financial Statements.

**Sea Research Foundation, Inc.
and Mystic Entertainment Company**

**Notes to Consolidated Financial Statements
December 31, 2019 and 2018**

Note 1 - Summary of significant accounting policies

Business activity

Sea Research Foundation, Inc. (the "Foundation") is a tax-exempt, nonstock, not-for-profit corporation. The Foundation consists of an operating aquarium located in Mystic, Connecticut. The Foundation exists for the purpose of educating the general public in the marine sciences by providing classes, field trips and exhibits. Members of the staff also engage in research related to the interaction of animals and plants with aquatic environments. The Foundation is financed primarily by the receipts of admissions and membership revenue, and grant and contract revenues.

Mystic Entertainment Company and Subsidiary (collectivity referred to as "MEC") is a wholly-owned subsidiary of the Foundation. MEC currently has one operating subsidiary, Ocean Blue Catering, LLC ("OBC"), which offered on and off-site catering services and the Penguin Café food service at the aquarium. Under an agreement, the Foundation earned annual base consideration in varying monthly payments and supplemental consideration (based on fees stated in the agreement) for each catered event at the aquarium. The Foundation outsourced the Penguin Café food service and catering operations in 2019.

All organizations are referred to collectively as "SRF".

Basis of presentation

The accompanying consolidated financial statements are presented on the accrual basis of accounting. The Foundation's net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified as follows:

Net assets without donor restrictions

Net assets without donor restrictions represent available resources other than donor-restricted contributions. Included in net assets without donor restrictions are funds that may be earmarked for specific purposes by the Board of Trustees.

Net assets with donor restrictions

Net assets subject to donor- (or certain grantor-) imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity.

All intercompany accounts and transactions have been eliminated in consolidation.

The operations of MEC are presented in a separate section of the consolidated statements of activities and its accumulated earnings are included in net assets without donor restrictions.

Revenue recognition

Admissions, program income and auxiliary operations

Revenues relating to admission, program income and auxiliary operations are recognized when services are provided. Revenues are presented net of membership, employee and volunteer discounts.

**Sea Research Foundation, Inc.
and Mystic Entertainment Company**

**Notes to Consolidated Financial Statements
December 31, 2019 and 2018**

Contributions

Transactions where the resource provider often receives value indirectly by providing a societal benefit, although the societal benefit is not considered to be of commensurate value, are deemed to be contributions. Contributions are classified as either conditional or unconditional. A conditional contribution is a transaction where the organizations have to overcome a barrier or hurdle to be entitled to the resource and the resource provider is released from the obligation to fund or has the right of return of any advanced funding if the organizations fail to overcome the barrier. The Organizations recognize the contribution revenue upon overcoming the barrier or hurdle. Any funding received prior to overcoming the barrier is recognized as a refundable advance.

Unconditional contributions are recognized as revenue and receivable when the commitment to contribute is received. Unconditional contributions are recorded as either with donor restrictions or without donor restrictions. Contributions are recognized as contributions with donor restrictions if they are received with donor stipulations that limit the use of the donated asset. Contributions received with no donor stipulations are recorded as contributions without donor restrictions. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified as net assets without donor restrictions and are reported in the consolidated statement of activities as net assets released from restriction. Donor-restricted contributions whose restrictions expire during the same fiscal year are recognized as contributions without donor restrictions.

Grants and contracts

Revenue from grants and contracts with resource providers such as the government and its agencies, other organizations and private foundations are accounted for either as exchange transactions or as contributions. For purposes of determining whether a transfer of asset is a contribution or an exchange, SRF deems that the resource provider is not synonymous with the general public, i.e., indirect benefit received by the public as a result of the assets transferred is not deemed equivalent to commensurate value received by the resource provider. Moreover, the execution of a resource provider's mission or the positive sentiment from acting as a donor is not deemed to constitute commensurate value received by a resource provider. Revenue from grants and contracts that are accounted for as exchange transactions is recognized when performance obligations have been satisfied. Grants and contracts awarded for the acquisition of long-lived assets are reported as nonoperating revenue, in the absence of donor stipulations to the contrary, during the fiscal year in which the assets are acquired. Cash received in excess of revenue recognized is recorded as refundable advances.

On the other hand, when the resource provider does not receive commensurate value, the transaction is accounted for as a contribution.

Membership revenue

Revenue from the sale of memberships at the Foundation is reported over the life of each membership. Such fees are considered to be earned on a pro-rata basis, and the unearned portion is recorded in deferred revenue.

Food service revenue

Revenue from MEC activities including on and off-site catering services and the Penguin Café food service at the aquarium are recognized as services are performed.

**Sea Research Foundation, Inc.
and Mystic Entertainment Company**

**Notes to Consolidated Financial Statements
December 31, 2019 and 2018**

Cash and cash equivalents

SRF considers all highly liquid investments purchased with a maturity of three months or less when acquired to be cash equivalents. Cash equivalents as of December 31, 2019 and 2018 were \$634,850 and \$285,725, respectively.

Allowances for receivables

Allowances for accounts receivable and promises to give are determined by management based on an assessment of their collectability. Management considers past history, current economic conditions and overall viability of the third party. Receivables are written off only when management believes amounts will not be collected. Receivables are considered past due based on invoice date or pledge date promise is made. SRF recorded an allowance for doubtful accounts of approximately \$198,000 and \$23,000, respectively, as of December 31, 2019 and 2018.

Investments

Investments are stated at their current fair value and reflect any gain or loss in the consolidated statements of activities. Nonmonetary investments received as gifts are immediately sold and recorded at the realized value. Investments are generally expected to be held for long-term purposes and are, therefore, classified as noncurrent assets.

Construction in progress

Construction in progress is recorded at cost as projects are in process. Depreciation is recorded when construction is substantially complete and the assets are placed in service. All current projects are expected to be completed during 2020.

Property and equipment

Property and equipment purchased are stated at cost. Costs of major renewals and betterments that extend the life of an asset are capitalized. SRF depreciates its property and equipment utilizing the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Estimated lives</u>
Building	30-50 years
Building improvements	5-10 years
Leasehold improvements	3-10 years
Furniture and fixtures	3-10 years

The animal collection on exhibition is not being depreciated. Animals with a cost greater than \$5,000 are capitalized. Purchases of all other animals are charged to expense as incurred. The capitalized cost of an animal no longer at the aquarium is charged to expense in the year of departure.

Amortization of leasehold improvements is calculated using the shorter of the lease term or the useful life of the asset.

Debt issuance costs

Debt issuance costs, net of accumulated amortization, are reported as a direct deduction from the face amount of the debt to which such costs relate. Amortization of debt issuance costs is reported as a component of interest expense and is computed using an imputed interest rate on the related loan.

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Income taxes

The Internal Revenue Service classified the Foundation as a publicly supported foundation, as defined in Section 509(a)(2), and not as a private foundation. The Foundation will continue to be classified as a publicly supported foundation as long as it continues to meet the statutory requirements. Contributions to the Foundation are generally tax deductible under Section 170 of the Internal Revenue Code. During the years ended December 31, 2019 and 2018, the Foundation paid no unrelated business income taxes.

Income tax expenses associated with MEC's operations include federal and state taxes currently payable and deferred taxes. MEC provides for deferred taxes on temporary differences arising from assets and liabilities whose bases are different for financial reporting and income tax purposes.

SRF and MEC have no unrecognized tax benefits as of December 31, 2019 and 2018. SRF's and MEC's federal and state tax returns prior to calendar year 2016 are closed and management continually evaluates expiring statutes of limitations, audits, proposed settlements, changes in tax law and new authoritative rulings.

SRF and MEC recognize interest and penalties associated with any tax matters as part of the change in net assets and include accrued interest and penalties with the related tax liability in the consolidated statements of financial position.

Donated services

A number of volunteers donate their time to the Foundation's efforts. No amounts have been reflected in the consolidated financial statements for donated services since services generally do not require specialized skills.

Endowment and spending policy

The Foundation has investment and spending policies for endowment assets that attempt to provide a reasonably predictable stream of funding for activities supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include only Board-designated funds.

Under this policy, as approved by the Board of Trustees, the endowment assets are invested in accordance with sound investment practices that emphasize long-term investment fundamentals. It is recognized that short-term market fluctuations may cause variations in account performance.

To satisfy its long-term rate of return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends).

The Foundation can prudently invest for total return (income and gain) in any mix of investment vehicles considering general economic conditions, the possible effect of inflation or deflation, the role that each investment or course of action plays within the overall investment portfolio, the expected total return from income and the appreciation of investments, and the needs of the Foundation and the endowment funds to make distributions and to preserve capital to achieve its long-term return objectives within prudent risk constraints.

Annually, the Board of Trustees will determine the distribution of funds from the endowment.

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Advertising

SRF expenses the cost of advertising the first time advertising takes place. Total advertising expense for the years ended December 31, 2019 and 2018 was \$863,285 and \$913,323, respectively.

Interest rate swap

SRF uses an interest rate swap contract as a cash flow hedge to eliminate the cash flow exposure of interest rate movements on its debt. The obligation under the interest rate swap is recorded at fair value. The change in value of the obligation under the interest rate swap has been included in nonoperating activity on the accompanying consolidated statements of activities. SRF documents its risk management strategy at the inception of and during the term of the hedge. SRF's interest rate risk management strategy is to stabilize cash flow requirements by maintaining an interest rate swap contract to convert from variable rate debt to a fixed rate.

Financial instruments

The carrying value of cash and cash equivalents, accounts receivable, grants and contributions receivable, promises to give, accounts payable, accrued expenses and notes payable as of December 31, 2019 and 2018 are believed to approximate fair value based on their maturities and current market conditions.

Functional allocation of expenses

The Foundation's costs of providing the various programs and other activities have been summarized on a functional basis in the consolidated statements of activities. These costs include direct and indirect costs that have been allocated, on a consistent basis, among the program and supporting services benefited.

The consolidated financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include occupancy, depreciation and amortization, which are allocated on a square footage basis, as well as salaries and wages, benefits, payroll taxes, professional services, office expenses, information technology, interest, insurance and other, which are allocated on the basis of estimates of time and effort. Functional expenses consisted of the following for the years ended December 31, 2019 and 2018.

	<u>2019</u>	<u>2018</u>
Program services	\$ 19,168,937	\$ 17,161,304
Administrative and general	5,827,291	5,150,086
Fundraising	<u>1,665,839</u>	<u>1,013,516</u>
Total	<u>\$ 26,662,067</u>	<u>\$ 23,324,906</u>

Use of estimates

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

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Newly adopted accounting standards

In June 2020, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2020-05 (ASU 2020-05), *Revenue from Contracts with Customers (Topic 606)* and *Leases (Topic 842): Effective Dates for Certain Entities*, which provides for elective deferrals of the effective dates of Topic 606 and Topic 842 for certain entities.

SRF has elected to apply the deferral provided by ASU 2020-05 and, therefore, expects to adopt Topic 606 for annual reporting periods beginning after December 15, 2019 on a modified retrospective basis and adopt Topic 842 for fiscal years beginning after December 15, 2021 on a modified retrospective basis. SRF is currently evaluating the potential impact of adopting Topic 606 and 842 on its consolidated financial statements.

The Foundation adopted FASB ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This standard assists entities in evaluating whether transactions should be accounted for as contributions or exchange transactions and determining whether a contribution is conditional. The Foundation adopted the provisions of ASU 2018-08 on July 1, 2019 applicable to both contributions received and contributions made in the accompanying consolidated financial statements under a modified prospective basis. There is no effect on net assets in connection with the implementation of ASU 2018-08.

Reclassifications

Certain amounts in the 2018 consolidated financial statements have been reclassified to conform to the 2019 presentation.

Subsequent events

SRF has evaluated events and transactions for potential recognition or disclosure through November 6, 2020, which is the date the consolidated financial statements were available to be issued. See Note 16.

Note 2 - Concentration of credit risk

Financial instruments which potentially subject SRF to concentrations of credit risk consist primarily of cash and cash equivalents, investments and receivables. SRF maintains its cash with high-credit quality financial institutions. At times, such amounts may exceed federally insured limits. At December 31, 2019, SRF had cash in excess of federally insured limits of \$90,312.

The Foundation invests in various debt and equity securities. These investment securities are recorded at fair value, which can fluctuate because of interest rates, reinvestment, credit and other risks depending on the nature of the specific investment. Therefore, it is at least reasonably possible that these factors will result in changes in the value of the Foundation's investments, which could materially affect amounts reported in the consolidated financial statements.

The contributors to SRF are individuals, corporations and foundations primarily in the State of Connecticut. Concentrations of credit risk with respect to grants receivable are limited to contractual agreements with various federal and state agencies.

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Note 3 - Liquidity

SRF regularly monitors liquidity required to meet its annual operating needs and other contractual commitments while also striving to maximize the return on investment of its funds not required for annual operations. As of December 31, 2019 and 2018, SRF has financial assets available to meet annual operating needs as follows:

	2019	2018
Cash	\$ 1,213,363	\$ 2,591,074
Accounts receivable, net	495,359	239,078
Grants and contributions receivable, net	263,506	941,579
Promises to give	218,697	498,349
Investments without board or donor restrictions	233,609	210,870
Total	\$ 2,424,534	\$ 4,480,950

These financial assets are not subject to any donor or contractual restrictions.

SRF supports its general operations primarily with admissions, membership and program income along with unrestricted donor contributions and donor-restricted funds whose time or purpose restriction has been met. In addition, the Board may appropriate a portion of the earnings from the Foundation's board-restricted endowment as described in Note 9. Also see Note 16 for additional disclosures related to liquidity.

The Foundation's Investment Policy Statement requires the investment portfolio to maintain liquid instruments within its portfolio to ensure assets are available to meet general expenditures, liabilities and other obligations as they come due. In addition to financial assets available to meet general expenditures within one year, amounts reported as board designated could be made available, as needed, by Board action. The Board generally designates unusual unrestricted gifts.

Note 4 - Fair value measurements

SRF values its financial assets and liabilities based on 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. In order to increase consistency and comparability in fair value measurements, a fair value hierarchy that prioritizes observable and unobservable inputs is used to measure fair value into three broad levels, which are described below:

- Level 1 Quoted prices (unadjusted) in active markets that are accessible at the measurement date for identical assets or liabilities. The fair value hierarchy gives the highest priority to Level 1 inputs.
- Level 2 Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in inactive markets; or model-derived valuations in which all significant inputs are observable or can be derived principally from or corroborated with observable market data.
- Level 3 Unobservable inputs are used when little or no market data is available. The fair value hierarchy gives the lowest priority to Level 3 inputs.

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In determining fair value, SRF utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible as well as considers counterparty credit risk in its assessment of fair value.

Financial assets and liabilities carried at fair value at December 31, 2019 are classified in the table below in one of the three categories described above:

	2019			Total
	Level 1	Level 2	Level 3	
Assets				
Mutual funds				
Money market funds	\$ 71	\$ -	\$ -	\$ 71
Fixed income funds	27,751	-	-	27,751
Equity mutual funds	103,805	-	-	103,805
Corporate bonds	-	102,053	-	102,053
	<u>131,627</u>	<u>102,053</u>	<u>-</u>	<u>233,680</u>
Total assets, at fair value	\$ 131,627	\$ 102,053	\$ -	\$ 233,680
Liabilities				
Interest rate swap	\$ -	\$ 465,406	\$ -	\$ 465,406

Financial assets and liabilities carried at fair value at December 31, 2018 are classified in the table below in one of the three categories described above:

	2018			Total
	Level 1	Level 2	Level 3	
Assets				
Mutual funds				
Money market funds	\$ 164,325	\$ -	\$ -	\$ 164,325
Fixed income funds	28,843	-	-	28,843
Equity mutual funds	97,170	-	-	97,170
Corporate bonds	-	100,748	-	100,748
Common stocks				
Services	6,333	-	-	6,333
	<u>296,671</u>	<u>100,748</u>	<u>-</u>	<u>397,419</u>
Total assets, at fair value	\$ 296,671	\$ 100,748	\$ -	\$ 397,419
Liabilities				
Interest rate swap	\$ -	\$ 219,051	\$ -	\$ 219,051

Investments in common stocks and mutual funds are valued using market prices on active markets (Level 1). Level 1 instrument valuations are obtained from real time quotes for transactions in active exchange markets involving identical assets.

The corporate bonds and the fair value of the interest rate swap is determined using observable market inputs such as current interest rates and considers nonperformance risk of SRF and that of its counterparty (Level 2).

The preceding is a description of the valuation methodologies used for assets and liabilities at fair value. There have been no changes in the methodology used at December 31, 2019 and 2018.

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SRF's policy is to recognize transfers in and transfers out of levels as of the actual date of the event or change in circumstances that cause the transfer. There were no transfers in or out of the respective levels during the years ended December 31, 2019 and 2018.

Note 5 - Investments

The following is a summary of investments, by type, as of December 31, 2019 and 2018:

	2019		2018	
	Market	Cost	Market	Cost
Money market funds	\$ 71	\$ 71	\$ 164,325	\$ 164,325
Fixed income funds	27,751	28,328	28,843	31,304
Equity mutual funds	103,805	103,673	97,170	126,625
Corporate bonds	102,053	90,293	100,748	104,751
Common stocks	-	-	6,333	6,422
	<u>\$ 233,680</u>	<u>\$ 222,365</u>	<u>\$ 397,419</u>	<u>\$ 433,427</u>

Note 6 - Property and equipment

A summary of property and equipment at December 31, 2019, is as follows:

	Foundation	MEC	Total
Land and improvements	\$ 4,217,975	\$ -	\$ 4,217,975
Building and improvements, including leasehold improvements	60,620,272	-	60,620,272
Equipment, furniture and animals	41,702,412	21,810	41,724,222
	106,540,659	21,810	106,562,469
Less accumulated depreciation and amortization	(74,296,539)	(21,810)	(74,318,349)
Net property and equipment	<u>\$ 32,244,120</u>	<u>\$ -</u>	<u>\$ 32,244,120</u>

A summary of property and equipment at December 31, 2018, is as follows:

	Foundation	MEC	Total
Land and improvements	\$ 4,217,975	\$ -	\$ 4,217,975
Building and improvements, including leasehold improvements	54,117,177	48,175	54,165,352
Equipment, furniture and animals	40,537,365	321,498	40,858,863
	98,872,517	369,673	99,242,190
Less accumulated depreciation and amortization	(71,790,991)	(322,399)	(72,113,390)
Net property and equipment	<u>\$ 27,081,526</u>	<u>\$ 47,274</u>	<u>\$ 27,128,800</u>

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As of December 31, 2019 and 2018, SRF incurred costs associated with various capital projects totaling \$1,354,816 and \$4,934,304, respectively, which have not been placed into service. Upon completion, these projects will be placed into service and depreciated over their applicable estimated useful lives.

The cost to complete the construction in progress is estimated to be \$873,000 at December 31, 2019.

Note 7 - Notes payable

SRF has a credit facility with various banks and other financial institutions. Webster Bank is the administrative agent. The term loan and line of credit have a first priority interest on real estate located in Mystic, Connecticut and substantially all personal property, intellectual property of SRF and pledge of subsidiary shares. The note payable has a second priority interest on real estate located in Mystic, Connecticut and substantially all personal property.

SRF has a \$2,000,000 revolving line of credit. The line matures in October 2020 and accrues interest at the prime rate plus 1% as determined by Webster Bank or LIBOR rate plus 3% (in total 5.75% or 4.76% at December 31, 2019). The line has a mandatory 30-day clean up period from August 1 to September 30 in each calendar year. The balance outstanding as of December 31, 2019 and 2018 was \$1,200,000. The line was canceled in August 2020 as part of the settlement with the bank as noted in Note 16.

The loan agreement with Webster Bank and the line of credit contain certain financial covenants which require, among other things, the maintenance of certain financial ratios.

Total interest expense for the years ended December 31, 2019 and 2018 was \$799,988 and \$763,453, respectively, for debt and capital leases.

Long-term debt outstanding at December 31, 2019 and 2018, is as follows:

	<u>2019</u>	<u>2018</u>
SRF has a term loan payable to Webster Bank with a variable interest rate of LIBOR plus 3% (4.71% at December 31, 2019) and adjusted through an interest swap agreement (see Note 7) maturing in December 2023. Monthly payments of principal are based on a 30-year amortization averaging \$10,920. Unamortized debt issuance costs were \$208,262 and \$260,328 as of December 31, 2019 and 2018, respectively. Debt issuance costs are being amortized using an imputed interest rate of 4.19%. The loan agreement requires the maintenance of certain financial covenants. Subsequent to year-end, SRF entered into a discounted payoff agreement with the bank. See Note 16.	\$ 8,846,750	\$ 9,022,784

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	2019	2018
SRF has a note payable with an interest rate of 5% maturing in December 2023. Monthly payments including principal and interest are \$16,105. Subsequent to year-end, SRF entered into an assistance agreement with the Connecticut Innovations, Inc. ("CII") whereby CII forgave the outstanding balance of the note. See Note 16.	2,693,197	2,754,863
	11,539,947	11,777,647
Less current maturities	(55,246)	(233,118)
Less unamortized debt issuance costs	(208,262)	(260,328)
Total	\$ 11,276,439	\$ 11,284,201

Future maturities of long-term debt in each of the five years subsequent to 2019 and thereafter, based on the modified debt agreements noted in Note 16, are as follows:

	2020	\$	55,246
	2021		-
	2022		-
	2023		115,488
	2024		353,467
	Thereafter		11,015,746
			11,539,947
Less deferred financing			(208,262)
			\$ 11,331,685

Note 8 - Interest rate swap agreement

SRF has an interest rate swap agreement to reduce the impact of changes in interest rates on its floating rate term loan. At December 31, 2019 and 2018, the interest rate swap agreement had a notional amount of \$9,750,000. That agreement effectively changes SRF's interest rate exposure on its floating rate to a fixed rate of 5.95%. The interest rate swap agreement matures on December 16, 2023. The carrying value of the liability at December 31, 2019 and 2018 was \$465,406 and \$219,051, respectively, which is its fair value. SRF is exposed to credit loss in the event of nonperformance by the counterparty to the interest rate swap agreement. However, SRF does not anticipate nonperformance by the counterparty. See Note 16.

Note 9 - Net assets with board and donor restrictions

The Foundation's endowment includes all board-designated endowment funds, which are included in net assets without donor restrictions on the accompanying consolidated statements of financial position. As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds are classified and reported based on the existence or

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absence of donor-imposed restrictions. There are no donor-restricted endowment funds as of December 31, 2019 and 2018.

Changes in endowment net assets for the years ended December 31, 2019 and 2018, was as follows:

	<u>2019</u>	<u>2018</u>
Board-designated endowment net, assets beginning	\$ 186,549	\$ 187,179
Withdrawals	(189,729)	-
Investment fees	(197)	(310)
Net realized and unrealized (loss) gain	<u>3,448</u>	<u>(320)</u>
Board-designated endowment net assets, end	<u>\$ 71</u>	<u>\$ 186,549</u>

Net assets with donor restrictions as of December 31, 2019 and 2018, are comprised of the following:

	<u>2019</u>	<u>2018</u>
Time or use restricted		
Research and Education Center	\$ 17,604	\$ 159,740
Various aquarium projects and programs	233,609	250,377
Time restrictions	<u>205,947</u>	<u>170,793</u>
Total donor restricted	<u>\$ 457,160</u>	<u>\$ 580,910</u>

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes, lapse of time restrictions or by occurrence of other events specified by donors as follows:

	<u>2019</u>	<u>2018</u>
Mystic Aquarium		
Purpose and time restrictions accomplished	<u>\$ 329,927</u>	<u>\$ 601,985</u>
Total	<u>\$ 329,927</u>	<u>\$ 601,985</u>

Note 10 - Bonding liens

The Foundation has received bond funding from the State of Connecticut. The provider of the bond funds places a 10-year lien on the property when the project is complete. If the property is not utilized, the bond funds will have to be repaid. The repayment is made in an amount equal to the amount of the bond less 10% for each full year of the 10-year period that the location was utilized. The carrying amounts at December 31, 2019 and 2018 were \$5,992,590 and \$3,375,709, respectively. The liens will begin to amortize once the funds have been fully expended, which is expected to be in 2020.

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Note 11 - Operating lease obligations

SRF leases certain real estate, vehicles and office equipment under operating leases, which expire at various times through December 2024. The Foundation's total rental expense under these leases was \$368,166 and \$251,248 for the years ended December 31, 2019 and 2018, respectively.

Future commitments under operating leases are as follows:

2020	\$	288,814
2021		122,723
2022		90,742
2023		82,892
2024		<u>9,192</u>
	<u>\$</u>	<u>594,363</u>

Note 12 - Capital lease obligations

The Foundation entered into lease agreements for various equipment during 2017 and 2016. These obligations are treated as capital leases and have been recorded in the accompanying consolidated financial statements at the present value of future minimum lease payments.

The capitalized cost of \$276,369, less accumulated amortization of \$251,275 and \$196,001, is included in property and equipment as of December 31, 2019 and 2018, respectively. Amortization expense for this equipment for the years ended December 31, 2019 and 2018 was \$55,274 and \$56,257, respectively.

Future commitments under capital leases are as follows:

2020	\$	6,400
2021		<u>2,621</u>
Total payments		9,021
Less interest portion		<u>(378)</u>
		8,643
Less current portion		<u>(6,040)</u>
Long-term portion	<u>\$</u>	<u>2,603</u>

Note 13 - Retirement plan

The Foundation has a defined contribution plan (the "Plan") available to all eligible employees who have completed one year of service and who are at least 21 years of age. Each year, participants may contribute up to 50% of pretax annual compensation, as defined in the Plan. The Plan provides for discretionary matching contributions determined each year by the Foundation. The Foundation elected a discretionary matching contribution equal to 25% of elective deferrals, up to a maximum contribution equal to 2% of compensation.

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Although additional profit sharing amounts may be contributed at the option of the Foundation's Board of Trustees, there were no such profit sharing contributions for the years ended December 31, 2019 and 2018. The Foundation's total contributions to the Plan during the years ended December 31, 2019 and 2018 were \$70,154 and \$60,655, respectively.

In addition to the pension plan described above, the Foundation also has nonqualified deferred compensation plans for certain employees. Contributions for the years ended December 31, 2019 and 2018 were \$64,202 and \$33,027, respectively, and are included in salaries and employee benefits in the consolidated statements of functional expenses. As of December 31, 2019 and 2018, the Foundation recorded an asset of \$253,397 and \$139,382, respectively, and a liability of \$303,397 and \$219,383, respectively.

Note 14 - Promises to give

As of December 31, 2019 and 2018, unconditional promises to give are expected to be realized in the following periods:

	2019	2018
In one year or less	\$ 218,697	\$ 498,349
In one to five years	123,000	96,865
Less discount	(9,415)	(5,137)
Total	\$ 332,282	\$ 590,077

Amounts are shown in the consolidated statements of financial position as of December 31, 2019 and 2018 as follows:

	2019	2018
Current	\$ 218,697	\$ 498,349
Long-term	113,585	91,728
Total	\$ 332,282	\$ 590,077

Promises to give expected to be received in more than one year have been discounted using a discount rate of 5.25% at December 31, 2019 and 2018.

Note 15 - Rental income

The Foundation leases certain retail space to an unrelated party that manages a gift shop consistent with the Foundation's mission. The lease expires on June 30, 2021 and requires an annual base minimum rental of \$500,000. Additional lease income is received based on a percentage (33%) of monthly gross receipts in excess of \$50,000. Total lease income recognized during the years ended December 31, 2019 and 2018 was \$1,071,936 and \$1,087,771, respectively. Such amounts are included in auxiliary operations in the consolidated statements of activities.

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December 31, 2019 and 2018**

Note 16 - Subsequent events

In December 2019 and early 2020, the coronavirus that causes COVID-19 was reported to have surfaced in China. The spread of this virus globally in early 2020 has caused business disruption domestically in the United States, including Connecticut, the area in which SRF primarily operates. While the disruption is currently expected to be temporary, there is considerable uncertainty around the duration of this uncertainty. Therefore, while SRF expects this matter to negatively impact the SRF's financial condition, results of operations, or cash flows, the extent of the financial impact and duration cannot be reasonably estimated at this time.

In April 2020, the Organization received a loan for \$500,000 from the U.S. Small Business Administration as part of the Economic Injury Disaster Loan program. The loan bears interest at 2.75% and will be paid in 348 monthly installments of \$2,136 beginning in April 2021.

In April 2020, SRF received a loan for \$1,951,599 from Chelsea Groton Bank through the Small Business Association's Payroll Protection Program to cover eligible payroll and utility costs over a twenty-four week period. The loan bears interest at 1%. No payments are due until ten months after the end of the twenty-four week period. However, per the loan agreement, the loan may be forgiven if the funds are used to cover eligible payroll and utility costs, which the Organization fully anticipates. The proceeds of the loan will be recognized as a refundable advance, based on Accounting Standards Codification 958-605.

In August 2020, the Foundation entered into a Loan Forgiveness Agreement with Connecticut Innovations, Inc. for the outstanding balance of the note payable scheduled to mature in December 2023. As of August 2020, \$2,683,410 of loan principal was forgiven.

In August 2020, the Foundation entered into a discounted payoff agreement with various banks. Per the agreement, the banks will accept a one-time cash payment of \$6,530,000 and the future proceeds from the sale of land owned by the Foundation in full satisfaction of the remaining balance outstanding on the term loan and swap agreement maturing in December 2023 and the revolving line of credit. The one-time cash payment was funded by contributions from various donors who contributed \$6.5 million to the Foundation in August 2020. The sale of the land is expected to be completed in 2020.

In August 2020, the Foundation entered into an Assistance Agreement with the State of Connecticut (the "State") whereby the State will provide the Foundation with \$7,000,000 of additional financing. A total of \$3,500,000 of the financing was advanced to the Foundation in October 2020, upon acceptance of the financing terms. The remaining \$3,500,000 shall be disbursed on a monthly basis to fund cash flow needs. The loan bears interest at 3.00%. Monthly payments of principal and interest begin September 1, 2023. Interest will accrue and will be added to the balance to be repaid during the period September 2020 to August 2023. The loan matures in August 2040.

Supplementary Information

**Sea Research Foundation, Inc.
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**Consolidating Statement of Financial Position
December 31, 2019**

<u>Assets</u>	<u>Mystic Entertainment Company</u>	<u>Sea Research Foundation, Inc.</u>	<u>Eliminating entries</u>	<u>Consolidated</u>
Current assets				
Cash and cash equivalents, net	\$ 4,460	\$ 1,208,903	\$ -	\$ 1,213,363
Grants and contributions receivable, net	-	263,506	-	263,506
Accounts receivable	6,175	489,184	-	495,359
Intercompany receivable (payable)	976,023	(976,023)	-	-
Prepaid expenses and other current assets	8,050	259,234	-	267,284
Promises to give, current portion	-	218,697	-	218,697
Total current assets	994,708	1,463,501	-	2,458,209
Noncurrent assets				
Promises to give, net of discount and current portion	-	113,585	-	113,585
Deferred compensation assets	-	253,397	-	253,397
Investments	-	1,140,378	(906,698)	233,680
Construction in progress	-	1,354,816	-	1,354,816
Property and equipment, net of accumulated depreciation	-	32,244,120	-	32,244,120
	\$ 994,708	\$ 36,569,797	\$ (906,698)	\$ 36,657,807
<u>Liabilities and Net Assets</u>				
Current liabilities				
Accounts payable	\$ 75,794	\$ 3,529,925	\$ -	\$ 3,605,719
Line of credit	-	1,200,000	-	1,200,000
Notes payable, current portion	-	55,246	-	55,246
Deferred revenue and unearned membership fees	-	1,380,347	-	1,380,347
Accrued expenses	12,216	424,400	-	436,616
Capital lease obligations, current portion	-	6,040	-	6,040
Total current liabilities	88,010	6,595,958	-	6,683,968
Long-term liabilities				
Notes payable, net of current portion	-	11,276,439	-	11,276,439
Interest rate swap agreement liability	-	465,406	-	465,406
Deferred compensation	-	303,397	-	303,397
Capital lease obligation, long-term	-	2,603	-	2,603
Total long-term liabilities	-	12,047,845	-	12,047,845
Total liabilities	88,010	18,643,803	-	18,731,813
Net assets				
Without donor restrictions	906,698	17,468,834	(906,698)	17,468,834
With donor restrictions	-	457,160	-	457,160
Total net assets	906,698	17,925,994	(906,698)	17,925,994
	\$ 994,708	\$ 36,569,797	\$ (906,698)	\$ 36,657,807

See Independent Auditor's Report.

**Sea Research Foundation, Inc.
and Mystic Entertainment Company**

**Consolidating Statement of Activities
Year Ended December 31, 2019**

	Mystic Entertainment Company	Sea Research Foundation, Inc.	Eliminating entries	Consolidated
Sea Research Foundation activities				
Revenue from operations				
Admissions	\$ -	\$ 12,423,144	\$ -	\$ 12,423,144
Memberships	-	2,064,163	-	2,064,163
Program income	-	1,486,380	-	1,486,380
Grants and contracts - operations	-	3,479,439	-	3,479,439
Grants and contracts - capital	-	2,323,577	-	2,323,577
Contributions	-	2,404,111	-	2,404,111
Management fees and other revenue	-	417,627	-	417,627
Auxiliary operations	-	2,479,911	(88,650)	2,391,261
Total	-	27,078,352	(88,650)	26,989,702
Operating costs and expenses before depreciation				
	-	24,040,025	(147,743)	23,892,282
Income from Foundation operations before depreciation				
	-	3,038,327	59,093	3,097,420
Depreciation				
	-	2,769,785	-	2,769,785
Income from Foundation operations				
	-	268,542	59,093	327,635
Nonoperating revenues and expenses				
Equity earnings and adjustment on subsidiary	-	(416,288)	416,288	-
Change in interest swap agreement	-	(260,866)	-	(260,866)
Investment return, net	-	38,985	-	38,985
Change in net assets from Foundation activities				
	-	(369,627)	475,381	105,754
MEC activities				
Operating revenue	1,030,445	-	(147,743)	882,702
Cost of goods sold	(358,288)	-	-	(358,288)
Net revenue	672,157	-	(147,743)	524,414
Operating expenses	(1,048,894)	-	88,650	(960,244)
Loss from MEC activities	(376,737)	-	(59,093)	(435,830)
Nonoperating income/expense				
Loss on disposal of assets	(39,160)	-	-	(39,160)
Interest expense	(391)	-	-	(391)
Net loss before income tax expense	(416,288)	-	(59,093)	(475,381)
Income tax expense				
	-	-	-	-
Change in net assets				
	(416,288)	(369,627)	416,288	(369,627)
Net assets, beginning	1,322,986	18,295,621	(1,322,986)	18,295,621
Net assets, end	\$ 906,698	\$ 17,925,994	\$ (906,698)	\$ 17,925,994

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