Sea Research Foundation, Inc. and Mystic Entertainment Company

Audit Results Meeting

For the Year Ended December 31, 2018

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May 3, 2019

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

We have substantially completed our audit of the 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.) (collectively the "Organization") for the year ended December 31, 2018. The following pages summarize the results of our audit and include discussion related to the scope of our engagement and the reports issued. This document also reviews the communications required by our professional standards.

Thank you for the continued opportunity to be of service to the Organization. The completion of this year's audit was accomplished through the dedicated efforts and the effective support and assistance of the Organization's personnel. As always, we strive to continually improve the quality of our audit services as well as to find ways in which to streamline the efforts necessary for all involved to prepare for the audit. This meeting is also a forum for you to provide feedback on ways we can continue to meet and exceed your expectations.

If you have any questions or comments, please do not hesitate to contact us.

Very truly yours,

CohnReznick LLP

CohnReznick LLP

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Objectives and Areas of Audit Emphasis

Objectives

Our audit plan represented an approach responsive to the assessment of risk for the Organization. Specifically, our audit procedures were designed to enable us to:

- Express an opinion on the consolidated financial statements of the Organization.
- Issue reports to comply with Uniform Guidance and the Connecticut State Single Audit Act.
- Prepare Federal Form 990s.
- Maintain open lines of communication with management and the Board of Directors.

Areas of Audit Emphasis

The areas of audit emphasis were as follows:

- Revenues and receivables and related allowances;
- Grant revenue recognition;
- Property and equipment;
- Debt covenant compliance;
- Federal and state compliance requirements;
- Possible unrecorded liabilities;
- Commitments and contingencies;
- Implementation of ASU 2016-14, Not-For-Profit Entities (Topic 958) Presentation of Financial Statements; and
- AU 316 “Considerations of Fraud in a Financial Statement Audit”.

There were no changes to our planned audit approach

Required Communications to Those Charged with Governance

We have audited the consolidated financial statements of Sea Research Foundation, Inc. and Mystic Entertainment Company for the year ended December 31, 2018, and will issue our report thereon upon approval by the Board of Directors and finalization of open items. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. Professional standards also require that we communicate to you the following information related to our audit.

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Organization are described in Note 1 to the consolidated financial statements.

- The Organization adopted Accounting Standards Update ("ASU:) 2016-14, *Presentation of Financial Statements for Not-for-Profit Entities*. All significant accounting policies are disclosed in the notes to the financial statements.
- The financial statement disclosures are consistent and clear.

Accounting estimates are an integral part of the consolidated financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the consolidated financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the consolidated financial statements were:

- Allowance for doubtful accounts
- Pledge receivable discounts
- Accrued liabilities
- Depreciation

We evaluated the key factors and assumptions used to develop the above estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. The below list summarizes uncorrected misstatements of the financial statements. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

- Overstatement of fixed assets of approximately $38,000.
- Overstatement of accounts receivable of approximately $38,000.
- Overstatement of grant revenue of approximately $59,000.

Required Communications to Those Charged with Governance (continued)

In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We requested certain representations from management that are included in the management representation letter which was dated as of the date of the Independent Auditor's Report.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Organization's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Organization's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

With respect to the supplementary information accompanying the consolidated financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with U.S. generally accepted accounting principles, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the consolidated financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the consolidated financial statements or to the consolidated financial statements themselves.

This information is intended solely for the use of the Board of Directors and Management of Sea Research Foundation, Inc. and Mystic Entertainment Company and is not intended to be, and should not be, used by anyone other than these specified parties.

Executive Summary

- Unmodified opinions on general purpose consolidated financial statements of Sea Research Foundation, Inc. and Mystic Entertainment Company and federal and state single audit reports.

- Consolidated financial position

  - Working capital deficiency of $2,661,000 versus deficiency in 2017 of $3,522,000.
  - Total assets increased $3,280,000 over the prior year.
  - Increase in net assets of $3,248,000; prior year was a decrease of $(2,032,000).
  - Increase of unrestricted net assets of $3,600,000; prior year was a decrease of $(1,489,000).

- Consolidated historical information

	2018	2017	2016
Consolidated Statement of Financial Position			
Total assets	$ 37,211,563	$ 33,931,775	$ 34,576,296
Receivables as a % of total assets	5%	3%	4%
Cash and investments as a % of total assets	8%	7%	5%
PPE as a % of total assets	86%	88%	89%
LOC and notes payable as a % of total assets	34%	38%	41%
Deferred and membership as a % of total assets	5%	5%	4%
Net assets as a % of total assets	49%	44%	50%
Consolidated Statement of Operating Activities			
Total operating support and revenue	26,050,670	22,105,082	22,913,811
Grants and contributions	32%	21%	22%
Admissions and membership	52%	60%	59%
Other	17%	19%	19%
Total operating expenses	23,324,906	24,538,960	24,199,611
Program	67%	67%	65%
Management and general	15%	15%	14%
Fundraising	7%	8%	8%
Other	11%	10%	13%
Income (deficiency) from operations	3,248,048	(2,083,121)	(1,285,800)
Less Preservation Fund contributions	(1,300,000)	-	-
Add back depreciation	2,916,886	2,807,309	2,960,853
Income from operations - SRF	4,864,934	724,188	1,675,053
Net income from MEC operations	$ 342,800	$ 225,336	$ 368,120

Best Business Practice Suggestions

Disaster Recovery Plan:

During the audit, we noted that the Organization does not have a formally documented disaster recovery plan. We recommend that management work to create a formal documented plan which is approved by the Board.

Grant Revenue:

During the audit, we noted that management does not code expenses to the individual grant sub ledger on a consistent basis. As a result, we noted that grant revenues are being recognized without supporting documentation that the funds were spent in accordance with the grants purpose. Having accurate documentation to support the recognition of grant revenue is essential to the fundamentals of grant accounting. We recommend that management review the process by which they track grant expenses and implement changes to ensure that the underlying accounting records adequately support the amounts recognized as grant income.

Fixed Assets:

The Foundation maintains its listing of property and equipment in excel. The excel file is prone to errors in calculation of depreciation and missing additions of new acquisitions. We recommend purchasing the fixed asset module of the accounting software and use that module to maintain a complete and accurate property and equipment listing.

In addition, we recommend the Foundation preform a detail review of all of its property and equipment to the current listing to determine if any amounts should be removed, discarded or impaired if the value is less than the carrying cost. This exercise should be done prior to entering all of the fixed assets into the new software module for property and equipment.

- ASU 2014-09, *Revenue from Contracts with Customers* (Topic 606). The standard is effective for non-public entities for calendar year 2019.

  The core principle is as follows:

  An entity should recognize revenue representing the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Apply the following steps:

  1. Identify the contract(s) with the customer
  2. Identify the performance obligations
  3. Determine the transaction price
  4. Allocate the transaction price
  5. Recognize revenue when (or as) a performance obligation is satisfied

- On August 3, 2017, the Financial Accounting Standards Board ("FASB") issued a proposed Accounting Standards Update ("ASU") Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made which is intended to improve and clarify guidance on revenue recognition of grants and contracts by not-for-profit organizations. The proposed standard would be effective at the same time as ASU 2014-09. Comments on the exposure draft are due by November 1, 2017.

  Under the proposed framework, each individual grant should be reviewed to determine whether it is a grant or an exchange transaction.

  Exchange transaction - A grant is considered to be an exchange transaction if the grantor receives commensurate value in return for the resources provided. If a grant is considered an exchange transaction, revenue should be recognized in accordance with ASU 2014-09, as discussed above.

  Contribution – A grant is considered to be a contribution if the general public is receiving the primary benefit. A contribution can be conditional or unconditional, which affects the timing of revenue recognized.

  Conditional – A grant is considered conditional if there is a donor-imposed stipulation that represents a barrier to be overcome AND either a right of return of the assets or a right of release of the grantor from its obligation. A conditional contribution is not recognized as revenue until the barrier has been overcome and the recipient organization is entitled to the funds.

  Unconditional – An unconditional contribution is recognized when it is promised. After a contribution has been deemed unconditional, the organization must determine whether the contribution is restricted by the donor for a specific purpose or to a specific time period.

Action Steps:

Management should continue to assess the impact of the new revenue recognition standards on various areas of the business and:

- ✓ Gain an understanding of the new accounting standards
- ✓ Identify each type of revenue stream
- ✓ Evaluate each type of revenue in relation to the new standards
- ✓ Develop and document a process for evaluation of grants received
- ✓ Develop and document methodologies for accounting for any identified changes in revenue recognition
- ✓ Evaluate the impact of the new requirements on financial covenants, if any.

- ASU 2016-02, *Leases* (Topic 842). The amendments to the Standard are effective for non-public entities for calendar year 2020.

  Under the new guidance, lessees will be required to recognize the following for all leases (with the exception of short-term leases) at the commencement date:

  - A lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and
  - A right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term.

Action Steps:

Management should begin to assess the impact of the new standards as they relate to deferred financing leases and operating leases:

- ✓ Gain an understanding of the new accounting standards
- ✓ Review the Foundation's standard operating lease terms in relation to the new standard
- ✓ Develop and document a process for the on-going evaluation of leases
- ✓ Develop and document methodologies for accounting for any identified changes in lease accounting
- ✓ Evaluate the impact of the new requirements on financial covenants, if any.
- ✓ CohnReznick has developed a tool that you can purchase to assist with this implementation if needed.

Relevant TCJA Provision

- **<u>Taxation of fringe benefits – Parking Expenses</u>**
  - Notice 2018-99
    - See CohnReznick article in the appendix
    - Payments to third parties for parking spots – include in UBTI
    - Taxpayer owned or leased parking facility – 4 step test
      - Reserved employee parking spaces – Include in UBTI
      - Primary use of remaining parking – if >50% typically used by the public, then do not include in UBTI
      - Reserved public use – do not include in UBTI
      - Reasonable allocation of remaining unreserved parking spaces
    - Public Use includes:
      - Patients
      - Students
      - Visitors
      - Non-reserved spots that are available to the general public but that are typically empty
- Action Point
  - Count the parking spaces
  - Determine costs allocated to parking lots
  - Determine if any tax is due based on the four part test

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IRS Provides Interim Guidance Regarding Determination of Employer-Provided Nondeductible Employee Parking Expenses for Unrelated Business Income Reporting Purposes

12/21/2018

SYNOPSIS

The IRS recently issued Notice 2018-99, (the Notice), to provide interim guidance (until proposed regulations are issued) for determining the amount of nondeductible employer-provided employee parking expenses relevant to the Tax Cuts and Jobs Act's (TCJA) new rules in Section 512(a)(7). This new addition to the Internal Revenue Code requires certain employer-provided qualified transportation fringe benefits to be recognized as unrelated business income by tax-exempt entities.

IN GENERAL

Internal Revenue Code (IRC) Section 132 excludes certain amounts of employer-provided "qualified transportation fringes" (generally, transportation in a commuter highway vehicle between work and home, transit passes and qualified parking) from an employee's compensation. However, under the TCJA, effective for 2018 and after, IRC Section 274(a)(4) denies the employer a deduction for providing employees with these fringes (unless the expenses are treated as taxable compensation to the employees who receive them, in which case the expense may be deductible as compensation under Section 162, or deductible because the expense is necessary for ensuring the safety of employees under Section 274(l)). There have been many questions as to how employers are to determine the amount of their nondeductible employee parking expenses. Such knowledge is needed for a tax-exempt entity to determine whether the amount is sufficient to be reportable as unrelated business income on Form 990-T.

THE NOTICE

In general, the Notice provides that the determination of the nondeductible amount depends upon whether the employer pays a third party to provide parking for its employees or, alternatively, the employer owns or leases a parking facility at which its employees park.

- Third Party Parking - the disallowance amount is generally the total annual amount paid by the employer to the third party. However, as only a specified annual amount can be provided to employees on a tax-free basis ($260 per month for 2018), the cost per employee in excess of the limitation amount is required to be treated as taxable compensation to the employee. Accordingly, only the amount up to $260 per month, per employee, comes within the scope of recognizable unrelated business income for the not-for-profit entity.

- Employer Owns or Leases All or a Part of the Parking Facility - the Notice states that any reasonable method may be used. However, the Notice also provides the following specific four-step method, which is deemed to be reasonable for making calculations with respect to a parking facility owned or leased by a tax-exempt entity:

  - Step 1: Determine the percentage of the facility's parking spaces which are reserved exclusively for the employer's employees, and multiply the total parking expenses amount by this percentage to determine the nondeductible amount for those spaces.

  - Step 2: If there are parking spaces which are not reserved exclusively for the employer's employees that are used primarily for the use of the general public (greater than 50% of the actual or estimated usage during normal business hours on a typical business day), those spaces are excepted from the deduction exclusion. Accordingly, if this "greater than 50%" test is passed, then the related expenses are excluded from treatment as unrelated business income, and the calculation process is completed. However, if the spaces considered in Step 2 do not meet this 50% test, then proceeding to Step 3 becomes necessary.

  - Step 3: After adjusting for any parking spaces reserved exclusively for the employer's employees from Step 1, the employer may identify the number of parking spaces, if any, which are exclusively reserved for nonemployees (e.g., denoted by "Customer Parking Only" signs). (If there are no parking spaces exclusively reserved for nonemployees, then immediately proceeding to Step 4 is in order.) If there are parking spaces exclusively reserved for nonemployees, the organization determines the percentage of those spaces out of all the remaining parking spaces, and multiplies the expenses for the remaining total parking expenses by that percentage – the product is the amount of the deduction for the remaining total parking expenses that is not disallowed, and does not have to be considered for unrelated business income purposes. (Note that in Step 3 of Example 5 in the Notice, the amount of expenses used is the original total, not the remainder after Step 1, which appears to be an error.)

- Step 4: After Steps 1 – 3 have been completed, if there are any remaining parking spaces, the employer must reasonably determine the employee use of these remaining spaces during normal business hours on a typical business day, and the related expenses allocable to these employee parking spaces. The amount determined becomes recognizable unrelated business income. (The Notice provides that the number of employee parking spaces may be based on actual or estimated use, which in turn may be based upon the number of spaces, the number of employees, the hours of use or other measures.)

WHAT DOES COHNREZNICK THINK?

The introduction of IRC Section 512(a)(7) by way of the TCJA presents tax-exempt entities with new considerations for unrelated business income. This new law became effective for all organizations as of January 1, 2018, regardless of tax year-end. Essentially, any tax-exempt organization, no matter how large or how small, which has employees and parking arrangements, must consider the effects of the new law. However, Section 512(a)(7) itself does not explain how taxable amounts are to be determined. Instead, the new rule leaves this task to future guidance and regulations. Accordingly, Notice 2018-99 represents at least preliminary information that the not-for-profit community has been awaiting for almost a year.

For organizations that have reserved spots for employees, the Notice states that, if these are removed by March 31, 2019, then Step 1 of the calculation will not apply retroactively to January 1, 2018.

Notable is the difference in attitudes between the new law and the Notice regarding the recognition of depreciation expense as a parking facilities expense. Section 512(a)(7) specifically references depreciation as a cost with respect to facilities used for parking. However, the Notice just as specifically states that depreciation does not represent a "parking expense" for unrelated business income calculation purposes.

Step 4 of the four-step calculation process might be of most significance to those organizations that have been anticipating guidance. A popular interpretation of Section 512(a)(7) was that an owned or leased parking facility would not be subject to an increase in unrealized business income if it was also available to the public for parking. However, the calculation associated with Step 4 clearly intends to include expenses of owned and leased parking facilities that are predominantly used by an organization's employees.

Also of interest, the Notice specifies that the Treasury Department and the IRS have determined that the taxable compensation deduction exception under Section 274(e)(2) does apply to employer-provided employee parking, and, thus, increases unrelated business income. However, the Notice does not provide any amplification regarding the Section 274(l) deduction exception for employer-provided employee commuter benefits "necessary for ensuring the safety of the employee." We continue to await additional guidance regarding the Section 274(l) exception.

The Notice does offer several examples for making calculations required by 512(a)(7), and it also states that its guidance can be relied upon until future guidance is provided. Nonetheless, the examples do not cover all potential situations, and we continue to look forward to greater detail when proposed regulations are provided. Until such time, tax-exempt organizations that have employees and offer qualified transportation benefits should utilize the guidance provided by the Notice.

CONTACT

For more information, please contact Dana Fried, Managing Director National Tax Services, at Dana.Fried@CohnReznick.com or 516-417-5064, or Glenn Shelton, Senior Tax Manager, Exempt Organization Tax Compliance, at Glenn.Shelton@CohnReznick.com or 301-280-3077.

Sea Research Foundation, Inc.
and Mystic Entertainment Company

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

December 31, 2018 and 2017

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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, 2018 and 2017, 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, 2018 and 2017, 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 2018 consolidated financial statements as a whole. The consolidating information on pages 26 and 27 is presented for purposes of additional analysis of the 2018 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 2018 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 2018 consolidated financial statements. The consolidating information has been subjected to the auditing procedures applied in the audit of the 2018 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 2018 consolidated financial statements or to the 2018 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 2018 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 May 2, 2019, 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.

CohnReznick LLP

Hartford, Connecticut
May 2, 2019

Sea Research Foundation, Inc.
and Mystic Entertainment Company

Consolidated Statements of Financial Position
December 31, 2018 and 2017

Assets

	2018	2017
Current assets		
Cash and cash equivalents	$ 2,591,074	$ 2,098,229
Grants and contributions receivable	941,579	352,174
Accounts receivable	239,078	194,419
Prepaid expenses and other current assets	249,850	305,187
Promises to give	498,349	225,275
Total current assets	4,519,930	3,175,284
Noncurrent assets		
Promises to give, net of discount and current portion	91,728	307,060
Deferred compensation assets	139,382	207,080
Investments	397,419	445,295
Construction in progress	4,934,304	1,113,483
Property and equipment, net of accumulated depreciation	27,128,800	28,683,573
	$ 37,211,563	$ 33,931,775

Liabilities and Net Assets

	2018	2017
Current liabilities		
Accounts payable	$ 3,230,608	$ 2,523,796
Line of credit	1,200,000	1,200,000
Notes payable, current portion	233,118	219,462
Deferred revenue and unearned membership fees	1,858,149	1,764,928
Accrued expenses	605,110	927,396
Capital lease obligations, current portion	54,153	61,001
Total current liabilities	7,181,138	6,696,583
Long-term liabilities		
Notes payable, net of current portion	11,284,201	11,465,252
Interest rate swap agreement liability	219,051	407,378
Deferred compensation	219,383	260,414
Capital lease obligations, long-term	12,169	54,575
Total long-term liabilities	11,734,804	12,187,619
Total liabilities	18,915,942	18,884,202
Commitments		
Net assets		
Without donor restrictions	17,714,711	14,114,678
With donor restrictions	580,910	932,895
Total net assets	18,295,621	15,047,573
	$ 37,211,563	$ 33,931,775

See Notes to Consolidated Financial Statements.

Sea Research Foundation, Inc.
and Mystic Entertainment Company

Consolidated Statement of Activities
Year Ended December 31, 2018
(With Comparative Totals for the Year Ended December 31, 2017)

	Without donor restrictions	With donor restrictions	Total 2018	Total 2017
Sea Research Foundation activities				
Revenue from operations				
Admissions	$ 11,516,788	$ -	$ 11,516,788	$ 11,470,641
Memberships	1,990,350	-	1,990,350	1,892,229
Program income	1,555,095	-	1,555,095	1,418,765
Grants and contracts - operations	2,440,905	-	2,440,905	3,008,559
Grants and contracts - capital	3,627,764	-	3,627,764	34,900
Contributions	1,920,765	250,000	2,170,765	1,535,528
Management fees and other revenue	189,637	-	189,637	310,489
Auxiliary operations	2,553,123	-	2,553,123	2,415,866
Net assets released from restriction	601,985	(601,985)	-	-
Total	26,396,412	(351,985)	26,044,427	22,086,977
Operating costs and expenses				
Exhibits and husbandry	10,290,458	-	10,290,458	10,527,465
Education and research	4,369,688	-	4,369,688	4,941,371
Visitor services	1,841,757	-	1,841,757	1,766,755
General and administrative	3,446,061	-	3,446,061	3,724,346
Development	1,013,516	-	1,013,516	1,177,687
Marketing	1,704,025	-	1,704,025	1,951,099
Auxiliary operations	659,401	-	659,401	450,237
Total	23,324,906	-	23,324,906	24,538,960
Income (deficiency) from Foundation operations	3,071,506	(351,985)	2,719,521	(2,451,983)
Non-operating revenue and expenses				
Change in interest rate swap agreement	188,327	-	188,327	177,332
Investment return, net	(29,765)	-	(29,765)	31,597
Change in net assets from Foundation activities	3,230,068	(351,985)	2,878,083	(2,243,054)
Mystic Entertainment activities				
Operating revenue	3,110,081	-	3,110,081	2,884,874
Cost of goods sold	(1,356,702)	-	(1,356,702)	(1,392,600)
Net revenue	1,753,379	-	1,753,379	1,492,274
Operating expenses	(1,318,289)	-	(1,318,289)	(1,323,175)
Income from MEC activities	435,090	-	435,090	169,099
Non-operating income/expense				
Gain (loss) on disposal of assets	257	-	257	(9,166)
Interest expense	(382)	-	(382)	-
Net income before income tax expense	434,965	-	434,965	159,933
Income tax expense	(65,000)	-	(65,000)	-
Change in net assets	3,600,033	(351,985)	3,248,048	(2,083,121)
Net assets, beginning	14,114,678	932,895	15,047,573	17,130,694
Net assets, end	$ 17,714,711	$ 580,910	$ 18,295,621	$ 15,047,573

See Notes to Consolidated Financial Statements.

Sea Research Foundation, Inc.
and Mystic Entertainment Company

Consolidated Statement of Activities
Year Ended December 31, 2017

	Without donor restrictions	With donor restrictions	Total 2017
Sea Research Foundation activities			
Revenue from operations			
Admissions	$ 11,470,641	$ -	$ 11,470,641
Memberships	1,892,229	-	1,892,229
Program income	1,418,765	-	1,418,765
Grants and contracts - operations	3,008,559	-	3,008,559
Grants and contracts - capital	34,900	-	34,900
Contributions	1,321,521	214,007	1,535,528
Management fees and other revenue	310,489	-	310,489
Auxiliary operations	2,415,866	-	2,415,866
Net assets released from restriction	757,269	(757,269)	-
Total	22,630,239	(543,262)	22,086,977
Operating costs and expenses			
Exhibits and husbandry	10,527,465	-	10,527,465
Education and research	4,941,371	-	4,941,371
Visitor services	1,766,755	-	1,766,755
General and administrative	3,724,346	-	3,724,346
Development	1,177,687	-	1,177,687
Marketing	1,951,099	-	1,951,099
Auxiliary operations	450,237	-	450,237
Total	24,538,960	-	24,538,960
Deficiency from Foundation operations	(1,908,721)	(543,262)	(2,451,983)
Non-operating revenue and expenses			
Change in interest rate swap agreement	177,332	-	177,332
Investment return, net	31,597	-	31,597
Change in net assets from Foundation activities	(1,699,792)	(543,262)	(2,243,054)
Mystic Entertainment activities			
Operating revenue	2,884,874	-	2,884,874
Cost of goods sold	(1,392,600)	-	(1,392,600)
Net revenue	1,492,274	-	1,492,274
Operating expenses	(1,323,175)	-	(1,323,175)
Income from MEC activities	169,099	-	169,099
Non-operating income/expense			
Loss on disposal of assets	(9,166)	-	(9,166)
Change in net assets	(1,539,859)	(543,262)	(2,083,121)
Net assets, beginning	15,654,537	1,476,157	17,130,694
Net assets, end	$ 14,114,678	$ 932,895	$ 15,047,573

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 Statement of Functional Expenses
Year Ended December 31, 2017

	Exhibits and husbandry	Education and research	Visitor services	General and administrative	Development	Marketing	Auxiliary operations	Total
Salaries and employee benefits	$ 5,481,701	$ 1,429,739	$ 1,074,214	$ 1,825,012	$ 540,342	$ 752,351	$ -	$ 11,103,359
Travel	104,299	45,897	4,211	189,411	14,438	18,402	307	376,965
Utilities	599,911	488,300	55,806	125,564	27,903	27,903	69,757	1,395,144
General insurance	139,376	110,867	15,838	31,409	9,503	9,503	-	316,496
Supplies	93,553	10,209	39,612	65,495	19,812	1,334	-	230,015
Service contracts	274,359	6,797	87,360	-	-	-	106	368,622
Depreciation and amortization	2,217,871	372,770	-	216,668	-	-	-	2,807,309
Telephone	83,087	5,182	1,558	12,684	1,509	3,744	-	107,764
Dues and subscriptions	26,299	26,032	-	269,829	8,290	33,479	-	363,929
Bank and investment fees	184	-	326,450	14,146	-	-	-	340,780
Professional services	93,861	100,500	52,500	615,326	137,900	37,650	-	1,037,737
Interest expense	300,463	187,789	75,116	164,738	15,023	22,535	37,558	803,222
Vehicle operation	19,760	16,467	-	131,489	-	-	-	167,716
Property and other taxes	-	-	-	11,766	-	-	-	11,766
Advertising and promotions	1,264	51	12,516	1,000	362,001	1,030,423	-	1,407,255
Uniforms	233	-	6,834	997	-	-	-	8,064
Repairs and maintenance	130,123	4,739	-	1,410	-	-	236	136,508
Research expenses	88,026	4,139	-	-	15,511	-	-	107,676
Animal costs	370,157	8,812	-	-	-	-	-	378,969
Brine and chemicals	171,660	4,136	-	-	-	-	-	175,796
Education program	212,479	2,112,707	-	-	16,927	-	342,273	2,684,386
Membership program	-	-	14,080	-	-	116	-	14,196
Volunteer programs	25,547	-	-	10,443	-	-	-	35,990
Computer development	20,763	60	660	3,955	-	3,996	-	29,434
Offsite warehouse	21,590	2,064	-	2,060	-	-	-	25,714
Expedition expense	7,293	-	-	-	-	2,181	-	9,474
Other	43,606	4,114	-	30,944	8,528	7,482	-	94,674
Total	$ 10,527,465	$ 4,941,371	$ 1,766,755	$ 3,724,346	$ 1,177,687	$ 1,951,099	$ 450,237	$ 24,538,960

See Notes to Consolidated Financial Statements.

Sea Research Foundation, Inc.
and Mystic Entertainment Company

Consolidated Statements of Cash Flows
Years Ended December 31, 2018 and 2017

	2018	2017
Cash flows from operating activities		
Change in net assets	$ 3,248,048	$ (2,083,121)
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	2,936,984	2,826,536
Capitalized financing costs	52,066	52,066
Bad debts	23,077	-
Unrealized and realized (gain) loss on investments	29,765	(13,492)
Promises to give discount	24,093	(1,720)
Loss on disposal of property and equipment	-	9,166
Change in interest swap agreement	(188,327)	(177,332)
(Increase) decrease in		
Accounts receivable	(67,736)	9,240
Promises to give receivable	(81,835)	317,336
Prepaid expenses and other current assets	55,337	19,509
Grants and contributions receivable	(589,405)	(128,121)
(Decrease) increase in		
Accounts payable	706,812	895,731
Accrued expenses	(322,286)	55,325
Deferred compensation	26,667	53,334
Deferred revenue and unearned membership fees	93,221	269,762
Net cash provided by operating activities	5,946,481	2,104,219
Cash flows from investing activities		
Property and equipment additions	(1,382,211)	(1,011,319)
Construction in progress additions	(3,820,821)	(543,445)
Sale of investments	18,111	737
Net cash used in investing activities	(5,184,921)	(1,554,027)
Cash flows from financing activities		
Principal payments on notes payable	(219,461)	(207,377)
Borrowings on line of credit	-	500,000
Payments on capital leases	(49,254)	(68,196)
Net cash (used in) provided by financing activities	(268,715)	224,427
Net change in cash and cash equivalents	492,845	774,619
Cash and cash equivalents, beginning	2,098,229	1,323,610
Cash and cash equivalents, end	$ 2,591,074	$ 2,098,229
Supplemental disclosure of cash flow information		
Interest paid	$ 766,037	$ 753,740
Non-cash investing and financing activities		
Purchase of equipment through capital lease obligation	$ 11,996	$ 11,996

See Notes to Consolidated Financial Statements.

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 offers on and off-site catering services and the Penguin Café food service at the aquarium. Under an agreement, the Foundation earns annual base consideration of $230,000 in varying monthly payments and supplemental consideration (based on fees stated in the agreement) for each catered event at the aquarium. The Foundation plans to outsource the Penguin Café food service operation 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.

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

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

The Foundation reports unconditional promises to give as revenue when the promise is received. Conditional promises to give are recognized as revenue when the condition is met. Contributions received are recorded as with or without donor restrictions depending on the existence and/or nature of any donor restrictions. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions. Donor-restricted contributions whose restrictions are met in the same reporting period have been reported as unrestricted support in the consolidated statements of activities.

Grants that are identified as exchange transactions are recognized when eligible grant costs are incurred. Receivables are recognized to the extent costs have been incurred but not reimbursed. Deferred revenue represents grant advances and other revenue which exceeds eligible costs incurred. Grants require the fulfillment of certain conditions as set forth in the instrument of the grant. Failure to fulfill the conditions could result in the return of funds to grantors. The Foundation is also awarded grant awards that have not yet been earned for financial reporting purposes.

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.

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.

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, 2018 and 2017 were $285,725 and $263,775, respectively.

Allowances for receivables
Allowances for accounts and pledges receivable 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.

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 2019.

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:

Assets	Estimated lives
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.

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, 2018 and 2017, 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, 2018 and 2017. SRF's and MEC's federal and state tax returns prior to calendar year 2015 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 Trustee will determine the distribution of funds from the endowment.

Advertising

SRF expenses the cost of advertising the first time advertising takes place. Total advertising expense for the years ended December 31, 2018 and 2017 was $913,323 and $903,224, 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 non-operating 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, 2018 and 2017 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.

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.

Reclassifications

Certain amounts in the 2017 consolidated financial statements have been reclassified to conform to the 2018 presentation.

Newly adopted accounting standards

During 2018, the Foundation adopted the provisions of Accounting Standards Update ("ASU") 2016-14. The provisions improve the usefulness and reduce the complexities of information provided to donors, grantors, creditors, and other users of the financial statements by eliminating the distinction between resources with permanent restrictions and those with temporary restrictions from the face of the financial statements. Enhanced disclosures in the notes to the financial statements will provide useful information about the nature, amounts and effects of the various types of donor-imposed restrictions, which often include limits on the purposes for which the resources can be used as well as the time frame for their use. The guidance also enhances disclosures for board designated amounts, composition of net assets without donor restrictions, liquidity and expenses by both their nature and functional classification. While the adoption of ASU 2016-14 requires net assets to be presented with and without donor restrictions, the ASU had no effect on the Foundation's total net assets.

Subsequent events

SRF has evaluated events and transactions for potential recognition or disclosure through May 2, 2019, which is the date the consolidated financial statements were available to be issued.

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, 2018, SRF had cash in excess of federally insured limits of $1,769,000.

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.

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, 2018, SRF has approximately $4.5 million of financial assets available to meet annual operating needs for the 2019 calendar year as follows:

Cash	$ 2,591,074
Accounts receivable	239,078
Grants receivable	941,579
Promises to give related to operating grants	498,349
Investments without board or donor restrictions	210,870
Total	$ 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.

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.

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, 2018 are classified in the table below in one of the three categories described above:

	2018			
	Level 1	Level 2	Level 3	Total
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
Total assets, at fair value	$ 296,671	$ 100,748	$ -	$ 397,419
Liabilities				
Interest rate swap	$ -	$ 219,051	$ -	$ 219,051

Financial assets and liabilities carried at fair value at December 31, 2017 are classified in the table below in one of the three categories described above:

	2017			
	Level 1	Level 2	Level 3	Total
Assets				
Mutual funds				
Money market funds	$ 175,187	$ -	$ -	$ 175,187
Fixed income funds	43,567	-	-	43,567
Equity mutual funds	116,885	-	-	116,885
Corporate bonds	-	102,207	-	102,207
Common stocks				
Services	7,449	-	-	7,449
Total assets, at fair value	$ 343,088	$ 102,207	$ -	$ 445,295
Liabilities				
Interest rate swap	$ -	$ 407,378	$ -	$ 407,378

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, 2018 and 2017.

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, 2018 and 2017.

Note 5 - Investments

The following is a summary of investments, by type, as of December 31, 2018 and 2017:

	2018		2017	
	Market	Cost	Market	Cost
Money market funds	$ 164,325	$ 164,325	$ 175,187	$ 175,187
Fixed income funds	28,843	31,304	43,567	31,321
Equity mutual funds	97,170	126,625	116,885	113,903
Corporate bonds	100,748	104,751	102,207	104,970
Common stocks	6,333	6,422	7,449	6,422
	$ 397,419	$ 433,427	$ 445,295	$ 431,803

Note 6 - Property and equipment

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	$ 27,081,526	$ 47,274	$ 27,128,800

A summary of property and equipment at December 31, 2017 is as follows:

	Foundation	MEC	Total
Land and improvements	$ 4,183,323	$ -	$ 4,183,323
Building and improvements, including leasehold improvements	53,687,889	34,796	53,722,685
Equipment, furniture and animals	39,632,475	331,944	39,964,419
	97,503,687	366,740	97,870,427
Less accumulated depreciation and amortization	(68,874,107)	(312,747)	(69,186,854)
Net property and equipment	$ 28,629,580	$ 53,993	$ 28,683,573

As of December 31, 2018 and 2017, SRF incurred costs associated with various capital projects totaling $4,934,304 and $1,113,483, 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 $1,662,000 at December 31, 2018.

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 October 2018 and accrues interest at the prime rate plus 1% as determined by Webster Bank or LIBOR rate plus 3% (in total 5.50% or 6.50% at December 31, 2018). 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, 2018 and 2017 was $1,200,000.

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, 2018 and 2017 was $763,453 and $803,222, respectively, for debt and capital leases.

Long-term debt outstanding at December 31, 2018 and 2017 is as follows:

	2018	2017
SRF has a term loan payable with a variable interest rate of LIBOR plus 3% (5.34% at December 31, 2018) 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 $260,328 and $312,394 as of December 31, 2018 and 2017, 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.	$ 9,022,784	$ 9,188,206
SRF has a note payable with an interest rate of 5% maturing in December 2023. Monthly payments including principal and interest are $16,105.	2,754,863	2,808,902
	11,777,647	11,997,108
Less current maturities	(233,118)	(219,462)
Less unamortized debt issuance costs	(260,328)	(312,394)
Total	$ 11,284,201	$ 11,465,252

Future maturities of long-term debt in each of the five years subsequent to 2018 and thereafter are as follows:

2019	$ 233,118
2020	246,712
2021	261,103
2022	276,338
2023	10,760,376
	11,777,647
Less deferred financing	(260,328)
	$ 11,517,319

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, 2018 and 2017, 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, 2018 and 2017 was $219,051 and $407,378, 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.

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 absence of donor-imposed restrictions. There are no donor-restricted endowment funds as of December 31, 2018 and 2017.

Changes in endowment net assets for the years ended December 31, 2018 and 2017 was as follows:

	2018	2017
Board-designated endowment net, assets beginning	$ 187,179	$ 188,134
Investment fees	(310)	(860)
Net realized and unrealized (loss) gain	(320)	(95)
Board-designated endowment net assets, end	$ 186,549	$ 187,179

Net assets with donor restrictions as of December 31, 2018 and 2017 are comprised of the following:

	2018	2017
Time or use restricted		
Research and Education Center	$ 159,740	$ 398,322
Various aquarium projects and programs	250,377	310,854
Time restrictions	170,793	223,719
Total donor restricted	$ 580,910	$ 932,895

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:

	2018	2017
Mystic Aquarium		
Purpose and time restrictions accomplished	$ 601,985	$ 757,269
Total	$ 601,985	$ 757,269

Note 10 - Operating lease obligations

SRF leases certain real estate, vehicles and office equipment under operating leases, which expire at various times through November 2023. The Foundation's total rental expense under these leases was $251,248 and $243,267 for the years ended December 31,2018 and 2017, respectively.

Future commitments under operating leases are as follows:

2019	$	245,449
2020		221,059
2021		104,358
2022		81,550
2023		67,000
	$	719,416

Note 11 - 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 $196,001 and $139,744, is included in property and equipment as of December 31, 2018 and 2017, respectively. Amortization expense for this equipment for the years ended December 31, 2018 and 2017 was $56,257 and $53,957, respectively.

Future commitments under capital leases are as follows:

2019	$	59,980
2020		6,400
2021		2,649
Total payments		69,029
Less interest portion		(2,707)
		66,322
Less current portion		(54,153)
Long-term portion	$	12,169

Note 12 - 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.

Although additional profit sharing amounts may be contributed at the option of the Foundation's Board of Trustees, there was no such profit sharing contributions for the years ended December 31, 2018 and 2017. The Foundation's total contributions to the Plan during the years ended December 31, 2018 and 2017 were $60,655 and $66,244, respectively.

In addition to the pension plan described above, the Foundation also has non-qualified deferred compensation plans for certain employees. Contributions for the years ended December 31, 2018 and 2017 were $33,027 and $41,188, respectively, and are included in salaries and employee benefits in the consolidated statements of functional expenses. As of December 31, 2018 and 2017, the Foundation recorded an asset of $139,382 and $207,080, respectively, and a liability of $219,383 and $260,414, respectively.

Note 13 - Income taxes

The expense for income taxes for the years ended December 31, 2018 and 2017 consist of the following:

	2018	2017
Current		
Federal	$ 40,000	$ -
State	25,000	-
	$ 65,000	$ -

The effective income tax rate is different from the expected statutory rate primarily because of state income taxes, depreciation differences and certain expenses that are not deductible for tax purposes.

MEC's deferred tax asset results from federal and state net operating loss carryforwards of approximately $660,220 and $1,079,000, respectively, as of December 31, 2018 and 2017. At this time, management has determined that it is more likely than not that all of the deferred tax asset will not be utilized in future years. Therefore, a valuation allowance has been established for the entire tax asset.

MEC's total deferred tax assets at December 31, 2018 and 2017 are as follows:

	2018	2017
Total deferred tax asset	$ 49,500	$ 118,696
Less valuation allowance	(49,500)	(118,696)
Net deferred tax assets	$ -	$ -

Note 14 - Promises to give

As of December 31, 2018 and 2017, unconditional pledges receivable are expected to be realized in the following periods:

	2018	2017
In one year or less	$ 498,349	$ 225,275
In one to five years	96,865	334,892
Less discount	(5,137)	(27,832)
Total	$ 590,077	$ 532,335

Amounts are shown in the consolidated statements of financial position as of December 31, 2018 and 2017 as follows:

	2018	2017
Current	$ 498,349	$ 225,275
Long-term	91,728	307,060
Total	$ 590,077	$ 532,335

Promises to give expected to be received in more than one year have been discounted using a discount rate of 5.25% at December 31,2018 and 2017.

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, 2018 and 2017 was $1,087,771 and $1,011,803, respectively. Such amounts are included in auxiliary operations in the consolidated statements of activities.

Supplementary Information

Sea Research Foundation, Inc.
and Mystic Entertainment Company

Consolidating Statement of Financial Position
December 31, 2018

	Mystic Entertainment Company	Sea Research Foundation, Inc.	Eliminating entries	Consolidated
Assets				
Current assets				
Cash and cash equivalents	$ 459,819	$ 2,131,255	$ -	$ 2,591,074
Grants and contributions receivable	-	941,579	-	941,579
Accounts receivable	23,617	215,461	-	239,078
Intercompany receivable (payable)	1,075,273	(1,075,273)	-	-
Prepaid expenses and other current assets	7,600	242,250	-	249,850
Pledges receivable, current portion	-	498,349	-	498,349
Total current assets	1,566,309	2,953,621	-	4,519,930
Noncurrent assets				
Pledges receivable, net of discount and current portion	-	91,728	-	91,728
Deferred compensation assets	-	139,382	-	139,382
Investments	-	1,720,405	(1,322,986)	397,419
Construction in progress	-	4,934,304	-	4,934,304
Property and equipment, net of accumulated depreciation	47,274	27,081,526	-	27,128,800
	$ 1,613,583	$ 36,920,966	$ (1,322,986)	$ 37,211,563
Liabilities and Net Assets				
Current liabilities				
Accounts payable	$ 95,363	$ 3,135,245	$ -	$ 3,230,608
Line of credit	-	1,200,000	-	1,200,000
Notes payable, current portion	-	233,118	-	233,118
Deferred revenue and unearned membership	68,561	1,789,588	-	1,858,149
Accrued expenses	126,673	478,437	-	605,110
Capital lease obligations, current portion	-	54,153	-	54,153
Total current liabilities	290,597	6,890,541	-	7,181,138
Long-term liabilities				
Notes payable, net of current portion	-	11,284,201	-	11,284,201
Interest rate swap agreement liability	-	219,051	-	219,051
Deferred compensation	-	219,383	-	219,383
Capital lease obligation, long-term	-	12,169	-	12,169
Total long-term liabilities	-	11,734,804	-	11,734,804
Total liabilities	290,597	18,625,345	-	18,915,942
Net assets				
Without donor restrictions	1,322,986	17,714,711	(1,322,986)	17,714,711
With donor restrictions	-	580,910	-	580,910
Total net assets	1,322,986	18,295,621	(1,322,986)	18,295,621
	$ 1,613,583	$ 36,920,966	$ (1,322,986)	$ 37,211,563

See Independent Auditor's Report.

Sea Research Foundation, Inc.
and Mystic Entertainment Company

Consolidating Statement of Activities
Year Ended December 31, 2018

	Mystic Entertainment Company	Sea Research Foundation, Inc.	Eliminating entries	Consolidated
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	-	2,170,765	-	2,170,765
Management fees and other revenue	-	189,637	-	189,637
Auxiliary operations	-	2,788,113	(234,990)	2,553,123
Total	-	26,279,417	(234,990)	26,044,427
Operating costs and expenses before depreciation	-	20,615,845	(207,825)	20,408,020
Income from Foundation operations before depreciation	-	5,663,572	(27,165)	5,636,407
Depreciation	-	2,916,886	-	2,916,886
Income from Foundation operations	-	2,746,686	(27,165)	2,719,521
Non-operating revenues and expenses				
Equity earnings and adjustment on subsidiary	-	342,800	(342,800)	-
Change in interest swap agreement	-	188,327	-	188,327
Investment return, net	-	(29,765)	-	(29,765)
Income from Foundation activities	-	3,248,048	(369,965)	2,878,083
Mystic Entertainment activities				
Operating revenue	3,317,906	-	(207,825)	3,110,081
Cost of goods sold	(1,356,702)	-	-	(1,356,702)
Net revenue	1,961,204	-	(207,825)	1,753,379
Operating expenses	(1,553,279)	-	234,990	(1,318,289)
Income from MEC activities	407,925	-	27,165	435,090
Non-operating income/expense				
Gain on disposal of assets	257	-	-	257
Interest expense	(382)	-	-	(382)
Net income before income tax expense	407,800	-	27,165	434,965
Income tax expense	65,000	-	-	65,000
Change in net assets	342,800	3,248,048	(342,800)	3,248,048
Net assets, beginning	980,186	15,047,573	(980,186)	15,047,573
Net assets, end	$ 1,322,986	$ 18,295,621	$ (1,322,986)	$ 18,295,621

See Independent Auditor's Report.

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