

**ALTASEA AT THE PORT
OF LOS ANGELES**

FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017

ALTASEA AT THE PORT OF LOS ANGELES

FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
AltaSea at the Port of Los Angeles

Report on the Financial Statements

We have audited the accompanying financial statements of AltaSea at the Port of Los Angeles, which comprise the statement of financial position as of December 31, 2017 and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of AltaSea at the Port of Los Angeles as of December 31, 2017, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Green Hasson & Janks LLP

May 15, 2018
Los Angeles, California

ALTASEA AT THE PORT OF LOS ANGELES

STATEMENT OF FINANCIAL POSITION

December 31, 2017

ASSETS	Temporarily		Total
	Unrestricted	Restricted	
Cash	\$ 980,635	\$ 1,029,144	\$ 2,009,779
Pledges Receivable (Net)	55,000	754,160	809,160
Prepaid Expenses	80,619	-	80,619
Property and Equipment (Net)	3,580,822	-	3,580,822
TOTAL ASSETS	\$ 4,697,076	\$ 1,783,304	\$ 6,480,380
LIABILITIES AND NET ASSETS			
LIABILITIES:			
Accounts Payable	\$ 307,395	\$ -	\$ 307,395
Accrued Liabilities	42,465	-	42,465
TOTAL LIABILITIES	349,860	-	349,860
NET ASSETS:			
Unrestricted	2,852,216	-	2,852,216
Unrestricted - Board Designated	1,495,000	-	1,495,000
Temporarily Restricted	-	1,783,304	1,783,304
TOTAL NET ASSETS	4,347,216	1,783,304	6,130,520
TOTAL LIABILITIES AND NET ASSETS	\$ 4,697,076	\$ 1,783,304	\$ 6,480,380

The Accompanying Notes are an Integral Part of These Financial Statements

ALTASEA AT THE PORT OF LOS ANGELES

STATEMENT OF ACTIVITIES

Year Ended December 31, 2017

	Unrestricted	Temporarily Restricted	Total
REVENUE, PUBLIC SUPPORT AND OTHER INCOME:			
Grants and Contributions	\$ 731,832	\$ 1,869,160	\$ 2,600,992
Other Income	25,701	-	25,701
Donated Goods, Services and Use of Facilities	390,102	-	390,102
Net Assets Released from:			
Purpose Restrictions	490,856	(490,856)	-
Time Restrictions	10,000	(10,000)	-
TOTAL REVENUE, PUBLIC SUPPORT AND OTHER INCOME	1,648,491	1,368,304	3,016,795
EXPENSES:			
Program Services	1,469,548	-	1,469,548
Supporting Services:			
Management and General	274,701	-	274,701
Development	238,435	-	238,435
TOTAL EXPENSES	1,982,684	-	1,982,684
CHANGE IN NET ASSETS	(334,193)	1,368,304	1,034,111
Net Assets - Beginning of Year	4,681,409	415,000	5,096,409
NET ASSETS - END OF YEAR	\$ 4,347,216	\$ 1,783,304	\$ 6,130,520

The Accompanying Notes are an Integral Part of These Financial Statements

ALTASEA AT THE PORT OF LOS ANGELES

STATEMENT OF FUNCTIONAL EXPENSES

Year Ended December 31, 2017

	Program Services	Management and General	Development	Total
Personnel Services	\$ 427,777	\$ 69,237	\$ 154,231	\$ 651,245
Donated Goods, Services and Use of Facilities	261,388	96,246	-	357,634
Facility and Office Expenses	240,407	31,811	30,591	302,809
Program and Research	284,629	-	-	284,629
Professional Services - Legal, Regulatory and Accounting	83,200	74,023	7,082	164,305
Marketing and Communication	73,070	-	12,895	85,965
Development	21,827	-	17,163	38,990
Special Events	26,617	-	6,654	33,271
Depreciation	19,307	3,218	9,653	32,178
Professional Services - Project Management	30,000	-	-	30,000
Equipment	1,326	166	166	1,658
TOTAL FUNCTIONAL EXPENSES	\$ 1,469,548	\$ 274,701	\$ 238,435	\$ 1,982,684

The Accompanying Notes are an Integral Part of These Financial Statements

ALTASEA AT THE PORT OF LOS ANGELES

STATEMENT OF CASH FLOWS
Year Ended December 31, 2017

CASH FLOWS FROM OPERATING ACTIVITIES:	
Change in Net Assets	\$ 1,034,111
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:	
Depreciation	32,178
(Increase) in:	
Pledges Receivable	(394,160)
Prepaid Expenses	(22,795)
Increase (Decrease) in:	
Accounts Payable	165,907
Accrued Liabilities	(9,752)
	<hr/>
NET CASH PROVIDED BY OPERATING ACTIVITIES	805,489
 CASH FLOWS USED IN INVESTING ACTIVITY:	
Purchase of Property and Equipment	<hr/> (592,225)
NET INCREASE IN CASH	213,264
Cash - Beginning of Year	<hr/> 1,796,515
CASH - END OF YEAR	<hr/> <hr/> \$ 2,009,779

The Accompanying Notes are an Integral Part of These Financial Statements

ALTASEA AT THE PORT OF LOS ANGELES

NOTES TO FINANCIAL STATEMENTS

December 31, 2017

NOTE 1 - NATURE OF ORGANIZATION

AltaSea at the Port of Los Angeles (AltaSea) was incorporated on August 23, 2013 with the mission of accelerating scientific collaboration, facilitating job creation and inspiring the next generation for a more sustainable ocean. Built on a historic pier with access to the deep ocean, AltaSea's 35-acre campus will bring people together to expand science-based understanding of the ocean, incubate and sustain ocean-related business and pioneer new ocean-related education programs.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) BASIS OF PRESENTATION

The accompanying financial statements have been prepared on the accrual basis of accounting.

(b) ACCOUNTING

To ensure observance of certain constraints and restrictions placed on the use of resources, the accounts of AltaSea are maintained in accordance with the principles of net assets accounting. This is the procedure by which resources for various purposes are classified for accounting and reporting purposes into net asset classes that are in accordance with specified activities or objectives. Accordingly, all financial transactions have been recorded and reported by net asset class as follows:

- **Unrestricted.** These generally result from revenues generated by receiving unrestricted contributions, providing services, and receiving income from investments less expenses incurred in providing program related services, raising contributions, and performing administrative functions.
- **Unrestricted - Board Designated.** The Board of Directors has designated funds to be used for the development and construction of Berths 58-60. At December 31, 2017, the Board has designated \$1,495,000 of unrestricted net assets for this purpose.
- **Temporarily Restricted.** AltaSea reports gifts of cash and other assets as temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or the purpose of the restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from purpose or time restrictions. AltaSea had \$1,783,304 of temporarily restricted net assets at December 31, 2017.
- **Permanently Restricted.** These net assets are received from donors who stipulate that resources are to be maintained permanently, but permit AltaSea to expend all of the income (or other economic benefits) derived from the donated assets. AltaSea had no permanently restricted net assets at December 31, 2017.

ALTASEA AT THE PORT OF LOS ANGELES

NOTES TO FINANCIAL STATEMENTS

December 31, 2017

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) CASH

AltaSea maintains its cash in bank deposit accounts, which, at times, may exceed federally insured limits. AltaSea has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash.

(d) GRANTS, CONTRIBUTIONS AND PLEDGES RECEIVABLE

Unconditional grants and contributions, including pledges recorded at fair value, are recognized as revenues in the period received. AltaSea reports unconditional grants and contributions as restricted support if they are received with donor stipulations that limit the use of the donated assets. Conditional promises to give are not included as revenue until such time as the conditions are substantially met. Management evaluated the collectability of pledges receivable at December 31, 2017 and no allowance for doubtful pledges was considered necessary.

Contributions of donated non-cash assets are recorded at fair value in the period received. Contributions of donated services are recognized if the services received (a) create or enhance long-lived assets, or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. For the year ended December 31, 2017, AltaSea recorded in-kind contributions of \$390,102 as shown on the statement of activities.

(e) PROPERTY AND EQUIPMENT

Property and equipment are recorded at cost if purchased or at fair value at the date of donation if donated. Depreciation is provided on a straight-line basis over the estimated useful lives of the related assets as follows:

Leasehold Improvements	Lease Term
Office Equipment	5 - Years
Vehicles	7 - Years

Property and equipment are capitalized if the cost of an asset is greater than \$5,000 and the useful life is at least three years. Expenditures for repairs and maintenance are charged to operations when incurred while renewals and betterments are capitalized.

(f) LONG-LIVED ASSETS

AltaSea reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the book value of the assets may not be recoverable. An impairment loss is recognized when the sum of the undiscounted future cash flows is less than the carrying amount of the asset, in which case a write-down is recorded to reduce the related asset to its estimated fair value. No impairment losses were recognized on long-lived assets during the year ended December 31, 2017.

(g) INCOME TAXES

AltaSea is exempt from federal taxation under Internal Revenue Code Section 501(c)(3) and the corresponding California provisions.

ALTASEA AT THE PORT OF LOS ANGELES

NOTES TO FINANCIAL STATEMENTS

December 31, 2017

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) FUNCTIONAL ALLOCATION OF EXPENSES

AltaSea's costs are accumulated into separate groupings as either direct or indirect. Indirect or shared costs are allocated among program and support services by a method that best measures the relative degree of benefit.

(i) USE OF ESTIMATES

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

(j) NEW ACCOUNTING PRONOUNCEMENTS

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-02, *Leases*, which is intended to improve financial reporting about leasing transactions. The new standard will require organizations that lease assets with terms of more than 12 months to recognize on the consolidated statement of financial position the assets and liabilities for the rights and obligations created by those leases. The ASU also will require disclosures to help consolidated financial statement users better understand the amount, timing, and uncertainty of cash flows arising from leases. These disclosures include qualitative and quantitative requirements and providing additional information about the amounts recorded in the financial statements. For AltaSea, the ASU will be effective for the year ending December 31, 2020.

In August 2016, the FASB issued ASU No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities (Topic 958)*, which is intended to reduce complexity in financial reporting. The ASU focuses on improving the current net asset classification requirements and information presented in consolidated financial statements that is useful in assessing a nonprofit's liquidity, financial performance, and cash flows. For AltaSea, the ASU will be effective for the year ending December 31, 2018.

(k) SUBSEQUENT EVENTS

AltaSea has evaluated events and transactions occurring subsequent to the statement of financial position date of December 31, 2017 for items that should potentially be recognized or disclosed in these financial statements. The evaluation was conducted through May 15, 2018, the date these financial statements were available to be issued. No such material events or transactions were noted to have occurred.

ALTASEA AT THE PORT OF LOS ANGELES

NOTES TO FINANCIAL STATEMENTS

December 31, 2017

NOTE 3 - PLEDGES RECEIVABLE

Pledges receivable (net) at December 31, 2017 are due to be received as follows:

Less than One Year	\$ 615,000
One to Five Years	<u>200,000</u>
TOTAL	815,000
Less: Discount at 2%	<u>(5,840)</u>
PLEDGES RECEIVABLE (NET)	<u>\$ 809,160</u>

NOTE 4 - PROPERTY AND EQUIPMENT

Property and equipment consist of the following at December 31, 2017:

Leasehold Improvements	\$ 133,809
Office Equipment	109,904
Vehicles	20,189
Construction in Progress (Phase 1)	2,779,114
Construction in Progress (Interim Use)	484,155
Construction in Progress (Business Hub)	<u>142,637</u>
TOTAL	3,669,808
Less: Accumulated Depreciation	<u>(88,986)</u>
PROPERTY AND EQUIPMENT (NET)	<u>\$ 3,580,822</u>

Depreciation expense for the year ended December 31, 2017 was \$32,178.

Due to the project's size and scope, the AltaSea campus is proposed to be constructed in three phases. Phase 1 is scheduled to be completed by the end of 2023. Phase 1 is comprised of three parts: Phase 1A, 1B and 1C. Phase 1A will include a restoration of warehouses 58-60, an education pavilion, wharf plaza and upgrade of the north façade of warehouse 57. Warehouses 58-60 will contain the sustainable aquaculture and blue tech clusters. The sustainable aquaculture cluster will be at the forefront of developing ocean related solutions and environmental sustainability. The blue tech cluster's emphasis is developing technology for remote monitoring, sensing and ocean exploration. Phase 1B is a full restoration of warehouse 57 (science center) and the realignment of Leonard Aube Way. Phase 1C is the construction of the Engagement Center which will feature an auditorium and strengthen STEM education.

NOTE 5 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets at December 31, 2017 are restricted as follows:

Education	\$ 394,160
Berths 58 - 60	1,379,144
Time Restrictions	<u>10,000</u>
TOTAL TEMPORARILY RESTRICTED NET ASSETS	<u>\$ 1,783,304</u>

ALTASEA AT THE PORT OF LOS ANGELES

NOTES TO FINANCIAL STATEMENTS

December 31, 2017

NOTE 6 - COMMITMENTS AND CONTINGENCIES

(a) OBLIGATIONS UNDER LEASE WITH THE CITY OF LOS ANGELES

In October 2014 Rockefeller Philanthropy Advisors, Inc. assigned its interest in a lease with the City of Los Angeles to AltaSea. The lease was entered into with respect to premises at the Port of Los Angeles for the purpose of developing and operating an urban marine center known as AltaSea at the Port of Los Angeles. The maximum term of the lease is 50 years, through December 2063.

The total acreage of the premises is 34.75 acres - 23.13 acres of land/wharf/warehouse and 11 acres of water. The premises subject to the lease agreement consist of various parcels that AltaSea is entitled to take possession of over a period of time, upon the satisfaction of various obligations, conditions and timelines outlined in the lease agreement.

In terms of the amended and restated lease with the Port of Los Angeles dated August 23, 2017, AltaSea is required to invest the following minimum amounts to develop, construct and improve the premises:

Premises	Required Minimum Investment
Interpretive Center, Public Promenade and Other Public Spaces	\$ 50,300,000
Redevelopment of Certain Transit Shed Warehouses, Development of a Public Promenade, a Public Viewing Area and Other Public Spaces	54,600,000
Future Project Development and Public Sidewalks	<u>196,000,000</u>
TOTAL	<u><u>\$ 300,900,000</u></u>

No later than December 2023, AltaSea is required to establish and maintain a reserve fund to provide funding for the revitalization, renovation and upgrading of the publicly accessible and viewable areas and structures at various intervals over the term of the lease. Annual deposits into the renovation fund will be required, initially at the lesser of 2% of gross receipts (as defined in the lease agreement) or \$100,000, with the maximum annual deposit increasing to \$150,000 and then \$200,000 as various parcels are acquired.

The minimum annual rent is dependent on AltaSea taking possession of parcels in accordance with the lease agreement and on AltaSea's provision of certain non-monetary services and public benefits, as outlined in the lease agreement.

(b) OBLIGATIONS UNDER OFFICE LEASE

In February 2015 AltaSea consented to the assignment by Rockefeller Philanthropy Advisors, Inc. of a long-term non-cancelable operating lease for office space that expires in August 2021. The lease contains provisions for a base rent, subject to fixed escalation, plus reimbursement for certain operating expenses. Rent expense for the year ended December 31, 2017 was \$172,151.

ALTASEA AT THE PORT OF LOS ANGELES

NOTES TO FINANCIAL STATEMENTS

December 31, 2017

NOTE 6 - COMMITMENTS AND CONTINGENCIES (continued)

(b) OBLIGATIONS UNDER OFFICE LEASE (continued)

At December 31, 2017, minimum future rental payments on the lease are as follows:

Years Ending December 31

2018	\$	147,140
2019		151,311
2020		155,903
2021		<u>105,341</u>
TOTAL	\$	<u>559,695</u>

(c) OPERATING SUBLEASES

AltaSea entered into sublease agreements with unrelated parties to sublease its office space. The sublease agreements grant the subtenants access to a portion of the office space leased by AltaSea. Pursuant to the terms of the subleases, AltaSea receives monthly rental payments that commenced at various dates during the year ended December 31, 2017. The subleases have expiration dates that extend through August 2021. Sublease income from the agreements for the year ended December 31, 2017 was \$22,606 and is included in other income in the statement of activities.

The following is a schedule by year of the approximate future minimum rental receipts under the agreements as of December 31, 2017:

Years Ending December 31

2018	\$	27,500
2019		30,900
2020		31,830
2021		<u>32,900</u>
TOTAL	\$	<u>123,130</u>