



**SEWARD ASSOCIATION FOR THE
ADVANCEMENT OF MARINE SCIENCE**

Financial Statements

September 30, 2019 and 2018

(With Independent Auditors' Report Thereon)

**SEWARD ASSOCIATION FOR THE
ADVANCEMENT OF MARINE SCIENCE**

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KPMG LLP
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Independent Auditors' Report

The Board of Directors
Seward Association for the Advancement of Marine Science:

Report on the Financial Statements

We have audited the accompanying financial statements of Seward Association for the Advancement of Marine Science (SAAMS), which comprise the statements of financial position as of September 30, 2019 and 2018, and the related statements of activities, functional expenses, and cash flows for the years 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 U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our 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 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 auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the 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 SAAMS as of September 30, 2019 and 2018, and the changes in its financial position and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.



Emphasis of Matters

As discussed in Note 1(m) to the financial statements, in 2019, the SAAMS adopted on a retrospective basis ASU 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to this matter.

The accompanying financial statements have been prepared assuming that SAAMS will continue as a going concern. As discussed in Note 14 to the financial statements, SAAMS has been experiencing a significant decrease in revenues as a result of the COVID-19 pandemic and has stated that substantial doubt exists about its ability to continue as a going concern. Management's evaluation of the events and conditions and management's plans regarding these matters are also described in Note 14. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 2, 2020 on our consideration of SAAMS'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 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 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 SAAMS's internal control over financial reporting and compliance.

KPMG LLP

September 2, 2020

**SEWARD ASSOCIATION FOR THE
ADVANCEMENT OF MARINE SCIENCE**

Statements of Financial Position

September 30, 2019 and 2018

Assets	2019	2018 <i>as adjusted</i>
Current assets:		
Cash and cash equivalents	\$ 620,915	1,191,316
Cash restricted by the City of Seward (note 2)	1,389,199	1,567,562
Receivables, net (note 3)	605,196	632,230
Prepaid expenses	101,961	88,070
Inventory	109,518	91,582
Total current assets	2,826,789	3,570,760
501 Trust unemployment tax reserve	39,686	199,686
Beneficial interest in assets held by Alaska Community Foundation	441,749	430,475
Unconditional promise to give, pledge for the use of land and building (note 4)	28,237,014	28,988,571
Facilities and equipment, net (note 5)	8,872,107	9,453,000
Total assets	\$ 40,417,345	42,642,492
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued expenses	\$ 469,571	761,595
Accrued salaries and related taxes payable	328,779	274,009
Deferred revenue	1,176,362	1,552,751
Total current liabilities	1,974,712	2,588,355
501 Trust unemployment tax reserve	196,513	199,686
Total liabilities	2,171,225	2,788,041
Net assets:		
Without donor restrictions	10,009,106	10,865,879
With donor restrictions (note 7)	28,237,014	28,988,572
Total net assets	38,246,120	39,854,451
Commitments and contingencies (notes 2, 10, 11, 12, and 13)		
Total liabilities and net assets	\$ 40,417,345	42,642,492

See accompanying notes to financial statements.

**SEWARD ASSOCIATION FOR THE
ADVANCEMENT OF MARINE SCIENCE**

Statements of Activities

Years ended September 30, 2019 and 2018

	2019			2018		
	Unrestricted	Temporarily restricted	Total	Unrestricted, as adjusted	Temporarily restricted, as adjusted	Total
Support and revenues:						
Membership and gate entry fees, net	\$ 3,269,050	—	3,269,050	2,872,516	—	2,872,516
Retail sales, net	168,379	—	168,379	177,965	—	177,965
Education programs	211,482	—	211,482	242,253	—	242,253
Grants:						
Federal	1,576,418	—	1,576,418	1,578,873	124,019	1,702,892
State	—	—	—	55,949	—	55,949
Other	373,710	—	373,710	314,310	—	314,310
North Pacific Marine Research Institute	289,484	—	289,484	34,710	—	34,710
Contracts	199,886	—	199,886	121,247	—	121,247
Donations	1,185,564	—	1,185,564	1,100,559	—	1,100,559
Investment and interest income	15,820	—	15,820	15,140	—	15,140
Fiscal agent fees (note 14)	515,135	—	515,135	543,370	—	543,370
Other	118,765	—	118,765	87,634	—	87,634
Net assets released from restriction (note 8)	751,558	(751,558)	—	826,409	(826,409)	—
Total support and revenues	8,675,251	(751,558)	7,923,693	7,970,935	(702,390)	7,268,545
Expenses:						
Program:						
Research	1,240,782	—	1,240,782	1,235,148	—	1,235,148
Stranding	616,328	—	616,328	709,797	—	709,797
Education	490,387	—	490,387	389,757	—	389,757
North Pacific Marine Research Institute	289,484	—	289,484	26,710	—	26,710
Total program expenses	2,636,981	—	2,636,981	2,361,412	—	2,361,412
Support services:						
Front of the house	458,679	—	458,679	703,784	—	703,784
Fundraising	594,805	—	594,805	378,508	—	378,508
Facilities	3,394,620	—	3,394,620	3,393,444	—	3,393,444
Husbandry	1,354,157	—	1,354,157	1,296,927	—	1,296,927
Administrative	1,092,782	—	1,092,782	984,608	—	984,608
Total expenses	9,532,024	—	9,532,024	9,118,683	—	9,118,683
Change in net assets	(856,773)	(751,558)	(1,608,331)	(1,147,748)	(702,390)	(1,850,138)
Net assets at beginning of year, as adjusted	10,865,879	28,988,572	39,854,451	12,013,627	29,690,962	41,704,589
Net assets at end of year	\$ 10,009,106	28,237,014	38,246,120	10,865,879	28,988,572	39,854,451

See accompanying notes to financial statements.

**SEWARD ASSOCIATION FOR THE
ADVANCEMENT OF MARINE SCIENCE**

Statement of Functional Expenses

Year ended September 30, 2019

	<u>Research</u>	<u>Stranding</u>	<u>Education</u>	<u>Research Institute</u>	<u>Front of the house</u>	<u>Fundraising</u>	<u>Facilities</u>	<u>Husbandry</u>	<u>Administrative</u>	<u>Total</u>
Salaries and wages	\$ 490,661	273,573	188,801	—	205,582	251,187	506,650	719,122	671,724	3,307,300
Fringe benefits	227,166	124,389	132,530	—	80,632	81,186	241,509	369,783	225,921	1,483,116
Contractual and outside services	300,448	45,626	47,029	289,484	34,770	142,360	125,174	21,668	125,923	1,132,482
Depreciation	—	—	—	—	—	—	653,499	—	—	653,499
Contributed occupancy costs	—	—	—	—	—	—	751,558	—	—	751,558
Utilities	397	—	—	—	—	—	636,224	—	—	636,621
Supplies, computer, and copying	128,808	110,457	70,479	—	35,843	13,429	140,247	171,835	14,787	685,885
Insurance	577	—	—	—	—	—	287,234	248	—	288,059
Travel	58,891	45,142	23,054	—	6,078	13,986	(1,819)	7,261	15,484	168,077
Miscellaneous	10,502	5,913	22,129	—	3,922	16,339	6,894	27,222	12,810	105,731
Bank and credit card fees	2	782	—	—	77,310	7,241	45	17	6,467	91,864
Advertising	716	958	138	—	2,305	57,895	709	1,753	2,300	66,774
Rent	17,870	5,307	4,576	—	10,856	—	3,787	26,406	—	68,802
Phone and internet	71	348	199	—	—	320	37,687	3,900	1,555	44,080
Postage and freight	4,673	3,833	1,452	—	1,381	10,862	3,622	4,942	15,811	46,576
Equipment rental	—	—	—	—	—	—	1,600	—	—	1,600
	<u>\$ 1,240,782</u>	<u>616,328</u>	<u>490,387</u>	<u>289,484</u>	<u>458,679</u>	<u>594,805</u>	<u>3,394,620</u>	<u>1,354,157</u>	<u>1,092,782</u>	<u>9,532,024</u>

See accompanying independent auditors' report.

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Statement of Functional Expenses

Year ended September 30, 2018

	<u>Research</u>	<u>Stranding</u>	<u>Education</u>	<u>Research Institute</u>	<u>Front of the house</u>	<u>Fundraising</u>	<u>Facilities</u>	<u>Husbandry</u>	<u>Administrative</u>	<u>Total</u>
Salaries and wages	\$ 557,984	318,615	190,851	—	337,697	114,187	580,959	682,757	590,531	3,373,581
Fringe benefits	267,556	136,348	89,781	—	129,691	50,987	246,832	340,967	189,981	1,452,143
Contractual and outside services	255,500	47,247	21,728	26,710	31,435	153,803	121,153	19,708	130,501	807,785
Depreciation	—	—	—	—	—	—	735,051	—	—	735,051
Contributed occupancy costs	—	—	—	—	—	—	702,391	—	—	702,391
Utilities	—	—	—	—	—	—	651,619	—	—	651,619
Supplies, computer, and copying	89,665	114,590	13,992	—	66,911	19,198	156,679	178,277	12,044	651,356
Insurance	—	—	—	—	—	—	283,826	238	—	284,064
Travel	49,408	62,138	31,715	—	8,779	14,181	2,838	7,223	21,619	197,901
Miscellaneous	7,828	8,541	29,851	—	5,468	9,779	21,451	23,514	23,893	130,325
Bank and credit card fees	395	403	—	—	70,226	8,090	—	22	4,796	83,932
Advertising	876	3,286	5,146	—	44,634	215	2,249	6,621	4,753	67,780
Rent	4,523	12,418	4,750	—	7,934	—	9,654	25,309	—	64,588
Phone and internet	183	562	302	—	424	166	31,242	5,250	2,142	40,271
Postage and freight	980	5,649	1,391	—	585	7,902	6,868	6,928	2,423	32,726
Equipment rental	250	—	250	—	—	—	4,319	113	1,925	6,857
Interest expense	—	—	—	—	—	—	1,701	—	—	1,701
Gain on sale of facilities	—	—	—	—	—	—	(165,388)	—	—	(165,388)
	<u>\$ 1,235,148</u>	<u>709,797</u>	<u>389,757</u>	<u>26,710</u>	<u>703,784</u>	<u>378,508</u>	<u>3,393,444</u>	<u>1,296,927</u>	<u>984,608</u>	<u>9,118,683</u>

See accompanying independent auditors' report.

**SEWARD ASSOCIATION FOR THE
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Statements of Cash Flows

Years ended September 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Cash flows from operating activities:		
Change in net assets	\$ (1,608,331)	(1,850,138)
Reconciliation of change in net assets to net cash used in operating activities:		
Depreciation	653,499	735,051
Contributed occupancy costs	751,558	702,391
Grant revenues restricted to purchase of equipment and facilities	—	(124,019)
Gain on endowment held by Alaska Community Foundation	(11,274)	(13,073)
Gain on sale of facilities	—	(165,388)
Bad debt expense	—	—
Changes in assets and liabilities that provided (used) cash:		
Receivables	27,034	388,971
Inventory	(17,936)	(38,030)
Prepaid expenses	(13,891)	(40,005)
Accounts payable	(292,024)	315,120
Accrued salaries and related taxes payable	54,770	(126,774)
Deferred revenue	(376,389)	2,012
Unemployment tax reserve	156,827	(25,378)
Net cash used in operating activities	<u>(676,157)</u>	<u>(239,260)</u>
Cash flows from investing activities:		
Transfer to Alaska Community Foundation	—	(404,248)
Proceeds from sale of facilities and equipment	—	393,008
Purchase of facilities and equipment	(72,607)	(19,328)
Change in restricted cash and investments	178,363	(124,469)
Net cash provided by (used in) investing activities	<u>105,756</u>	<u>(155,037)</u>
Cash flows from financing activities:		
Payments on notes payable	—	(82,218)
Grant revenues restricted to purchase of equipment and facilities	—	124,019
Net cash provided by financing activities	<u>—</u>	<u>41,801</u>
Net decrease in cash and cash equivalents	(570,401)	(352,496)
Cash and cash equivalents at beginning of year	1,191,316	1,543,812
Cash and cash equivalents at end of year	<u>\$ 620,915</u>	<u>1,191,316</u>
Supplemental disclosure of cash flow information:		
Interest paid	\$ —	1,701

See accompanying notes to financial statements.

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Notes to Financial Statements

September 30, 2019 and 2018

(1) Summary of Significant Accounting Policies

(a) Operations

Seward Association for the Advancement of Marine Science (SAAMS) was incorporated in February 1990. The primary goal of the organization is to operate the Alaska SeaLife Center (ASLC), a world-class cold water marine research and rehabilitation facility. The ASLC's mission is dedicated to generating and sharing scientific knowledge to promote understanding and stewardship of Alaska's marine ecosystems. Construction of the facility commenced during 1995 and the ASLC opened for operations on May 12, 1998.

The primary financial resources for operations are research grants, donations, and visitor-related revenues. Resources for construction were provided by grants from the State of Alaska and various federal agencies and fundraising, as well as proceeds of revenue bonds loaned to SAAMS by the City of Seward (City).

(b) Use of Estimates

In order to prepare the financial statements, management has made a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities as of the date of the financial statements, as well as support, revenues, and expenses for the reporting period. Actual results could differ from those estimates.

(c) Basis of Presentation

The financial statements are prepared using the accrual basis of accounting. The financial statements report net assets and changes in net assets in two classes that are based upon the existence or absence of restrictions on use that are placed by its donors, as follows:

(i) Without Donor Restrictions

Net assets without donor restrictions represent resources that are not subject to donor-restrictions and over which the board of directors of SAAMS retain control to use the funds in order to achieve SAAMS' purpose.

(ii) With Donor Restrictions

Net assets with donor restrictions represent resources subject to donor-imposed restrictions. Donor-imposed restrictions are temporary in nature, such as those that are restricted by the donor for a particular purpose and that will be met by the passage of time or over events specified by the donor. Revenues associated with these resources are earned when SAAMS undertakes the necessary action or other restrictions are met. When a donor restriction expires, that is, when a stipulated time restriction ends or a 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 restriction.

(d) Cash and Cash Equivalents

Cash and cash equivalents consist of monies in checking and savings accounts and other highly liquid investments with original maturities of 90 days or less at purchase.

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(e) Liquidity

Cash and cash equivalents, receivables, and beneficial interest in assets held by Alaska Community Foundation are the primary liquid resources available for SAAMS to meet expected expenditure needs within the next year.

(f) Inventory

Inventory is stated at the lower of weighted average cost or market.

(g) Facilities and Equipment

Facilities and equipment are recorded at cost. Facilities and equipment are funded from grant-funded temporarily restricted resources and from unrestricted resources, including donations and bond proceeds. Depreciation of facilities and equipment is provided over the estimated useful lives of the assets, ranging from 2 to 40 years, using the straight-line method.

(h) Deferred Revenue

Deferred revenue consists of grants and conditional contributions received, but not yet earned.

(i) Support and Revenues

Contributions restricted by the donor, grantor, or other outside parties with imposed conditions are deemed to be earned and reported as revenues when SAAMS has incurred costs in compliance with the specific conditions. Such amounts received but not earned are reported as deferred revenue. When support with donor restrictions is used to purchase facilities and equipment, the support is reclassified to net assets without donor restrictions upon placing the facilities and equipment in service. Contributions whose restrictions are met in the same reporting period as the contribution is received are reported as unrestricted.

Cost reimbursable grants and contracts are recognized as support and revenues to the extent of allowable expenses and additions to facilities and equipment in the period in which the expenses or additions to facilities and equipment were incurred. Nonreimbursable contract revenues are recognized based on specific terms of the contract.

Unconditional pledges are recognized as support and revenue in the period the pledge is made by the donor. Pledges to be received within one year or less are recognized as unrestricted support and revenue. Pledges to be received beyond one year are discounted to their present value.

(j) Fundraising

Fundraising costs, including the costs of special events and direct response campaigns, are expensed as incurred.

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Notes to Financial Statements

September 30, 2019 and 2018

(k) Allocation of Functional Expenses

Financial Accounting Standards Board's (FASB's) issuance of Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities* (Topic 958): *Presentation of Financial Statements of Not-for-Profit Entities*, now requires the presentation of the relationship between functional expenses (such as major classes of program services and supporting activities) and natural expenses (such as salaries, rent, electricity, supplies, interest, and depreciation). The Statements of Activities report in the attached financial statements groups certain of SAAMS' expenses into functional categories (such as Research, Stranding, and Education) and bifurcates other expenses into support services (Husbandry, Fundraising, Facilities, Front of House, and Administrative). Actual direct staff expenses are tracked hourly with biweekly time-cards and collected by project consistent with the Schedule of Expenditures of Federal Awards for grant funded and house funded projects. Functional expense categories are defined by subaccounts, not by projects, across all major types of expenses. For example, non-payroll expenses (such as supplies, travel, phone, etc.) are collected and charged individually by usage across each department rolling up the reported levels in the statement of activities report. House funded projects track internal time and include non-payroll costs which are also tracked by major department groupings. For example, fundraising time and costs are also tracked and reported separately. Costs such as human resources, payroll, accounts payable, budgeting, finance, IT, and general oversight or business management activities are treated as general activities and would not be allocated to other specific front-line projects. These other non-project allocated costs are included in Administrative. Major fixed assets and depreciation are also tracked by department and function. SAAMS has used this detailed functional project allocation methodology for years consistently over multiple reporting periods given the large number of staff involved in operations supporting specific tracking by Federal Grant funded projects.

(l) Income Taxes

SAAMS is a nonprofit charitable organization exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code, except for taxes on unrelated business income. Unrelated business income historically was generated mainly through rental of a property to an unrelated party. The rental property was sold during the year ending September 30, 2018, and there is no unrelated business income for the year ended September 30, 2019.

SAAMS recognizes the effect of income tax positions only if these positions are more likely than not of being sustained. There are no unrecognized income tax positions as of September 30, 2019.

(m) Recently Issued Accounting Standards

In August 2016, the FASB issued ASU 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities* (Topic 958). ASU 2016-14 was issued to improve the current net asset classification requirements and the information presented in financial statements and notes about a not-for-profit entity's liquidity, financial performance, and cash flows. SAAMS has adopted ASU 2016-14 as of

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Notes to Financial Statements

September 30, 2019 and 2018

October 1, 2018. The 2018 financial statements have been modified to conform to the presentation requirements of ASU 2016-14 as follows:

	<u>As previously reported</u>	<u>Adjustment</u>	<u>As adjusted</u>
Net assets released from restriction	\$ 1,086,391	(259,982)	826,409
Net assets at beginning of year:			
Without donor restrictions	9,066,595	2,947,032	12,013,627
With donor restrictions	32,637,994	(2,947,032)	29,690,962
Net assets at end of year:			
Without donor restrictions	8,178,829	2,687,050	10,865,879
With donor restrictions	31,675,622	(2,687,050)	28,988,572

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows* (Topic 230). ASU 2016-18 was issued to provide guidance on the presentation of restricted cash or restricted cash equivalents in the statement of cash flows. SAAMS is required to adopt ASU 2016-18 for fiscal years beginning after December 15, 2018 and is evaluating the effects that the new standard will have on the consolidated financial statements.

In June 2018, the FASB issued ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, which is intended to clarify and improve the scope and the accounting guidance for contributions received and contributions made. The amendments in this update should assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of ASC Topic 958, *Not-for-Profit Entities*, or as exchange (reciprocal) transactions subject to Topic 606 and (2) determining whether a contribution is conditional. The amendments in this update are to be applied on a modified prospective basis and are effective for SAAMS' fiscal year beginning October 1, 2019. Early adoption is permitted. SAAMS has evaluated the extent of the anticipated impact of the adoption of ASU 2018-08. The adoption of ASU No. 2018-08 will not have a significant impact on the SAAMS' financial statements.

(2) Restricted Cash

Under the ASLC lease agreement with the City, SAAMS is required to maintain cash reserves in a separate fund of \$1,389,199 and \$1,567,562 at September 30, 2019 and 2018, respectively, with a pause to the annual escalations for four years and then annual escalations of 2% thereafter. Under the lease agreement, the Renewal and Replacement Fund Requirement reserves were \$598,458 and \$626,817, and the Termination Fund Requirement reserves were \$790,741 and \$940,741 at September 30, 2019 and 2018, respectively.

(3) Receivables

Receivables are principally reimbursable grant expenditures and pledges. Doubtful accounts are reserved based on specific identification when disputes arise.

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Notes to Financial Statements

September 30, 2019 and 2018

Receivables consist of the following:

	<u>2019</u>	<u>2018</u>
Grants	\$ 391,273	416,231
Pledges	32,105	71,566
Front of house	71,822	47,373
Other	109,996	97,060
	<u>\$ 605,196</u>	<u>632,230</u>

(4) Unconditional Promise to Give, Pledge for the Use of Land and Building

On April 28, 1996, SAAMS entered into an agreement with the City for the financing, lease, construction, operation, and maintenance of the ASLC. The City owns the ASLC and the property on which it is located. The City used State of Alaska grants for the partial construction of the ASLC. The term of the lease runs through the practical life of the project but no longer than 50 years. Annual rent payable to the City is \$1 per year.

The total contributions toward the land and building were \$37,035,781 at both September 30, 2019 and 2018, and are being amortized over the term of the lease agreement, net of a 7% discount, which was estimated to represent the fair value of the lease payments at lease inception. Accumulated amortization at September 30, 2019 and 2018 was \$8,049,220 and \$8,005,029, respectively.

Net amortization of the contribution was as follows:

	<u>2019</u>	<u>2018</u>
Contributed use of facility	\$ 2,780,758	2,780,758
Less interest income	<u>(2,029,200)</u>	<u>(2,078,367)</u>
Net contributed occupancy cost	<u>\$ 751,558</u>	<u>702,391</u>

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Notes to Financial Statements

September 30, 2019 and 2018

The related unconditional promise to give, pledge for the use of land and building, represents the City's remaining commitment to the lease. The contributed use of facility will be recognized as follows:

	<u>Contributed use of facility</u>	<u>Less interest income</u>	<u>Net contributed occupancy cost</u>
One year or less	\$ 2,780,758	1,976,591	804,167
Two to five years	11,123,033	7,302,644	3,820,389
More than five years	37,108,690	13,496,232	<u>23,612,458</u>
			\$ <u><u>28,237,014</u></u>

(5) Facilities and Equipment

Facilities and equipment, which have been funded by both temporarily restricted and unrestricted resources, were as follows:

	<u>2019</u>		
	<u>Funded by resources</u>		
	<u>With donor restrictions</u>	<u>Without donor restrictions</u>	<u>Total</u>
Land	\$ —	764,263	764,263
Building	3,246,048	12,327,435	15,573,483
Exhibits	1,562,954	1,434,193	2,997,147
Furniture and equipment	3,298,545	1,695,368	4,993,913
Vehicles	<u>50,073</u>	<u>70,693</u>	<u>120,766</u>
	8,157,620	16,291,952	24,449,572
Less accumulated depreciation	<u>(5,561,200)</u>	<u>(10,016,265)</u>	<u>(15,577,465)</u>
	\$ <u><u>2,596,420</u></u>	<u><u>6,275,687</u></u>	<u><u>8,872,107</u></u>

**SEWARD ASSOCIATION FOR THE
ADVANCEMENT OF MARINE SCIENCE**

Notes to Financial Statements

September 30, 2019 and 2018

2018			
Funded by resources			
	With donor restrictions	Without donor restrictions	Total
Land	\$ —	764,263	764,263
Building	3,246,048	12,369,615	15,615,663
Exhibits	1,547,754	1,434,193	2,981,947
Furniture and equipment	3,226,769	1,674,086	4,900,855
Vehicles	43,545	70,693	114,238
	8,064,116	16,312,850	24,376,966
Less accumulated depreciation	(5,377,065)	(9,546,901)	(14,923,966)
	<u>\$ 2,687,051</u>	<u>6,765,949</u>	<u>9,453,000</u>

(6) Net Assets with Donor Restrictions, as adjusted

Net assets with donor restrictions consist of the following:

	2019	2018
City of Seward lease contribution (note 4)	\$ 28,237,014	28,988,572

(7) Net Assets Released from Restriction, as adjusted

Net assets were released from restriction by incurring expenses satisfying the restricted purpose or by occurrence of other events specified by donors.

Net assets released from restriction were as follows:

	2019	2018
Contributed occupancy costs (note 4)	\$ 751,558	702,391
Restricted support used to acquire facilities and equipment	—	124,018
	<u>\$ 751,558</u>	<u>826,409</u>

**SEWARD ASSOCIATION FOR THE
ADVANCEMENT OF MARINE SCIENCE**

Notes to Financial Statements

September 30, 2019 and 2018

(8) Beneficial Interest in Assets Held by Alaska Community Foundation

In December 2014, SAAMS entered into an agreement with the Alaska Community Foundation (Foundation) to manage assets transferred from SAAMS. The Foundation established the Alaska SeaLife Center Endowment Fund of the Alaska Community Foundation. The agreement states that transfers to the Foundation are irrevocable and that the transferred assets will not be returned to SAAMS except under limited circumstances. The agreement also permits the Foundation to substitute another beneficiary in the place of SAAMS if SAAMS ceases to exist or if the board of the Foundation votes that support of SAAMS is no longer necessary or is inconsistent with the needs of the community. Investment returns can be appropriated for support of SAAMS operations.

Changes in the beneficial interest in the Foundation and related unrestricted net assets for the years ended September 30, 2019 and 2018 were as follows:

	<u>2019</u>	<u>2018</u>
Beneficial interest, beginning of year	\$ 430,475	13,155
Interest and dividend income	8,607	1,532
Net realized and unrealized investment gains	<u>6,426</u>	<u>12,528</u>
Investment returns	445,508	27,215
Transfers	46	404,248
Administrative and management fees	<u>(3,805)</u>	<u>(988)</u>
Beneficial interest, end of year	<u>\$ 441,749</u>	<u>430,475</u>

As of September 30, 2019, SAAMS has cumulative investment returns, net of fees, of \$25,500 available for appropriation.

(9) Operating Lease

SAAMS leases certain property and equipment under various operating leases. Rental expense was \$68,801 and \$61,740 for the years ended September 30, 2019 and 2018, respectively. Future minimum payments under noncancelable operating leases are \$20,619 for the year ending September 30, 2020.

(10) Defined Contribution Plan

SAAMS participates in a qualified defined contribution 401(k) retirement plan. There were no contributions charged to expense during the years ended September 30, 2019 and 2018.

**SEWARD ASSOCIATION FOR THE
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Notes to Financial Statements

September 30, 2019 and 2018

(11) Contingencies

(a) Legal Matters

In the ordinary course of business, SAAMS may be involved in various claims and disputes. Management believes that none of these matters will have an adverse impact on the financial condition of SAAMS.

(b) Cyber Incident

In October 2019, SAAMS was a victim of a ransomware attack which resulted in data loss. The attack was contained and resolved without material impact to the financial statements.

(c) Grants and Contracts

Amounts received or receivable from State of Alaska or federal agencies are subject to audit and adjustment by the grantor agencies. Any disallowed claims, including amounts already collected, could become a liability of SAAMS. In management's opinion, the amount that might be disallowed, if any, will not have a material effect on the financial statements.

(12) Concentration of Revenue

Federal grants have accounted for approximately 20% and 23% of revenue for fiscal years 2019 and 2018, respectively. SAAMS is highly dependent on grant revenues and any significant decline in this revenue could have a material adverse effect on the organization.

(13) Related Parties

SAAMS provides accounting services and acts as the fiscal agent for the North Pacific Research Board (NPRB) and Alaska Ocean Observing System (AOOS). Fiscal agent fees totaled \$279,600 and \$273,370 from NPRB for the years ended September 30, 2019 and 2018, respectively. Fiscal agent fees totaled \$235,535 and \$185,402 for AOOS for the years ended September 30, 2019 and 2018, respectively.

(14) Subsequent Events

In connection with the preparation of the financial statements, SAAMS evaluated subsequent events after the statement of financial position date of September 30, 2019 through September 2, 2020, which was the date the financial statements were available to be issued.

**SEWARD ASSOCIATION FOR THE
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Notes to Financial Statements

September 30, 2019 and 2018

In 2020, the spread of the novel coronavirus has caused cruise ship cancellations and business disruption in Seward, the State of Alaska, the United States, and throughout the world, and even impacted oil prices and fishing activities in Alaska. While the disruption is currently expected to be temporary, there is considerable uncertainty around the duration of this global pandemic until a vaccine is developed or until the virus runs its course. The Alaska SeaLife Center is now open (closed March 16 to May 19, 2020) and attendance and revenues in the summer of 2020 are running 64% below normal. The revenue gap to date has been replaced with over \$2.3 million dollars of July and August fundraising (received by August 31st) and a commitment of an additional \$500,000 from the City and other pledges of \$1.16 million in September and October 2020. As of August 31, 2020, our required fiscal year-end 2020 reserve accounts balances were both at required levels. The Renewal and Replacement Fund was \$671,958 and the Termination Fund Requirement Reserves were \$790,741. As of August 31, 2020, unrestricted cash and cash equivalents were \$1,230,219. SAAMS is renegotiating other contracts with the City, has lowered compensation with employees, and may renegotiate other terms of leases and other contracts. Additionally, fundraising efforts will continue to be at higher levels than normal through 2021 focusing on recurring donations and membership renewals, expanding long-term grants, and additional virtual attendance revenue sources. Our recent funding sources included thousands of individual contributors, local and major Alaskan and international companies, the City, multiple foundations/funds, and SAAMS' Board of Directors. We will continue to work with other state and federal governmental sources and foundations for long-term sustainable funding. While SAAMS expects novel coronavirus to impact SAAMS' financial condition, results of operations, and cash flows, the extent of the financial impact and duration cannot be reasonably estimated at this time; the results of the fundraising campaign will allow SAAMS to continue operations as a going concern for an undetermined period of time. U.S. generally accepted accounting principles require that the going concern assessment is performed for a period of one year after the date that the financial statements are issued (or available to be issued; therefore through September 2, 2021). The uncertainties resulting from the novel coronavirus and the lack of committed funding through the required assessment period have resulted in substantial doubt regarding SAAMS' ability to continue as a going concern through the required assessment period.

On April 23, 2020, SAAMS received a Small Business Administration (SBA) Paycheck Protection Program (PPP) loan for \$1.046 million as part of the CARES Act stimulus relief. The note bears interest at 1 percent and requires monthly payments of principal and interest on the outstanding principal balance, unless otherwise forgiven in whole or part by the SBA under the CARES Act. If the note is not forgiven, payments will begin 7 months from the date of the note until the maturity date of April 24, 2022 when the entire principal balance, along with all accrued and unpaid interest, is due in full. The terms of the promissory note are subject to change depending on final regulation or legislation enacted. SAAMS has submitted the request to Northrim Bank for the full amount to become a grant which ultimately will be forwarded to the SBA.

On July 21, 2020, SAAMS received a SBA Emergency Impact Disaster Loan for \$150,000. The note bears interest at 2.75 percent and requires monthly payments of principal and interest on the outstanding principal balance. Payments will begin 12 months from the date of the note until maturity. The SBA takes a general security interest in any and all "Collateral" as defined in the promissory note. There are no prepayment fees. We plan to pre-pay this loan in September 2020.



**SEWARD ASSOCIATION FOR THE
ADVANCEMENT OF MARINE SCIENCE**

Federal Financial Assistance Reports

Year ended September 30, 2019

(With Independent Auditors' Reports Thereon)

**SEWARD ASSOCIATION FOR THE
ADVANCEMENT OF MARINE SCIENCE**

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KPMG LLP
Suite 600
701 West Eighth Avenue
Anchorage, AK 99501

Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

The Board of Directors
Seward Association for the Advancement of Marine Science:

We have audited, in accordance with the 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, the financial statements of Seward Association for the Advancement of Marine Science (SAAMS), which comprise the statement of financial position as of September 30, 2019, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated September 2, 2020.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered SAAMS's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of SAAMS's internal control. Accordingly, we do not express an opinion on the effectiveness of SAAMS's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether SAAMS's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.



Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of SAAMS's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering SAAMS's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

September 2, 2020



KPMG LLP
Suite 600
701 West Eighth Avenue
Anchorage, AK 99501

Independent Auditors' Report on Compliance for Each Major Federal Program; Report on Internal Control over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

The Board of Directors
Seward Association for the Advancement of Marine Science

Report on Compliance for Each Major Federal Program

We have audited Seward Association for the Advancement of Marine Science's (SAAMS) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on SAAMS's major federal program for the year ended September 30, 2019. SAAMS's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for SAAMS's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about SAAMS's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of SAAMS's compliance.

Opinion on Each Major Federal Program

In our opinion, SAAMS complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended September 30, 2019.

Report on Internal Control over Compliance

Management of SAAMS is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered SAAMS's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major



federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of SAAMS's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of SAAMS as of and for the year ended September 30, 2019, and have issued our report thereon dated September 2, 2020, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

KPMG LLP

September 2, 2020

**SEWARD ASSOCIATION FOR THE
ADVANCEMENT OF MARINE SCIENCE**

Schedule of Expenditures of Federal Awards

Year ended September 30, 2019

Federal grantor/pass-through grantor program title	CFDA number	Grant number	Subrecipient expenditures	Federal expenditures
Department of Commerce:				
National Oceanic and Atmospheric Administration:				
National Marine Fisheries Service:				
Forging Public Connections with Marine Mammals through the Alaska SeaLife Center	11.439	NA17NMF4390094	\$ —	99,995
Research and Development:				
Comparative Measures of Health and Physiology for Ice-Dependent Seals	11.439	NA16NMF4390027	204,102	314,154
Reproduction, Survival and Depredation in Harbor Seals – Phase 1: Validation	11.439	NA15NMF4390171	—	7,905
Lactation Bioenergetics, Immune Competence, Age Determination Models, Temperature Patterns and Fetal Development in Steller Sea Lion Females and their Pups	11.439	NA16NMF4390025	—	50,748
Long-Term Monitoring of Trends in Steller Sea Lion Behavior, Ecology, Vital Rates, and Demography within the Endangered, Western Distinct Population Segment	11.439	NA16NMF4390030	—	96,565
Long-Term Monitoring of Trends in Steller Sea Lion Behavior, Ecology, Vital Rates, and Demography within the Endangered, Western Distinct Population Segment	11.439	NA19NMF4390082	—	57,325
Total Research and Development			204,102	526,696
Total National Oceanic and Atmospheric Administration:			204,102	626,691
Sponsored Coastal Ocean Research – Coastal Ocean Programs				
Passed through the University of Wyoming				
Thresholds in a changing ocean environment: bioeconomic implications to inform adaptation decision for Alaska's salmon fisheries	11.478	NA18NOS4780180	21,452	21,452
Unallied Science Program:				
Passed through North Pacific Research Board:				
Developing Vitalink: Autonomous Remote Satellite Tag Data Recovery Stations	11.472	1620	—	74,821
Bioenergetics, movement behavior and temperature ranges of the poorly understood Pacific sleeper sharks – part 3	11.472	1711C	—	83,626
Are changes in suitability of essential lagoon habitats driving declines of Steller's eiders in the eastern Aleutians?	11.472	1814	—	96,611
Using unmanned aircraft systems (UAS) to survey seabird abundance and next productivity: a validation study	11.472	1818	—	33,127
			—	288,185
National Science Foundation:				
IDBR Type B: Life-long Vital Rate Telemetry in Marine Homeotherms	47.074	1556495	—	104,242
Collaborative Research: At-sea experimental disturbances to characterize physiological plasticity in diving northern elephant seals	47.074	1656020	—	25,993
			—	130,234
Passed through the University of Rhode Island				
Northwest Passage Project	47.076	0005471/101916	—	3,273
Department of the Interior:				
U.S. Fish and Wildlife Service:				
Maintenance of a Captive Flock of Alaska-Origin Steller's and Spectacled Eiders	15.657	F19AP00927	—	175,186
Maintenance of a Captive Flock of Alaska-Origin Steller's and Spectacled Eiders	15.657	F19AP00280	—	113,088
			—	288,275

**SEWARD ASSOCIATION FOR THE
ADVANCEMENT OF MARINE SCIENCE**

Schedule of Expenditures of Federal Awards

Year ended September 30, 2019

Federal grantor/pass-through grantor program title	CFDA number	Grant number	Subrecipient expenditures	Federal expenditures
National Park Service:				
Teacher Professional Development Workshop	15.945	P15AC00234	\$ —	30,868
Changing Tides – Bivalve Bioassay and Analysis Component	15.945	P15AC00797	—	29,533
Changing Tides: A Virtual Field Trip	15.945	P17AC00481	—	1,070
Alaska SeaLife Center Marine Science Interpretation Internships	15.945	P16AC00329	—	6,539
			—	68,009
Village Marine Science Outreach	15.954	P14AC01181	—	22,524
Seabird Surveys & Outreach in Resurrection Bay	15.944	P19AC00200	—	263
Institute of Museum and Library Services:				
AZA Disaster Preparedness Training for Zoos and Aquariums Nationwide	45.312	MG-20-16-0049-16	—	104,347
Department of Homeland Security				
Center for Homeland Security – Arctic Domain Awareness Center				
Passed through the University of Alaska Anchorage				
Photoenhanced Toxicity of Dispersed and burned crude oil to Arctic mussels	97.061	17STADA000010205	—	23,164
Total federal awards			\$ <u>225,555</u>	<u>1,576,418</u>

See accompanying independent auditors' report.

**SEWARD ASSOCIATION FOR THE
ADVANCEMENT OF MARINE SCIENCE**

Notes to Schedule of Expenditures of Federal Awards

Year ended September 30, 2019

(1) General

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of the Seward Association for the Advancement of Marine Science (SAAMS) under programs of the federal government for the year ended September 30, 2019. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)*. Because the schedule presents only a selected portion of the operations of SAAMS, it is not intended to and does not present the financial position, changes in net position, or cash flows of SAAMS. Federal awards received directly from federal agencies as well as federal awards passed through other organizations are included on the schedule.

(2) Basis of Accounting

The accompanying schedule of expenditures of federal awards is presented using the accrual basis of accounting, which is described in note 1 to the SAAMS's financial statements. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

(3) Loan Programs

SAAMS has not entered into any federal loan programs.

(4) Cost Rate

SAAMS has not elected to use the de minimis 10% indirect cost rate.

**SEWARD ASSOCIATION FOR THE
ADVANCEMENT OF MARINE SCIENCE**

Schedule of Findings and Questioned Costs

Year ended September 30, 2019

(1) Summary of Auditors' Results

Financial Statements

Type of report issued on whether the financial statements were prepared in accordance with generally accepted accounting principles:

Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? _____ Yes X No
- Significant deficiency(ies) identified not considered to be material weakness(es)? _____ Yes X None reported

Noncompliance material to the financial statements noted?

_____ Yes X No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? _____ Yes X No
- Reportable condition(s) identified that are considered to be material weakness(es)? _____ Yes X None reported

Type of auditors' report issued on compliance for major programs:

Unmodified

Any audit findings disclosed that are required to be reported in accordance with Section 200.516(a)?

_____ Yes X No

Identification of Major Programs

CFDA number	Name of federal program
11.439	Research and Development

Dollar threshold used to distinguish between type A and type B programs:

\$750,000

Auditee qualified as low-risk auditee?

 X Yes _____ No

(2) There were no reportable findings related to the financial statements reported in accordance with Government Auditing Standards.

(3) There were no reportable findings and no questioned costs related to federal awards.