

Clearwater Marine Aquarium, Inc. and Affiliate

Combined Financial Statements

**For the Years Ended
September 30, 2018 and 2017**



CLEARWATER MARINE AQUARIUM, INC. AND AFFILIATE
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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Clearwater Marine Aquarium, Inc. and Affiliate
Clearwater, Florida

We have audited the accompanying combined financial statements of Clearwater Marine Aquarium, Inc. (a nonprofit organization) and affiliate, which comprise the combined statements of financial position as of September 30, 2018, and the related combined statements of activities and cash flows for the year then ended, and the related notes to the combined financial statements.

Management's Responsibility for the Combined Financial Statements

Management is responsible for the preparation and fair presentation of these combined 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 combined financial statements based on our audit. We conducted our audit 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 combined financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the combined 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 combined 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 combined 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 combined financial statements referred to above present fairly, in all material respects, the financial position of the Clearwater Marine Aquarium, Inc. and affiliate as of September 30, 2018, and the changes in its net assets and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

CONTINUED

INDEPENDENT AUDITOR'S REPORT - CONTINUED

Prior Period Financial Statements

The financial statements of Clearwater Marine Aquarium, Inc. as of September 30, 2017, were audited by other auditors whose report was dated January 23, 2018, expressed an unmodified opinion on those financial statements.

Other Matters

Our audit was conducted for the purposes of forming an opinion on the combined financial statements as a whole. The accompanying schedule of expenditures of state financial assistance as required by *Government Auditing Standards*, issued by the Comptroller General of the United States; and Chapter 10.650, Rules of the Auditor General, are presented for purposes of additional analysis and are not a required part of the combined 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 combined financial statements. The information has been subjected to the auditing procedures applied in the audit of the combined financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the combined financial statements or to the combined financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the combined 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 January 22, 2019 on our consideration of the Clearwater Marine Aquarium, Inc. and affiliate'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 Clearwater Marine Aquarium, Inc. and affiliate's internal control over financial reporting and compliance.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the combined financial statements as a whole. The supplementary information in the combining statement of financial position and combining statement of activities is presented for purposes of additional analysis and is not a required part of the combined 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 combined financial statements. The information has been subjected to the auditing procedures applied in the audit of the combined financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the combined financial statements or to the combined financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the combined financial statements as a whole.

PDR CPAs + Advisors

Oldsmar, Florida
January 22, 2019

CLEARWATER MARINE AQUARIUM, INC. AND AFFILIATE
COMBINED STATEMENTS OF FINANCIAL POSITION
SEPTEMBER 30, 2018 AND 2017

	<u>ASSETS</u>	
	2018	2017
Current assets		
Cash and cash equivalents	\$ 4,054,544	\$ 12,664,787
Restricted cash	13,493,054	-
Accounts receivable	130,379	84,973
Grant receivable	8,693	53,337
Current portion of contributions receivable	2,895,403	153,800
Inventory	1,113,412	1,124,581
Other current assets	653,273	420,360
Total current assets	22,348,758	14,501,838
Property and Equipment, Net	37,073,144	30,423,552
Other Assets		
Investments	6,532,422	-
Film costs, net	2,992,613	3,570,956
Contributions receivable, net	1,024,291	49,868
Externally controlled endowments	2,758,196	2,688,369
Total Assets	\$ 72,729,424	\$ 51,234,583
	<u>LIABILITIES AND NET ASSETS</u>	
Current Liabilities		
Accounts payable and accrued expenses	\$ 3,315,278	\$ 1,543,698
Deferred compensation	80,000	80,000
Deferred revenue	92,404	44,750
Current portion of notes payable	455,663	880,810
Total current liabilities	3,943,345	2,549,258
Notes Payable, Net	12,816,363	12,494,694
Total Liabilities	16,759,708	15,043,952
Net assets		
Unrestricted	49,262,332	33,298,594
Temporarily restricted	4,774,726	959,379
Permanently restricted	1,932,658	1,932,658
Total net assets	55,969,716	36,190,631
Total Liabilities and Net Assets	\$ 72,729,424	\$ 51,234,583

See notes to combined financial statements

CLEARWATER MARINE AQUARIUM, INC. AND AFFILIATE
COMBINED STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2018
(WITH COMPARATIVE TOTALS FOR 2017)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	
				2018	2017
Revenue and Support					
Admissions and member fees	\$ 8,571,564	\$ -	\$ -	\$ 8,571,564	\$ 8,706,512
Educational program fees	3,408,836	-	-	3,408,836	3,154,678
Fundraising events, net of expenses of \$109,539 and \$136,248, respectively	250,369	-	-	250,369	171,970
Gift shop sales, net of cost of goods sold of \$1,391,305 and \$1,280,458, respectively	2,418,692	-	-	2,418,692	2,417,430
Food service income, net of cost of goods sold of \$241,708 and \$305,349, respectively	426,531	-	-	426,531	599,483
Sea turtle nesting fees	106,891	-	-	106,891	68,980
Grant income	167,985	-	-	167,985	3,034,576
Contributions	18,358,817	3,793,536	-	22,152,353	1,305,841
In-kind contributions	398,778	-	-	398,778	549,336
Boat and vehicle donations, net of impairment losses and related expenses of \$37,967 and \$19,468, respectively	28,033	-	-	28,033	(11,794)
Realized and unrealized gains on investments	1,714	-	-	1,714	322
Interest and dividend income	292,518	-	-	292,518	144,848
Net assets released from restrictions	64,175	(64,175)	-	-	-
Total revenue and support	34,494,903	3,729,361	-	38,224,264	20,142,182
Operating Expenses					
Animal care	4,666,365	-	-	4,666,365	4,195,413
Education	9,845,564	-	-	9,845,564	10,300,247
General and administrative	1,691,127	-	-	1,691,127	1,490,161
Fundraising	1,054,397	-	-	1,054,397	607,607
Total operating expenses	17,257,453	-	-	17,257,453	16,593,428
Change in Net Assets Before Non-Operating Income (Expense)	17,237,450	3,729,361	-	20,966,811	3,548,754
Non-operating income (expense)					
Excess of assets acquired over liabilities assumed in acquisition of S2S	91,237	16,159	-	107,396	-
Osceola development expense	-	-	-	-	(151,301)
Miscellaneous revenue	84,510	-	-	84,510	39,321
Appreciation in third-party endowments	-	69,827	-	69,827	164,845
Gain (loss) on disposal of assets	(1,449,459)	-	-	(1,449,459)	2,044,968
Total non-operating income (expense)	(1,273,712)	85,986	-	(1,187,726)	2,097,833
Change in Net Assets	15,963,738	3,815,347	-	19,779,085	5,646,587
Net Assets, Beginning of Year	33,298,594	959,379	1,932,658	36,190,631	30,544,044
Net Assets, End of Year	\$ 49,262,332	\$ 4,774,726	\$ 1,932,658	\$ 55,969,716	\$ 36,190,631

See notes to combined financial statements

CLEARWATER MARINE AQUARIUM, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2017

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Revenues and Other Support				
Public Support:				
Admissions and member fees	\$ 8,706,512	\$ -	\$ -	\$ 8,706,512
Educational program fees	3,154,678	-	-	3,154,678
Fundraising events, net of expenses of \$136,248	171,970	-	-	171,970
Gift shop sales, net of cost of goods sold of \$1,280,458	2,417,430	-	-	2,417,430
Food service income, net of cost of goods sold of \$305,349	599,483	-	-	599,483
Sea turtle nesting fees	68,980	-	-	68,980
Grant income	3,034,576	-	-	3,034,576
Contributions	1,198,341	107,500	-	1,305,841
In-kind contributions	549,336	-	-	549,336
Boat and vehicle donations, net of impairment losses and related expenses of \$19,468	(11,794)	-	-	(11,794)
Realized and unrealized gains on investments	322	-	-	322
Interest and dividend income	144,848	-	-	144,848
Net assets released from restrictions	40,386	(40,386)	-	-
Total revenues and other support	20,075,068	67,114	-	20,142,182
Operating Expenses				
Animal care	4,195,413	-	-	4,195,413
Education	10,300,247	-	-	10,300,247
General and administrative	1,490,161	-	-	1,490,161
Fundraising	607,607	-	-	607,607
Total operating expenses	16,593,428	-	-	16,593,428
Changes in Net Assets Before Other Changes	3,481,640	67,114	-	3,548,754
Other Changes - Revenue (Expense)				
Osceola development expense	(151,301)	-	-	(151,301)
Miscellaneous revenue	39,321	-	-	39,321
Gain (loss) on disposal of assets	2,044,968	-	-	2,044,968
Appreciation in third-party endowments	-	164,845	-	164,845
Total other changes	1,932,988	164,845	-	2,097,833
Change in Net Assets	5,414,628	231,959	-	5,646,587
Net Assets at Beginning of Year	27,883,966	727,420	1,932,658	30,544,044
Net Assets at End of Year	\$33,298,594	\$ 959,379	\$ 1,932,658	\$36,190,631

See notes to combined financial statements

**CLEARWATER MARINE AQUARIUM, INC. AND AFFILIATE
COMBINED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2018 AND 2017**

	2018	2017
Cash Flows from Operating Activities:		
Change in net assets	\$ 19,779,085	\$ 5,646,587
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	1,268,821	1,266,312
Film cost amortization	576,883	615,007
Bad debt expense	106,159	6,000
(Gain)/loss on disposals of fixed assets	1,449,459	(2,074,988)
Loss on disposals of film costs	1,460	18,740
Donated boat and vehicle inventory	-	(13,500)
Loss on sale of boats and vehicles	-	2,775
Unrealized gain on investments	(1,714)	-
Amortization of debt issuance costs	69,333	39,216
(Appreciation)/depreciation in externally controlled endowments	(69,827)	(164,845)
Acquisition of S2S	(107,396)	-
Changes in assets and liabilities:		
Accounts receivable	(7,106)	(52,287)
Contribution receivable	(3,822,185)	(73,114)
Grant receivable	44,644	187,491
Inventory	40,565	(27,068)
Other current assets	(198,471)	156,239
Accounts payable and accrued expenses	1,728,056	(182,353)
Deferred revenue	43,779	(19,227)
Net cash provided by operating activities	20,901,545	5,330,985
Cash Flows from Investing Activities:		
Proceeds from sale of boats and vehicles	-	21,425
Purchases of investments	(6,530,708)	-
Proceeds from sale of property and equipment	12,611	4,250,000
Purchases of property and equipment	(8,579,771)	(12,359,063)
Net cash used in investing activities	(15,097,868)	(8,087,638)
Cash Flows from Financing Activities:		
Proceeds on notes payable	50,001	10,119,343
Payments on notes payable	(701,023)	(1,881,975)
Cash paid for deferred loan costs	(269,844)	(4,230)
Net cash (used in) provided by financing activities	(920,866)	8,233,138
Net Increase in Cash and Cash Equivalents	4,882,811	5,476,485
Cash and Cash Equivalents at Beginning of Year	12,664,787	7,188,302
Cash and Cash Equivalents at End of Year	\$ 17,547,598	\$ 12,664,787
(including restricted cash of \$13,493,054 at September 30, 2018)		
Supplemental Cash Flow Information:		
Cash paid for interest	440,583	248,676
Amortization of debt issuance costs	69,333	39,216
Change in accrued interest	26,177	(2,973)
Total interest expense	\$ 536,093	\$ 284,919
Interest paid and capitalized to construction in progress	\$ 801	\$ 47,549

See notes to combined financial statements

CLEARWATER MARINE AQUARIUM, INC. AND AFFILIATE
NOTES TO COMBINED FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017

NOTE A - NATURE OF ORGANIZATION

Clearwater Marine Aquarium, Inc. (CMA) is a nonprofit corporation located in Clearwater, Florida. CMA is dedicated to public education, the rescue, rehabilitation and release of sick or injured marine life, research, and creating life-changing inspirational connections to its rescued animals for sick, injured, and developmentally disabled kids and wounded soldiers.

Revenue and support for CMA's programs and activities is generated primarily through admission, gift shop revenue, animal care experiences, education boat tours, grants, and contributions from the public.

Sea to Shore Alliance, Inc. (S2S) is a nonprofit corporation located in Clearwater, Florida. S2S works to protect threatened marine species such as sea turtles, manatees and right whales, and improve the health and productivity of coastal environments for the benefit of people and marine life.

Effective June 30, 2018, CMA executed an affiliation agreement. As a result of the affiliation agreement, CMA has obtained control of S2S such that the financial information of S2S will be combined with CMA. This affiliation will be treated as an acquisition for accounting purposes. The combined financial statements include the activity of S2S for the period July 1, 2018 through September 30, 2018. The following summarizes the assets, liabilities, and net assets transferred as of the acquisition date:

Assets Acquired:

Cash	\$ 9,618
Accounts receivable	38,300
Inventory	29,396
Other current assets	24,824
Property and equipment	74,255
	\$ 176,393

Liabilities Assumed:

Accounts payable and accrued expenses	\$ 43,524
Deferred revenue	3,875
Notes payable	21,598
	\$ 68,997

Net Assets:

Unrestricted net assets	\$ 91,237
Temporarily restricted net assets	16,159
	\$ 107,396

The excess of the assets acquired over the liabilities assumed in the S2S acquisition have been reported as a contribution within non-operating income (expense) on the accompanying combined statement of activities.

CLEARWATER MARINE AQUARIUM, INC. AND AFFILIATE
NOTES TO COMBINED FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Combination and Presentation

The accompanying combined financial statements include the accounts of CMA and S2S (collectively, the Organization). The combined financial statements of the Organization have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (US GAAP). All material intercompany transactions and balances have been eliminated in combination. Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions.

The Organization presents information regarding its financial position and activities according to three classes of net assets described as follows:

- Unrestricted Net Assets - All resources over which the governing board has discretionary control. The governing board of the Organization may elect to designate such resources for specific purposes. This designation may be removed at the Board's discretion.
- Temporarily Restricted Net Assets - Resources for which donor imposed restrictions related to use or timing have not yet been met. Such resources will become unrestricted when the requirements of the donor or grantee have been satisfied through expenditure for the specified purpose or program or through the passage of time.
- Permanently Restricted Net Assets - Resources accumulated through donations or grants that are subject to the restriction in perpetuity that the principal be invested. These net assets include the original value of the gift, plus any subsequent additions.

Use of Estimates

The preparation of combined financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the combined financial statements. Estimates also affect the reported amounts of revenue and expenses during the reporting period. Accordingly, actual results could differ from those estimates. Significant estimates include the collectability of receivables, determination of the useful lives of the property and equipment, amortization of film costs, and allocation of functional expenses.

Revenue Recognition

In accordance with *Accounting Standard Codification (ASC) 958 - Not-for-Profit Entities*, contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence or nature of any donor restrictions. Under ASC 958, restricted contributions are required to be reported as temporarily restricted support and are then reclassified to unrestricted net assets upon expiration of the time and/or use restrictions. Contributions that are restricted by the donor, as well as any related gains and investment income, are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized.

CLEARWATER MARINE AQUARIUM, INC. AND AFFILIATE
NOTES TO COMBINED FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Cash and Cash Equivalents

At September 30, 2018 and 2017, cash consists of monies held in checking accounts, savings accounts, money market funds, and petty cash. Cash contributions for a specific purpose are recorded as temporary restricted until spent.

Financial instruments which potentially subject the Organization to concentrations of credit risk consist principally of cash held in financial institutions in excess of federally-insured limits. From time to time throughout the years ended September 30, 2018 and 2017, the Organization's cash balance may have exceeded the federally insured limit. However, the Organization has not experienced and does not expect to incur any losses in such accounts.

Restricted Cash

Restricted cash represents amounts to be used for the Organization's construction project to expand CMA.

Accounts Receivable

The Organization considers all accounts receivable to be substantially collectible. When collection is doubtful, an allowance for doubtful accounts is established for accounts receivable. Accounts receivable are monitored continuously and are written off or reserved when deemed uncollectible based on contractual terms and age of the account. There was no allowance for doubtful accounts as of September 30, 2018 and 2017.

State Grants

The State of Florida appropriated funds in the amount of \$2,000,000 in the fiscal year 2014-2015. The Organization was required to provide specified deliverables and performance measurements related to the scope of work (Island Estates Improvements), for payments to be awarded. The first payment was a fixed price advance in the amount of \$500,000. Subsequent payments were made based on the deliverables and performance measures being met. The 2015 grant was extended, and all funds were expended by February 15, 2017.

Additional funds were appropriated by the State of Florida in the amount of \$2,000,000 in the fiscal year 2016-2017. Similar to the 2015 grant, the Organization must provide periodic deliverables relating to the scope of the work (concrete for the parking garage) for payments to be awarded. The 2016 grant was expended in full by June 30, 2017.

On September 13, 2017 the Organization was granted \$1,000,000 from the State of Florida, Department of Economic Opportunity. The award is to fund a part of the Capital Expansion Project. The agreement is a cost reimbursement agreement. This \$1,000,000 was expended in the fiscal year 2018 requiring a Florida State Single Audit to be performed.

**CLEARWATER MARINE AQUARIUM, INC. AND AFFILIATE
NOTES TO COMBINED FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017**

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Inventory

Inventory consists of merchandise held for sale primarily by the Organization's gift shop and is stated at the lower of average cost or market. Management periodically reviews inventory items for obsolescence and slow moving items and has deemed no allowance is considered necessary as of September 30, 2018 and 2017.

Contributions Receivable

Contribution receivables are recorded at their estimated net realizable value when a pledge is made from a viable source and is in written form. Contributions to be received after one year are discounted to present value using Treasury bill rates with similar terms with an added amount for economic uncertainty. Contributions receivable are recorded as temporarily restricted until the pledge is received and/or the purpose is met. Contributions receivable are evaluated on a regular basis and management establishes the allowance as necessary. As of September 30, 2018 and 2017, management has established an allowance for uncollectible contributions receivable in the amount of \$105,000 and \$16,000, respectively. Bad debt expense was \$106,159 and \$6,000 for the years ended September 30, 2018 and 2017, respectively.

Property and Equipment

Property and equipment with an acquisition cost or donated value of \$750 or more and a useful life of more than one year are capitalized. Purchases of property and equipment are recorded at cost. Donations of property and equipment are recorded at their estimated fair market value. Depreciation is computed using the straight-line method over the following estimated useful lives of the related assets:

	<u>Years</u>
Building and improvements	5 - 40
Furniture, fixtures and equipment	3 - 15
Boats and vehicles	5 - 10

Investments

Investments in equity securities with readily determinable fair values are measured at fair value based on quoted market prices. Realized and unrealized gains and losses on sales and market value adjustments are recognized in the combined statement of activities. Investment fees are included within general and administrative expenses in both the combined statement of activities and statement of activities. The Organization's investments are restricted and represent amounts to be used for the construction project to expand CMA.

CLEARWATER MARINE AQUARIUM, INC. AND AFFILIATE
NOTES TO COMBINED FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Donated Items

The value of donated materials and equipment has been recorded in the combined financial statements as contributions based upon the fair market value of the goods received. In addition, the Organization has received donated services from various individuals.

The Organization includes the fair market value of these services in the financials when they meet the criteria for recognition under ASC 958, *Not-for-Profit Entities*.

Advertising Costs

Advertising is expensed as incurred or upon the date the advertising publications are first released. Advertising expense totaled \$1,301,449 and \$1,615,719 for the years ended September 30, 2018 and 2017, respectively. Included in advertising expense in 2018 and 2017 is donated advertising in the amount of \$27,052 and \$126,510, respectively.

Deferred Loan Costs

The costs of obtaining certain debt are capitalized and amortized over the life of the debt and are classified as a reduction of the notes payable on the combined statements of financial position (**NOTE J**). Amortization of the deferred loan costs is charged to interest expense within the combined statement of activities.

Income Taxes

The Organization has been recognized by the Internal Revenue Service as a tax-exempt organization described in Section 501(c)(3) of the Internal Revenue Code of 1986 and has been classified as an organization that is not a private foundation under Section 509(a).

The Organization accounts for the effect of any uncertain tax positions based on a "more likely than not" threshold to the recognition of the tax positions being sustained based on the technical merits of the position under scrutiny by the applicable taxing authority. If a tax position or positions are deemed to result in uncertainties of those positions, the unrecognized tax benefit is estimated based on a "cumulative probability assessment" that aggregates the estimated tax liability for all uncertain tax positions. The Organization has identified its tax status as a tax-exempt entity as its only significant tax position; however, the Organization has determined that such tax position does not result in an uncertainty requiring recognition. The Organization is not currently under examination by any taxing jurisdiction. The Organization's federal returns are generally open for examination for three years following the date filed.

CLEARWATER MARINE AQUARIUM, INC. AND AFFILIATE
NOTES TO COMBINED FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Film Costs

As of September 30, 2018, the Organization has capitalized film costs associated with three films: two documentaries and a major motion picture. During fiscal year 2012, the Organization began efforts to launch a documentary surrounding one of its acclaimed dolphins. During both 2013 and 2014, the Organization incurred expenses meeting the definition of film costs to be capitalized under ASC No. 926, *Entertainment - Films*.

As part of its evaluation of the recoverability of film costs, management evaluates the expected total ultimate revenue over the life of the project and compares that amount to actual revenue earned to date to determine the actual amortization expense for the year. The calculated amortization is compared to the recorded amortization for reasonableness.

In addition, the estimated ultimate revenue is compared to remaining film costs, net to determine if an impairment charge is necessary. No impairment charges were deemed necessary for the years ending September 30, 2018 and 2017.

As of September 30, 2014, the Organization had capitalized film costs associated with the major motion picture of \$5,537,000. The movie was released in late September 2014. The Organization has prepared a projection of the expected increases in revenue relating to the release of the movie. Based on these revenue projections, the Organization has projected the annual amortization as a percentage of the total film cost that will be recognized (to match the revenue and expense). The Organization will reconsider the projections each year and adjust their estimates accordingly.

Reclassifications

Certain amounts in the 2017 financial statement presentation have been reclassified to conform to the 2018 presentation. Net assets and changes in net assets are unchanged due to these reclassifications.

CLEARWATER MARINE AQUARIUM, INC. AND AFFILIATE
NOTES TO COMBINED FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017

NOTE C - CONTRIBUTIONS RECEIVABLE

Contributions receivable consist of the following at September 30:

	<u>2018</u>	<u>2017</u>
Gross contributions receivable	\$ 4,126,970	\$ 220,980
Less: Allowance for uncollectible contributions receivable	(105,000)	(16,000)
Less: Unamortized discount	<u>(102,276)</u>	<u>(1,312)</u>
Contributions receivable, net	<u>\$ 3,919,694</u>	<u>\$ 203,668</u>
Amounts due in:		
Less than one year	\$ 2,895,403	\$ 153,800
One to three years	<u>1,231,567</u>	<u>67,180</u>
	<u>\$ 4,126,970</u>	<u>\$ 220,980</u>

Contributions receivable consist primarily of promises from individuals and corporations. The applicable discount rate for amounts due in more than one year was 3.94%.

NOTE D - PROPERTY AND EQUIPMENT

Property and equipment consists of the following at September 30:

	<u>2018</u>	<u>2017</u>
Land and improvements	\$ 5,355,935	\$ 5,404,272
Building and improvements	21,352,812	23,649,574
Furniture, fixtures, and equipment	4,689,510	4,400,740
Vehicles and boats	1,356,461	1,143,179
Construction in progress	<u>10,571,262</u>	<u>2,149,500</u>
	43,325,980	36,747,265
Less accumulated depreciation	<u>(6,252,836)</u>	<u>(6,323,713)</u>
	<u>\$ 37,073,144</u>	<u>\$ 30,423,552</u>

Depreciation expense was \$1,268,821 and \$1,266,312 for the years ended September 30, 2018 and 2017, respectively. Depreciation will commence on amounts in construction in progress when the items are completed and placed into service. See **NOTE S** for a description of the construction in progress.

CLEARWATER MARINE AQUARIUM, INC. AND AFFILIATE
NOTES TO COMBINED FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017

NOTE E - INVESTMENTS

The Organization's investments consist of the following at September 30:

	2018		2017	
	<u>Cost</u>	<u>Market</u>	<u>Cost</u>	<u>Market</u>
Cash and cash equivalents	\$ 109,653	\$ 109,653	\$ -	\$ -
Certificate of deposit	503,850	503,850	-	-
US Government bonds	2,358,256	2,358,504	-	-
Corporate bonds	3,108,935	3,110,281	-	-
Foreign bonds	449,568	450,134	-	-
Total	<u>\$ 6,530,262</u>	<u>\$ 6,532,422</u>	<u>\$ -</u>	<u>\$ -</u>

The following schedule summarizes investment return on the above investments for the years ended September 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Interest and dividends	\$ 26,862	\$ -
Unrealized gain on investments	1,714	-
Total investment return	<u>\$ 28,576</u>	<u>\$ -</u>

NOTE F - FILM COSTS

The Organizations film costs consist of the following at September 30:

<u>Components of Film Costs</u>	<u>2018</u>	<u>2017</u>
Released film costs - Dolphin Tale 2	\$ 5,537,664	\$ 5,537,664
Released film costs - Documentary	208,186	208,186
CMA musical DVD costs	1,040	2,500
	<u>5,746,890</u>	<u>5,748,350</u>
Accumulated amortization of film costs	<u>(2,754,277)</u>	<u>(2,177,394)</u>
Film costs, net	<u>\$ 2,992,613</u>	<u>\$ 3,570,956</u>

CLEARWATER MARINE AQUARIUM, INC. AND AFFILIATE
NOTES TO COMBINED FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017

NOTE F - FILM COSTS - CONTINUED

Film costs of \$5,537,664 relating to *Dolphin Tale 2* were capitalized in the year ending September 30, 2014. As of September 30, 2018 and 2017, accumulated amortization associated with *Dolphin Tale 2* totaled \$2,546,091 and \$2,010,219, respectively. The Organization expects that approximately \$505,611 of *Dolphin Tale 2* costs will be amortized over the next 12 months. Within three years of September 30, 2018, the Organization expects to have amortized approximately 72% of the total costs. The Organization expects to fully amortize the film by 2024. The estimates of expected amortization are based on *Dolphin Tale 2*'s release and the impact on attendance to the Organization.

Winter's Documentary, released in 2013, incurred total film costs of approximately \$347,000 with approximately \$208,000 of these costs being capitalized. During 2018, costs associated with the documentary were fully amortized. As of September 30, 2018 and 2017, accumulated amortization associated with *Winter's Documentary* totaled \$208,186 and \$167,175, respectively.

NOTE G - EXTERNALLY CONTROLLED ENDOWMENTS

The Organization's third-party endowments consist of two externally managed funds established for a variety of purposes. The endowments are both donor-restricted endowment funds. The funds are held by third-party trustees and therefore the Organization has no direct influence over the investment policy of either fund. The Organization classifies as permanently restricted net assets the original value of the gifts donated to the permanent endowments. As required by GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions. The Organization's policy is to appropriate interest and dividends received from these endowments for operations. Therefore, interest and dividend income is reported as unrestricted on both the combined statement of activities and statement of activities.

The Board of Directors of the Organization has interpreted the Florida Uniform Prudent Management of Institutional Funds Act (FUPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary.

As a result of this interpretation, the Organization classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

All permanently restricted net assets consist of perpetual trusts held by third parties. For all endowment funds, the donors have stipulated that additional accumulation of funds above and beyond the permanent endowment are unrestricted as to purpose, however the Organization reports the accumulation of funds as temporarily restricted net assets until the funds are distributed by the trustees to the Organization and appropriated by the Board of Directors.

CLEARWATER MARINE AQUARIUM, INC. AND AFFILIATE
NOTES TO COMBINED FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017

NOTE G - EXTERNALLY CONTROLLED ENDOWMENTS - CONTINUED

Endowment net asset composition by type of fund as of September 30, 2018 and 2017:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Summary of Endowment Assets September 30, 2018:				
Externally controlled endowment	\$ -	\$ 825,538	\$ 1,932,658	\$ 2,758,196

Summary of Endowment Assets September 30, 2017:

Externally controlled endowment	\$ -	\$ 755,711	\$ 1,932,658	\$ 2,688,369
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Changes in endowment net assets for the years ended September 30, 2018 and 2017:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Changes in Endowment Net Assets as of September 30, 2018:				
Endowment net assets, beginning	\$ -	\$ 755,711	\$ 1,932,658	\$ 2,688,369
Investments return:				
Unrealized gain	-	69,827	-	69,827
Net assets released from restrictions	-	-	-	-
Total funds	\$ -	\$ 825,538	\$ 1,932,658	\$ 2,758,196

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Changes in Endowment Net Assets as of September 30, 2017:				
Endowment net assets, beginning	\$ -	\$ 590,866	\$ 1,932,658	\$ 2,523,524
Investments return:				
Unrealized gain	-	164,845	-	164,845
Net assets released from restrictions	-	-	-	-
Total funds	\$ -	\$ 755,711	\$ 1,932,658	\$ 2,688,369

CLEARWATER MARINE AQUARIUM, INC. AND AFFILIATE
NOTES TO COMBINED FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017

NOTE G - EXTERNALLY CONTROLLED ENDOWMENTS - CONTINUED

These endowment assets are held in perpetuity and are invested and managed by outside trustees in accordance with trust instruments established by the donors. The fair market value of the assets held in the endowment trusts are considered to be the most appropriate estimates of the discounted values of the estimated future revenue streams, and are therefore the basis used to record these future streams of revenue. Appreciation in the fair market value of the endowment trusts is included in the non-operating, temporarily restricted net assets.

NOTE H - DEFERRED COMPENSATION PLAN

The Organization implemented an unfunded executive deferred compensation plan subject to Section 457(f) of the Internal Revenue Code in 2015. An accrual for deferred compensation totaling \$80,000 is included within accounts payable and accrued expenses on the statements of financial position as of September 30, 2018 and 2017. Deferred compensation expense was \$80,000 for each of the years ended September 30, 2018 and 2017, respectively.

NOTE I - LINE-OF-CREDIT

The Organization has a \$1.5 million line-of-credit with a bank. The interest rate is One-Month LIBOR plus 2.25%. The line-of-credit matures on April 3, 2019. There were no amounts drawn under the line-of-credit as of September 30, 2018 and 2017. The line is collateralized by certain receivables, inventory, and equipment.

NOTE J - LONG-TERM DEBT

Long-term debt at September 30, 2018 and 2017 consists of the following:

	<u>2018</u>	<u>2017</u>
Note payable to financial institution; monthly payments of \$412, including interest at 7.99%; collateralized by a vehicle; maturing December 2022	\$ 17,742	\$ -
Note payable to financial institution; monthly payments of \$269, including interest at 13.99%; collateralized by a vehicle; maturing December 2020	2,556	-
Series 2010 bonds payable. Principal payable in monthly installments of \$35,834 plus interest at 68% of one-month LIBOR plus 1.787% (3.885% at September 30, 2018) through July 2024. Secured by all real property and improvements	2,505,157	2,935,165

CLEARWATER MARINE AQUARIUM, INC. AND AFFILIATE
NOTES TO COMBINED FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017

NOTE J - LONG-TERM DEBT - CONTINUED

	<u>2018</u>	<u>2017</u>
Series 2018 bonds payable. Interest is payable monthly on principal amounts outstanding at 79% of one-month LIBOR plus 2.0875% (3.75% at September 30, 2018). Interest only payments will continue for thirty-six months from the loan date of March 1, 2018 at which point the loan will be amortized over a twenty-five year period with 300 monthly payments of principal and interest with all unpaid principal and interest due and payable in March 2024	50,001	-
Note payable to bank with current monthly installments of \$3,589 including interest at one-month LIBOR plus 1.85% (4% at September 30, 2018) through July 2021 with a single payment of all remaining unpaid principal and accrued interest due August 2021. Secured by a mortgage on real property	630,120	650,166
Note payable to bank in monthly installments of \$35,667 plus interest through April 2018, then interest only through April 2021, and then four payments of \$40,663 plus interest through August 2021 with a single payment of all remaining unpaid principal and accrued interest due September 2021. Interest accrues on the unpaid principal balance at one-month LIBOR plus 1.85% (4% at September 30, 2018). Secured by a mortgage on the parking garage	<u>10,450,331</u>	<u>9,973,543</u>
Total long-term debt	13,655,907	13,558,874
Less unamortized debt issuance costs	<u>383,881</u>	<u>183,370</u>
Long-term debt, less unamortized debt issuance costs	13,272,026	13,375,504
Less current portion	<u>455,663</u>	<u>880,810</u>
Long-term debt, net	<u><u>\$ 12,816,363</u></u>	<u><u>\$ 12,494,694</u></u>

CLEARWATER MARINE AQUARIUM, INC. AND AFFILIATE
NOTES TO COMBINED FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017

NOTE J - LONG-TERM DEBT - CONTINUED

Future maturities of the notes payable for each of the five years subsequent to September 30, 2018 and thereafter, are as follows:

<u>Year Ending</u> <u>September 30,</u>	<u>Principal</u> <u>Payment Due</u>
2019	\$ 455,663
2020	453,190
2021	11,476,077
2022	434,649
2023	431,210
Thereafter	<u>405,118</u>
	<u><u>\$ 13,655,907</u></u>

In addition to the loan agreements described above, during the year ended September 30, 2018, the Organization obtained a \$13 million non-revolving construction line-of-credit from a bank. Advances under this agreement will accrue interest at One-Month LIBOR plus 2.25%. The Organization is required to make monthly payments of accrued interest during the term of the loan. All amounts advanced under this line-of-credit plus any accrued and unpaid interest will be due on September 27, 2019. Under the line-of-credit agreement, the Organization is required to create two bank accounts to hold capital campaign funds and grant funds received by the Organization which will be utilized to pay the costs of the Organization's expansion project started in the fiscal year ended September 30, 2018. The bank is not obligated to make any advances under this line-of-credit until the Organization has created the bank accounts, obtained certain grant awards and spent the grant awards on project costs, and paid at least 40% of the total project costs from sources other than loan proceeds. This loan contains restrictive covenants described below and is cross collateralized and cross defaulted with the Series 2018 bonds described below. There were no amounts outstanding under this loan at September 30, 2018.

During the year ended September 30, 2018, the Organization also obtained financing for the expansion project through a bond issue involving the Pinellas County Industrial Development Authority and the Organization's bank. The Series 2018 bonds (the "Bonds") have a borrowing limit of \$14,941,824. The amount outstanding on the Bonds of \$50,001 at September 30, 2018 was for the payment of certain closing costs of the bond issue. Further advances on the Bonds cannot occur until the \$13 million non-revolving construction line-of-credit described above is paid in full. Advances are also limited to a period of not before eighteen months from the closing date of the bonds (March 1, 2018) and not after thirty-six months from the closing date. Repayment of the then outstanding principal amount of the Bonds plus accrued interest will commence thirty-seven months from the closing date based on a twenty-five year amortization period. All unpaid principal amounts plus accrued interest will be due and payable on March 27, 2024. This loan contains restrictive covenants described below and is cross collateralized and cross defaulted with the \$13 million non-revolving construction line-of-credit described above. Amounts outstanding under the bonds are collateralized by essentially all assets of the Organization.

CLEARWATER MARINE AQUARIUM, INC. AND AFFILIATE
NOTES TO COMBINED FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017

NOTE J - LONG-TERM DEBT - CONTINUED

The Organization's loans include restrictive covenants that, among other things, require a minimum debt service coverage ratio and limit indebtedness for money borrowed as a percentage of unrestricted net assets. Other loan covenants include additional restrictions on incurring new debt and lease obligations, limits on investing activities, maintaining the Organization's charitable status and requiring certain reports be submitted to the bank. The Organization was in compliance with these covenants at September 30, 2018 and 2017.

The City of Clearwater has certain reversionary rights that limit the Organization's ability to borrow against the real property to \$25,000,000.

NOTE K - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consist of the following:

	<u>2018</u>	<u>2017</u>
Contributions receivable, net	\$ 3,919,694	\$ 203,668
Donor restricted contributions	29,494	-
Externally controlled endowments	<u>825,538</u>	<u>755,711</u>
Total	<u>\$ 4,774,726</u>	<u>\$ 959,379</u>

Net assets of \$64,175 and \$40,386 were released from restrictions during the years ended September 30, 2018 and 2017, respectively, by incurring expenses satisfying the restricted purposes, or by occurrence of other events specified by donors.

NOTE L - PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets consist of the following:

	<u>2018</u>	<u>2017</u>
Externally controlled endowments:		
Thomas Cooper	\$ 1,362,500	\$ 1,362,500
Edna Klauser	<u>570,158</u>	<u>570,158</u>
Total	<u>\$ 1,932,658</u>	<u>\$ 1,932,658</u>

CLEARWATER MARINE AQUARIUM, INC. AND AFFILIATE
NOTES TO COMBINED FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017

NOTE M - IN-KIND CONTRIBUTIONS

A substantial number of unpaid volunteers have made significant contributions of their time to develop the Organization's programs principally in the areas of animal care, education, and daily operations. The value of this contributed time is not reflected in these combined financial statements as it does not meet the criteria for in-kind revenue and expense recognition. The total hours contributed during both 2018 and 2017 were approximately 98,000 and 99,000, respectively.

During the years ended September 30, 2018 and 2017, the Organization received in-kind contributions for services provided to the Organization. These contributions include direct mail advertisements and CT scans performed on sea turtles and have been recorded as unrestricted contributions at their estimated fair market value at the time of donation.

The related in-kind expenses have been recognized in the appropriate operating expense classification. The contributions received were as follows:

	<u>2018</u>	<u>2017</u>
FMV of time spent working on Winter's prosthetic tail	\$ 178,000	\$ 207,000
Other donated services	<u>220,778</u>	<u>342,336</u>
Total in-kind contributions	<u><u>\$ 398,778</u></u>	<u><u>\$ 549,336</u></u>

NOTE N - RELATED PARTY TRANSACTIONS

During 2017, a member of the Board of Directors who was employed by a law firm provided legal services to the Organization. Total fees paid to the law firm during the year ended September 30, 2017 was \$32,000.

During 2017, The Organization purchased transportation services from the Executive Director of a company who was also a member of the Organization's Board of Directors. Expenses incurred with this company totaled approximately \$386,000 for the year ended September 30, 2017.

During 2018, The Organization purchased auction items, food, and beverages from restaurants owned by one of CMA's Board of Directors. Total payments to these restaurants during the year ended September 30, 2018 was approximately \$41,000.

CMA and its CEO own, as co-owners, a universal life insurance policy on the life of the CEO with a death benefit of \$500,000 as of September 30, 2018. CMA's share of the net cash surrender value as of September 30, 2018 and 2017 is \$36,085 and \$42,989, or 31% and 37%, respectively. CMA funded approximately \$-0- and \$7,500 of the fiscal year premium for the years ended September 30, 2018 and 2017, respectively. The ownership factor on the contract of CMA decreases each year as the CEO's ownership increases. As of September 30, 2018 and 2017, CMA owned approximately \$153,000 and \$185,000 or 31% and 37%, respectively, of the contracts death benefit.

CLEARWATER MARINE AQUARIUM, INC. AND AFFILIATE
NOTES TO COMBINED FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017

NOTE O - MERCHANDISE ROYALTIES

The Organization pays merchandising royalties on the sale of merchandise to the production company which produced the feature films *Dolphin Tale* and *Dolphin Tale 2*. These royalties are included in the education expense line item on both the combined statement of activities and statement of activities and totaled \$471,674 and \$461,783 for the years ended September 30, 2018 and 2017, respectively.

NOTE P - DEFINED CONTRIBUTION BENEFIT PLAN

The Organization sponsors a 401(k) savings plan for employees who have attained one year of service, worked at least 1,000 hours and have reached the age of 21. The Organization matches 100% of participant contributions that are not over 3% of the participant's compensation and 50% of participant contributions that are over 3% but not over 5% of the participant's compensation. The Organization contributed \$122,000 and \$116,000 to the Plan during the years ended September 30, 2018 and 2017, respectively.

NOTE Q - OPERATING LEASES

The Organization leases certain office space under non-cancelable operating lease agreements with expiration dates through August 2019. Also included in rent expense are month-to-month leases for parking and office space. Total rent expense under these leases was approximately \$137,000 and \$196,000 for the years ended September 30, 2018 and 2017, respectively. Future minimum payments under these leases total approximately \$18,000 for the year ended September 30, 2019.

On February 7, 2017, Pinellas County entered into a license agreement with the Organization to use designated County property within Fred Howard Park in Tarpon Springs for a Marine Mammal Stranding Rehabilitation Facility. The agreement is for 10 years and may be renewed for two additional five-year terms. The agreement is cancelable by either party with twelve months' notice. The Organization is responsible for all applicable permitting, buildout, and operating costs of the facility. The Organization has started the project and work is ongoing as of September 30, 2018.

NOTE R - OSCEOLA DEVELOPMENT

During the year ended September 30, 2017, CMA incurred expenses of approximately \$151,000 related to the original expansion development plan. These costs have been presented as non-operating activities in the 2017 statement of activities.

NOTE S - CMA EXPANSION

CMA's facility is capacity constrained and limits increased future growth. The facility operates as a marine hospital and education center whose capacity to care for dolphins is limited to the existing pools. To provide for optimal care for these marine animals, enhance guest capacity, and improve the guest experience, CMA has begun a capital expansion project designed to deliver these enhancements.

CLEARWATER MARINE AQUARIUM, INC. AND AFFILIATE
NOTES TO COMBINED FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017

NOTE S - CMA EXPANSION - CONTINUED

The project will facilitate high quality in both the design of the facility and care for non-releasable resident marine animals it houses as well as the visitor experience. The proposed improvements include a parking garage, new dolphin habitat, and over 74,500 square feet of guest space in a new building as well as an elevated deck and ground floor viewing areas. These additions will provide for improved animal care, guest capacity for future growth, additional exhibits and enhancement of the organization's ability to educate the public on the preservation of marine life and environment. The first phase of the parking garage was completed in April 2017. Phase two of the project is currently under construction with \$10,752,074 recorded in construction in progress. The expansion of CMA is expected to be completed in 2020.

NOTE T - FAIR VALUE OF FINANCIAL INSTRUMENTS

The Organization's investments are reported at fair value in the accompanying combined statements of financial position. Following is a description of valuation methodologies used for investments measured at fair value.

Cash and cash equivalents - The carrying amounts reported in the combined statements of financial position approximate the fair value due to the short maturities of those investments.

Certificate of Deposit - Valued at face value plus accrued interest which approximates fair value.

US treasury securities, government sponsored enterprise securities, and corporate bonds - Valued using quoted market prices and/or other observable market data for the same or comparable instruments and transactions in establishing the prices, discounted cash flow models and other pricing models. These models are primarily industry standard models that consider various assumptions including time value and yield curve as well as other relevant economic measures.

Externally controlled endowment - The investments are managed by an unrelated third party and are valued based upon the third-party information without adjustment. The Organization does not develop nor are they provided with the quantitative inputs used to develop the fair market values.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the management believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Changes in Fair Value Levels

The availability of observable market data is monitored to assess the appropriate classification of financial instruments within the fair value hierarchy. Changes in economic conditions or model-based valuation techniques may require the transfer of financial instruments from one fair value level to another. In such instances, the transfer is reported at the beginning of the reporting period. There were no transfers in 2018 and 2017.

CLEARWATER MARINE AQUARIUM, INC. AND AFFILIATE
NOTES TO COMBINED FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017

NOTE T - FAIR VALUE OF FINANCIAL INSTRUMENTS - CONTINUED

The fair values of assets measured on a recurring basis at September 30, 2018 are as follows:

	<u>Fair Value Measurements at Reporting Date Using</u>			
	Assets Measured at Fair Value at September 30, 2018	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash and cash equivalents	\$ 109,653	\$ 109,653	\$ -	\$ -
Certificate of deposit	503,850	503,850	-	-
Bonds	5,918,919	5,918,919	-	-
Externally controlled endowment	2,758,196	-	-	2,758,196
	<u>\$ 9,290,618</u>	<u>\$ 6,532,422</u>	<u>\$ -</u>	<u>\$ 2,758,196</u>

The fair values of assets measured on a recurring basis at September 30, 2017 are as follows:

	<u>Fair Value Measurements at Reporting Date Using</u>			
	Assets Measured at Fair Value at September 30, 2017	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Externally controlled endowment	<u>\$ 2,688,369</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,688,369</u>

The following is a reconciliation of the Organization's level 3 investments:

	<u>2018</u>	<u>2017</u>
Balance at beginning of year	\$ 2,688,369	\$ 2,523,524
Net appreciation	<u>69,827</u>	<u>164,845</u>
	<u>\$ 2,758,196</u>	<u>\$ 2,688,369</u>

NOTE U - SUBSEQUENT EVENTS

Management of the Organization has evaluated all subsequent events through January 22, 2019, the date the combined financial statements were available and issued. The Organization is not aware of any subsequent events which would require recognition or disclosure in the combined financial statements.

OTHER INFORMATION

**CLEARWATER MARINE AQUARIUM, INC. AND AFFILIATE
SCHEDULE OF EXPENDITURES OF STATE FINANCIAL ASSISTANCE
YEAR ENDING SEPTEMBER 30, 2018**

Florida State Agency/ Program Title/ Florida State Project Title	CSFA Number	Contract Number	Expenditures
State of Florida Department of Economic Opportunity			
Division of Community Development			
Community Development Projects	40.038	HL084	<u>\$ 1,000,000</u>
Total Expenditures of State Financial Assistance			<u><u>\$ 1,000,000</u></u>

See accompanying notes to schedule of expenditures of state financial assistance

CLEARWATER MARINE AQUARIUM, INC. AND AFFILIATE
NOTES TO SCHEDULE OF EXPENDITURES OF STATE FINANCIAL ASSISTANCE
YEAR ENDED SEPTEMBER 30, 2018

BASIS OF PRESENTATION

The accompanying schedule of expenditures of state financial assistance (Schedule) includes the State of Florida project activity of Clearwater Marine Aquarium, Inc. and is presented on the accrual basis of accounting. The information in this Schedule is presented in accordance with the accounting principles generally accepted in the United States of America as applicable to non-for-profit organizations and the requirements of Chapter 10.650, Rules of the Auditor General, State of Florida. Because the Schedule presents only a selected portion of the operations of Clearwater Marine Aquarium, Inc. it is not intended to and does not present the financial position, changes in net assets, or cash flows of Clearwater Marine Aquarium, Inc.

CONTINGENCIES

Expenditures incurred by CMA are subject to audit and possible disallowance by the State of Florida Department of Economic Opportunity. Management believes that if audited, any adjustments for disallowed expenses would be immaterial in amount.

See accompanying notes to schedule of expenditures of state financial assistance

**INDEPENDENT AUDITOR'S 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**

To the Board of Directors
Clearwater Marine Aquarium, Inc. and Affiliate
Clearwater, Florida

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 combined financial statements of Clearwater Marine Aquarium, Inc. and affiliate (the Organization), which comprise the combined statement of financial position as of September 30, 2018, and the related combined statements of activities and cash flows for the year then ended, and the related notes to the combined financial statements, and have issued our report thereon dated January 22, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the combined financial statements, we considered the Organization'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 combined financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization'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 a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's combined 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.

CONTINUED

**INDEPENDENT AUDITOR'S 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 - CONTINUED**

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's combined 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 the Organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

PDR CPAs + Advisors

Oldsmar, Florida
January 22, 2019

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE
FOR EACH MAJOR STATE PROJECT AND ON INTERNAL
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH
CHAPTER 10.650, RULES OF THE AUDITOR GENERAL,
STATE OF FLORIDA**

To the Board of Directors
Clearwater Marine Aquarium, Inc.
Clearwater, Florida

Report on Compliance for Each Major State Project

We have audited Clearwater Marine Aquarium Inc.'s compliance with the types of compliance requirements described in the *Department of Financial Services' State Projects Compliance Supplement* that could have a direct and material effect the of Clearwater Marine Aquarium, Inc.'s major state project for the year ended September 30, 2018. Clearwater Marine Aquarium, Inc.'s major state project 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 the state statutes, regulations, and conditions of its State projects applicable to its State projects.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for Clearwater Marine Aquarium, Inc.'s major state project 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 Chapter 10.650, Rules of the Auditor General. Those standards and Chapter 10.650, Rules of the Auditor General, 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 state project occurred. An audit includes examining, on a test basis, evidence about Clearwater Marine Aquarium, Inc.'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 state project. However, our audit does not provide a legal determination of Clearwater Marine Aquarium, Inc.'s compliance.

Opinion on Each Major State Project

In our opinion, Clearwater Marine Aquarium, Inc. complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect of its major state project for the year ended September 30, 2018.

CONTINUED

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE
FOR EACH MAJOR STATE PROJECT AND ON INTERNAL
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH
CHAPTER 10.650, RULES OF THE AUDITOR GENERAL,
STATE OF FLORIDA - CONTINUED**

Report on Internal Control Over Compliance

Management of Clearwater Marine Aquarium, Inc. 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 Clearwater Marine Aquarium, Inc.'s internal control over compliance with the types of requirements that could have a direct and material effect on each major state project to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major state project and to test and report on internal control over compliance in accordance with Chapter 10.650, Rules of the Auditor General, 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 Clearwater Marine Aquarium, Inc.'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 a 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 have not been identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses.

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 Chapter 10.650, Rules of the Auditor General. Accordingly, this report is not suitable for any other purpose.

PDR CPAs + Advisors

Oldsmar, Florida
January 22, 2019

**CLEARWATER MARINE AQUARIUM, INC. AND AFFILIATE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
STATE PROJECTS
YEAR ENDING SEPTEMBER 30, 2018**

Part I - Summary of Auditor's Results

Financial Statements Section

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

Material weaknesses identified? yes X no

Significant deficiencies identified not considered to be material weaknesses? yes X none reported

Noncompliance material to financial statements noted? yes X no

State Project Section

Internal control over major state projects:

Material weaknesses identified? yes X no

Significant deficiencies identified not considered to be material weaknesses? yes X none reported

Type of auditor's report on compliance for major state projects: Unmodified

Any audit findings disclosed that are required to be reported in accordance with Chapter 10.650 yes X no

Identification of Major State Project:

CSFA Number	Name of Project
40.038	State of Florida Department of Economic Opportunity Division of Community Development Community Development Projects

Dollar threshold used to determine Type A State Project: \$ 300,000

Auditee qualified as low-risk auditee? X yes no

**CLEARWATER MARINE AQUARIUM, INC. AND AFFILIATE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED
STATE PROJECTS
YEAR ENDING SEPTEMBER 30, 2018**

Part II - Schedule of Financial Statement Findings

This section identifies the significant deficiencies, material weakness, and instances of noncompliance related to the financial statements that are required to be reported in accordance with *Government Auditing Standards*.

There were no reportable findings.

Part III - State Project Findings and Questioned Costs

This section identifies the significant deficiencies, material weakness, and instances of noncompliance, including questioned costs, related to the audit of major state projects, as required to be reported by Chapter 10.650, Rules of the Auditor General, State of Florida.

There were no reportable findings.

Part IV - Summary Schedule of Prior Audit Findings

A Summary Schedule of Prior Audit Findings is not necessary since there were no prior audit findings related to a major state project.

SUPPLEMENTARY INFORMATION

CLEARWATER MARINE AQUARIUM, INC. AND AFFILIATE
COMBINING STATEMENT OF FINANCIAL POSITION
SEPTEMBER 30, 2018

	<u>ASSETS</u>		
	<u>Clearwater Marine Aquarium, Inc.</u>	<u>Sea to Shore Alliance, Inc.</u>	<u>Total</u>
Current assets			
Cash and cash equivalents	\$ 4,049,084	\$ 5,460	\$ 4,054,544
Restricted cash	13,493,054	-	13,493,054
Accounts Receivable	127,948	2,431	130,379
Grant receivable	8,693	-	8,693
Current portion of contribution receivable	2,895,403	-	2,895,403
Inventory	1,084,016	29,396	1,113,412
Due from/(to) affiliate	95,265	(95,265)	-
Other current assets	538,592	114,681	653,273
Total current assets	22,292,055	56,703	22,348,758
Property and Equipment, Net	37,003,354	69,790	37,073,144
Other Assets			
Investments	6,532,422	-	6,532,422
Film costs, net	2,992,613	-	2,992,613
Contribution receivable, net	1,024,291	-	1,024,291
Externally controlled endowments	2,758,196	-	2,758,196
Total Assets	\$ 72,602,931	\$ 126,493	\$ 72,729,424
	<u>LIABILITIES AND NET ASSETS</u>		
Current Liabilities			
Accounts payable and accrued expenses	\$ 3,273,990	\$ 41,288	\$ 3,315,278
Deferred compensation	80,000	-	80,000
Deferred revenue	41,714	50,690	92,404
Current portion of notes payable	449,452	6,211	455,663
Total current liabilities	3,845,156	98,189	3,943,345
Notes Payable, Net	12,802,276	14,087	12,816,363
Total Liabilities	16,647,432	112,276	16,759,708
Net assets			
Unrestricted (deficit)	49,277,609	(15,277)	49,262,332
Temporarily restricted	4,745,232	29,494	4,774,726
Permanently restricted	1,932,658	-	1,932,658
Total net assets	55,955,499	14,217	55,969,716
Total Liabilities and Net Assets	\$ 72,602,931	\$ 126,493	\$ 72,729,424

See independent auditor's report

**CLEARWATER MARINE AQUARIUM, INC. AND AFFILIATE
COMBINING STATEMENT OF ACTIVITIES
FOR THE YEAR AND PERIOD ENDED SEPTEMBER 30, 2018**

	Clearwater Marine Aquarium, Inc.	Sea to Shore Alliance, Inc. **	Total
Revenue and Support			
Admissions and member fees	\$ 8,571,564	\$ -	\$ 8,571,564
Educational program fees	3,408,836	-	3,408,836
Fundraising events, net of expenses of \$109,539	250,369	-	250,369
Gift shop sales, net of cost of goods sold of \$1,391,305	2,418,692	-	2,418,692
Food service income, net of cost of goods sold of \$241,708	426,531	-	426,531
Sea turtle nesting fees	106,891	-	106,891
Grant income	140,926	27,059	167,985
Contributions	22,105,077	47,276	22,152,353
In-kind contributions	398,778	-	398,778
Boat and vehicle donations, net of impairment losses and related expenses of \$37,967	28,033	-	28,033
Realized and unrealized gains on investments	1,714	-	1,714
Interest and dividend income	292,518	-	292,518
Total revenue and support	38,149,929	74,335	38,224,264
Operating Expenses			
Animal care	4,544,095	122,270	4,666,365
Education	9,845,564	-	9,845,564
General and administrative	1,660,545	30,582	1,691,127
Fundraising	1,030,731	23,666	1,054,397
Total operating expenses	17,080,935	176,518	17,257,453
Change in Net Assets Before Non-Operating Income (Expense)	21,068,994	(102,183)	20,966,811
Non-operating income (expense)			
Excess of assets acquired over liabilities assumed in acquisition of S2S	-	107,396	107,396
Miscellaneous revenue	75,506	9,004	84,510
Appreciation in third-party endowments	69,827	-	69,827
Gain (loss) on disposal of assets	(1,449,459)	-	(1,449,459)
Total non-operating income (expense)	(1,304,126)	116,400	(1,187,726)
Change in Net Assets	19,764,868	14,217	19,779,085
Net Assets, Beginning of Year	36,190,631	-	36,190,631
Net Assets, End of Year	\$ 55,955,499	\$ 14,217	\$ 55,969,716

** Statement of activities covers the period July 1, 2018 through September 30, 2018

See independent auditor's report