

Clearwater Marine Aquarium, Inc.

Financial Statements

**For the Years Ended
September 30, 2012 and 2011**



Certified Public Accountants
Business Consultants
Limited Liability Company

Clearwater Marine Aquarium, Inc.
Table of Contents
September 30, 2012 and 2011

	<u>Page</u>
INDEPENDENT ACCOUNTANTS' REPORT	1
FINANCIAL STATEMENTS	
Statements of Financial Position	2
Statements of Activities	3
Statements of Cash Flows	4
Notes to the Financial Statements	5 - 20

INDEPENDENT ACCOUNTANTS' REPORT

INDEPENDENT ACCOUNTANTS' REPORT

The Board of Directors
Clearwater Marine Aquarium, Inc.
Clearwater, Florida

We have audited the accompanying statements of financial position of Clearwater Marine Aquarium, Inc., a nonprofit organization, (the "Aquarium") as of September 30, 2012 and 2011, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Aquarium's management. Our responsibility is to express an opinion on these financial statements based on our audits. The prior year summarized comparative information included in the consolidated statement of activities has been derived from Clearwater Marine Aquarium's 2011 financial statements and, in our report dated January 20, 2011, we expressed an unqualified opinion on those financial statements.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Clearwater Marine Aquarium, Inc. as of September 30, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Carr, Riggs & Ingram, L.L.C.

CARR, RIGGS & INGRAM, LLC
Certified Public Accountants

December 17, 2012

FINANCIAL STATEMENTS

Clearwater Marine Aquarium, Inc.

Statements of Financial Position

<i>September 30,</i>	Unrestricted	Temporary Restricted	Permanently Restricted	Total 2012	2011
Assets:					
Current assets:					
Cash and cash equivalents	\$ 549,521	\$ 714	\$ -	\$ 550,235	\$ 524,750
Accounts receivable	99,772	-	-	99,772	39,565
Pledge receivable	-	70,050	-	70,050	128,250
Investments	5,820	-	-	5,820	4,502
Gift shop inventory	1,017,024	-	-	1,017,024	262,974
Boat and vehicle inventory, net of estimated selling expenses of \$17,204 and \$29,026, respectively	20,196	-	-	20,196	34,074
Other current assets	304,185	-	-	304,185	222,078
Total current assets	1,996,518	70,764	-	2,067,282	1,216,193
Property and equipment, net	13,418,851	-	-	13,418,851	8,954,657
Long term pledges	-	60,200	-	60,200	-
Externally controlled endowments	-	505,847	1,932,658	2,438,505	2,134,882
Total assets	\$ 15,415,369	\$ 636,811	\$ 1,932,658	\$ 17,984,838	\$ 12,305,732
Liabilities and Net Assets:					
Current liabilities:					
Accounts payable and accrued expenses	\$ 1,276,966	\$ -	\$ -	\$ 1,276,966	\$ 819,891
Deferred revenue	6,818	-	-	6,818	-
Current portion of notes payable	35,834	-	-	35,834	528,381
Total current liabilities	1,319,618	-	-	1,319,618	1,348,272
Notes payable, net of current portion	9,996	-	-	9,996	2,439,233
Total liabilities	1,329,614	-	-	1,329,614	3,787,505
Net Assets:					
Unrestricted	14,085,755	-	-	14,085,755	6,241,690
Temporarily restricted	-	636,811	-	636,811	343,879
Permanently restricted	-	-	1,932,658	1,932,658	1,932,658
Total net assets	14,085,755	636,811	1,932,658	16,655,224	8,518,227
Total liabilities and net assets	\$ 15,415,369	\$ 636,811	\$ 1,932,658	\$ 17,984,838	\$ 12,305,732

See accompanying Notes to Financial Statements.

Clearwater Marine Aquarium, Inc.

Statements of Activities

Year ending September 30,	2012			2011	
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
Revenue and support:					
Admissions and member fees	\$ 10,030,093	\$ -	\$ -	\$ 10,030,093	\$ 2,194,832
Animal encounter fees	2,437,981	-	-	2,437,981	500,088
Education program fees	273,979	-	-	273,979	126,361
Fundraising events	708	-	-	708	182,098
Gift shop sales, net of cost of goods sold of \$2,681,939 and 470,961, respectively	3,974,381	-	-	3,974,381	671,106
Sea turtle nesting fees	139,826	-	-	139,826	131,433
Grant income	60,000	-	-	60,000	1,123,170
Contributions	394,332	52,747	-	447,079	2,420,525
Non-cash contributions	513,988	-	-	513,988	456,892
Boat and vehicle donations, net of impairment losses and related expenses of \$105,611 and \$125,286, respectively	(40,516)	-	-	(40,516)	(47,091)
Licensing and merchandise royalties	56,208	-	-	56,208	335,715
Hotel sponsorships	143,321	-	-	143,321	64,125
Interest income	106,591	-	-	106,591	93,410
Total revenue and support	18,090,892	52,747	-	18,143,639	8,252,664
Net assets released from restrictions	63,438	(63,438)	-	-	-
Operating expenses:					
Animal care	2,202,754	-	-	2,202,754	1,852,062
Education	6,649,032	-	-	6,649,032	2,740,719
General and administrative	1,073,924	-	-	1,073,924	828,984
Fundraising	252,097	-	-	252,097	185,671
Interest	15,733	-	-	15,733	80,474
Total operating expenses	10,193,540	-	-	10,193,540	5,687,910
Other changes:					
Miscellaneous income	121,638	-	-	121,638	49,272
Loss on disposal of fixed asset	(238,363)	-	-	(238,363)	-
Marketing event, net of related expenses of \$0 and \$ 222,420, respectively	-	-	-	-	47,528
Appreciation (depreciation) in externally controlled endowment	-	303,623	-	303,623	(72,959)
Total other changes	(116,725)	303,623	-	186,898	23,841
Changes in net assets	7,844,065	292,932	-	8,136,997	2,588,595
Net assets, beginning of year	6,241,690	343,879	1,932,658	8,518,227	5,929,632
Net assets, end of year	\$ 14,085,755	\$ 636,811	\$ 1,932,658	\$ 16,655,224	\$ 8,518,227

See accompanying Notes to Financial Statements.

Clearwater Marine Aquarium, Inc.

Statements of Cash Flows

<i>Year ending September 30,</i>	2012	2011
Increase in net assets	\$ 8,136,997	\$ 2,588,595
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	606,418	264,890
Bad debt expense	72	1,864
Loss on sale of property and equipment	238,363	3,947
Donated boat and vehicle inventory	(54,650)	(85,495)
(Gain)/loss on sale of boats and vehicles	(19,745)	(55,595)
(Appreciation)/depreciation in externally controlled endowments	(303,623)	72,958
Changes in net assets and liabilities:		
Accounts receivable	(60,279)	(17,025)
Contribution receivable	(2,000)	(3,250)
Investments	(1,318)	(874)
Gift shop inventory	(754,050)	(158,008)
Boat and vehicle inventory, net	50,428	62,394
Other inventory	-	3,365
Other current assets	(82,107)	(60,309)
Accounts payable	457,075	399,833
Deferred revenue	6,818	(19,800)
Net cash provided by operating activities	8,218,399	2,997,490
Investing activities:		
Proceeds from sale of boats and vehicles	37,845	226,095
Purchases of property and equipment	(5,308,975)	(4,411,777)
Net cash used by investing activities	(5,271,130)	(4,185,682)
Financing activities:		
Principal repayments on line of credit	-	(71,607)
Principal repayments on notes payable	(3,621,784)	(1,010,401)
Borrowings from bonds payable	700,000	2,567,614
Net cash (used by)/provided by financing activities	(2,921,784)	1,485,606
Net increase in cash and cash equivalents	25,485	297,414
Cash and cash equivalents at beginning of year	524,750	227,336
Cash and cash equivalents at end of year	\$ 550,235	\$ 524,750
Supplemental disclosures of cash flows information:		
Cash paid for interest, net of capitalized interest of \$1,133 and \$11,049, respectively.	\$ 15,733	\$ 37,630

See accompanying Notes to Financial Statements.

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

The Clearwater Marine Aquarium, Inc. (the “Aquarium”) is a nonprofit corporation located in Clearwater, Florida. The Aquarium is dedicated to public education, research, animal assisted therapy, and the rescue, rehabilitation, and release of sick or injured animals. The Aquarium is also involved with a number of marine science research initiatives, environmental conservation and public education.

Revenue and support for the Aquarium’s programs and activities is generated primarily through admission and membership fees, gift shop revenue, animal encounter experiences, donated boat sales, grants, and contributions from the public.

Basis of Accounting

The accompanying financial statements are prepared in accordance with accounting principles generally accepted in the United States of America. Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Aquarium and changes therein are classified and reported as follows:

Unrestricted Net Assets – Net assets that are not subject to donor-imposed stipulations.

Temporarily Restricted Net Assets – Net assets subject to donor-imposed stipulations that may or will be met, either by actions of the Aquarium and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of revenues, expenses and other changes in net assets as net assets released from restrictions. Assets with donor restrictions that are met in the same year as they are received are reported as unrestricted net assets.

Permanently Restricted Net Assets – Net assets subject to donor-imposed stipulations where the principal contribution must remain intact.

Revenue Recognition

In accordance with ASC 958, 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.

Notes to Financial Statements

**NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

New Accounting Standards

Effective July 1, 2012, the Florida Uniform Prudent Management of Institutional Funds Act (“FUPMIFA”) became effective for all Florida 501(c)3 organizations under Florida Statute 617.2104. FUPMIFA provides specific guidelines for all investments, or institutional funds, which are not considered program related assets. Program related assets are held specifically to accomplish charitable purposes. FUPMIFA requires those responsible for managing investments to consider factors including, but not limited to, general economic conditions, the role of diversification, both short and long term needs of the charity, and expected total return.

Notably, the application of GAAP has also changed under the implementation of FUPMIFA. Prior to FUPMIFA, in the absence of explicit donor restriction, both investment income and related gains/(losses) were classified as unrestricted. FUPMIFA stipulates unless the amount is appropriated for expenditure, any portion of an endowment fund that is not considered permanently restricted is to be reported as temporarily restricted.

Cash and Cash Equivalents

At September 30, 2012 and 2011, cash consists of monies held in checking accounts, savings accounts and cash on hand. Cash contributions for a specific purpose are recorded as temporary restricted until spent. The Aquarium considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

Accounts Receivable

The Aquarium considers accounts receivable to be substantially collectible. An allowance for doubtful accounts is established for accounts receivable when collection is doubtful. 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 required as of September 30, 2012 and 2011.

Gift Shop Inventory

Inventory consists of merchandise held for sale by the Aquarium gift shop and is stated at the lower of average cost or market.

Contribution Receivable

Contribution receivables are recorded as a receivable when a pledge is made from a viable source and is in written form. Contributions receivable are recorded as temporarily restricted until the pledge is received and/or the purpose is met. As of September 30, 2012, Management has not established an allowance for contributions receivable as they believe all outstanding pledges will be collected in full. Contributions receivable are evaluated on a regular basis and are written off in the event a pledge cannot be fulfilled.

Clearwater Marine Aquarium, Inc.

Notes to Financial Statements

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contribution Receivable (CONTINUED)

Contributions are expected to be collected in the following years as follows:

Expected receipt of contribution in:	Amount
2013	\$ 70,050
2014	41,200
2015	7,200
2016	6,800
2017	5,000
<hr/>	
Gross contributions receivable	\$ 130,250

Donated Boat and Vehicle Inventory

The value of boats and vehicles donated to the Aquarium are recorded as contributions at their estimated values at the date of receipt net of estimated selling costs. During each year, the boat and vehicle inventory is periodically assessed for declines in estimated values based on changes in market conditions and if necessary, an impairment loss is recorded to adjust the boat and vehicle inventory to net realizable value.

For the years ended September 30, 2012 and 2011, the Aquarium recorded impairment write-downs totaling \$7,700 and \$40,250, respectively.

Property and Equipment

Property and equipment with an acquisition cost or donated value of \$500 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. Interest expense incurred on the bond obligation is capitalized and included in construction in process in Note 4. Capitalized interest for the year ending September 30, 2012 and 2011 is \$1,133 and \$11,049, respectively. Depreciation is computed using the straight-line method over the following estimated useful lives of the related assets:

Building and improvements	5 – 40 years
Furniture, fixtures and equipment	3 – 15 years
Boats and vehicles	5 - 10 years

Notes to Financial Statements

**NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

Licensing Revenue

During 2011, the Aquarium received approximately \$335,000 in payments in connection with the filming of the movie, *Dolphin Tale*. These payments related primarily to use of the facility and pools of the Aquarium by the production company.

Hotel Partnerships

Beginning in 2011, the Aquarium offered sponsorship opportunities to hotels in the Tampa Bay area at two levels: \$10,000 or \$2,500 per year. Each level determined the placement of the hotel on the Aquarium's website and the number of tickets provided by the Aquarium to the hotel. The hotels provided CMA certain room availabilities and commissions on any rooms booked through the Aquarium's website. This program was discontinued at the end of 2012, with all sponsorships having been paid in full as of October 31, 2012.

Claims Resolution

During 2011, the Aquarium received approximately \$331,000 in compensation from the Gulf Coast Claims Facility for lost profits related to the Gulf Oil Spill that occurred in April of 2010. This amount is included in Admissions and member fees on the State of Activities as it replaces lost revenue for the Aquarium.

Marketing Event

On September 21, 2011, the Aquarium held a movie screening for the debut of the movie, *Dolphin Tale*. Gross proceeds from the event totaled approximately \$269,000 with related expenses of approximately \$222,000. No significant marketing events were held in 2012.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Investments

Investments in equity securities with readily determinable fair values are measured at fair value based on quoted market prices. Gains and losses on market value adjustments and sales are recognized in the statements of activities.

Notes to Financial Statements

**NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

Donated Items

The value of donated materials and equipment has been recorded in the financial statements as contributions based upon the fair market value of the goods received. In addition, the Aquarium has received donated services from various individuals. The Aquarium includes the fair market value of these services in the financials when they meet the criteria for recognition under ASC 958.

Advertising Costs

Advertising is expensed as incurred or upon the date the advertising publications are first released. Advertising expense totaled \$854,010 and \$1,431,871 for the years ended September 30, 2012 and 2011, respectively. Included in advertising expense in 2012 and 2011 is donated advertising in the approximate amount of \$219,000 and \$1,100,000, respectively. Cash paid for advertising was approximately \$635,000 and \$300,000 in 2012 and 2011, respectively.

Date of Management's Review

Management has evaluated events and transactions for potential recognition or disclosure through December 17, 2012, which is the date the financial statements were available to be issued.

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 adheres to the provisions of *FASB ASC (Accounting Standards Codification) No. 740, Accounting for Uncertainty in Income Taxes*. As a result of adhering to ASC No. 740, the Organization has not recognized any respective liability for unrecognized tax benefits as it has no known tax positions that would subject the Organization to any material income tax exposure. A reconciliation of the beginning and ending amount of unrecognized tax benefits is not included, nor is there any interest accrued related to unrecognized tax benefits in interest expense and penalties in operating expenses as there are no unrecognized tax benefits.

Under Financial Accounting Standards Board's (the "FASB") Accounting Standards Codification 740, an entity's income tax returns are subject to examination by the applicable taxing authorities. The time period during which a return may be selected by a taxing authority for examination generally ends at the later of three years after the initial due date of the return or three years after the return is filed. At September 30, 2012, the Company's tax years that remain subject to examination are 2011, 2010, 2009.

Notes to Financial Statements

NOTE 2 – FAIR VALUE MEASUREMENT

ASC 820, Fair Value Measurements, establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurement) and the lowest priority to unobservable inputs (Level 3 measurement). The three levels of the fair value hierarchy under ASC 820 are described as follows:

Level 1 – Inputs to the valuation methodology are unadjusted quoted prices in active markets for identical assets.

Level 2 – Inputs other than quoted prices within Level 1 that are observable for the asset, either directly or indirectly.

Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following is a description of the valuation methodologies used for assets measured at fair value.

Equities: Comprised of common stock valued at the closing price reported in the active market in which the individual securities are traded.

Fixed Income: Comprised of corporate and municipal bonds valued at the net asset value (NAV) of shares held by the plan at year end. The bonds are invested in bonds in industries noted below. There are no unfunded commitments within the bonds and in addition there are no significant restrictions on the organizations ability to sell investments.

Tangible Assets: Comprised of a single actively managed and traded index fund that invests in a wide range of commodity sectors.

Life Insurance Contract: Comprised of cash value of investment in money market fund through a variable life insurance contract less surrender charge.

Boat and Vehicle Inventory: Comprised of donated boats and vehicles valued at the price reported in the active market in which the assets are traded net of estimated selling expenses.

Notes to Financial Statements

NOTE 2 – FAIR VALUE MEASUREMENT (CONTINUED)

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although 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.

The following table sets forth by level, the fair value hierarchy, of investments at fair value:

<i>September 30,</i>	2012			
	Assets Measured at Fair Value	Fair Value Hierarchy Level		
		Level 1	Level 2	Level 3
Stocks:				
U.S. Large Cap	\$ 386,000	\$ 386,000	\$ -	\$ -
U.S. Mid Cap	160,903	160,903	-	-
U.S. Small Cap	90,523	90,523	-	-
International Developed	106,988	106,988	-	-
Emerging Markets	164,258	164,258	-	-
Healthcare Services	29,251	29,251	-	-
Financial Services	38,452	38,452	-	-
Consumer Services	9,431	9,431	-	-
Business Services	13,477	13,477	-	-
Energy	35,666	35,666	-	-
Hardware	16,010	16,010	-	-
Industrial Materials	27,344	27,344	-	-
Telecommunications	17,037	17,037	-	-
Consumer Goods	72,619	72,619	-	-
Utilities	16,862	16,862	-	-
Software	6,679	6,679	-	-
Foreign Blend	8,826	8,826	-	-
Blended	8,834	8,834	-	-
Home Furnishings & Fixtures	5,804	5,804	-	-
Packaging & Containers	5,539	5,539	-	-
Drug Manufacturers - Major	5,224	5,224	-	-
Financial Exchanges	4,462	4,462	-	-
Total stocks	1,230,189	1,230,189	-	-
Fixed Income:				
Investment Grade	513,674	513,674	-	-
Hedge funds specific strategy	288,047	288,047	-	-
Global High Yield	86,859	86,859	-	-
Real Estate	99,521	99,521	-	-
Total fixed income	988,101	988,101	-	-
Tangible Assets:				
Commodities	122,607	122,607	-	-
Total tangible assets	122,607	122,607	-	-
Interest-Bearing Cash	103,428	103,428	-	-
Total investments and externally controlled endowments	2,444,325	2,444,325	-	-
Life insurance contract	23,160	-	23,160	-
Boats and vehicles, net	20,196	-	-	20,196
Total assets at fair value	\$ 2,487,681	\$ 2,444,325	\$ 23,160	\$ 20,196

Clearwater Marine Aquarium, Inc.

Notes to Financial Statements

NOTE 2 - FAIR VALUE MEASUREMENT (CONTINUED)

	2011			
	Assets Measured at Fair Value	Fair Value Hierarchy Level		
		Level 1	Level 2	Level 3
September 30,				
Stocks:				
U.S. Large Cap	\$ 670,940	\$ 670,940	\$ -	\$ -
U.S. Mid Cap	117,843	117,843	-	-
U.S. Small Cap	69,192	69,192	-	-
International Developed	175,107	175,107	-	-
Emerging Markets	60,471	60,471	-	-
Healthcare Services	26,768	26,768	-	-
Financial Services	25,412	25,412	-	-
Consumer Services	14,881	14,881	-	-
Business Services	11,604	11,604	-	-
Energy	37,810	37,810	-	-
Hardware	14,083	14,083	-	-
Industrial Materials	21,819	21,819	-	-
Telecommunications	13,168	13,168	-	-
Consumer Goods	40,767	40,767	-	-
Utilities	16,515	16,515	-	-
Software	5,526	5,526	-	-
Foreign Blend	7,870	7,870	-	-
Blended	6,812	6,812	-	-
Home Furnishings & Fixtures	4,535	4,535	-	-
Aerospace & Defense	5,202	5,202	-	-
Packaging & Containers	4,397	4,397	-	-
Drug Manufacturers - Major	3,747	3,747	-	-
Financial Exchanges	4,161	4,161	-	-
Total stocks	1,358,630	1,358,630	-	-
Fixed Income:				
Investment Grade	589,649	589,649	-	-
Global High Yield	67,813	67,813	-	-
Public REITS	19,230	19,230	-	-
Real Estate	14,491	14,491	-	-
Total fixed income	691,183	691,183	-	-
Tangible Assets:				
Commodities	45,091	45,091	-	-
Total tangible assets	45,091	45,091	-	-
Interest-Bearing Cash	44,479	44,479	-	-
Total investments and externally controlled endowments	2,139,383	2,139,383	-	-
Life insurance contract	21,089	-	21,089	-
Boats and vehicles, net	34,074	-	-	34,074
Total assets at fair value	\$ 2,194,546	\$ 2,139,383	\$ 21,089	\$ 34,074

Clearwater Marine Aquarium, Inc.

Notes to Financial Statements

NOTE 2 - FAIR VALUE MEASUREMENT (CONTINUED)

The following table sets forth a summary of changes in the fair value of the Organization's Level 3 assets:

<u>Year ending September 30, 2012</u>	<u>Boat Inventory</u>	
Beginning balance at fair value	\$	34,074
Donated boats and vehicles		54,650
Less: Sales		(66,900)
Less: Impairments		(7,700)
Prepaid expenses		6,072
<u>Ending balance at fair value</u>	<u>\$</u>	<u>20,196</u>

Realized gains from the sale of donated boats and automobiles totaled \$19,745 and \$55,595 for the years ended September 30, 2012 and 2011, respectively.

NOTE 3 – CASH SURRENDER VALUE OF LIFE INSURANCE

The Aquarium and its CEO own, as co-owners, a universal life insurance policy on the life of the CEO with a death benefit of \$539,621. The policy is structured to provide the Aquarium and its CEO an undivided interest in the funding policy in direct proportion to their premium share. As of September 30, 2012 and 2011, the Aquarium had funded all of the premium payments and net of surrender charges, the policy had a cash surrender value of \$23,165 and \$21,089, respectively.

NOTE 4 – PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

<u>September 30,</u>	<u>2012</u>		<u>2011</u>	
Land	\$	5,037,496	\$	4,526,211
Buildings and improvements		5,556,014		3,950,983
Furniture, fixtures and equipment		1,706,818		1,061,890
Vehicles		715,681		288,988
Construction in progress		2,542,241		701,029
		<u>15,558,250</u>		<u>10,529,101</u>
Less: Accumulated depreciation		<u>(2,139,399)</u>		<u>(1,574,444)</u>
<u>Property and equipment, net</u>	<u>\$</u>	<u>13,418,851</u>	<u>\$</u>	<u>8,954,657</u>

Clearwater Marine Aquarium, Inc.

Notes to Financial Statements

NOTE 5 – LAND

On December 21, 1989, a parcel of land in Crystal Beach, Florida was donated to the Aquarium. The market value of the property based upon an MAI appraisal dated December 27, 1989 was \$400,000. A restriction was placed on the gift providing that the Aquarium keep the land in its natural and unimproved state with an exception for improvements such as trails, boardwalks, piers and buildings used in the operation of the Aquarium's programs. No residential or commercial use of the property is permitted. Due to these restrictions, the land is included in the statements of financial position at \$1.

NOTE 6 - ENDOWMENTS

The Aquarium's 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 a third-party trustee and therefore the Aquarium has no direct influence over the investment policy of either fund. The Aquarium 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 Aquarium's policy is to appropriate interest and dividends received from these endowments for operations. Therefore, interest and dividends is reported as unrestricted on the Statements of Activities.

The Board of Directors of the Aquarium 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 Aquarium 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 donor's have stipulated that additional accumulation of funds above and beyond the permanent endowment are unrestricted as to purpose, however the Aquarium reports the accumulation of funds as temporarily restricted net assets until the funds are distributed by the trustees to the Aquarium and appropriated by the Board of Directors.

Endowment net asset composition by type of fund as of September 30, 2012:

	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ 505,847	\$ 1,932,658	\$ 2,438,505

Clearwater Marine Aquarium, Inc.

Notes to Financial Statements

NOTE 6 – ENDOWMENTS (CONTINUED)

Changes in endowment net assets for the year ended September 30, 2012:

	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 202,224	\$ 1,932,658	\$ 2,134,882
Unrealized gain	303,623	-	303,623
Endowment net assets, end of year	\$ 505,847	\$ 1,932,658	\$ 2,438,505

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. For the years ended September 30, 2012 and 2011, the fair market value of the assets that support the revenue streams to the Aquarium increased by \$303,625 and decreased by \$72,959, respectively.

NOTE 7 – LINE OF CREDIT

During 2010, the Aquarium opened a revolving line of credit up to \$500,000 for additional working capital and is charged interest at the one-month LIBOR rate plus 2.25%, with a 3.0% minimum (3.0% at September 30, 2011) and the interest is payable monthly. The line of credit is secured with receivables, equipment and inventory and is payable on demand. In March of 2011 this line of credit was increased to \$650,000. During 2011 the Aquarium made draws on the line of credit. The line was completely paid off on April 30, 2011. The line of credit has an outstanding balance of \$0- at September 30, 2012 and 2011.

NOTE 8 – LONG-TERM DEBT

On December 29, 2010, the Pinellas County Industrial Development Authority d/b/a Pinellas County Economic Development Authority (the "Issuer") issued a 20-year term bond in the principal amount up to \$8,600,000, Series 2010, (the "Bond") to the Aquarium (the "Borrower"). The Bonds were issued pursuant to an agreement (the "Agreement") between the Issuer and a financial institution, (the "Bank").

Notes to Financial Statements

NOTE 8 – LONG-TERM DEBT (CONTINUED)

The Bond shall be used to (i) refinance existing debt of the Borrower with the Bank, (ii) refinance the purchase of real property to be used as a parking lot, (iii) finance the construction of a parking garage, (iv) finance the construction of a parking lot and (v) finance construction and renovations related to the Borrower's main facility (collectively, the "Project"). The Agreement contains covenants that require the Aquarium to maintain compliance with laws, maintain its tax exempt status, report to the lender as required, and demonstrate key financial ratios, including a threshold of unrestricted net assets.

The Bond is secured by all assets and real property belonging to the Aquarium as well as any property, plant and equipment purchased in the future.

The interest rate shall be the sum of (i) 68% of One-Month LIBOR (.23% at September 30, 2012), as adjusted monthly with changes in One-Month LIBOR and (ii) 65% of the interest spread of 2.75% per annum (or 1.7875%). The interest rate shall be subject to adjustment in the event of decreases in the Bank's maximum statutory marginal tax rate, upon a determination of taxability or in the event the Bond is determined to not be bank qualified under Section 265(b)(3) of the Internal Revenue code.

Accrued interest shall be paid monthly in arrears on the 29th day of each month, beginning January 29, 2011. Beginning January 29, 2012, and continuing on the 29th day of each month thereafter, the Aquarium will pay monthly installments equal to 1/240th of the outstanding principal balance plus accrued interest. All principal and accrued and unpaid interest shall be unconditionally due and payable on the maturity date, December 29, 2031. Additionally, the Bond will be subject to mandatory redemption upon a Determination of Taxability or a Determination of Non-Bank Qualified Status.

Clearwater Marine Aquarium, Inc.

Notes to Financial Statements

NOTE 8 – LONG-TERM DEBT (CONTINUED)

<i>Year ending September 30,</i>	2012	2011
Promissory note, payable in one lump sum payment, including accrued and unpaid interest on 12/27/11. The interest rate is subject to change based on the U.S. prime rate with the effective rate being no less than 4.0%. Note is guaranteed by one Board member and one at-large board member.	\$ -	\$ 200,000
Promissory note, payable in one lump sum payment, including accrued and unpaid interest on 6/27/12. The interest rate is subject to change based on the U.S. prime rate with the effective rate being no less than 4.0%. Note is guaranteed by two Board members.	-	200,000
Twenty year term bond collateralized by all real property of the Aquarium, payable in monthly principal installments equal to 1/240th of the outstanding balance beginning on January 29, 2012. Interest is variable LIBOR rates. Bond matures on December 29, 2031.	45,830	2,567,614
Total of debt obligations	45,830	2,967,614
Less current portion of notes payable	(35,834)	(528,381)
Notes payable, net of current portion	\$ 9,996	\$ 2,439,233

Future maturities of notes payable are as follows:

<i>Year ending September 30,</i>	Principal Payment
2014	\$ 9,996
Thereafter	-
	\$ 9,996

Clearwater Marine Aquarium, Inc.

Notes to Financial Statements

NOTE 9 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consist of the following:

<i>September 30,</i>	2012	2011
Temporary restricted net assets, beginning of year	\$ 343,879	\$ 291,302
Contributions/(Release from restrictions), net	(10,691)	125,536
Appreciation (depreciation) of externally controlled endowments	303,623	(72,959)
Temporarily restricted net assets, end of year	\$ 636,811	\$ 343,879

NOTE 10 – PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets consist of the following:

<i>September 30,</i>	2012	2011
Externally controlled endowments:		
Thomas Cooper	\$ 1,362,500	\$ 1,362,500
Edna Klauser	570,158	570,158
	\$ 1,932,658	\$ 1,932,658

NOTE 11 – CONTRIBUTED SERVICES

A substantial number of unpaid volunteers have made significant contributions of their time to develop the Aquarium's programs principally in the areas of animal care, education, and daily operations. The value of this contributed time is not reflected in these financial statements as it does not meet the criteria for in-kind revenue and expense recognition. The total hours contributed during both 2012 and 2011 were approximately 125,000.

During the year, the Aquarium received in-kind contributions for services provided to the Aquarium. These contributions have been recorded as unrestricted contributions at their estimated fair market value at the time of donation.

Clearwater Marine Aquarium, Inc.

Notes to Financial Statements

NOTE 11 – IN-KIND CONTRIBUTIONS (CONTINUED)

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

<i>For the year ended September 30,</i>	2012	2011
FMV of time spent working on Winter's prosthetic tail	\$ 194,000	\$ 188,000
Other donated services	319,988	268,892
Total non-cash contributions	\$ 513,988	\$ 456,892

NOTE 12 – RELATED PARTY TRANSACTIONS

A member of the Board of Directors provided contracting services for various facility additions and improvements during the current year. The total fair market value of services provided during the years ended September 30, 2012 and 2011, was \$73,677 and \$100,673, respectively.

The Aquarium also purchased merchandise from the company owned by one of the Aquarium's Board of Directors. Total payments to this company during the years ended September 30, 2012 and 2011 was \$43,218 and \$15,483, respectively.

NOTE 13 – DEFINED CONTRIBUTION BENEFIT PLAN

The Aquarium sponsors a 401(k) savings plan for employees who have attained one year of service and have reached the age of 21. The Aquarium 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 Aquarium contributed \$46,551 and \$31,296 to the Plan during the years ended September 30, 2012 and 2011, respectively.

NOTE 14 – CONCENTRATION RISK

The Aquarium maintains its cash balances with an accredited financial institution. From time to time during the year, deposits may exceed the threshold guaranteed by the Federal Deposit Insurance Corporation.

NOTE 15– OPERATING LEASE

On September 12, 2011, the City of Clearwater and the Aquarium executed a Business Lease Agreement and License Agreement to access, renovate, and occupy the Harborview Center located at 320 Cleveland Street in downtown Clearwater, Florida.

Under the terms of the lease, the Aquarium secured rights to use of the second floor of the Harborview Center building, and has a one year initial lease term, with an option for an additional one year term followed by an option for an additional six-month term.

The lease calls for rental payments over the 30 month lease totaling \$58,867, which is equivalent to the capital expenditures incurred by the City of Clearwater to make initial repairs on the Harborview Center building. The rental payments are calculated at a \$1 per visitor fee until the full amount is paid to the City of Clearwater, and thereafter the rent is \$1 per lease year.