

Clearwater Marine Aquarium, Inc.

Financial Statements

**For the Years Ended
September 30, 2013 and 2012**



Certified Public Accountants
Business Consultants
Limited Liability Company

Clearwater Marine Aquarium, Inc.
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September 30, 2013 and 2012

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INDEPENDENT AUDITORS' REPORT

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Clearwater Marine Aquarium

Report on the Financial Statements

We have audited the accompanying financial statements of Clearwater Marine Aquarium, Inc. ("the Aquarium") (a nonprofit organization), which comprise the statements of financial position as September 30, 2013 and the related statements of activities, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. 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 audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Clearwater Marine Aquarium, Inc. as of September 30, 2013 and 2012, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the Aquarium's 2012 financial statements, and our report dated December 17, 2012, expressed an unqualified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended September 30, 2012, is consistent, in all material respects, with the audited financial statements from which it has been derived.

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

CARR, RIGGS & INGRAM, LLC

Clearwater, Florida

March 6, 2014

FINANCIAL STATEMENTS

Clearwater Marine Aquarium, Inc.

Statements of Financial Position

<i>September 30,</i>	Unrestricted	Temporary Restricted	Permanently Restricted	Total 2013	2012 (Summarized)
Assets:					
Current assets:					
Cash	\$ 423,285	\$ 5,714	\$ -	\$ 428,999	\$ 550,235
Accounts receivable	62,929	-	-	62,929	99,772
Accounts receivable - Grants	250,000	-	-	250,000	-
Contribution receivable	-	74,940	-	74,940	70,050
Investments	2,496,487	-	-	2,496,487	5,820
Gift shop inventory	1,005,006	-	-	1,005,006	1,017,024
Boat and vehicle inventory, net of estimated selling expenses of \$10,304 and \$17,204, respectively	12,096	-	-	12,096	20,196
Other current assets	269,966	-	-	269,966	248,051
Total current assets	4,519,769	80,654	-	4,600,423	2,011,148
Property and equipment, net	18,804,087	-	-	18,804,087	13,418,851
Film costs, net	566,413	-	-	566,413	56,134
Long term contribution receivable	-	156,200	-	156,200	60,200
Externally controlled endowments	-	602,811	1,932,658	2,535,469	2,438,505
Total assets	\$ 23,890,269	\$ 839,665	\$ 1,932,658	\$ 26,662,592	\$ 17,984,838
Liabilities and net assets:					
Current liabilities:					
Accounts payable and accrued expenses	\$ 1,471,886	\$ -	\$ -	\$ 1,471,886	\$ 1,276,966
Deferred revenue	26,355	-	-	26,355	6,818
Current portion of notes payable	464,436	-	-	464,436	35,834
Total current liabilities	1,962,677	-	-	1,962,677	1,319,618
Notes payable, net of current portion	5,710,632	-	-	5,710,632	9,996
Total liabilities	7,673,309	-	-	7,673,309	1,329,614
Net assets:					
Unrestricted	16,216,960	-	-	16,216,960	14,085,755
Temporarily restricted	-	839,665	-	839,665	636,811
Permanently restricted	-	-	1,932,658	1,932,658	1,932,658
Total net assets	16,216,960	839,665	1,932,658	18,989,283	16,655,224
Total liabilities and net assets	\$ 23,890,269	\$ 839,665	\$ 1,932,658	\$ 26,662,592	\$ 17,984,838

See accompanying Notes to Financial Statements.

Clearwater Marine Aquarium, Inc.

Statements of Activities

Year ending September 30,	2013			2012 (Summarized)	
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
Revenue and support:					
Admissions and member fees	\$ 7,200,533	\$ -	\$ -	\$ 7,200,533	\$ 10,030,093
Animal encounter fees	2,287,499	-	-	2,287,499	2,437,981
Education program fees	266,907	-	-	266,907	273,979
Fundraising events, net of expenses of \$52,392 and \$ -, respectively	118,054	-	-	118,054	708
Gift shop sales, net of cost of goods sold of \$1,550,941 and \$2,449,679, respectively	2,145,872	-	-	2,145,872	3,593,327
Food service income, net of cost of sold of \$263,579 and \$232,260, respectively	509,784	-	-	509,784	381,054
Sea turtle nesting fees	130,000	-	-	130,000	139,826
Grant income	268,535	-	-	268,535	60,000
Contributions	309,254	211,043	-	520,297	447,079
Non-cash contributions	725,472	-	-	725,472	513,988
Boat and vehicle donations, net of impairment losses and related expenses of \$33,432 and \$105,611, respectively	38,482	-	-	38,482	(40,516)
Licensing and merchandise royalties	48,838	-	-	48,838	56,208
Hotel sponsorships	6,501	-	-	6,501	143,321
(Depreciation) in investments	(84,333)	-	-	(84,333)	-
Interest and dividend income	149,618	-	-	149,618	106,591
Total revenue and support	14,121,016	211,043	-	14,332,059	18,143,639
Net assets released from restrictions	105,153	(105,153)	-	-	-
Operating expenses:					
Animal care	2,663,930	-	-	2,663,930	2,202,754
Education	7,796,846	-	-	7,796,846	6,649,032
General and administrative	1,392,404	-	-	1,392,404	1,073,924
Fundraising	168,586	-	-	168,586	252,097
Interest	4,310	-	-	4,310	15,733
Total operating expenses	12,026,076	-	-	12,026,076	10,193,540
Non-operating income/(expense):					
Osceola development, net of expenses of \$234,099 and \$ -, respectively	(123,189)	-	-	(123,189)	-
Miscellaneous income	54,301	-	-	54,301	121,638
Loss on disposal of fixed asset	-	-	-	-	(238,363)
Appreciation in third party endowment	-	96,964	-	96,964	303,623
Total other changes	(68,888)	96,964	-	151,265	186,898
Increase in net assets	2,131,205	202,854	-	2,334,059	8,136,997
Net assets, beginning of year	14,085,755	636,811	1,932,658	16,655,224	8,518,227
Net assets, end of year	\$ 16,216,960	\$ 839,665	\$ 1,932,658	\$ 18,989,283	\$ 16,655,224

See accompanying Notes to Financial Statements.

Clearwater Marine Aquarium, Inc.

Statements of Cash Flows

<i>Year ending September 30,</i>	2013	2012 (Summarized)
Increase in net assets	\$ 2,334,059	\$ 8,136,997
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	743,001	606,418
Bad debt expense	5,617	72
Loss on sale of property and equipment	-	238,363
Donated boat and vehicle inventory	(39,981)	(54,650)
(Gain)/loss on sale of boats and vehicles	(47,464)	(19,745)
Depreciation in investments	84,333	-
(Appreciation) in externally controlled endowments	(96,963)	(303,623)
Changes in net assets and liabilities:		
Accounts receivable	(218,774)	(60,279)
Contribution receivable	(100,890)	(2,000)
Investments	-	(1,318)
Gift shop inventory	12,018	(754,050)
Boat and vehicle inventory, net	4,950	50,428
Other inventory	-	-
Film costs	(510,279)	56,134
Other current assets	(21,915)	(138,241)
Accounts payable	194,920	457,075
Deferred revenue	19,537	6,818
Net cash provided by operating activities	2,362,169	8,218,399
Investing activities:		
Proceeds from sale of boats and vehicles	90,595	37,845
Purchases of investments	(2,575,000)	-
Purchases of property and equipment	(6,128,238)	(5,308,975)
Net cash used by investing activities	(8,612,643)	(5,271,130)
Financing activities:		
Proceeds from bonds payable	5,075,209	700,000
Payments on bonds payable	(465,842)	(3,221,784)
Proceeds from notes payable	1,524,896	-
Payments on notes payable	(5,025)	(400,000)
Net cash provided by/(used by) financing activities	6,129,238	(2,921,784)
Net (decrease)/increase in cash and cash equivalents	(121,236)	25,485
Cash at beginning of year	550,235	524,750
Cash at end of year	\$ 428,999	\$ 550,235
Supplemental disclosures of cash flows information:		
Cash paid for interest, net of capitalized interest of \$56,482 and \$29,308, respectively.	\$ 4,311	\$ 15,733

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 *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.

Notes to Financial Statements

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

Comparative Financial Information

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended September 30, 2012, from which the summarized information was derived.

Cash

At September 30, 2013 and 2012, cash consists of monies held in checking accounts, savings accounts, cash in the Aquarium's investment portfolio, and petty cash. Cash contributions for a specific purpose are recorded as temporary restricted until spent.

Accounts Receivable

The Aquarium 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, 2013 and 2012.

Accounts Receivable – Grants

At September 30, 2013, the Aquarium has accrued for \$250,000 in grant receivable due from the State of Florida. The grant, which became effective July 1, 2013 and expires June 30, 2014, is for \$1,000,000. The purpose of the grant is for costs associated with the development and production of *Dolphin Tale 2*. Management considers the receivable fully collectible as of September 30, 2013 and therefore has not established an allowance for doubtful accounts.

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. All gift shop inventory is considered to be finished goods.

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, 2013 and 2012, Management has not established an allowance for uncollectible pledges, 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.

Notes to Financial Statements

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

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, 2013 and 2012, the Aquarium recorded impairment write-downs totaling \$6,650 and \$7,700, 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 progress in Note 6. 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

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.

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.

Notes to Financial Statements

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

Donated Items (Continued)

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 \$1,069,457 and \$854,010 for the years ended September 30, 2013 and 2012, respectively. Included in advertising expense in 2013 and 2012 is donated advertising in the approximate amount of \$215,750 and \$219,000, respectively.

Date of Management's Review

Management has evaluated events and transactions for potential recognition or disclosure through March 6, 2014, which is the date the financial statements were available to be issued.

Income Taxes

The Aquarium 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).

In accordance with ASC 740, *Income Taxes*, 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. The Aquarium's 990 is subject to examination by the Internal Revenue Service for the last three years.

Film Costs

As of September 30, 2013, the Aquarium has capitalized film costs associated with two films: A documentary and a major motion picture. During fiscal year 2012 the Aquarium began efforts to launch a documentary surrounding one of its acclaimed dolphins. During both 2012 and 2013, the Aquarium incurred expenses meeting the definition of capitalizable film costs under ASC No. 926, *Entertainment – Films*. Filming of the documentary completed in fiscal year 2013 and the film went on sale in July of 2013.

Each month, the Aquarium expenses a flat percentage of sales related to the documentary. 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.

Clearwater Marine Aquarium, Inc.

Notes to Financial Statements

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

Film Costs (Continued)

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 year ending September 30, 2013. See Note 3 for details over film costs.

Reclassifications

The Aquarium has reclassified accrued income and film costs on the Statements of Financial Position and Statements of Cash Flows in 2012 to conform with the 2013 presentation. The Aquarium has broken out Food service income, net out of Gift shop sales, net on the Statements of Activities.

NOTE 2 – CONTRIBUTION RECEIVABLE

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

<u>Expected receipt of pledge in:</u>	<u>Amount</u>
2014	\$ 74,940
2015	41,000
2016	41,000
2017	41,000
2018 & thereafter	33,200
<u>Gross contribution receivable</u>	<u>\$ 231,140</u>

Management has determined that the net present value adjustment to gross contribution receivable is not material to the financial statements taken as a whole.

NOTE 3 – FILM COSTS

The components of film costs, net as of September 30, 2013 are as follows:

Unreleased film costs	\$ 250,000
Released film costs	323,998
<u>Amortization of film costs</u>	<u>(7,585)</u>
<u>Film costs, net</u>	<u>\$ 566,413</u>

NOTE 3 – FILM COSTS (CONTINUED)

The Aquarium expects to amortize approximately \$65,000 in the next fiscal year relating to the documentary. Included in the gross film costs is \$250,000 relating to *Dolphin Tale 2* which is set to release September 19, 2014. Beginning in October of 2014, the Aquarium will begin amortizing film costs associated with *Dolphin Tale 2*. The Aquarium expects to amortize 100% of the film costs for the documentary by September 30, 2016. The Aquarium expects to amortize at least 80% of film costs for *Dolphin Tale 2* by September 30, 2016.

NOTE 4 – 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 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 and an electronic traded fund (ETF) valued at the closing price reported in the active market in which the individual securities are traded.

Mutual funds: Valued at the net asset value (NAV) of shares held by the Aquarium at year end. The mutual funds are invested in fixed income securities. There are no unfunded commitments and there are no significant restrictions on the Aquarium's ability to sell these investments.

NOTE 4 - FAIR VALUE MEASUREMENT (CONTINUED)

Beneficial interest in third party endowment: The investments are managed by a third party unrelated to this Aquarium. The endowment assets are valued based on the third party pricing information without adjustment. The Aquarium does not develop nor are they provided with the quantitative inputs used to develop the fair market values. Management reviews and records the investment valuation monthly.

Life Insurance Contract: The fair value is measured using the cash surrender value of the policy as of yearend. The life insurance contract is valued based on the third party pricing information without adjustment. The Aquarium does not develop nor are they provided with the quantitative inputs used to develop the fair market value.

Due to the unavailability of the unobservable inputs, the Aquarium has not disclosed in tabular format the quantifiable inputs used to determine the fair value of this investment. Management reviews the fair value provided by the trustee at year end for reasonableness.

Boat and Vehicle Inventory: Comprised of donated boats and vehicles valued at their estimated fair value at the date of donation. In addition, the Aquarium evaluates the fair value of all boat and vehicle inventory based on current market rates.

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:

Clearwater Marine Aquarium, Inc.

Notes to Financial Statements

NOTE 4 - FAIR VALUE MEASUREMENT (CONTINUED)

<u>September 30,</u>	<u>2013</u>			
<u>Description</u>	Assets Measured at Fair Value	Level 1	Level 2	Level 3
<u>Equities:</u>				
Large cap equities	\$ 7,507	\$ 7,507	\$ -	\$ -
Emerging market bond ETF	85,260	85,260	-	-
	92,767	92,767	-	-
<u>Mutual Funds</u>				
Delaware diversified bond fund (Class A)	89,860	89,860	-	-
Delaware diversified income fund	702,681	702,681	-	-
Doubleline total return bond fund (Class I)	624,303	624,303	-	-
Doubleline low duration bond fund (Class I)	511,930	511,930	-	-
Pimco low duration fund	474,946	474,946	-	-
	2,403,720	2,403,720	-	-
Beneficial interest in perpetual trusts	2,535,469	-	-	2,535,469
Boat and vehicle inventory, net	12,096	-	-	12,096
Life insurance contract	30,831	-	-	30,831
	2,578,396	-	-	2,578,396
Grand total	\$ 5,074,883	\$ 2,496,487	\$ -	\$ 2,578,396
<hr/>				
<u>September 30,</u>	<u>2012</u>			
<u>Description</u>	Assets Measured at Fair Value	Level 1	Level 2	Level 3
<u>Equities:</u>				
Large cap equities	\$ 5,820	\$ 5,820	\$ -	\$ -
Beneficial interest in perpetual trusts*	2,438,505	-	-	2,438,505
Life insurance contract	23,160	-	-	23,160
Boat inventory, net	20,196	-	-	20,196
Grand total	\$ 2,487,681	\$ 5,820	\$ -	\$ 2,481,861

* 2012 beneficial interest in third party endowments have been reclassified into Level 3.

Clearwater Marine Aquarium, Inc.

Notes to Financial Statements

NOTE 4 - FAIR VALUE MEASUREMENT (CONTINUED)

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

<i>Year ending September 30, 2013</i>	Boat and vehicle inventory, net
Beginning balance at fair value	\$ 20,196
Donated boats and vehicles	39,981
Less: Sales	(90,595)
Plus: Realized gains	47,464
Less: Impairments	(6,650)
Prepaid expenses	1,700
<u>Ending balance at fair value</u>	<u>\$ 12,096</u>

<i>Year ending September 30, 2013</i>	Beneficial interest in third party endowment
Beginning balance at fair value	\$ 2,438,505
Unrealized gains	96,964
<u>Ending balance at fair value</u>	<u>\$ 2,535,469</u>

<i>Year ending September 30, 2013</i>	Life insurance contract
Beginning balance at fair value	\$ 23,160
Premiums paid	7,671
<u>Ending balance at fair value</u>	<u>\$ 30,831</u>

Realized gains from the sale of donated boats and vehicles totaled \$47,464 and \$19,745 for the years ended September 30, 2013 and 2012, respectively.

NOTE 5 – 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 \$500,000 as of September 30, 2013. 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, 2013 the Aquarium funded approximately 62%, or \$11,086, of the 2013 fiscal year premium. The Aquarium paid approximately 69%, or \$12,465, of the 2012 fiscal year premium. The Aquarium's share of the net cash surrender value as of September 30, 2013 and September 30, 2012 is \$30,831 and 23,165, respectively.

Clearwater Marine Aquarium, Inc.

Notes to Financial Statements

NOTE 5 – CASH SURRENDER VALUE OF LIFE INSURANCE (CONTINUED)

The ownership factor on the contract of CMA decreases each year and the CEO's ownership factor increases each year. As of September 30, 2013, the Aquarium owned approximately 62%, or \$307,950, of the contract's death benefit. As of September 30, 2012 the Aquarium owned 69%, or \$346,250, of the contract's death benefit.

NOTE 6 – PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

<i>September 30,</i>	2013	2012
Land	\$ 7,399,597	\$ 5,037,496
Buildings and improvements	5,671,558	5,556,014
Furniture, fixtures and equipment	2,471,323	1,706,818
Vehicles and boats	957,491	715,681
Construction in progress	5,172,639	2,542,241
	21,672,608	15,558,250
Less: Accumulated depreciation	(2,868,521)	(2,139,399)
Property and equipment, net	\$ 18,804,087	\$ 13,418,851

NOTE 7 – 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.

Clearwater Marine Aquarium, Inc.

Notes to Financial Statements

NOTE 8 – THIRD PARTY ENDOWMENTS

The Aquarium'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 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, 2013:

	Temporarily Restricted	Permanently Restricted	Total
Third party endowment funds	\$ 602,811	\$ 1,932,658	\$ 2,535,469

Changes in endowment net assets for the year ended September 30, 2013:

	Temporarily Restricted	Permanently Restricted	Total
Third party endowment, beginning of year	\$ 505,847	\$ 1,932,658	\$ 2,438,505
Unrealized gain	96,964	-	96,964
Third party endowment net assets, end of year	\$ 602,811	\$ 1,932,658	\$ 2,535,469

Notes to Financial Statements

NOTE 8 – THIRD PARTY 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. For the years ended September 30, 2013 and 2012, the fair market value of the assets that support the revenue streams to the Aquarium increased by \$96,963 and \$303,625, respectively.

NOTE 9 – 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”). During 2013, the Aquarium drew down approximately \$5,075,000, which is the remaining principal eligible to drawn on under the Bond.

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 (.18% at September 30, 2013), 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 \$35,834. 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 9 – LONG-TERM DEBT (CONTINUED)

The following summarizes all long-term debt of the Organization as of September 30, 2013 and 2012:

<i>Year ending September 30,</i>	2013	2012
Twenty year term bond collateralized by all real property of the Aquarium. Principal is payable in monthly installments of the beginning on January 29, 2012. Interest is variable based on LIBOR rates. Bond matures on December 29, 2031.	\$ 4,655,197	\$ 45,830
Note payable collateralized by the income, rents, receivables, and profits of the underlying property. Principal installments of \$7,583 is payable beginning on March, 5, 2016. Interest is variable based on 1 month LIBOR + 2.25% and is payable beginning on March 5, 2013. Note matures February 5, 2018.	1,365,000	-
Principal and interest payments of \$2,869 commenced on August 12, 2013 until the note matures on July 2, 2018. Interest is fixed at 2.90%.	154,871	-
Total of debt obligations	6,175,068	45,830
Less: current portion of notes payable	(464,436)	(35,834)
Notes payable, net of current portion	\$ 5,710,632	\$ 9,996

<i>Year ending September 30,</i>	Principal Payment Due
2015	\$ 464,436
2016	555,432
2017	555,432
2018	1,630,175
2019	430,008
Thereafter	2,075,149
Total	\$ 5,710,632

Clearwater Marine Aquarium, Inc.

Notes to Financial Statements

NOTE 10 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consist of the following:

<i>September 30,</i>	2013	2012
Temporary restricted net assets, beginning of year	\$ 636,811	\$ 343,879
Contributions/(release from restrictions), net	105,890	(10,691)
Appreciation (depreciation) of externally controlled third party endowments	96,964	303,623
Temporarily restricted net assets, end of year	\$ 839,665	\$ 636,811

NOTE 11 – PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets consist of the following:

<i>September 30,</i>	2013	2012
Externally controlled third party endowments:		
Thomas Cooper	\$ 1,362,500	\$ 1,362,500
Edna Klauser	570,158	570,158
Total	\$ 1,932,658	\$ 1,932,658

NOTE 12 – IN-KIND CONTRIBUTIONS

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 2013 and 2012 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 12 – 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>	2013	2012
FMV of time spent working on Winter's prosthetic tail	\$ 214,000	\$ 194,000
Other donated services	511,472	319,988
Total non-cash contributions	\$ 725,472	\$ 513,988

NOTE 13 – 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, 2013 and 2012, totaled \$25,034 and \$73,677, respectively.

The Aquarium purchased merchandise from a company owned by one of the Aquarium's Board of Directors. Total payments to this company during the years ended September 30, 2013 and 2012 totaled \$25,664 and \$43,218, respectively.

The Aquarium also purchased transportation services for the benefit of its guests. The Executive Director of the Company is also a Director the Aquarium's Board. Expenses incurred associated with this function for the year end September 30, 2013 and 2012 totaled \$636,588 and \$462,006, respectively.

NOTE 14 – 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 \$64,938 and \$31,296 to the Plan during the years ended September 30, 2013 and 2012, respectively.

NOTE 15 – 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 16 – 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.

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.

Under the terms of the lease, the Aquarium secured rights to use of the second floor of the Harborview Center building. On January 24, 2014, the Aquarium executed an amendment which states the lease term shall expire sixty (60) days from the grand opening of the new Aquarium. In the event that Aquarium fails to enter into a lease for the City Hall property by June 1, 2015, then the Harborview lease shall expire six months later on November 30, 2016. Further, in the event the Aquarium fails to have all funds necessary for the construction of the new Aquarium by August 1, 2016, the Harborview lease shall expire on January 31, 2017.

On August 14, 2013 the City of Clearwater and the Aquarium executed a memorandum of understanding regarding the Aquarium's new facility Project ("Project") ("new Aquarium") which is planned to be constructed on City property. A parking structure required to support the new aquarium will be located off-site. Among other attractions, the Project will consist of ancillary facilities, exhibits, a 4D theatre, tanks, café area, various kiosks, and a roof top deck.

NOTE 17 – SUBSEQUENT EVENT/OSCELOA DEVELOPMENT

For the year ended September 30, 2013 the Aquarium generated revenues of approximately \$110,000 and expenses of approximately \$234,000 relating to the development of the new aquarium. These revenues and related costs have been presented as nonoperating in the Statements of Activities.

On November 5, 2013 the City of Clearwater obtained voter approval in order to lease the property for the Project (defined in Note 16) for an initial term of 60 years. The Aquarium is responsible for the construction, design, maintenance, and funding of the Project. The Aquarium plans to finance the Project through a combination of funding sources. However, no general fund revenues of the City will be expended for this Project. The City will have no obligation or liability in the event the Aquarium defaults on any of its loans. In the event of default, the Aquarium's lender will be limited to changing the management of the new aquarium and assuming all of the Aquarium's rights and obligations for the remainder of the lease or abandoning the City Property and disassembling the building and collecting the Aquarium's assets. The Aquarium shall have all funds necessary for the construction by no later than August 1, 2016.

NOTE 17 – SUBSEQUENT EVENT/OSCEOLA DEVELOPMENT – (CONTINUED)

Prior to commencing construction, the Aquarium shall obtain a payment and performance bond covering the hard costs of construction under the general contract, which bond shall name the City as well as any third party construction lender as dual obliges. By no later than June 1, 2015, the Aquarium and the City shall agree to the terms of the lease for the City Property. The City agrees to vacate the City Property upon 180 days notice from the Aquarium and verification by the City that the Aquarium has the necessary financing to commence construction.

The Aquarium shall pay the City \$.50 per ticket of admissions revenue actually received by the Aquarium not to exceed \$7,500,000 plus accrued interest in order to provide for the replacement of the City Hall ("City Hall Payment"). A principle payment will be made quarterly based on paid ticket sales for the previous quarter.

Following the City's funding of the City Hall capital project, but not before the opening of the new aquarium, interest will accrue and will be paid annually in arrears by the Aquarium based on the actual cost for a new City Hall not to exceed \$7,500,000. The annual interest rate will be set at the beginning day of the lease period and reset at each anniversary date based on the interest rate consistent with the City's cash pool rate of return rounded to the nearest 10th of a percent. The annual interest rate will be applied to the average annual principle and accrued interest balance of the Aquarium's obligation of the preceding year until the actual cost of the new City Hall or \$7,500,000, whichever is less is recaptured by the City. Following full payment of the City Hall Payment, the Aquarium shall pay an annual rent payment of \$250,000 per year to the City.

On November 20, 2013, the Aquarium and the State of Florida entered into a grant agreement to provide up to \$4,000,000 in additional funding towards the development, construction, and production of *Dolphin Tale 2*. The grant agreement requires specific deliverables to be completed by the Aquarium in order to receive payments. The agreement, unless terminated earlier, expires on June 30, 2014. The agreement is subject to the availability of funds, legislative appropriations, statutory changes and satisfactory performance of all duties and obligations of the Aquarium described in the agreement.