

SOUTH CAROLINA AQUARIUM
CHARLESTON, SOUTH CAROLINA

AUDITED FINANCIAL STATEMENTS

FOR THE YEARS ENDED
DECEMBER 31, 2008 AND 2007

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
South Carolina Aquarium
Charleston, South Carolina

We have audited the statement of financial position of the South Carolina Aquarium as of December 31, 2008, and the related statements of activities and changes in net assets, and cash flows for the year then ended. These financial statements are the responsibility of the organization's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the South Carolina Aquarium as of December 31, 2007, were audited by other auditors whose report dated April 14, 2008, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the organization's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the 2008 financial statements referred to above present fairly, in all material respects, the financial position of the South Carolina Aquarium as of December 31, 2008, 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.



March 18, 2009

SOUTH CAROLINA AQUARIUM
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2008 AND 2007

	2008	2007
<u>ASSETS</u>		
<u>Current Assets</u>		
Cash and cash equivalents, unrestricted	\$ 409,569	\$ 729,203
Accounts receivable	112,444	92,905
Grants receivable	197,382	344,548
Current portion of unconditional promises to give, net	401,630	378,115
Prepaid expenses	129,888	91,685
Total current assets	1,250,913	1,636,456
<u>Property and Equipment, net</u>	3,978,162	4,743,648
<u>Other Assets</u>		
Investments, restricted	248,597	421,074
Donated real property	300,000	300,000
Non-current portion of unconditional promises to give, net	436,973	518,720
Total other assets	985,570	1,239,794
Total assets	\$ 6,214,645	\$ 7,619,898
<u>LIABILITIES AND NET ASSETS</u>		
<u>Current Liabilities</u>		
Accounts payable	\$ 190,021	\$ 185,924
Accrued payroll and related expenses	45,864	129,808
Accrued wellness days	35,546	21,832
Other liabilities	171,316	209,198
Deferred grant revenue	200,000	-
Deferred membership fees	223,389	217,967
Accrued loss on sublease, current portion	68,140	71,159
Capital lease obligation, current portion	9,864	9,544
Notes payable, current portion	480,000	465,000
Total current liabilities	1,424,140	1,310,432
<u>Long-term Liabilities</u>		
Accrued loss on sublease, net of current portion and discount	196,826	264,965
Capital lease obligation, net of current portion	5,062	14,927
Notes payable, net of current portion	4,581,473	5,588,839
Total long-term liabilities	4,783,361	5,868,731
Total liabilities	6,207,501	7,179,163
Net Assets		
Unrestricted	(524,709)	(388,750)
Temporary restricted	531,853	829,485
Total Net Assets	7,144	440,735
Total liabilities and net assets	\$ 6,214,645	\$ 7,619,898

See Auditors' Reports and Notes to the Financial Statements

SOUTH CAROLINA AQUARIUM
STATEMENT OF ACTIVITES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2008

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
<u>Support and Revenues</u>			
Admissions	\$ 3,954,922	\$ -	\$ 3,954,922
Memberships	472,775	-	472,775
Gift shop revenue	344,990	-	344,990
Annual campaign and contributions	656,094	108,743	764,837
Grants	447,636	191,606	639,242
Sponsorships and other	344,624	-	344,624
Investment income and losses, net	864	(164,187)	(163,323)
Miscellaneous	109,063	-	109,063
Total support and revenues	<u>6,330,968</u>	<u>136,162</u>	<u>6,467,130</u>
<u>Net Assets Released from Restrictions</u>	433,794	(433,794)	-
<u>Expenses from Operations</u>			
Program services:			
Husbandry	924,481	-	924,481
Facilities	890,482	-	890,482
Education	547,573	-	547,573
External affairs	1,158,664	-	1,158,664
Guest programs	564,784	-	564,784
Memberships	124,299	-	124,299
Total Program Services	<u>4,210,283</u>	<u>-</u>	<u>4,210,283</u>
Supporting services:			
Executive, finance and administration	1,313,559	-	1,313,559
Annual campaign/fundraising	479,351	-	479,351
Membership development	13,647	-	13,647
Total supporting services	<u>1,806,557</u>	<u>-</u>	<u>1,806,557</u>
Total expenses from operations	<u>6,016,840</u>	<u>-</u>	<u>6,016,840</u>
Changes in net assets from operations	<u>747,922</u>	<u>(297,632)</u>	<u>450,290</u>
<u>Other Income (Expenses)</u>			
Interest income	4,326	-	4,326
Interest expense	(378,750)	-	(378,750)
Depreciation expense	(876,316)	-	(876,316)
Gain on debt restructuring and forgiveness	387,958	-	387,958
Subleased property rent and maintenance costs	(327,076)	-	(327,076)
Sublease income	305,977	-	305,977
Total other expenses, net	<u>(883,881)</u>	<u>-</u>	<u>(883,881)</u>
Decrease in net assets	(135,959)	(297,632)	(433,591)
Net assets (deficit), beginning of year	<u>(388,750)</u>	<u>829,485</u>	<u>440,735</u>
Net assets (deficit), end of year	<u>\$ (524,709)</u>	<u>\$ 531,853</u>	<u>\$ 7,144</u>

See Auditors' Reports and Notes to the Financial Statements

SOUTH CAROLINA AQUARIUM
STATEMENT OF ACTIVITES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2007

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
<u>Support and Revenues</u>			
Admissions	\$ 4,186,150	\$ -	\$ 4,186,150
Memberships	494,908	-	494,908
Gift shop revenue	362,774	-	362,774
Annual campaign and contributions	1,153,400	-	1,153,400
Grants	174,542	301,208	475,750
Sponsorships and other	147,626	-	147,626
Investment income and losses, net	717	-	717
Miscellaneous	43,436	-	43,436
Total support and revenues	<u>6,563,553</u>	<u>301,208</u>	<u>6,864,761</u>
Net assets released from restrictions	435,519	(435,519)	-
<u>Expenses from Operations</u>			
Program Services:			
Husbandry	812,788	-	812,788
Facilities	909,078	-	909,078
Education	532,916	-	532,916
External affairs	1,291,152	-	1,291,152
Guest programs	513,429	-	513,429
Memberships	138,312	-	138,312
Total Program Services	<u>4,197,675</u>	<u>-</u>	<u>4,197,675</u>
Supporting Services:			
Executive, finance and administration	1,262,946	-	1,262,946
Annual campaign/fundraising	570,991	-	570,991
Membership development	35,932	-	35,932
Total supporting services	<u>1,869,869</u>	<u>-</u>	<u>1,869,869</u>
Total expenses from operations	<u>6,067,544</u>	<u>-</u>	<u>6,067,544</u>
Changes in net assets from operations	<u>931,528</u>	<u>(134,311)</u>	<u>797,217</u>
<u>Other Income (Expenses)</u>			
Interest income	32,307	-	32,307
Interest expense	(435,915)	-	(435,915)
Depreciation expense	(874,297)	-	(874,297)
Gain on debt restructuring and forgiveness	259,824	-	259,824
Subleased property rent and maintenance costs	(304,991)	-	(304,991)
Sublease income	299,969	-	299,969
Total other expenses, net	<u>(1,023,103)</u>	<u>-</u>	<u>(1,023,103)</u>
Decrease in net assets	(91,575)	(134,311)	(225,886)
Net assets (deficit), beginning of year	<u>(297,175)</u>	<u>963,796</u>	<u>666,621</u>
Net assets (deficit), end of year	<u>\$ (388,750)</u>	<u>\$ 829,485</u>	<u>\$ 440,735</u>

See Auditors' Reports and Notes to the Financial Statements

SOUTH CAROLINA AQUARIUM
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

	<u>2008</u>	<u>2007</u>
Cash Flows from Operating Activities:		
Changes in net assets	\$ (433,591)	\$ (225,886)
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Contribution of stock	(91,588)	(193,478)
Amortization of discount on unconditional promises to give	(56,607)	(46,628)
Amortization of loss on sublease	(71,158)	(74,317)
Unrealized loss on investments	112,845	12,190
Gain on disposal of assets	(978)	(6,669)
Loss on sale of investments	63,375	409
Purchase of animal and plant collections	7,082	-
Gain on debt restructuring and debt forgiveness	(387,958)	(259,824)
Interest on note payable added to principal	248,550	274,664
Bad debt expense	179	657
Depreciation	876,316	874,297
(Increase) decrease in:		
Accounts receivable	(19,717)	8,814
Grant receivable	147,166	18,276
Unconditional promises to give	114,839	80,364
Inventory	-	3,322
Prepaid expenses	(38,203)	3,724
Increase (decrease) in:		
Accounts payable	4,097	(57,936)
Accrued payroll and tax benefits	(83,944)	20,931
Accrued wellness days	13,714	(25,194)
Other liabilities	(37,882)	(31,346)
Deferred grant revenue	200,000	-
Deferred membership fees	5,422	(6,250)
Net cash provided by operating activities	<u>571,959</u>	<u>370,120</u>
Cash Flows from Investing Activities:		
Purchase of animal and plant collections	(7,082)	-
Purchase of investments	(175,350)	(906)
Purchase of property and equipment	(110,949)	(323,602)
Proceeds from sale of investments	263,194	188,422
Proceeds from sale of property and equipment	1,097	9,200
Net cash used for investing activities	<u>(29,090)</u>	<u>(126,886)</u>
Cash Flows from Financing Activities		
Payments on notes payable	(852,958)	(559,823)
Payments on capital lease	(9,545)	(9,235)
Net cash used for financing activities	<u>(862,503)</u>	<u>(569,058)</u>
Net decrease in cash and cash equivalents	(319,634)	(325,824)
Cash and cash equivalents, beginning of year	<u>729,203</u>	<u>1,055,027</u>
Cash and cash equivalents, end of year	<u>\$ 409,569</u>	<u>\$ 729,203</u>

See Auditors' Reports and Notes to the Financial Statements

SOUTH CAROLINA AQUARIUM
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

The South Carolina Aquarium (the "Aquarium") is a non-profit organization incorporated in 1992. The Aquarium is devoted to the understanding and conservation of South Carolina's natural aquatic habitats. The Aquarium's primary objective is to inspire conservation of the natural world by exhibiting and caring for animals, by excelling in education and research, and by providing an exceptional visitor experience. The Aquarium's primary facility, which is located in Charleston, South Carolina, opened May 19, 2000 and is leased from the City of Charleston. The Aquarium's support comes primarily from admission fees and from contributions.

Basis of Accounting

The Aquarium prepares its financial statements in accordance with accounting principles generally accepted in the United States of America, which involves the application of accrual method of accounting. Consequently, revenues and gains are recognized when earned, and expenses and losses are recognized when incurred.

Financial Statement Presentation

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations*. Under SFAS No. 117, the Aquarium is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

The following describes the three net asset classes:

Unrestricted Net Assets

Net assets without donor imposed restrictions and currently available for program and supporting services.

Temporarily Restricted Net Assets

Net assets subject to donor imposed stipulations that may or will be met by actions of the Aquarium and/or the passage of time.

Permanently Restricted Net Assets

Net assets restricted by donors to be maintained permanently by the Aquarium. There were no permanently restricted net assets as of December 31, 2008 and 2007.

Cash and Cash Equivalents

The Aquarium considers all highly liquid debt instruments purchased with an initial maturity of three months or less to be cash equivalents, excluding cash held in brokerage or investment accounts.

Accounts Receivable

Accounts receivable relate primarily to concession revenues and group ticket sales. Management evaluates the collectability of outstanding balances based on historical collection experience and the specific accounts outstanding, and establishes an allowance for doubtful accounts based on management's estimate of amounts that will not be collected. Accounts receivable are determined to be past due on contractual terms, are unsecured and are non-interest bearing. It is the Aquarium's policy to charge off uncollectible amounts when management determines the receivable will not be collected. As of December 31, 2008 and 2007, management estimates all accounts receivable are fully collectible.

SOUTH CAROLINA AQUARIUM
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Contributions, Promises to Give and Other Receivables

Contributions are recognized when the donor makes a promise to give to the Aquarium that is in substance, unconditional. Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. The Aquarium records contributions as restricted if they are received with donor stipulations that limit their use either through purpose or time restrictions. When donor restrictions expire, that is, when a time restriction ends or a purpose restriction is fulfilled, temporarily restricted net assets are reclassified to unrestricted net assets and are reported in the statement of activities as net assets released from restrictions. It is the Aquarium's policy to record temporarily restricted contributions received and expended in the same accounting period in the unrestricted net asset class. Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. Discount rates ranged from 2.24% to 8.00% for 2008 and 2007. Amortization of the discount is presented with contribution revenue.

The Aquarium uses the allowance method to account for uncollectible amounts based on management's estimate of the collectability of the amount receivable. Management does not accrue interest or finance charges on overdue balances. Receivables are considered impaired if payments are not received in accordance with the terms of the receivable. It is the Aquarium's policy to charge off uncollectible amounts when management determines the receivable will not be collected.

Inventory Valuation

Inventory consists of gift shop items that are currently being sold on consignment. The Aquarium has fully reserved the value of the inventory due to the limited amount of items left and the uncertainty of their future sale.

Property and Equipment

Property and equipment are recorded at cost, or, if donated, at estimated fair market value at the date of donation. Depreciation is provided over the estimated useful lives of the assets using the straight-line method. The estimated lives range from three to thirty-nine years. It is the policy of the Aquarium to capitalize assets costing \$5,000 or more with a useful life exceeding one year.

Donated Real Property

During 2002, the Aquarium received a contribution of real property from a donor. The property is valued at a reasonable estimate of its fair value at year-end based on offers received from outside third parties to purchase the property from the Aquarium. The property is classified as a long-term investment as the Aquarium plans to sell the property in some future period.

Deferred Membership Fees

The non-tax deductible portion of membership dues and sponsorships are recorded as deferred revenue and recognized ratably over the membership or sponsorship period, which is generally one year.

Donated Services and Equipment

The Aquarium records various types of in-kind support including donated professional services, supplies and equipment. Contributed professional services are recognized if the services received (a) create or enhance long-lived assets, or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. Contributions of tangible assets are recognized at fair market value when received. The amounts reflected in the accompanying financial statements as in-kind support are offset by like amounts included in expenses or assets, if

SOUTH CAROLINA AQUARIUM
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Donated Services and Equipment - Continued

capitalized. Services donated in 2008 and 2007 include billboards advertising, special events supplies and advertising, which are recognized in the external affairs and husbandry program and fundraising supporting services, respectively. In-kind contributions were for various supplies, equipment, and other services and totaled \$211,188 and \$115,024 for the years ended December 31, 2008 and 2007, respectively.

A substantial number of unpaid volunteers have made significant contributions of their time and performed a variety of tasks that assist the Aquarium with its operation and do not meet the two recognition criteria described above. Accordingly, the value of this donated time is not reflected in the financial statements.

Investment Income and Losses, Net

Investment income and gains and losses are reported as increases or decreases in unrestricted net assets in the period in which they are recognized unless a donor or law temporarily or permanently restricts their use. Release of restriction is determined either by the end of a stipulated time period or accomplishment of a purpose restriction.

Animal and Plant Collections

The costs of purchasing or collecting live animals and plants are expensed as incurred. Donated specimens are not valued and, therefore, are not reflected in the financial statements. There were no proceeds received related to non-capitalization collection items during the years ended December 31, 2008 and 2007. Purchases of non-capitalized collection items were \$7,082 and immaterial for the years ended December 31, 2008 and 2007, respectively.

Expense Allocation

Directly identifiable expenses are charged to program and supporting services. Expenses related to more than one function are allocated to program and supporting services based on various factors determined by management.

Advertising

The Aquarium expenses advertising costs as incurred. Advertising costs totaled \$240,467 and \$321,247 for the years ended December 31, 2008 and 2007, respectively.

Income Tax Status

The Aquarium is exempt from federal income tax as an organization described in Section 501(c)(3) of the Internal Revenue Code.

Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates. Areas requiring significant estimates include the economic useful lives of fixed assets for depreciation purposes, the allowance for doubtful accounts, and the discount on unconditional promises to give. It is at least reasonably possible that the significant estimates used will change within the next year.

Reclassifications

Certain reclassifications have been made to the 2007 financial statement presentation to correspond to the current year's format. Total net assets and support remain unchanged notwithstanding these reclassifications.

SOUTH CAROLINA AQUARIUM
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007

2. UNCONDITIONAL PROMISES TO GIVE

Unconditional promises to give consisted of the following at December 31:

	<u>2008</u>	<u>2007</u>
Unconditional promises to give	\$ 1,141,010	\$ 1,309,053
Less: Unamortized discount	<u>(197,407)</u>	<u>(254,014)</u>
Present value of unconditional promises to give	943,603	1,055,039
Less: Allowance for uncollectible promises to give	<u>(105,000)</u>	<u>(158,204)</u>
Unconditional promises to give, net	<u>\$ 838,603</u>	<u>\$ 896,835</u>
Amounts receivable in:		
Less than one year	\$ 438,734	\$ 416,573
One to five years	702,276	892,480
More than five years	<u>-</u>	<u>-</u>
	<u>\$ 1,141,010</u>	<u>\$ 1,309,053</u>

3. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at December 31:

	Expected Useful Life	<u>2008</u>	<u>2007</u>
Software	3 years	\$ 161,309	\$ 161,309
Transportation equipment	5-7 years	240,299	247,344
Furniture, fixtures and equipment	7 years	3,088,413	3,087,396
Exhibits	2-10 years	6,364,335	6,241,214
Leasehold improvements	7-39 years	3,357,708	3,348,122
Projects under construction	Nondepreciable	<u>33,564</u>	<u>60,700</u>
		13,245,628	13,146,085
Accumulated depreciation		<u>(9,267,466)</u>	<u>(8,402,437)</u>
		<u>\$ 3,978,162</u>	<u>\$ 4,743,648</u>

Depreciation expense for the years ended December 31, 2008 and 2007 totaled \$876,316 and \$874,297, respectively.

SOUTH CAROLINA AQUARIUM
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007

4. INVESTMENTS

	2008		2007	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
Money market funds	\$ 203,620	\$ 203,620	\$ 38,242	\$ 38,242
Certificate of deposit	24,609	24,609	23,744	23,744
Common stock	27,800	20,368	253,675	359,088
	<u>\$ 256,029</u>	<u>\$ 248,597</u>	<u>\$ 315,661</u>	<u>\$ 421,074</u>

	<u>2008</u>	<u>2007</u>
Interest and dividends	\$ 12,897	\$ 12,907
Net realized (losses) gains	(63,375)	-
Net unrealized (losses) gains	<u>(112,845)</u>	<u>(12,190)</u>
	<u>\$ (163,323)</u>	<u>\$ 717</u>

The certificate of deposit is in the name of the Aquarium for the benefit of the owner of the Fountain Walk complex under the terms of the Aquarium's operating lease. The other long-term investments are an endowment created in 2001.

5. NOTES PAYABLE

On March 24, 2005, the total principal amount due under the note payable to the bank at December 31, 2004 of \$8,523,218 was restructured. At closing, the Aquarium was required to pay all interest, fees and expenses payable under the existing note, as well as an additional \$25,000 that was applied against the outstanding principal due under the existing note agreement. The new principal amount of \$8,498,218 was restated into two tranches of term loans denominated "Term Loan A" and "Term Loan B."

Term Loan A is evidenced by a promissory note in the original face principal amount of \$1,835,000. This promissory note bears interest at a fixed rate of 6% with interest due and payable monthly in arrears, on the last day of the month commencing March 31, 2005. To the extent not sooner paid, all outstanding principal, interest and applicable fees shall be due and payable on January 31, 2010. Principal payments are also due monthly, on the last day of each month, in the following amounts for the following periods:

<u>Applicable Period</u>	<u>Monthly Payment</u>	<u>Total Payments</u>
March 1, 2005 to January 31, 2008	\$25,000	\$875,000
February 1, 2008 to January 31, 2010	\$40,000	\$960,000

SOUTH CAROLINA AQUARIUM
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007

5. NOTES PAYABLE - CONTINUED

Term Loan B is evidenced by a promissory note in the original face principal amount of \$6,663,218. This promissory note bears interest at a fixed rate of 8% with interest due and payable monthly in arrears, on the last day of the month commencing March 31, 2005 and continuing on the last day each month thereafter, provided that i) the Aquarium may pay up to three-quarters of the interest payable for any month in-kind (such amounts paid in-kind, "Note B PIK Interest"), with such interest paid in-kind to be automatically added to the outstanding principal balance of the note, and ii) any interest subsequently accrued on Note B PIK Interest shall not be payable until the maturity date. To the extent not sooner paid, all unpaid principal along with all accrued and unpaid interest (including interest accrued on Note B PIK Interest) and any other obligations shall be paid in cash in full on January 31, 2010.

Term B provides debt forgiveness so long as there is no event of default. The lender shall forgive and reduce the outstanding principal of the Term Loan B as follows:

- a. one dollar (\$1.00) for each one dollar (\$1.00) paid by the Aquarium to the lender, from whatever source, in respect to principal on or before January 31, 2010; and
- b. one hundred percent (100%) of the Note B PIK Interest and any other interest accrued thereon, provided that the entire principal amount of the Term Loan B other than any Note B PIK Interest is paid on or before January 31, 2010.

Provisions associated with forgiveness shall expire and be of no further effect after January 31, 2010, and in no event will the terms be available after any extension.

Term Note B provides for a possible extension in the event that as of February 1, 2010, i) the Aquarium shall have fully satisfied all the obligations under Term Loan A, and ii) no event of default then exists under Term Loan B, the Aquarium shall be entitled to an extension of payment of the then remaining outstanding amount of principal (including all capitalized Note B PIK Interest) under Term Loan B. In the event that the Aquarium is entitled to an extension, the Aquarium shall pay the remaining balance in monthly payments equal to the greater of i) \$50,000 or ii) the monthly amount necessary to fully amortize the remaining balance over 48 level monthly payments from the date of extension.

In addition to the payments identified above, the Aquarium is required to make additional payments with respect to the notes, each of which constitutes additional debt service and are applied first to outstanding principal of Term Loan B and thereafter to Term Loan A as follows: a) additional payments based upon 50% of the Aquarium's available cash as described in the agreement that are calculated annually within ten days of delivery of the Aquarium's audited financial statements, but no later than May 15th of each year, and b) 60% of the sale proceeds, less reasonable selling costs, of the property the Aquarium owns in St. Andrews Parish in Charleston, County. The Aquarium is also required to meet a debt service coverage ratio of 1.0 to 1.0 and is restricted to varying levels of fixed asset additions in any given year through maturity of the loan.

The loan is collateralized by the assets indentified in the security agreement signed March 24, 2005, including, but not limited to, all accounts receivable, cash and cash equivalents, equipment, fixtures, inventory and investment property. The lender, either itself or through a receiver, may collect the payments, rents and revenues from the collateral at its discretion. On March 24, 2005, the Aquarium signed a mortgage with the lender providing a continuing security interest in the property owned by the Aquarium in St. Andrews Parish in Charleston County.

SOUTH CAROLINA AQUARIUM
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007

5. NOTES PAYABLE - CONTINUED

During the years ended December 31, 2008 and 2007, the Aquarium made \$387,958 and \$259,824, respectively, in payments to Term Note B under the debt forgiveness terms identified above. The matching \$387,958 and \$259,824 in debt forgiveness for the years ended December 31, 2008 and 2007, respectively, has been accounted for as a gain on debt restructuring as provided for under (SFAS) No. 15, *Accounting by Debtors and Creditors for Troubled Debt Restructurings*.

Scheduled maturities notes payable as of December 31, 2008 are as follows:

2009		\$ 480,000
2010		4,581,473
Thereafter		<u>-</u>
		<u><u>\$ 5,061,473</u></u>

Interest expense on notes payable totaled \$378,750 and \$435,915 for the years ended December 31, 2008 and 2007, respectively.

6. RESTRICTIONS ON NET ASSETS

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors during the years ended December 31 as follows:

	<u>2008</u>	<u>2007</u>
Education programs	\$ 226,336	\$ 225,599
Advertising	207,458	204,840
Exhibits	<u>-</u>	<u>5,080</u>
	<u><u>\$ 433,794</u></u>	<u><u>\$ 435,519</u></u>

Temporarily restricted net assets consist of the following at December 31:

	<u>2008</u>	<u>2007</u>
Restricted as to time:		
Endowment	\$ 147,935	\$ 328,551
Restricted as to purpose:		
Education programs	182,823	292,476
Advertising	161,605	208,458
Exhibits	<u>39,490</u>	<u>-</u>
	<u><u>\$ 531,853</u></u>	<u><u>\$ 829,485</u></u>

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7. PROGRAM AND SUPPORTING SERVICES

The costs of providing various programs and their supporting services have been summarized on a functional basis.

The Aquarium's program services are classified within the following:

Husbandry collects and maintains plants and animals for the exhibits.

Facilities maintains the building and animal life support systems.

Education designs and implements the complete Education Master Plan. The department also manages a volunteer force.

External Affairs includes media and community relations, special events and group sales.

Guest Programs includes admissions, security staff and environmental services.

Memberships include management of the membership program.

The Aquarium's supporting services include:

Executive, Finance and Administration provides accounting, human resources, administration and information services support.

Annual Campaign/Fundraising conducts fundraising activities through donor education, fulfillment and management.

Membership Development activities include soliciting for prospective members and membership dues, membership relations, and similar activities.

Certain costs, primarily facilities expenses and employee benefits, have been allocated to the program and supporting services benefited.

8. DEFINED CONTRIBUTION PLAN

The Aquarium maintains a defined contribution 401(k) plan (the "Plan") covering substantially all the full time salaried employees with one year or more of service. Under the Plan, the Aquarium makes matching contributions equal to 50% of the first 6% of the employee's contribution. Contribution expense relating to the Plan for the years ended December 31, 2008 and 2007 totaled \$40,452 and \$32,573, respectively.

9. CHANGE IN NET ASSETS FROM OPERATIONS

Management has elected to present interest expense, depreciation, gain on debt restructuring, and sublease property income and expense as other income and expense rather than as part of operating income and expense in the Statement of Activities and Changes in Net Assets for 2008 and 2007.

SOUTH CAROLINA AQUARIUM
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9. CHANGE IN NET ASSETS FROM OPERATIONS - CONTINUED

Depreciation and interest are allocated to program and supporting services as follows for the years ended December 31:

	Depreciation Expense		Interest	
	2008	2007	2008	2007
Program services	\$ 744,869	\$ 743,152	\$ 321,938	\$ 370,528
Supporting services:				
Executive, finance and administration	122,684	122,402	53,025	61,028
Annual campaign/fundraising	8,763	8,743	3,787	4,359
	<u>\$ 876,316</u>	<u>\$ 874,297</u>	<u>\$ 378,750</u>	<u>\$ 435,915</u>

10. CONCENTRATION OF CREDIT RISK

From time to time, the Aquarium has operating accounts and other demand accounts with financial institutions in excess of the Federal Depository Insurance Company (FDIC) limit. Effective October 3, 2008, the FDIC raised this insurance level to \$250,000 through December 31, 2009. Amounts in excess of insured levels totaled \$6,858 and \$560,768 at December 31, 2008 and 2007, respectively. As of December 31, 2008 and 2007, unconditional promises to give and grants receivable consist of corporate, governmental and individual contributors. The five largest balances comprised 73% and 68% of the total balance outstanding at December 31, 2008 and 2007, respectively.

Inherent to its operations, the Aquarium is dependent on the ongoing admissions and other revenue sources that generated from the Charleston tri-county area.

11. LEASES

The Aquarium leases facilities and equipment under various operating lease agreements. The leases expire at various dates through July 6, 2045. The facility lease contains renewal options for periods ranging from six months to fifty years, and requires the Aquarium to pay all executory cost such as taxes, maintenance and insurance, where applicable. Rent expenses for these leases totaled \$340,189 and \$314,122 for the years ended December 31, 2008 and 2007, respectively.

Future minimum lease payments under operating leases as of December 31, 2008 are as follows:

2009	\$ 322,101
2010	326,183
2011	334,127
2012	344,151
2013	354,475
Thereafter	<u>3,246,678</u>
	<u>\$ 4,927,715</u>

SOUTH CAROLINA AQUARIUM
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007

11. LEASES - CONTINUED

The Aquarium signed a sublease agreement with a third-party associated with the Fountain Walk Complex it leases under an operating lease (described above). The tenant terminated the lease on June 30, 2006, and on July 1, 2006, the Aquarium entered into a new sublease agreement for the Fountain Walk Complex with a new third-party. The sublease ends February 29, 2013 with an option to extend the term for eight additional years. Total payments expected to be received over the initial lease term of the sublease totaled \$2,184,280.

Remaining payments expected to be received in future periods at December 31, 2008 are as follows:

2009		\$	324,242
2010			333,974
2011			343,994
2012			354,312
2013			59,340
Thereafter			-
			-
		\$	1,415,862

The Aquarium has an agreement with the City of Charleston to lease the land and facilities that house the Aquarium operations for a minimal monthly payment. In lieu of rent, the agreement includes a clause which states that the excess annual revenues over expenses, including provision for debt service and reserve for depreciation, will be split evenly as follows:

Fifty percent (50%) will be placed in a fund for the future capital improvements and a reserve for operating shortfalls in the sum of \$2,000,000 to be maintained during the term of the lease.

Fifty percent (50%) will be paid annually to the City of Charleston to reduce the City Bond indebtedness in the principal amount of \$9,500,000 until such debt has been paid in full.

Under the terms of this agreement, the Aquarium did not have any lease payments to the City of Charleston for the years ended December 31, 2008 and 2007.

The Aquarium leases equipment under a capital lease agreement. The book value at December 31 was as follows:

	2008	2007
Capital costs	\$ 47,000	\$ 47,000
Accumulated depreciation	(32,900)	(23,500)
	\$ 14,100	\$ 23,500

Depreciation expense for the above equipment under capital lease was \$9,400 for each of the years ended December 31, 2008 and 2007.

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11. LEASES - CONTINUED

Minimum future lease payments under capital leases as of December 31, 2008 are as follows:

	2009	\$	10,208
	2010		5,104
	Thereafter		-
Net minimum lease payments			15,312
Amount representing interest			(386)
		\$	14,926

12. LOSS ON SUBLEASE

In connection with the termination of the sublease agreement for the Fountain Walk Complex on June 30, 2006, the Aquarium recognized an accrued loss of \$450,426 during the year ended December 31, 2006. The accrued loss represents the net present value of the excess of lease and executory costs for the Aquarium's operating lease for the Fountain Walk Complex over the sublease payments to be received for this property for the term of the sublease. This accrued loss is amortized over the term of the sublease and offsets operating lease expense.

The following amounts are included in the statement of financial position related to the accrued loss on sublease as of December 31:

	2008	2007
Accrued loss on sublease	\$ 452,663	\$ 532,607
Less: Unamortized discount	(105,357)	(116,538)
Present value of accrued loss on sublease	347,306	416,069
Less: Current year amortization of sublease loss	(82,340)	(79,945)
Accrued loss on sublease, net	\$ 264,966	\$ 336,124

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13. STATEMENT OF CASH FLOWS SUPPLEMENTAL INFORMATION

	2008	2007
Supplemental Disclosures of Cash Flow Information:		
Cash payments for interest made during the year	\$ 130,199	\$ 161,250
Supplemental Disclosure of Noncash Investing and Financing Activities:		
Contributions of stock	\$ 91,588	\$ 193,478
Paid in-kind interest added to notes payable	\$ 248,550	\$ 274,664

14. COMMITMENTS AND CONTINGENCIES

The Aquarium is periodically involved in legal actions and claims that arise as a result of events that occur in the normal course of operations. Management does not expect the ultimate resolution of such actions to have a material adverse effect on the Aquarium's financial position.

The Aquarium has entered into contracts for various services. Future costs associated with these contracts are estimated to be approximately \$172,700 and \$99,263 at December 31, 2008 and 2007, respectively.

In June 2005, the Aquarium entered into a contract to rent space to a vendor to operate the gift shop for a term of five years. Rent is paid to the Aquarium monthly in arrears and is calculated based upon a percentage of gross receipts collected, and is guaranteed to exceed \$310,000 annually provided annual attendance does not fall below 390,000 visitors. The annual payment guarantee to the Aquarium shall be reduced by the same percentage as the attendance shortfall. Amounts received by the Aquarium for the years ended December 31, 2008 and 2007 were \$344,990 and \$362,774, respectively. Amounts received are included in gift shop revenue in the Statement of Activities and Changes in Net Assets.

During 2008, the credit and liquidity crisis in the United States and throughout the global financial system has resulted in substantial volatility in financial markets and the banking systems. These and other economic events have had a significant adverse impact on entities with investment balances as well as those seeking credit in the financial markets. As a result, access to debt financing and investment performance volatility could impact the Aquarium during this period of market crisis.

15. RELATED PARTY TRANSACTIONS

Board of Director members and employees made contributions and unconditional promises to give totaling approximately \$318,659 and \$581,083 during the years ended December 31, 2008 and 2007, respectively. Outstanding balances of unconditional promises to give from board members and employees, gross of applicable discounts and allowances, totaled \$931,250 and \$955,928 at December 31, 2008 and 2007, respectively.