

**SOUTH CAROLINA AQUARIUM
CHARLESTON, SOUTH CAROLINA**

AUDITED FINANCIAL STATEMENTS

FOR THE YEARS ENDED MARCH 31, 2015 AND 2014

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of South Carolina Aquarium (a nonprofit organization), which comprise the statements of financial position as of March 31, 2015 and 2014, 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor consider 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 South Carolina Aquarium as of March 31, 2015 and 2014, 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.

Glaser + Company, CPAs

Mount Pleasant, South Carolina
November 2, 2015

**SOUTH CAROLINA AQUARIUM
STATEMENTS OF FINANCIAL POSITION
MARCH 31, 2015 AND 2014**

| | <u>2015</u> | <u>2014</u> |
|--|----------------------|---------------------|
| <u>ASSETS</u> | | |
| <u>Current Assets</u> | | |
| Cash and cash equivalents | \$ 961,990 | \$ 461,973 |
| Cash and cash equivalents, designated | 1,097,303 | - |
| Accounts receivable | 150,464 | 197,170 |
| Grants receivable | 185,000 | 356,250 |
| Unconditional promises to give, current (Note 2) | 1,384,883 | 507,583 |
| Prepaid expenses | 220,342 | 163,772 |
| Investments, unrestricted (Note 4) | 1,846,399 | - |
| Total current assets | <u>5,846,381</u> | <u>1,686,748</u> |
| <u>Long-term Assets</u> | | |
| Investments, restricted (Note 4) | - | 31,007 |
| Unconditional promises to give, net of current (Note 2) | 2,254,990 | 51,400 |
| Property and equipment, net (Note 3) | <u>7,745,743</u> | <u>4,227,014</u> |
| Total long-term assets | <u>10,000,733</u> | <u>4,309,421</u> |
| Total assets | <u>\$ 15,847,114</u> | <u>\$ 5,996,169</u> |
| <u>LIABILITIES AND NET ASSETS</u> | | |
| <u>Current Liabilities</u> | | |
| Accrued interest - bonds payable (Note 7) | \$ 41,175 | \$ - |
| Accrued payroll and related expenses | 216,827 | 173,423 |
| Accounts payable | 1,167,374 | 364,373 |
| Advanced deposits and deferred revenues | 238,226 | 268,500 |
| Lease termination fee payable, current (Note 8) | 39,195 | 36,989 |
| Bonds payable, current portion (Note 7) | 225,000 | - |
| Accrued wellness days | 46,038 | 47,460 |
| Deferred membership fees | 487,945 | 403,419 |
| Capital lease obligation (Note 15) | 7,298 | 14,996 |
| Promissory notes, current portion (Note 6) | 32,764 | 31,173 |
| Line of credit (Note 5) | - | 450,000 |
| Total current liabilities | <u>2,501,842</u> | <u>1,790,333</u> |
| <u>Long-term Liabilities</u> | | |
| Promissory notes, net of current portion (Note 6) | 101,813 | 130,809 |
| Lease termination fee payable, net of current (Note 8) | 291,279 | 330,474 |
| Bonds payable, net of current portion (Note 7) | 2,475,000 | - |
| Capital lease obligation, net of current portion (Note 15) | - | 8,724 |
| Total long-term liabilities | <u>2,868,092</u> | <u>470,007</u> |
| Total liabilities | <u>5,369,934</u> | <u>2,260,340</u> |
| <u>Net Assets</u> | | |
| Unrestricted | 3,713,101 | 2,351,470 |
| Temporarily restricted (Note 9) | 6,300,946 | 921,226 |
| Permanently restricted (Note 10) | 463,133 | 463,133 |
| Total net assets | <u>10,477,180</u> | <u>3,735,829</u> |
| Total liabilities and net assets | <u>\$ 15,847,114</u> | <u>\$ 5,996,169</u> |

See accompanying notes to the financial statements.

**SOUTH CAROLINA AQUARIUM
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED MARCH 31, 2015**

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
|---|---------------------|-------------------------------|-------------------------------|----------------------|
| <u>Support and Revenues</u> | | | | |
| Admissions | \$ 5,384,734 | \$ - | \$ - | \$ 5,384,734 |
| Memberships | 1,061,121 | - | - | 1,061,121 |
| Annual campaign and contributions | 1,187,719 | 2,976,366 | - | 4,164,085 |
| Grants | 652,150 | 3,007,295 | - | 3,659,445 |
| Corporate sponsorships | 883,194 | 143,722 | - | 1,026,916 |
| Concessions | 563,365 | - | - | 563,365 |
| Facility rentals | 506,270 | - | - | 506,270 |
| Program revenues | 195,099 | - | - | 195,099 |
| Fundraising events | 234,932 | - | - | 234,932 |
| Investment income and losses, net | 3,288 | - | - | 3,288 |
| Miscellaneous | 66,085 | - | - | 66,085 |
| Total support and revenues | 10,737,957 | 6,127,383 | - | 16,865,340 |
| <u>Net Assets Released from Restrictions</u> | | | | |
| | 747,663 | (747,663) | - | - |
| <u>Expenses from Operations (Note 11)</u> | | | | |
| Program services: | | | | |
| Husbandry | 1,414,292 | - | - | 1,414,292 |
| Facilities | 1,142,899 | - | - | 1,142,899 |
| Education | 740,128 | - | - | 740,128 |
| External affairs | 1,754,055 | - | - | 1,754,055 |
| Guest programs | 1,605,372 | - | - | 1,605,372 |
| Memberships | 167,446 | - | - | 167,446 |
| Total program services | 6,824,192 | - | - | 6,824,192 |
| Supporting services: | | | | |
| Executive, finance, and administration | 1,685,761 | - | - | 1,685,761 |
| Annual campaign and fundraising | 967,453 | - | - | 967,453 |
| Membership development | 50,285 | - | - | 50,285 |
| Total supporting services | 2,703,499 | - | - | 2,703,499 |
| Total expenses from operations | 9,527,691 | - | - | 9,527,691 |
| Changes in net assets from operations (Note 13) | 1,957,929 | 5,379,720 | - | 7,337,649 |
| <u>Other Expenses</u> | | | | |
| Interest expense | (23,921) | - | - | (23,921) |
| Depreciation expense | (572,377) | - | - | (572,377) |
| Total other expenses | (596,298) | - | - | (596,298) |
| Increase in net assets | 1,361,631 | 5,379,720 | - | 6,741,351 |
| Net assets, beginning of year | 2,351,470 | 921,226 | 463,133 | 3,735,829 |
| Net assets, end of year | \$ 3,713,101 | \$ 6,300,946 | \$ 463,133 | \$ 10,477,180 |

See accompanying notes to the financial statements.

**SOUTH CAROLINA AQUARIUM
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED MARCH 31, 2014**

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
|--|---------------------|-------------------------------|-------------------------------|---------------------|
| <u>Support and Revenues</u> | | | | |
| Admissions | \$ 4,765,065 | \$ - | \$ - | \$ 4,765,065 |
| Memberships | 993,844 | - | - | 993,844 |
| Annual campaign and contributions | 924,871 | 95,000 | - | 1,019,871 |
| Grants | 299,387 | 199,124 | - | 498,511 |
| Corporate sponsorships | 284,614 | 141,497 | - | 426,111 |
| Concessions | 524,768 | - | - | 524,768 |
| Facility rentals | 458,885 | - | - | 458,885 |
| Program revenues | 189,526 | - | - | 189,526 |
| Fundraising events | 365,645 | - | - | 365,645 |
| Investment income and losses, net | 539 | - | - | 539 |
| Miscellaneous | 52,071 | - | - | 52,071 |
| Total support and revenues | 8,859,215 | 435,621 | - | 9,294,836 |
| Net Assets Released from Restrictions | 143,171 | (143,171) | - | - |
| <u>Expenses from Operations (Note 11)</u> | | | | |
| Program services: | | | | |
| Husbandry | 1,380,242 | - | - | 1,380,242 |
| Facilities | 1,101,670 | - | - | 1,101,670 |
| Education | 662,441 | - | - | 662,441 |
| External affairs | 1,336,700 | - | - | 1,336,700 |
| Guest programs | 1,475,857 | - | - | 1,475,857 |
| Memberships | 62,579 | - | - | 62,579 |
| Total program services | 6,019,489 | - | - | 6,019,489 |
| Supporting services: | | | | |
| Executive, finance, and administration | 1,710,515 | - | - | 1,710,515 |
| Annual campaign and fundraising | 935,100 | - | - | 935,100 |
| Membership development | 52,199 | - | - | 52,199 |
| Total supporting services | 2,697,814 | - | - | 2,697,814 |
| Total expenses from operations (Note 13) | 8,717,303 | - | - | 8,717,303 |
| Changes in net assets from operations | 285,083 | 292,450 | - | 577,533 |
| <u>Other Expenses</u> | | | | |
| Interest expense | (24,481) | - | - | (24,481) |
| Depreciation expense | (582,681) | - | - | (582,681) |
| Loss on sale of donated real property | (65,000) | - | - | (65,000) |
| Subleased property rent and maintenance costs | (361,286) | - | - | (361,286) |
| Operating lease termination fee | (395,959) | - | - | (395,959) |
| Total other expenses, net | (1,429,407) | - | - | (1,429,407) |
| Increase (decrease) in net assets | (1,144,324) | 292,450 | - | (851,874) |
| Net assets, beginning of year | 3,495,794 | 628,776 | 463,133 | 4,587,703 |
| Net assets, end of year | \$ 2,351,470 | \$ 921,226 | \$ 463,133 | \$ 3,735,829 |

See accompanying notes to the financial statements.

**SOUTH CAROLINA AQUARIUM
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED MARCH 31, 2015 AND 2014**

| | 2015 | 2014 |
|---|--------------|--------------|
| <u>Cash Flows from Operating Activities</u> | | |
| Changes in net assets | \$ 6,741,351 | \$ (851,874) |
| Adjustments to reconcile changes in net assets to net cash provided by (used for) operating activities: | | |
| Contribution of property and equipment | - | (11,000) |
| Contributions received restricted for acquisition of exhibits | (3,328,806) | (275,000) |
| Amortization of discount on unconditional promises to give | 115,769 | (19,642) |
| Amortization of deferred interest on operating lease termination payable | 10,511 | 3,504 |
| Gain on disposal of property and equipment, net | (4,275) | (1,245) |
| Loss on termination of operating lease | - | 363,959 |
| Loss on sale of donated real property | - | 65,000 |
| Purchase of animal and plant collections | 8,600 | 22,646 |
| Change in allowance and bad debt expense | 25,709 | 8,505 |
| Depreciation | 572,377 | 582,681 |
| (Increase) decrease in: | | |
| Accounts receivable | 46,706 | 39,537 |
| Grants receivable | 171,250 | (80,349) |
| Unconditional promises to give | (360,368) | 40,861 |
| Prepaid expenses | (56,570) | 7,360 |
| Increase (decrease) in: | | |
| Accounts payable | 115,979 | (75,841) |
| Accrued payroll and related expenses | 43,404 | 30,545 |
| Accrued wellness days | (1,422) | (1,634) |
| Advanced deposits and deferred revenues | (30,274) | (57,136) |
| Deferred membership fees | 84,526 | (4,392) |
| Net cash provided (used for) by operating activities | 4,154,467 | (213,515) |
| <u>Cash Flows from Investing Activities</u> | | |
| Purchase of animal and plant collections | (8,600) | (22,646) |
| Proceeds on sale of donated real property | - | 50,000 |
| Purchase of investments | (1,815,392) | (66) |
| Proceeds from sale of investments | - | 20,385 |
| Proceeds from sale of property and equipment | 4,275 | 1,245 |
| Purchase of property and equipment | (3,362,909) | (547,916) |
| Net cash used for investing activities | (5,182,626) | (498,998) |
| <u>Cash Flows from Financing Activities</u> | | |
| Net (payments) proceeds on line of credit | (450,000) | 50,000 |
| Contributions collected restricted for acquisition of exhibits | 466,806 | 200,000 |
| Proceeds from bonds payable | 2,700,000 | - |
| Payments on notes payable | (27,405) | (29,535) |
| Payments on lease termination payable | (47,500) | - |
| Payments on capital lease | (16,422) | (14,989) |
| Net cash provided by financing activities | 2,625,479 | 205,476 |
| Net increase (decrease) in cash and cash equivalents | 1,597,320 | (507,037) |
| Cash and cash equivalents, beginning of year | 461,973 | 969,010 |
| Cash and cash equivalents, end of year | \$ 2,059,293 | \$ 461,973 |

See accompanying notes to the financial statements.

**SOUTH CAROLINA AQUARIUM
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2015 AND 2014**

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 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 the 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 Accounting Standards Codification (ASC) 958, Section 210, *Not-for-Profit Entities, Balance Sheet*. Under ASC No. 958, Section 210, 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.

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, unless cash is held long-term and/or with investment objectives.

During the year ended March 31, 2015, the Aquarium received bond proceeds designated for an energy efficiency project; the Aquarium also began a \$25,000,000 Watershed Fund Capital Campaign. Unspent proceeds from these sources are presented as cash and cash equivalents-designated in the statements of financial position.

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, which 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 March 31, 2015 and 2014, management estimated all accounts receivable to be fully collectible.

**SOUTH CAROLINA AQUARIUM
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2015 AND 2014**

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 0.56% to 1.57% and 0.88% to 0.91% for the years ended March 31, 2015 and 2014, respectively. 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. The allowance for doubtful accounts was \$32,500 and \$20,000 for the years ended March 31, 2015 and 2014, respectively.

Inventory Valuation

Inventory consists of gift shop items that are currently being sold on consignment with the Aquarium's third party gift shop operator. 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 useful lives range from 3 to 39 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 was valued at a reasonable estimate of its fair value at time of donation. The property was classified as a long-term investment, as the Aquarium planned to sell the property at some future period. The property was sold during the year ended March 31, 2014 for \$50,000.

Investment Income and Losses, Net

Investment income, gains and losses are reported as increases or decreases in unrestricted net assets in the year 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 restriction's purpose.

**SOUTH CAROLINA AQUARIUM
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2015 AND 2014**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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 capitalized. Services donated in 2015 and 2014 include billboard advertising, special events supplies, construction labor and miscellaneous advertising, and are recognized in the external affairs program, husbandry program, fundraising supporting services and property and equipment, respectively. In-kind contributions were for various supplies, equipment, and other services and totaled \$72,208 and \$105,389 for the years ended March 31, 2015, and 2014, respectively.

A substantial number of unpaid volunteers have made significant contributions of their time and performed a variety of tasks that assisted 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.

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-capitalized collection items during the years ended March 31, 2015 and 2014. Purchases of non-capitalized collection items were \$8,600 and \$22,646 for the years ended March 31, 2015 and 2014, 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 \$472,992 and \$340,568 for the years ended March 31, 2015 and 2014, 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.

**SOUTH CAROLINA AQUARIUM
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2015 AND 2014**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Recent Accounting Pronouncements

ASU 2015-3 SIMPLIFYING THE PRESENTATION OF DEBT ISSUANCE COSTS

In April 2015, the FASB issued Accounting Standards Update - No. 2015-3 *Interest - Imputation of Interest* - Subtopic 835-30 - Simplifying the Presentation of Debt Issuance Costs. The FASB received feedback that having different balance sheet presentation requirements for debt issuance costs and debt discount and premium creates unnecessary complexity. Recognizing debt issuance costs as a deferred charge (that is, an asset) also is different from the guidance in International Financial Reporting Standards (IFRS), which requires that transaction costs be deducted from the carrying value of the financial liability and not recorded as separate assets. Additionally, the requirement to recognize debt issuance costs as deferred charges conflicts with the guidance in FASB Concepts Statement No. 6, Elements of Financial Statements, which states that debt issuance costs are similar to debt discounts and in effect reduce the proceeds of borrowing, thereby increasing the effective interest rate. Concepts Statement 6 further states that debt issuance costs cannot be an asset because they provide no future economic benefit.

To simplify presentation of debt issuance costs, the amendments in this Update require that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by the amendments in this Update. The Aquarium does not expect any reclassification of debt issuance costs in its financial statements in accordance with this update in future years. The amendments in this Update are effective for the Aquarium in financial statements issued for fiscal years beginning after December 15, 2015.

2. UNCONDITIONAL PROMISES TO GIVE

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

| | 2015 | 2014 |
|--|----------------------------|--------------------------|
| Unconditional promises to give | \$ 3,789,242 | \$ 580,083 |
| Less: Unamortized discount | <u>(116,869)</u> | <u>(1,100)</u> |
| Present value of unconditional promises to give | 3,672,373 | 578,983 |
| Less: Allowance for uncollectible promises to give | <u>(32,500)</u> | <u>(20,000)</u> |
| Unconditional promises to give, net | <u><u>\$ 3,639,873</u></u> | <u><u>\$ 558,983</u></u> |

Gross amounts receivable at March 31:

| | |
|------------|----------------------------|
| 2016 | \$ 1,417,383 |
| 2017 | 688,859 |
| 2018 | 613,000 |
| 2019 | 568,000 |
| 2020 | 502,000 |
| Thereafter | - |
| | <u><u>\$ 3,789,242</u></u> |

SOUTH CAROLINA AQUARIUM
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2015 AND 2014

3. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at March 31:

| | Expected Useful Life | 2015 | 2014 |
|-----------------------------------|-------------------------|---------------------|---------------------|
| Software | 3 years | \$ 348,180 | \$ 307,878 |
| Transportation equipment | 5-7 years | 348,440 | 348,440 |
| Furniture, fixtures and equipment | 7 years | 2,867,624 | 2,748,311 |
| Exhibits | 2-10 years | 5,938,053 | 5,940,057 |
| Leasehold improvements | 7-39 years | 3,974,558 | 3,522,268 |
| Projects under construction | Nondepreciable | <u>3,767,489</u> | <u>288,288</u> |
| | | 17,244,344 | \$ 13,155,242 |
| Accumulated depreciation | | <u>(9,498,601)</u> | <u>(8,928,228)</u> |
| | | <u>\$ 7,745,743</u> | <u>\$ 4,227,014</u> |

Depreciation expense for the years ended March 31, 2015 and 2014 totaled \$572,377 and \$582,681, respectively.

4. INVESTMENTS

In accordance with ASC 958, Section 320, *Not-for-Profit Entities, Investments – Debt and Equity Securities*, the Aquarium's investments are stated at fair market value. Fair market value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. ASC 820, *Fair Value Measurements and Disclosures*, also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

The standard describes three levels of inputs that may be used to measure fair value:

Level 1 Quoted prices in active markets for identical assets or liabilities.

Level 2 Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in active markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

All of the Aquarium's investments were valued at fair value under Level 2 inputs at March 31, 2015 and 2014.

**SOUTH CAROLINA AQUARIUM
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2015 AND 2014**

4. INVESTMENTS - CONTINUED

Investments and investment income is comprised of the following at and for the years ended March 31:

| | 2015 | | 2014 | |
|------------------------|---------------------|---------------------|---------------|-------------------|
| | Cost | Fair Value | Cost | Fair Value |
| Money market funds | \$ 103,118 | \$ 103,118 | \$ 31,007 | \$ 31,007 |
| Certificate of deposit | 1,743,281 | 1,743,281 | - | - |
| | \$ 1,846,399 | \$ 1,846,399 | 31,007 | 31,007 |
| | 2015 | 2014 | | |
| Interest and dividends | \$ 3,288 | \$ 539 | | |
| | \$ 3,288 | \$ 539 | | |

5. REVOLVING LINE OF CREDIT

On January 29, 2010, the Aquarium signed a \$400,000 revolving line of credit. The revolving line of credit bears interest at the 5%. Payments of monthly accrued interest only are due through the maturity date of the line. The line matured on January 24, 2013 and was increased to \$600,000 and extended. The line of credit had an outstanding balance of \$0 and \$450,000 at March 31, 2015, and 2014, respectively.

6. LONG-TERM DEBT

On April 6, 2011, the Aquarium signed a commercial vehicle note in the amount of \$47,153. The note bears interest of 5.5% and matures on April 6, 2018. Principal and interest payments of \$679 are due monthly. The note is secured by a Mercedes-Benz Sprinter Van and has a balance of \$21,828 and \$28,556 at March 31, 2015 and 2014, respectively.

On April 6, 2012, the Aquarium signed a \$176,000 commercial promissory note for the acquisition of a new ticketing system. The note bears interest at 4.85% and matures on April 6, 2019. Principal and interest payments of \$2,532 are due monthly. The promissory note is secured by a blanket lien in assets and has a balance of \$112,749 and \$133,426 at March 31, 2015 and 2014, respectively.

**SOUTH CAROLINA AQUARIUM
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2015 AND 2014**

6. LONG-TERM DEBT - CONTINUED

Future minimum principal payments at March 31, 2015 are as follows:

| | |
|------------|--------------------------|
| 2016 | \$ 32,764 |
| 2017 | 34,437 |
| 2018 | 35,687 |
| 2019 | 31,689 |
| Thereafter | - |
| | <u><u>\$ 134,577</u></u> |

7. BONDS PAYABLE

Bonds payable consist of the following at March 31:

| | 2015 | 2014 |
|--|----------------------------|--------------------|
| South Carolina Jobs - Economic Development Authority Economic Development Revenue Bond (SC Aquarium Project) Series 2014: | | |
| Serial bonds due in annual installments of \$225,000 each October 1st. Interest is due semi-annually in April and October at annual rates ranging from 2.50% to 3.60%. | <u><u>\$ 2,700,000</u></u> | - |
| Less: current portion | <u><u>225,000</u></u> | - |
| | <u><u>\$ 2,475,000</u></u> | <u><u>\$ -</u></u> |

On October 1, 2014, the Aquarium issued a note to evidence its obligation to the South Carolina Jobs-Economic Development Authority (the "Authority") arising from the Authority's loan to the Aquarium of the proceeds of the South Carolina Jobs - Economic Development Authority Economic Development Revenue Bond (SC Aquarium Project) Series 2014 in the amount of \$2,700,000. The net proceeds of the bonds were primarily used to finance the construction and improvements of the Aquarium's existing facilities. The bonds are secured by the Aquarium's personal property.

Scheduled repayments on bonds payable at March 31, 2015 are as follows:

| | |
|------------|----------------------------|
| 2016 | \$ 225,000 |
| 2017 | 225,000 |
| 2018 | 225,000 |
| 2019 | 225,000 |
| 2020 | 225,000 |
| Thereafter | <u>1,575,000</u> |
| | <u><u>\$ 2,700,000</u></u> |

**SOUTH CAROLINA AQUARIUM
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2015 AND 2014**

8. LEASE TERMINATION FEE PAYABLE

On December 20, 2013, the Aquarium signed an operating lease termination agreement with its landlord for property leased under an agreement dated February 1, 2000 (Note 15). The agreement required the Aquarium (or subtenant therein) to vacate the property before December 31, 2013. Accordingly, the lease agreement was terminated and a \$475,000 termination fee is payable. The fee is due in (10) equal non-interest bearing installments of \$47,500 on September 15th each year. The Aquarium has imputed interest under this agreement and has recorded a lease termination fee of \$395,959 during the year ended March 31, 2014.

Future minimum payments at March 31st under this agreement are as follows:

| | |
|------------------------------|-------------------|
| 2016 | \$ 47,500 |
| 2017 | 47,500 |
| 2018 | 47,500 |
| 2019 | 47,500 |
| 2020 | 47,500 |
| Thereafter | <u>190,000</u> |
| | 427,500 |
| Amount representing interest | <u>(97,026)</u> |
| | <u>\$ 330,474</u> |

9. TEMPORARILY RESTRICTED 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 March 31 as follows:

| | 2015 | 2014 |
|--|-------------------|-------------------|
| Education programs | \$ 110,051 | \$ 15,379 |
| Animal medical facility support and education programs | 323,335 | 37,944 |
| Capital and maintenance programs | 183,085 | - |
| Exhibit development | 48,100 | - |
| Marketing | <u>83,092</u> | <u>89,848</u> |
| | <u>\$ 747,663</u> | <u>\$ 143,171</u> |

**SOUTH CAROLINA AQUARIUM
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2015 AND 2014**

9. TEMPORARILY RESTRICTED NET ASSETS - CONTINUED

Temporarily restricted net assets consisted of the following at March 31:

| | 2015 | 2014 |
|----------------------------------|---------------------------|-------------------------|
| Restricted as to time: | | |
| Term Endowment | \$ 147,935 | \$ 147,935 |
| Restricted as to purpose: | | |
| Education programs | 274,596 | 135,679 |
| Capital and maintenance programs | 2,948,058 | 183,085 |
| Exhibit development | 2,930,357 | 371,435 |
| Marketing | - | 83,092 |
| | <hr/> | <hr/> |
| | <hr/> <u>\$ 6,300,946</u> | <hr/> <u>\$ 921,226</u> |

10. ENDOWMENT

The Aquarium's endowment consists of one endowment established by the donor during the year ended December 31, 2010. The fund's only asset is currently an unrestricted promise to give that is collectible in future periods. As required by accounting principles generally accepted in the United States of America, the net assets associated with the endowment are classified and reported based on the existence or absence of donor imposed restrictions.

Interpretation of Relevant Law

The Aquarium has interpreted the State of South Carolina's enacted version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA) 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 the original value of the gifts donated to the endowment and the original value of subsequent gifts to the endowment. The remaining portion of the donor-restricted fund that is not classified as permanently restricted net assets is classified as temporarily restricted until those amounts are appropriated for expenditure by the Aquarium in a manner consistent with the standards of prudence prescribed by UPMIFA.

In accordance with UPMIFA, the Aquarium considered the following factors in making their determination to appropriate or accumulate endowment funds:

- a. The duration and preservation of the funds
- b. The purpose of the donor restricted endowment fund
- c. General economic conditions
- d. The possible effect of inflation and deflation
- e. The expected total return from income and appreciation of investments
- f. Other resources of the Aquarium
- g. Investment policies of the Aquarium

**SOUTH CAROLINA AQUARIUM
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2015 AND 2014**

10. ENDOWMENT - CONTINUED

The following tables present the Aquarium's endowment net asset classification and composition at March 31, 2015 and 2014:

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
|----------------------------------|---------------------|-------------------------------|-------------------------------|-------------------|
| Donor-restricted endowment funds | \$ - | \$ - | \$ 463,133 | \$ 463,133 |
| Total funds | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 463,133</u> | <u>\$ 463,133</u> |

Permanently restricted net assets consist of the following at March 31:

| | <u>2015</u> | <u>2014</u> |
|---------------------------|-------------------|-------------------|
| Working capital endowment | <u>\$ 463,133</u> | <u>463,133</u> |
| | <u>\$ 463,133</u> | <u>\$ 463,133</u> |

Strategies Employed for Achieving Investment Objectives

Currently, the endowment's assets are comprised of unconditional promises to give. Once these promises are collected, they will be invested in accordance with the Aquarium's investment policy. The Aquarium follows an investment policy with long-term growth as the main objective and incorporates a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends).

11. 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 maintain 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.

**SOUTH CAROLINA AQUARIUM
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2015 AND 2014**

11. PROGRAM AND SUPPORTING SERVICES - CONTINUED

The Aquarium's supporting services include:

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

Annual Campaign and 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.

12. 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 March 31, 2015 and 2014 was \$74,527 and \$73,218, respectively.

13. CHANGE IN NET ASSETS FROM OPERATIONS

Management has elected to present depreciation expense, interest expense, operating lease termination fee and sublease property expense as other income (expense) rather than expenses from operations in the Statements of Activities for the years ended March 31, 2015 and 2014. If operating lease termination fee and sublease property expense were classified functionally they would be included as administrative expenses. Depreciation and interest are allocated to program and supporting services as follows for the years ended March 31:

| | Depreciation Expense | | Interest Expense | |
|---------------------------------------|----------------------|-------------------|------------------|------------------|
| | 2015 | 2014 | 2015 | 2014 |
| Program services | \$ 486,520 | \$ 495,279 | \$ 7,413 | \$ 8,917 |
| Supporting services: | | | | |
| Executive, finance and administration | 80,133 | 81,575 | 16,508 | 15,564 |
| Annual campaign/fundraising | 5,724 | 5,827 | - | - |
| | <u>\$ 572,377</u> | <u>\$ 582,681</u> | <u>\$ 23,921</u> | <u>\$ 24,481</u> |

**SOUTH CAROLINA AQUARIUM
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2015 AND 2014**

14. 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. The FDIC permanently raised the insurance level to \$250,000. The Aquarium had \$1,836,914 in amounts in excess of the FDIC limit at March 31, 2015.

At March 31, 2015 and 2014, unconditional promises to give and grants receivable consisted of corporate, governmental, and individual contributors. The five largest balances comprised 90% and 99% of the total balance outstanding at March 31, 2015 and 2014, respectively. Inherent to its operations, the Aquarium is dependent on the ongoing admissions and other revenue sources that are generated primarily from the Charleston tri-county area.

15. LEASES

Facility and Warehouses

The Aquarium leases warehouses and operating facilities under operating lease agreements. The leases expire at various dates through July 6, 2045. The facility leases contain renewal options, and require the Aquarium to pay certain executory costs such as taxes, maintenance and insurance, where applicable. Rent expense for these leases totaled \$33,171 and \$31,775 for the years ended March 31, 2015 and 2014.

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 March 31, 2015 and 2014.

4-D Theater Operations

On April 1, 2010, Aquarium signed an equipment, services, and support lease with an operator for its 4-D theater operations. The agreement provides for the equipment, installation, training and technical support for a 50-seat 4-D theater. The agreement is for 10 years and matures in May 2020. The lease provides for quarterly payments based upon a payment schedule defined in the agreement. Total expense under this lease agreement for the years ended March 31, 2015 and 2014 were \$281,341 and \$295,700, respectively.

Fountain Walk Leased Facility

On February 1, 2000, the Aquarium signed a long-term lease for office space adjacent to the Aquarium facilities (the "Fountain Walk Property"). The Aquarium vacated the Fountain Walk Property in prior years and entered into various sublease agreements over this period ending in February 2013. The Aquarium had entered into a lease termination agreement (see Note 8) and has vacated the property during 2014. Lease expense and other charges under this agreement for the year ended March 31, 2014 was \$361,286.

**SOUTH CAROLINA AQUARIUM
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2015 AND 2014**

15. LEASES - CONTINUED

Future minimum lease payments under these operating leases as of March 31 are as follows:

| | |
|------------|----------------------------|
| 2016 | \$ 336,647 |
| 2017 | 327,239 |
| 2018 | 332,700 |
| 2019 | 342,500 |
| 2020 | 353,100 |
| Thereafter | <hr/> |
| | <u><u>\$ 1,692,186</u></u> |

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

| | 2015 | 2014 |
|--------------------------|------------------------|-------------------------|
| Capital costs | \$ 71,650 | \$ 71,650 |
| Accumulated depreciation | <u>(68,067)</u> | <u>(53,737)</u> |
| | <u><u>\$ 3,583</u></u> | <u><u>\$ 17,913</u></u> |

Depreciation expense for the above equipment under capital lease was \$11,865 for each of the years ended March 31, 2015 and 2014. Minimum future lease payments under capital leases at March 31 are as follows:

| | |
|------------------------------|------------------------|
| 2016 | \$ 7,698 |
| Thereafter | - |
| Net minimum lease payments | 7,698 |
| Amount representing interest | <u>(400)</u> |
| | <u><u>\$ 7,298</u></u> |

16. STATEMENT OF CASH FLOWS SUPPLEMENTAL INFORMATION

Supplemental cash flow information for the years ended March 31:

| | 2015 | 2014 |
|---|-------------------------|-------------------------|
| Cash payments for interest made during the year | <u><u>\$ 23,921</u></u> | <u><u>\$ 24,481</u></u> |

Supplemental Disclosure of Noncash Investing and Financing Activities:

| | | |
|--|--------------------------|--------------------|
| Capital assets acquired through issuance of accounts payable | <u><u>\$ 687,022</u></u> | <u><u>\$ -</u></u> |
|--|--------------------------|--------------------|

**SOUTH CAROLINA AQUARIUM
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2015 AND 2014**

17. COMMITMENTS AND CONTINGENCIES

In June 2005, the Aquarium entered into a contract to lease retail space to a vendor to operate the gift shop for a term of five years. This agreement was amended on January 13, 2010, extending the term of the agreement for an additional five year period through June 2, 2015. Rent is paid to the Aquarium monthly in arrears, 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 under this agreement for the years ended March 31, 2015 and 2014 were \$372,961 and \$337,048, respectively. Amounts received are included in concessions revenue in the Statements of Activities. The contract was extended subsequent to year end.

In April 2006, the Aquarium signed a services agreement with a vendor to provide photographic and imaging services to patrons in the facility. The agreement was for an initial term of three years, with an automatic renewal of an additional three years if either of the parties did not notify each other of termination. The agreement was automatically extended and matures in April 2015. The Aquarium receives a percentage of net sales revenues as defined within the agreement. Amounts received by the Aquarium under this agreement for the years ended March 31, 2015 and 2014 were \$141,266 and \$126,171, respectively. Amounts received are included in concessions revenue in the Statements of Activities. The agreement was extended subsequent to year end.

On May 21, 2007, the Aquarium signed a concession agreement with a vendor to operate a food concession area in the facility. The agreement was amended on January 13, 2010, extending the term for an additional five years through June 2, 2015. The Aquarium receives rent based upon an agreed percentage of gross sales as defined within the agreement. Amounts received by the Aquarium under this agreement for the years ended March 31, 2015 and 2014 were \$47,796 and \$50,091, respectively. Amounts received are included in concessions revenue in the Statements of Activities. The agreement was extended subsequent to year end.

On April 1, 2010, the Aquarium signed a licensed film property and services agreement associated with its 4-D theater operation. The agreement is for ten years and matures on May 27, 2020. The service agreement provides for the access and installation of up to two licensed films per year at the Aquarium's 4-D theater. The services agreement provides for a semi-annual payment through the term of the agreement. Amounts incurred by the Aquarium under this agreement for the years ended March 31, 2015 and 2014 were \$76,702 and \$87,500, respectively.

18. RELATED PARTY TRANSACTIONS

Board of Director Members made contributions and unconditional promises to give totaling approximately \$2,590,349 and \$401,938 during the years ended March 31, 2015 and 2014, respectively. Outstanding balances of unconditional promises to give from board members, gross of applicable discounts and allowances, totaled \$2,590,349 and \$26,750 at March 31, 2015 and 2014, respectively.

The Aquarium maintains its depository accounts, notes payable and line of credit with a commercial bank related to one of its board members. Total interest expense incurred under this line of credit totaled \$23,921 and \$24,481 for the years ended March 31, 2015 and 2014, respectively.

**SOUTH CAROLINA AQUARIUM
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2015 AND 2014**

19. THE WATERSHED FUND CAPITAL CAMPAIGN

During the year ended March 31, 2015, the Aquarium began the public phase of a \$25,000,000 six year multi-program campaign for the advancement of the Aquarium's education and conservation initiatives. The Watershed Fund campaign multi-program initiative will expand and improve the Aquarium's programs in the following areas:

- The Watershed Fund Guest Experience
- The Watershed Fund Scaling and Optimizing our Education Impact
- The Watershed Fund Conservation Program Launch
- The Watershed Fund Sea Turtle Hospital Expansion
- The Watershed Fund Permanent Endowment

20. SUBSEQUENT EVENT

Management has evaluated the effect subsequent events would have on the financial statements of the Aquarium at March 31, 2015 through November 2, 2015, which is the date the financial statements were available to issue. Based upon this evaluation, no adjustments or additional disclosures were provided in these financial statements beyond those described below:

On April 1, 2015, the Aquarium signed an extension to its agreement dated April 1, 2006, with its photo concessionaire. The extension is for five years and matures on April 1, 2020.

On June 22, 2015, the Aquarium signed the third amendment to its concession agreement to operate its gift shop and food concession areas. The agreement provides for (2) five-year extension terms through June 2, 2025. The agreement also provides for a guaranteed investment of \$150,000 in capital improvements to the utilized space during the lease term, but focusing on the food concession area.

On July 7, 2015, the South Carolina State Assembly approved \$1,000,000 in funding for the South Carolina Aquarium. The funding is planned to be used for capital projects and deferred maintenance at the Aquarium facility. The Aquarium is projected to receive these funds during the 2016 fiscal year.

On August 13, 2015, the Aquarium extended its commercial lease for warehouse space on 3359 Meeting Street Road, North Charleston, South Carolina. The extended lease term will begin September 17, 2015 and run for three years ending September 16, 2018. The rent will increase an annual amount of 3%.