

# Clearwater Marine Aquarium, Inc.

## FINANCIAL STATEMENTS

For the Years Ended  
September 30, 2016 and 2015



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# REPORT



## **INDEPENDENT AUDITORS' REPORT**

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

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Clearwater Marine Aquarium, Inc. ("the Aquarium") (a nonprofit organization), which comprise the statement of financial position as of September 30, 2016 and the related statement of activities and cash flows for the year 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Clearwater Marine Aquarium, Inc. as of September 30, 2016, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

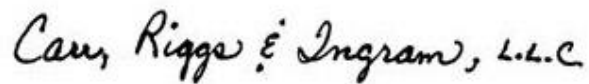
Our audits were conducted for the purposes of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of state awards as required by *Government Auditing Standards*, issued by the Comptroller General of the United States; and Chapter 10.650, Rules of the Auditor General, are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

## **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated January 24, 2017 on our consideration of Clearwater Marine Aquarium Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Clearwater Marine Aquarium Inc.'s internal control over financial reporting and compliance.

## Report on Summarized Comparative Information

We have previously audited the Aquarium's 2015 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated January 15, 2016. As discussed in Note 1 to the financial statements, reclassifications have been made to the 2015 presentation to be consistent with the 2016 presentation. Further as discussed in Note 1 to the financial statements, in 2016, the Aquarium early implemented the adoption of an accounting standard ASU 2015-03, *Interest – Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs*, in April 2015. This implementation has been retrospectively applied and in our opinion, the summarized comparative information presented herein as of and for the year ended September 30, 2015, is not modified with respect to this matter.



CARR, RIGGS & INGRAM, LLC

Clearwater, Florida  
January 24, 2017



# FINANCIAL STATEMENTS

## Clearwater Marine Aquarium, Inc. Statement of Financial Position

<i>September 30,</i>	<b>Unrestricted</b>	<b>Temporary Restricted</b>	<b>Permanently Restricted</b>	<b>Total 2016</b>	2015 (Summarized)
<b>Assets:</b>					
Current assets:					
Cash and cash equivalents	\$ 7,183,222	\$ -	\$ -	\$ 7,183,222	\$ 329,002
Restricted cash	5,080	-	-	5,080	197,015
Accounts receivable	32,686	-	-	32,686	44,648
Grant receivable	240,828	-	-	240,828	-
Contribution receivable	-	51,500	-	51,500	92,000
Investments	-	-	-	-	7,075,611
Gift shop inventory	1,097,513	-	-	1,097,513	1,213,185
Boat and vehicle inventory, net of estimated selling expenses of \$16,800 and \$6,000, respectively	11,200	-	-	11,200	4,000
Other current assets	395,286	-	-	395,286	320,378
<b>Total current assets</b>	<b>8,965,815</b>	<b>51,500</b>	<b>-</b>	<b>9,017,315</b>	<b>9,275,839</b>
Property and equipment, net	21,686,626	-	-	21,686,626	19,291,353
Film costs, net	4,204,703	-	-	4,204,703	4,918,922
Long term contribution receivable	-	85,054	-	85,054	134,783
Externally controlled endowments	-	590,866	1,932,658	2,523,524	2,395,203
<b>Total assets</b>	<b>\$ 34,857,144</b>	<b>\$ 727,420</b>	<b>\$ 1,932,658</b>	<b>\$ 37,517,222</b>	<b>\$ 36,016,100</b>
<b>Liabilities and net assets:</b>					
Current liabilities:					
Accounts payable and accrued expenses	\$ 1,726,051	\$ -	\$ -	\$ 1,726,051	\$ 1,687,749
Deferred compensation	80,000	-	-	80,000	80,000
Deferred grant revenue	-	-	-	-	193,683
Deferred revenue	63,977	-	-	63,977	73,933
Current portion of notes payable	524,597	-	-	524,597	483,091
<b>Total current liabilities</b>	<b>2,394,625</b>	<b>-</b>	<b>-</b>	<b>2,394,625</b>	<b>2,518,456</b>
Long-term Liabilities (Note 11):					
Notes payable, less current portion	4,796,909	-	-	4,796,909	4,677,090
Less deferred loan costs	218,356	-	-	218,356	66,473
Long-term debt less deferred loan costs	4,578,553	-	-	4,578,553	4,610,617
<b>Total liabilities</b>	<b>6,973,178</b>	<b>-</b>	<b>-</b>	<b>6,973,178</b>	<b>7,129,073</b>
<b>Net assets:</b>					
Unrestricted	27,883,966	-	-	27,883,966	26,265,041
Temporarily restricted	-	727,420	-	727,420	689,328
Permanently restricted	-	-	1,932,658	1,932,658	1,932,658
<b>Total net assets</b>	<b>27,883,966</b>	<b>727,420</b>	<b>1,932,658</b>	<b>30,544,044</b>	<b>28,887,027</b>
<b>Total liabilities and net assets</b>	<b>\$ 34,857,144</b>	<b>\$ 727,420</b>	<b>\$ 1,932,658</b>	<b>\$ 37,517,222</b>	<b>\$ 36,016,100</b>

*The accompanying notes are an integral part of these financial statements.*

## Clearwater Marine Aquarium, Inc. Statement of Activities

<i>Year ending September 30,</i>	2016				2015 (Summarized)	
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total	
<b>Revenue and support:</b>						
Admissions and member fees	\$ 9,476,657	\$ -	\$ -	\$ 9,476,657	\$	12,274,086
Animal encounter fees	1,809,873	-	-	1,809,873		2,500,388
Education program fees	1,643,170	-	-	1,643,170		1,975,869
Fundraising events, net of expenses of \$63,230 and \$ 72,156, respectively	105,862	-	-	105,862		116,863
Gift shop sales, net of cost of goods sold of \$1,483,800 and \$2,242,845, respectively	2,823,948	-	-	2,823,948		4,084,929
Food service income, net of cost of goods sold of \$382,346 and \$471,474, respectively	768,006	-	-	768,006		1,000,384
Sea turtle nesting fees	145,254	-	-	145,254		130,000
Grant income	933,881	-	-	933,881		443,317
Contributions	626,162	-	-	626,162		595,911
Non-cash contributions	1,376,380	-	-	1,376,380		1,466,679
Boat and vehicle donations, net of impairment losses and related expenses of \$124,462 and \$17,241, respectively	69,288	-	-	69,288		11,559
Licensing and merchandise royalties	82,134	-	-	82,134		13,748
Realized and unrealized losses on investments	(24,969)	-	-	(24,969)		(191,909)
Interest and dividend income	222,545	-	-	222,545		202,634
<b>Total revenue and support</b>	<b>20,058,191</b>	<b>-</b>	<b>-</b>	<b>20,058,191</b>		<b>24,624,458</b>
<b>Net assets released from restrictions</b>	<b>90,229</b>	<b>(90,229)</b>	<b>-</b>	<b>-</b>		<b>-</b>
<b>Operating expenses:</b>						
Animal care	3,997,232	-	-	3,997,232		3,952,151
Education	11,763,556	-	-	11,763,556		13,195,528
General and administrative	1,660,957	-	-	1,660,957		1,894,684
Fundraising	151,099	-	-	151,099		155,090
Interest	123,221	-	-	123,221		132,856
<b>Total operating expenses</b>	<b>17,696,065</b>	<b>-</b>	<b>-</b>	<b>17,696,065</b>		<b>19,330,309</b>
<b>Non-operating income/(expense):</b>						
Osceola development expense	(37,108)	-	-	(37,108)		(169,592)
Aquarium expansion	(328,790)	-	-	(328,790)		(211,152)
Miscellaneous expense	44,149	-	-	44,149		(61,542)
Loss on disposal of assets	(511,681)	-	-	(511,681)		(895,654)
Appreciation/(depreciation) in third party endowments	-	128,321	-	128,321		(220,048)
<b>Total other changes</b>	<b>(833,430)</b>	<b>128,321</b>	<b>-</b>	<b>(705,109)</b>		<b>(1,557,988)</b>
<b>Increase in net assets</b>	<b>1,618,925</b>	<b>38,092</b>	<b>-</b>	<b>1,657,017</b>		<b>3,736,161</b>
<b>Net assets, beginning of year</b>	<b>26,265,041</b>	<b>689,328</b>	<b>1,932,658</b>	<b>28,887,027</b>		<b>25,150,866</b>
<b>Net assets, end of year</b>	<b>\$ 27,883,966</b>	<b>\$ 727,420</b>	<b>\$ 1,932,658</b>	<b>\$ 30,544,044</b>	<b>\$</b>	<b>28,887,027</b>

*The accompanying notes are an integral part of these financial statements.*



## Clearwater Marine Aquarium, Inc. Statement of Cash Flows

<i>Year ending September 30,</i>	<b>2016</b>	2015 (Summarized)
<b>Increase in net assets</b>	<b>\$ 1,657,017</b>	\$ 3,736,161
<b>Adjustments to reconcile increase in net assets to net cash provided by operating activities:</b>		
Depreciation and amortization	<b>1,171,058</b>	1,198,162
Film cost amortization	<b>692,979</b>	942,332
Bad debt expense	<b>26,788</b>	117,028
(Gain)/loss on disposals of fixed assets	<b>490,441</b>	895,654
(Gain)/loss on disposals of film costs	<b>21,240</b>	-
Donated boat and vehicle inventory	<b>(173,000)</b>	(18,200)
(Gain)/loss on sale of boats and vehicles	<b>(20,000)</b>	(12,500)
(Gain)/loss on sale of investments	<b>18,742</b>	-
Loss on inventory obsolescence	<b>16,592</b>	93,369
Realized and unrealized losses on investments	-	191,909
(Appreciation)/Depreciation in externally controlled endowments	<b>(128,321)</b>	220,048
Changes in net assets and liabilities:		
Restricted cash	<b>191,935</b>	(197,015)
Accounts receivable	<b>11,928</b>	22,658
Contribution receivable	<b>63,475</b>	146,962
Grant receivable	<b>(240,828)</b>	-
Gift shop inventory	<b>99,080</b>	33,958
Boat and vehicle inventory, net	<b>10,800</b>	7,888
Film costs	-	(42,594)
Other current assets	<b>(74,907)</b>	243,440
Accounts payable and accrued expenses	<b>38,302</b>	29,151
Deferred compensation	-	80,000
Deferred revenue	<b>(9,956)</b>	62,220
Deferred grant revenue	<b>(193,683)</b>	-
<b>Net cash and cash equivalents provided by operating activities</b>	<b>3,669,682</b>	7,750,631
<b>Investing activities:</b>		
Proceeds from sale of boats and vehicles	<b>175,000</b>	22,700
Purchases of investments	-	(7,455,684)
Sale of investments	<b>7,056,869</b>	1,396,700
Purchases of property and equipment	<b>(4,052,342)</b>	(1,022,257)
<b>Net cash and cash equivalents provided (used) by investing activities</b>	<b>3,179,527</b>	(7,058,541)
<b>Financing activities:</b>		
Borrowings on notes payable	<b>652,000</b>	-
Payments on notes payable	<b>(490,675)</b>	(554,589)
Cash paid for deferred loan costs	<b>(156,314)</b>	-
<b>Net cash and cash equivalents provided (used) by financing activities</b>	<b>5,011</b>	(554,589)
<b>Net increase in cash</b>	<b>6,854,220</b>	137,501
<b>Cash and cash equivalents at beginning of year</b>	<b>329,002</b>	191,501
<b>Cash and cash equivalents at end of year</b>	<b>\$ 7,183,222</b>	\$ 329,002
Supplemental disclosures of cash flows information:		
Cash paid for interest, including capitalized interest of \$0 and \$163,452, respectively.	<b>\$ 36,452</b>	\$ 199,904

*The accompanying notes are an integral part of these financial statements.*

**NOTE 1: ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

***Organization***

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

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

***Basis of Accounting***

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

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

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

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

***Revenue Recognition***

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

**NOTE 1: ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

***Comparative Financial Information***

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended September 30, 2015, from which the summarized information was derived.

***Cash and Cash Equivalents***

At September 30, 2016 and 2015, cash consists of monies held in checking accounts, savings accounts, money market funds, and petty cash. Cash contributions for a specific purpose are recorded as temporary restricted until spent.

***Accounts Receivable***

The Aquarium considers all accounts receivable to be substantially collectible. When collection is doubtful, an allowance for doubtful accounts is established for accounts receivable. Accounts receivable are monitored continuously and are written off or reserved when deemed uncollectible based on contractual terms and age of the account. There was no allowance for doubtful accounts as of September 30, 2016 and 2015.

***State Grant***

The State of Florida appropriated funds in the amount of \$2,000,000 in their fiscal year 2014-2015 General Appropriations Act on line 3146A. The Aquarium must provide specified deliverables and performance measurements related to the scope of work (Island Estates Improvements), for payments to be awarded. The first payment is a fixed price advance in the amount of 25% (\$500,000). The three remaining payments will be made based on the deliverables and performance measures being met. The Grant has been extended and all funds must be used by February 15, 2017.

The Aquarium expended \$736,881 and \$306,317 as of September 30, 2016 and 2015, respectively. As of September 30, 2015 the Aquarium had \$193,683 in deferred revenue related to the initial advance payment and at September 30, 2016 the Aquarium has a receivable of \$227,373, which is included in the grants receivable.

**NOTE 1: ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

***Gift Shop Inventory***

Inventory consists of merchandise held for sale by the Aquarium gift shop and is stated at the lower of average cost or market. As of September 30, 2016 and 2015, the Aquarium recognized \$16,592 and \$93,369, respectively relating to inventory obsolescence which is included in cost of goods sold in the statement of activities. Management reviews inventory items for obsolescence and slow moving items and deemed no allowance is considered necessary as of September 30, 2016 and 2015.

***Contribution Receivable***

Contribution receivables are recorded as a receivable when a pledge is made from a viable source and is in written form. Contributions receivable are recorded as temporarily restricted until the pledge is received and/or the purpose is met. As of September 30, 2016 and 2015, management has established an allowance for uncollectible pledges, as of September 30, 2016 and 2015 in the amount of \$16,000 and \$30,000, respectively. Contributions receivable are evaluated on a regular basis and management establishes the allowance as necessary. If management expects the cash from the contribution receivable to be received more than one year in the future, the promises to give revenue and receivable are discounted for the time value of money (i.e., net present value) at a discount rate of 1.32% and 1.50% for the years ended September 30, 2016 and 2015. During 2016 and 2015, the Aquarium wrote off \$37,750 and \$116,940 in contributions receivable, respectively.

***Donated Boat and Vehicle Inventory***

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

For the years ended September 30, 2016 and 2015, the Aquarium recorded impairment write-downs totaling \$-0- and \$5,300, respectively.

**NOTE 1: ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

***Property and Equipment***

Property and equipment with an acquisition cost or donated value of \$750 or more and a useful life of more than one year are capitalized. Purchases of property and equipment are recorded at cost. Donations of property and equipment are recorded at their estimated fair market value. Interest expense incurred on the bond obligation is capitalized and included in construction in progress in Note 6. Depreciation is computed using the straight-line method over the following estimated useful lives of the related assets:

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

***Use of Estimates***

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

***Investments***

Investments in equity securities with readily determinable fair values are measured at fair value based on quoted market prices. Gains and losses on market value adjustments and sales are recognized in the statements of activities. Investment fees of \$13,387 and \$14,996, respectively as of September 30, 2016 and 2015, are included in the general and administrative expenses in the statements of activities

***Donated Items***

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

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

**NOTE 1: ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

***Advertising Costs***

Advertising is expensed as incurred or upon the date the advertising publications are first released. Advertising expense totaled \$2,336,495 and \$2,444,439 for the years ended September 30, 2016 and 2015, respectively. Included in advertising expense in 2016 and 2015 is donated advertising in the approximate amount of \$804,275 and \$792,900, respectively.

***Deferred Loan Costs***

The costs of obtaining the debt are capitalized and amortized over the life of the debt (See Note 10).

Total amortization expense capitalized for 2016 and 2015 is \$-0- and \$96,404, respectively. The total net deferred loan costs as of September 30, 2016 and 2015 are \$218,356 and \$66,473, respectively as disclosed in the Statement of Financial Position.

***Income Taxes***

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

In accordance with *ASC 740, Income Taxes*, an entity's income tax returns are subject to examination by the applicable taxing authorities. The time period during which a return may be selected by a taxing authority for examination generally ends at the later of three years after the initial due date of the return or three years after the return is filed.

***Film Costs***

As of September 30, 2016, the Aquarium has capitalized film costs associated with three films: Two documentaries and a major motion picture. During fiscal year 2012 the Aquarium began efforts to launch a documentary surrounding one of its acclaimed dolphins. During both 2013 and 2014, the Aquarium incurred expenses meeting the definition of film costs to be capitalized under *ASC No. 926, Entertainment – Films*. During 2015, expenses have been incurred on a new concert DVD in process.

Each month, the Aquarium expenses a flat percentage of sales related to the documentary. As part of its evaluation of the recoverability of film costs, management evaluates the expected total ultimate revenue over the life of the project and compares that amount to actual revenue earned to date to determine the actual amortization expense for the year. The calculated amortization is compared to the recorded amortization for reasonableness.

**NOTE 1: ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

***Film Costs (Continued)***

In addition, the estimated ultimate revenue is compared to remaining film costs, net to determine if an impairment charge is necessary. No impairment charges were deemed necessary for the years ending September 30, 2016 and 2015. See Note 3 for details over film costs.

As of September 30, 2014, the Aquarium had capitalized film costs associated with the major motion picture of \$5,537,000. The movie was released in late September 2014. The Aquarium has prepared a projection of the expected increases in revenue relating to the release of the movie. Based on these revenue projections, the Aquarium has projected the annual amortization as a percentage of the total film cost that will be recognized (to match the revenue and expense). The Aquarium will reconsider the projections each year and adjust their estimates accordingly. See Note 3 for details over film costs.

***Recently Adopted Accounting Standard***

The FASB issued ASU 2015-03, *Interest – Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs*, in April 2015. ASU 2015-03 amends ASC Subtopics 835-30 which requires discount, premium or debt issuance costs related to a note to be reported in the balance sheet as a direct deduction from the face amount of that note. Amortization of discount, premium or debt issuance costs shall be reported as interest expense. The Aquarium implemented the early adoption of this ASU in fiscal year 2016.

Prior to 2016, the Aquarium's policy was to present these deferred loan costs in Other Assets on the balance sheet, net of accumulated amortization. As the implementation has been retrospectively applied, the 2015 statements have been restated to show debt issuance costs of \$66,473 as a direct deduction from the long term liability line item on the Statement of Financial Position. Further, 2015 bond amortization expense of \$96,404 has been reclassified from animal care expense to interest expense on the Statement of Activities. The resulting restatement due to the implementation has not resulted in any change in net assets from the prior period.

***Subsequent Events***

Management of the Plan applies the provisions of ASC 855, *Subsequent Events*, which establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before the financial statements are issued. See Note 22, *Subsequent Events*.

***Reclassifications***

Certain amounts for fiscal year 2015 have been reclassified to conform to their presentation in the 2016 financial statements with no impact on total net assets or changes in net assets. \$1,558,095 was removed from animal encounter revenue and moved to education program revenue. \$18,501 was removed from education income and moved to gift shop sales.

**Clearwater Marine Aquarium, Inc.**  
**Notes to Financial Statements**

**NOTE 2: CONTRIBUTION RECEIVABLE**

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

Expected receipt of contribution in:	Amount
2017	\$ 51,500
2018	47,338
2019	44,000
2020	6,000
2021	6,000
<hr/>	
Gross contribution receivable	154,838
Less:	
Discount on contributions	(2,284)
Allowance for uncollectible contribution receivable	(16,000)
<hr/>	
Net contributions receivable	\$ 136,554

Contributions receivable consist primarily of promises from individuals and corporations within the Tampa Bay area. Management has established the allowance account as its estimate of the uncollectible promises to give of approximately \$16,000 and \$30,000 at September 30, 2016 and 2015, respectively.



**NOTE 3: FILM COSTS**

<b>Components of Film Costs</b>	<b>2016</b>	<b>2015</b>
Released film costs - Dolphin Tale 2	\$ 5,537,664	\$ 5,537,664
Released film costs - documentary	327,698	327,698
CMA musical DVD costs	21,240	42,594
	5,886,602	5,907,956
Accumulated amortization of film costs	(1,681,899)	(989,034)
	5,886,602	5,907,956
Film costs, net	\$ 4,204,703	\$ 4,918,922

The Aquarium is currently working on releasing a musical DVD and expects to place this asset in service in 2017. In addition, a loss on disposal of assets of \$21,354 was recognized in the current year relating to a change in the type of DVD.

Film costs, of approximately \$328,000, relating to *Winter's Documentary* were released in 2013. As of September 30, 2016 and 2015 accumulated amortization associated with *Winter's Documentary* totaled approximately \$225,000 and \$114,000, respectively. The Aquarium expects that approximately 69% will be amortized of *Winter's Documentary* costs in the next 12 months and 100% will be fully amortized by September 2018.

Film costs, of \$5,537,664, relating to *Dolphin Tale 2* were capitalized in the year ending September 30, 2014. As of September 30, 2016 accumulated amortization associated with *Dolphin Tale 2* totaled approximately \$1,456,000. The Aquarium expects that approximately 36.1% and 55.4% of *Dolphin Tale 2* costs will be amortized over the next 12 months and three years, respectively. The Aquarium expects to reach 89% of costs amortized by 2023. The estimates of expected amortization are based on *Dolphin Tale 2's* release and the impact on attendance to the Aquarium.

The Aquarium evaluates the film cost to determine whether unamortized capitalized costs of any of the films have a fair value that is less than its carry value (see Note 1 Film Costs for policy).

**NOTE 4: FAIR VALUE MEASUREMENT**

*ASC 820, Fair Value Measurements*, establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value.

The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurement) and the lowest priority to unobservable inputs (Level 3 measurement). The three levels of the fair value hierarchy are described as follows:

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

**NOTE 4: FAIR VALUE MEASUREMENT (Continued)**

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

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

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs. The following is a description of the valuation methodologies used for assets measured at fair value.

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

*Money Market:* Valued at the net asset value (NAV) of shares held by the Aquarium at year end. There are no unfunded commitments and there are no significant restrictions on the Aquarium's ability to sell these investments.

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

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

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

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

**Clearwater Marine Aquarium, Inc.**  
**Notes to Financial Statements**

**NOTE 4: FAIR VALUE MEASUREMENT (Continued)**

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

***Changes in Fair Value Levels***

The availability of observable market data is monitored to assess the appropriate classification of financial instruments within the fair value hierarchy. Changes in economic conditions or model-based valuation techniques may require the transfer of financial instruments from one fair value level to another. In such instances, the transfer is reported at the beginning of the reporting period. There were no transfers in 2016 or 2015.

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

<i>September 30,</i>	<b>2016</b>			
<b>Description</b>	<b>Assets Measured at Fair Value</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
Money Market	\$ 7,080,424	\$ 7,080,424	\$ -	\$ -
Mutual Funds	-	-	-	-
Beneficial interest in perpetual trusts	2,523,524	-	-	2,523,524
Boat and vehicle inventory, net	11,200	-	-	11,200
Life insurance contract	41,990	-	-	41,990
	<b>2,576,714</b>	<b>-</b>	<b>-</b>	<b>2,576,714</b>
<b>Grand total</b>	<b>\$ 9,657,138</b>	<b>\$ 7,080,424</b>	<b>\$ -</b>	<b>\$ 2,576,714</b>

<i>September 30,</i>	<b>2015</b>			
<b>Description</b>	<b>Assets Measured at Fair Value</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
Money Market	\$ 18,670	\$ 18,670	\$ -	\$ -
Mutual Funds	7,056,941	7,056,941	-	-
Beneficial interest in perpetual trusts	2,395,203	-	-	2,395,203
Boat and vehicle inventory, net	4,000	-	-	4,000
Life insurance contract	32,393	-	-	32,393
	<b>2,431,596</b>	<b>-</b>	<b>-</b>	<b>2,431,596</b>
<b>Grand total</b>	<b>\$ 9,507,207</b>	<b>\$ 7,075,611</b>	<b>\$ -</b>	<b>\$ 2,431,596</b>

**Clearwater Marine Aquarium, Inc.**  
**Notes to Financial Statements**

**NOTE 4: FAIR VALUE MEASUREMENT (Continued)**

***Changes in Fair Value Levels (Continued)***

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

<b><i>Year ending September 30,</i></b>	<b>2016</b>	<b>2015</b>
	Boat and vehicle inventory, net	
Beginning balance at fair value	\$ 4,000	\$ 3,888
Donated boats and vehicles	173,000	18,200
Less: Sales	(175,000)	(22,700)
Plus: Realized gains	20,000	12,500
Less: Impairments	-	(5,300)
Less: Expenses	(10,800)	(2,588)
Ending balance at fair value	\$ 11,200	\$ 4,000
	Beneficial interest in third party endowment	
Beginning balance at fair value	\$ 2,395,203	\$ 2,615,251
Unrealized gains/losses	128,321	(220,048)
Ending balance at fair value	\$ 2,523,524	\$ 2,395,203
	Life insurance contract	
Beginning balance at fair value	\$ 32,393	\$ 26,897
Change in surrender value	9,597	5,496
Ending balance at fair value	\$ 41,990	\$ 32,393

**NOTE 5: CASH SURRENDER VALUE OF LIFE INSURANCE**

The Aquarium and its CEO own, as co-owners, a universal life insurance policy on the life of the CEO with a death benefit of \$500,000 as of September 30, 2016. The policy is structured to provide the Aquarium and its CEO an undivided interest in the funding policy in direct proportion to their premium share. As of September 30, 2016 and 2015 the Aquarium funded approximately \$16,124 and \$9,791, of the fiscal year premium, respectively. The Aquarium's share of the net cash surrender value as of September 30, 2016 and 2015 is \$41,990 and \$32,393, or 42% and 49% respectively.

The ownership factor on the contract of the Aquarium decreases each year and the CEO's ownership factor increases each year. As of September 30, 2016, the Aquarium owned approximately 42%, or \$210,000, of the contract's death benefit. As of September 30, 2015 the Aquarium owned 49%, or \$245,000, of the contract's death benefit.

**NOTE 6: PROPERTY AND EQUIPMENT**

Property and equipment consist of the following:

<i>September 30,</i>	<b>2016</b>	<b>2015</b>
Land and improvements	\$ 5,404,273	\$ 5,743,423
Buildings and improvements	11,588,415	10,949,843
Furniture, fixtures and equipment	2,772,459	3,106,495
Vehicles and boats	1,094,008	1,029,661
Construction in progress	5,964,745	3,366,048
	<b>26,823,900</b>	24,195,470
Less: Accumulated depreciation	<b>(5,137,274)</b>	(4,904,117)
Property and equipment, net	<b>\$ 21,686,626</b>	\$ 19,291,353

**NOTE 7: LAND**

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

**NOTE 8: THIRD PARTY ENDOWMENTS**

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

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

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

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

Endowment net asset composition by type of fund as of September 30, 2016:

	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
<b>Third party endowment funds</b>	\$ 590,866	\$ 1,932,658	\$ 2,523,524

**Clearwater Marine Aquarium, Inc.**  
**Notes to Financial Statements**

**NOTE 8: THIRD PARTY ENDOWMENTS (Continued)**

Changes in endowment net assets for the year ended September 30, 2016:

	Temporarily Restricted	Permanently Restricted	Total
<b>Third party endowment, beginning of year</b>	\$ 462,545	\$ 1,932,658	\$ 2,395,203
<b>Unrealized gain/loss</b>	128,321	-	128,321
<b>Third party endowment net assets, end of year</b>	<u>\$ 590,866</u>	<u>\$ 1,932,658</u>	<u>\$ 2,523,524</u>

These endowment assets are held in perpetuity and are invested and managed by outside trustees in accordance with trust instruments established by the donors. The fair market value of the assets held in the endowment trusts are considered to be the most appropriate estimates of the discounted values of the estimated future revenue streams, and are therefore the basis used to record these future streams of revenue. For the years ended September 30, 2016 and 2015, the fair market value of the assets that support the revenue streams to the Aquarium (decreased)increased by \$128,321 and( \$220,048), respectively.

**NOTE 9: DEFERRED COMPENSATION PLAN**

The Aquarium implemented an unfunded executive deferred compensation plan subject to Section 457(f) of the Internal Revenue Code in 2015. For the year ended September 30, 2015, the Aquarium accrued \$100,000 to the benefit the participants in the Plan and distributed \$20,000 to one participant due to termination of employment with the Aquarium. As of September 30, 2016 and 2015, the balance related to the deferred compensation plan was \$80,000 and \$80,000, respectively.

**NOTE 10: LONG-TERM DEBT**

On December 29, 2010, the Pinellas County Industrial Development Authority d/b/a Pinellas County Economic Development Authority (the "Issuer") issued a 20-year term bond in the principal amount up to \$8,600,000, Series 2010, (the "Bond") to the Aquarium (the "Borrower"). The Bonds were issued pursuant to an agreement (the "Agreement") between the Issuer and a financial institution, (the "Bank"). During 2013, the Aquarium drew down approximately \$5,075,000, which was the remaining principal eligible to be drawn on under the Bond.

The Bond shall be used to (i) refinance existing debt of the Borrower with the Bank, (ii) refinance the purchase of real property to be used as a parking lot, (iii) finance the construction of a parking garage, (iv) finance the construction of a parking lot and (v) finance construction and renovations related to the Borrower's main facility (collectively, the "Project").

**NOTE 10: LONG-TERM DEBT (Continued)**

The Agreement contains covenants that require the Aquarium to maintain compliance with laws, maintain its tax exempt status, report to the lender as required, and demonstrate key financial ratios, including a threshold of unrestricted net assets. The Bond is secured by all assets and real property belonging to the Aquarium as well as any property, plant and equipment purchased in the future. The interest rate shall be the sum of (i) 68% of One-Month LIBOR (.53% and .19% at September 30, 2016 and 2015), as adjusted monthly with changes in One-Month LIBOR and (ii) 65% of the interest spread of 2.75% per annum (or 1.7875%). The interest rate shall be subject to adjustment in the event of decreases in the Bank's maximum statutory marginal tax rate, upon a determination of taxability or in the event the Bond is determined to not be bank qualified under Section 265(b)(3) of the Internal Revenue code.

Accrued interest shall be paid monthly in arrears on the 29<sup>th</sup> day of each month, beginning January 29, 2011. Beginning January 29, 2012, and continuing on the 29<sup>th</sup> day of each month thereafter, the Aquarium will pay monthly installments equal to \$35,834. All principal and accrued and unpaid interest shall be unconditionally due and payable on the maturity date, December 29, 2031. Additionally, the Bond will be subject to mandatory redemption upon a Determination of Taxability or a Determination of Non-Bank Qualified Status.

On August 11, 2016, the Aquarium entered into a financing arrangement in which, beginning on September 11, 2016, and continuing on the 11<sup>th</sup> day of each month thereafter, the Aquarium will pay monthly accrued interest only. The interest rate shall be the sum of (i) One-Month LIBOR (.52% at September 30, 2016) and (ii) fixed rate of 1.85%. Beginning on September 11, 2017, and continuing on the 11<sup>th</sup> day of each month thereafter, the Aquarium will pay monthly installments of interest and principle equal to \$3,589. All principal and accrued and unpaid interest shall be due on the maturity date, August 11, 2021.

On September 1, 2016, the Aquarium entered into a financing arrangement that constitutes a \$10.7 million construction line of credit. The interest rate shall be the sum of (i) One-Month LIBOR (.52% at September 30, 2016) and (ii) fixed rate of 1.85%. Beginning October 5<sup>th</sup>, 2017, and continuing on the 5<sup>th</sup> day of each month thereafter, the Aquarium will pay monthly installments equal to \$35,667. All principal and unpaid interest shall be due on the maturity date, September 5, 2021. There were no amounts drawn under the line of credit as of September 30, 2016.

The Aquarium also has a \$1.5 million line of credit with a bank. The interest rate is the prime rate plus 2.25% (2.75% at September 30, 2016 and 2015) and the line of credit expires on April 3, 2017. There were no amounts drawn under the line of credit as of September 30, 2016 and 2015. The line is collateralized by certain receivables, inventory and equipment.



**Clearwater Marine Aquarium, Inc.**  
**Notes to Financial Statements**

**NOTE 10: LONG-TERM DEBT (Continued)**

The following summarizes all long-term debt of the Organization as of September 30, 2016 and 2015:

<i>Year ending September 30,</i>	<b>2016</b>	2015
Twenty year term bond collateralized by all real property of the Aquarium. Principal is payable in monthly installments of \$35,834 beginning on January 29, 2012. Interest is variable based on LIBOR rates. Bond matures on December 29, 2031.	<b>\$ 3,365,173</b>	\$ 3,795,181
Note payable collateralized by the income, rents, receivables, and profits of the underlying property. Principal installments of \$7,583 is payable beginning on March 5, 2016. Interest is variable based on 1 month LIBOR + 2.25% and is payable monthly beginning on March 5, 2013. Note matures February 5, 2018.	<b>1,304,333</b>	1,365,000
Note is collateralized by depository accounts and investment property of the Aquarium. Principal and interest installments of \$3,589 is payable beginning on September 11, 2017. Interest is based on 1 month LIBOR + 1.850% with one balloon payment and all accrued interest due on date of maturity. Note matures August 11, 2021.	<b>652,000</b>	-
Total of debt obligations	<b>5,321,506</b>	5,160,181
Less: current portion of notes payable	<b>(524,597)</b>	(483,091)
Notes payable, net of current portion	<b>\$ 4,796,909</b>	\$ 4,677,090
<hr/>		
<i>Year ending September 30,</i>		Principal Payment Due
2018		\$ 1,686,408
2019		473,075
2020		473,075
2021		949,218
2022		430,008
Thereafter		785,125
Total		<b>\$ 4,796,909</b>

**Clearwater Marine Aquarium, Inc.**  
**Notes to Financial Statements**

**NOTE 11: DEFERRED LOAN COSTS**

	2016		2015	
	Principal	Debt Issuance Costs	Principal	Debt Issuance Costs
LONG-TERM DEBT OBLIGATION: Capitalized interest relating to revenue bonds of \$136,632, due December 2031 (less accumulated amortized costs of \$74,590 and \$70,160 as of September 30, 2016 and 2015, respectively)	\$ 3,365,173	\$ 62,042	\$ 3,795,181	\$ 66,473
\$1,365,000 loan amount, interest based on 1 month LIBOR plus 2.25%, due February 5, 2018	1,304,333	-	1,365,000	-
\$652,000 loan amount, interest based on 1 month LIBOR plus 1.850%, due August 11, 2021	652,000	3,136	-	-
\$10,700,000 construction loan, interest based on 1 month LIBOR plus 1.850%, due September 2021	-	153,178	-	-
	\$ 5,321,506	\$ 218,356	\$ 5,160,181	\$ 66,473

The Aquarium has obtained certain costs associated with obtaining financing that is deferred and amortized over the life of the loan. These costs are netted against the respective liability on the statement of financial position and shown in conjunction with the current portion of debt. For the years ended September 30, 2016 and 2015 the Aquarium's total deferred loan costs of \$218,356 and \$66,473, respectively. Associated interest expense for the years ended September 30, 2016 and 2015 related to these costs totaled \$4,431 and \$96,404, respectively.

**NOTE 12: TEMPORARILY RESTRICTED NET ASSETS**

Temporarily restricted net assets consist of the following:

<i>September 30,</i>	2016	2015
Contribution receivable , net	\$ 136,554	\$ 226,783
Third party endowments (temporary restricted portion)	590,866	462,545
Total	\$ 727,420	\$ 689,328

**NOTE 13: PERMANENTLY RESTRICTED NET ASSETS**

Permanently restricted net assets consist of the following:

<i>September 30,</i>	<b>2016</b>	2015
Externally controlled third party endowments:		
Thomas Cooper	\$ <b>1,362,500</b>	\$ 1,362,500
Edna Klauser	<b>570,158</b>	570,158
<b>Total</b>	<b>\$ 1,932,658</b>	\$ 1,932,658

**NOTE 14: IN-KIND CONTRIBUTIONS**

A substantial number of unpaid volunteers have made significant contributions of their time to develop the Aquarium's programs principally in the areas of animal care, education, and daily operations. The value of this contributed time is not reflected in these financial statements as it does not meet the criteria for in-kind revenue and expense recognition. The total hours contributed during both 2016 and 2015 were approximately 116,000 and 112,000, respectively.

During the year, the Aquarium received in-kind contributions for services provided to the Aquarium. These contributions include public service announcements and x-rays performed on sea turtles and have been recorded as unrestricted contributions at their estimated fair market value at the time of donation.

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

<i>For the year ended September 30,</i>	<b>2016</b>	2015
FMV of time spent working on Winter's prosthetic tail	\$ <b>175,000</b>	\$ 201,000
Other donated services	<b>1,201,380</b>	1,265,679
<b>Total non-cash contributions</b>	<b>\$ 1,376,380</b>	\$ 1,466,679

**NOTE 15: RELATED PARTY TRANSACTIONS**

A member of the Board of Directors is employed by a law firm which provides legal services to the Aquarium. Total fees paid to the law firm for the year ended September 30, 2016 were \$76,818.

A member of the Board of Directors provided contracting services for various facility additions and improvements during the current year. The total fair market value of services provided during the years ended September 30, 2016 and 2015, totaled \$18,672 and \$35,466, respectively.

The Aquarium purchased merchandise from a company owned by one of the Aquarium's Board of Directors. Total payments to this company during the years ended September 30, 2016 and 2015 totaled \$17,977 and \$57,811, respectively.

The Aquarium also purchased transportation services for the benefit of its guests. The Executive Director of the Company is also a member of the Aquarium's Board of Directors. Expenses incurred associated with this function for the years ended September 30, 2016 and 2015 totaled \$691,240 and \$863,436, respectively.

**NOTE 16: MERCHANDISING ROYALTIES**

The Aquarium pays merchandising royalties on the sale of merchandise to the production company which produced the feature films (*Dolphin Tale* and *Dolphin Tale 2*). These royalties are included in the education expense line item on the Statement of Activities and totaled \$535,635 and \$780,032 for the years ended September 30, 2016 and 2015, respectively.

**NOTE 17: DEFINED CONTRIBUTION BENEFIT PLAN**

The Aquarium sponsors a 401(k) savings plan for employees who have attained one year of service, worked at least 1000 hours and have reached the age of 21. The Aquarium matches 100% of participant contributions that are not over 3% of the participant's compensation and 50% of participant contributions that are over 3% but not over 5% of the participant's compensation. The Aquarium contributed \$128,099 and \$89,277 to the Plan during the years ended September 30, 2016 and 2015, respectively. During 2015, the Aquarium entered into the *Employee Plans Compliance Resolution System* in order to voluntarily correct an operational error in the Plan. As a result the Aquarium has accrued an additional contribution of \$76,000 as of September 30, 2015, to correct the Plan which was paid in 2016.

**NOTE 18: CONCENTRATION RISK**

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

**NOTE 19: OPERATING LEASE**

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

The lease calls for rental payments over the 30 month lease totaling \$58,867, which is equivalent to the capital expenditures incurred by the City of Clearwater to make initial repairs on the Harborview Center building. The rental payments are calculated at a \$1 per visitor fee until the full amount is paid to the City of Clearwater, and thereafter the rent is \$1 per lease year. Rent paid for additional space per the July 2012 lease agreement with the City of Clearwater as of September 30, 2016 and 2015 is \$21,256 in each year.

Under the terms of the lease, the Aquarium secured rights to use of the second floor of the Harborview Center building. On January 24, 2014, the Aquarium executed an amendment which states the lease term shall expire sixty (60) days from the grand opening of the new Aquarium. In the event that the Aquarium fails to enter into a lease for the City Hall property by June 1, 2015, then the Harborview lease shall expire six months later on November 30, 2015. Since, the Aquarium will not be moving forward with the City Hall property, the Aquarium executed an amendment to lease the Harborview space (effective December 1, 2015) on a month to month basis with no defined expiration date other than each party must provide a six month notice to terminate the lease.

On August 14, 2013 the City of Clearwater and the Aquarium executed a memorandum of understanding regarding the Aquarium's new facility Project ("Project") ("new Aquarium") which is planned to be constructed on City property. A parking structure required to support the new aquarium will be located off-site. Among other attractions, the Project will consist of ancillary facilities, exhibits, a 4D theatre, tanks, café area, various kiosks, and a roof top deck. This memorandum of understanding has been terminated as of April 30, 2015.

**NOTE 20: OSCEOLA DEVELOPMENT**

For the years ended September 30, 2016 and 2015 the Aquarium incurred expenses of approximately \$37,108 and \$169,592 respectively, related to the original aquarium development plan. These related costs have been presented as non-operating activities in the Statements of Activities.

**NOTE 20: OSCEOLA DEVELOPMENT (Continued)**

On November 5, 2013 the City of Clearwater obtained voter approval in order to lease the property for the Project (defined in Note 19) for an initial term of 60 years. The Aquarium is responsible for the construction, design, maintenance, and funding of the Project. The Aquarium plans to finance the Project through a combination of funding sources. However, no general fund revenues of the City will be expended for this Project. The City will have no obligation or liability in the event the Aquarium defaults on any of its loans. In the event of default, the Aquarium's lender will be limited to changing the management of the new aquarium and assuming all of the Aquarium's rights and obligations for the remainder of the lease or abandoning the City Property and disassembling the building and collecting the Aquarium's assets. The Aquarium shall have all funds necessary for the construction by no later than August 1, 2016. In 2015, due to a variety of factors, Aquarium management determined not to move forward with the project and therefore further consideration of the project was terminated.

**NOTE 21: AQUARIUM EXPANSION**

The Clearwater Marine Aquarium's facility is capacity constrained and limits increased future growth. The facility operates as a marine hospital whose capacity to care for dolphins is limited to the existing pools. To provide for optimal care for these marine animals, enhance guest capacity and improve the guest experience the Aquarium has begun a Capital Improvement Project designed to deliver these enhancements.

The project will facilitate high quality in both the design of the facility and care for non-releasable resident marine animals it houses as well as the visitor experience. The proposed improvements include a parking garage, new dolphin pools, and over 100,000 square feet of guest space in new buildings as well as an elevated deck and ground floor viewing areas. These additions will provide for improved animal care, guest capacity for future growth, additional exhibits and enhancement of the organization's ability to educate the public on the preservation of marine life and environment.

**NOTE 22: SUBSEQUENT EVENTS**

Management evaluated all events or transactions that occurred after September 30, 2016 through January 24, 2017, the date the financial statements were available to be issued. On December 14, 2016, the Aquarium was notified that they were awarded \$2,000,000 in State of Florida appropriations, with \$1,000,000 to be received in fiscal year 2017 and \$1,000,000 in fiscal year 2018.

**Clearwater Marine Aquarium, Inc.**  
**Schedule of Expenditures of State Financial Assistance**

**Clearwater Marine Aquarium, Inc.**  
**Schedule of Expenditures of State Financial Assistance**  
**For the Fiscal Year Ended September 30, 2016**

State Agency	CSFA No.	Contracts/ Grant No.	Expenditures
Florida Department of State, Division of Cultural Affairs*	45.014	15-9912	\$ 736,881
Total of State Financial Assistance			\$ 736,881

\*denotes major projects

**Clearwater Marine Aquarium, Inc.**  
**Schedule of Findings and Questioned Costs**

**A. Summary of Audit Results**

1. The auditors' report expresses an unmodified opinion on the financial statements of Clearwater Marine Aquarium, Inc.
2. No material weaknesses were disclosed during the audit of the financial statements.
3. No instances of noncompliance material to the financial statements of Clearwater Marine Aquarium, Inc. were disclosed.
4. No material weaknesses were disclosed during the audit of the major state award project.
5. The auditors' report on compliance for the major state award project for Clearwater Marine Aquarium, Inc. expresses an unmodified opinion.
6. There were no audit findings relative to the major state award project for Clearwater Marine Aquarium, Inc. to be reported in Part C of this Schedule.
7. The project tested as major project was as follows:

<b>CSFA#</b>	<b>Name of Program</b>
<b><u>State Projects</u></b>	
Division of Cultural Affairs	
45.014	Cultural Facilities Grant Program

8. The threshold for distinguishing Types A and B programs was \$221,064 for major state awards projects.
9. Clearwater Marine Aquarium, Inc. was not determined to be a low-risk auditee for purposes of the major state projects.

**B. Findings – Financial Statements Audit**

None

**C. Findings and Questioned Costs – Major State Award Project Audit**

None

**D. Other Issues**

None





**Clearwater Marine Aquarium, Inc.  
Schedule of Findings and Questioned Costs**

**E. Prior Year Findings and Questioned Costs**

This is not the first year for a State of Florida Single audit for Clearwater Marine Aquarium, Inc. However, the Aquarium did not meet the threshold required for a state single audit in the prior period, therefore there were no prior year findings or questioned costs.

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE  
FOR EACH MAJOR PROJECT AND ON INTERNAL  
CONTROL OVER COMPLIANCE REQUIRED BY CHAPTER  
10.650 AND RULES OF THE AUDITOR GENERAL**

To the Board of Directors  
Clearwater Marine Aquarium Inc.

**Report on Compliance for Each Major State Project**

We have audited Clearwater Marine Aquarium Inc.'s compliance with the types of compliance requirements described in the *Department of Financial Services' State Projects Compliance Supplement* that could have a direct and material effect on each of Clearwater Marine Aquarium Inc.'s major state projects for the year ended September 30, 2016. Clearwater Marine Aquarium Inc.'s major state projects are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

**Management's Responsibility**

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its state projects.

**Auditors' Responsibility**

Our responsibility is to express an opinion on compliance for each of Clearwater Marine Aquarium Inc.'s major state projects based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Chapter 10.650, Rules of the Auditor General. Those standards and Chapter 10.650, Rules of the Auditor General, require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major state project occurred. An audit includes examining, on a test basis, evidence about Clearwater Marine Aquarium Inc.'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major state project. However, our audit does not provide a legal determination of Clearwater Marine Aquarium Inc.'s compliance.

**Opinion on Each Major State Project**

In our opinion, Clearwater Marine Aquarium Inc. complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major state project for the year ended September 30, 2016.

## Report on Internal Control Over Compliance

Management of Clearwater Marine Aquarium Inc. is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Clearwater Marine Aquarium Inc.'s internal control over compliance with the types of requirements that could have a direct and material effect on each major state project to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major state project and to test and report on internal control over compliance in accordance with Chapter 10.650, Rules of the Auditor General, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Clearwater Marine Aquarium Inc.'s internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a state project on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a state project will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a state project that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of Chapter 10.650, Rules of the Auditor General. Accordingly, this report is not suitable for any other purpose.

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

CARR, RIGGS & INGRAM, LLC

Clearwater, Florida  
January 24, 2017

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the Board of Directors  
Clearwater Marine Aquarium Inc.

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Clearwater Marine Aquarium Inc. (a nonprofit organization), which comprise the statement of financial position as of September 30, 2016, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated January 24, 2017.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Clearwater Marine Aquarium Inc.'s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Clearwater Marine Aquarium Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of Clearwater Marine Aquarium Inc.'s internal control.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Clearwater Marine Aquarium Inc.'s financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Additional matters were communicated to management in a letter dated January 24, 2017.

## **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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

CARR, RIGGS & INGRAM, LLC

Clearwater, Florida  
January 24, 2017