

Clearwater Marine Aquarium, Inc. and Affiliate

Combined Financial Statements

**For the Years Ended
September 30, 2019 and 2018**



**CLEARWATER MARINE AQUARIUM, INC. AND AFFILIATE
TABLE OF CONTENTS**

INDEPENDENT AUDITOR'S REPORT 3 - 4

Combined Financial Statements for the Years Ended September 30, 2019 and 2018:

 Combined Statements of Financial Position 5

 Combined Statements of Activities 6 - 7

 Combined Statement of Functional Expenses..... 8

 Combined Statements of Cash Flows..... 9

 Notes to Combined Financial Statements..... 10 - 26

SUPPLEMENTARY INFORMATION

 Combining Statement of Financial Position 28

 Combining Statement of Activities 29



Oldsmar / Tampa / St. Petersburg

727-785-4447

813-498-1294

727-784-5491 Fax

www.pdr-cpa.com

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Clearwater Marine Aquarium, Inc. and Affiliate
Clearwater, Florida

We have audited the accompanying combined financial statements of Clearwater Marine Aquarium, Inc. (a nonprofit organization) and affiliate, which comprise the combined statements of financial position as of September 30, 2019 and 2018, and the related combined statements of activities and cash flows for the years then ended, the combined statement of functional expenses for the year ended September 30, 2019, and the related notes to the combined financial statements.

Management's Responsibility for the Combined Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these combined financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the combined 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 combined 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 combined 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 combined financial statements referred to above present fairly, in all material respects, the financial position of the Clearwater Marine Aquarium, Inc. and affiliate as of September 30, 2019 and 2018, 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.

CONTINUED

INDEPENDENT AUDITOR'S REPORT - CONTINUED

Report on Summarized Comparative Information

We have previously audited the Organization's 2018 combined financial statements, and we expressed an unmodified audit opinion on those audited combined financial statements in our report dated January 22, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended September 30, 2018 is consistent, in all material respects, with the audited combined financial statements from which it has been derived.

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the combined financial statements as a whole. The supplementary information in the combining statement of financial position and combining statement of activities is presented for purposes of additional analysis and is not a required part of the combined 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 combined financial statements. The information has been subjected to the auditing procedures applied in the audits of the combined financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the combined financial statements or to the combined financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the combined financial statements as a whole.

PDR CPAs + Advisors

Oldsmar, Florida
January 27, 2020

**CLEARWATER MARINE AQUARIUM, INC. AND AFFILIATE
COMBINED STATEMENTS OF FINANCIAL POSITION
SEPTEMBER 30, 2019 AND 2018**

	<u>2019</u>	<u>2018</u>
<u>ASSETS</u>		
Current assets		
Cash and cash equivalents	\$ 5,108,291	\$ 4,054,544
Restricted cash	11,088,623	13,493,054
Accounts receivable	54,188	130,379
Grant receivable	49,671	8,693
Current portion of contributions receivable	1,458,025	2,895,403
Inventory	1,378,964	1,113,412
Other current assets	753,773	653,273
Total current assets	19,891,535	22,348,758
Property and Equipment, Net	62,430,635	37,073,144
Other Assets		
Investments	6,735,308	6,532,422
Film costs, net	2,671,555	2,992,613
Contributions receivable, net	2,666,963	1,024,291
Externally controlled endowments	2,719,383	2,758,196
Total Assets	\$ 97,115,379	\$ 72,729,424
<u>LIABILITIES AND NET ASSETS</u>		
Current Liabilities		
Accounts payable and accrued expenses	\$ 7,367,791	\$ 3,315,278
Deferred compensation	80,000	80,000
Deferred revenue	366,262	92,404
Current portion of notes payable	458,494	455,663
Total current liabilities	8,272,547	3,943,345
Notes Payable, Net	12,454,058	12,816,363
Total Liabilities	20,726,605	16,759,708
Net assets		
Without donor restrictions	69,451,644	49,262,332
With donor restrictions	6,937,130	6,707,384
Total net assets	76,388,774	55,969,716
Total Liabilities and Net Assets	\$ 97,115,379	\$ 72,729,424

See notes to combined financial statements

**CLEARWATER MARINE AQUARIUM, INC.
COMBINED STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2019
(WITH COMPARATIVE TOTALS FOR 2018)**

	Without Donor Restrictions	With Donor Restrictions	Total	
			2019	2018
Revenue and Support				
Admissions and member fees	\$ 9,310,537	\$ -	\$ 9,310,537	\$ 8,571,564
Educational program fees	3,929,577	-	3,929,577	3,408,836
Fundraising events, net of expenses of \$121,495 and \$109,539, respectively	250,354	-	250,354	250,369
Gift shop sales, net of cost of goods sold of \$1,339,720 and \$1,391,305, respectively	2,745,522	-	2,745,522	2,418,692
Food service income, net of cost of goods sold of \$301,400 and \$241,708, respectively	562,330	-	562,330	426,531
Sea turtle nesting fees	72,108	-	72,108	106,891
Grant income	749,891	-	749,891	167,985
Contributions	15,839,627	3,959,837	19,799,464	22,152,353
In-kind contributions	326,241	-	326,241	398,778
Boat and vehicle donations, net of impairment losses and related expenses of \$30,489 and \$37,967, respectively	53,111	-	53,111	28,033
Realized and unrealized gains on investments	71,529	-	71,529	1,714
Interest and dividend income	500,795	-	500,795	292,518
Net assets released from restrictions	3,691,278	(3,691,278)	-	-
Total revenue and support	38,102,900	268,559	38,371,459	38,224,264
Operating Expenses				
Animal care	4,564,704	-	4,564,704	4,544,095
Research and education	10,733,171	-	10,733,171	9,996,770
Management and general	2,069,147	-	2,069,147	1,679,062
Fundraising	723,142	-	723,142	1,037,526
Total operating expenses	18,090,164	-	18,090,164	17,257,453
Changes in Net Assets Before Other Changes	20,012,736	268,559	20,281,295	20,966,811
Other Changes - Revenue (Expense)				
Excess of assets acquired over liabilities assumed in acquisition of S2S	-	-	-	107,396
Miscellaneous revenue	232,720	-	232,720	84,510
Change in third-party endowments	-	(38,813)	(38,813)	69,827
Loss on disposal of assets	(56,144)	-	(56,144)	(1,449,459)
Total non-operating income (expense)	176,576	(38,813)	137,763	(1,187,726)
Change in Net Assets	20,189,312	229,746	20,419,058	19,779,085
Net Assets, Beginning of Year	49,262,332	6,707,384	55,969,716	36,190,631
Net Assets, End of Year	\$ 69,451,644	\$ 6,937,130	\$ 76,388,774	\$ 55,969,716

See notes to combined financial statements

**CLEARWATER MARINE AQUARIUM, INC. AND AFFILIATE
COMBINED STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2018**

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues and Other Support			
Public Support:			
Admissions and member fees	\$ 8,571,564	\$ -	\$ 8,571,564
Educational program fees	3,408,836	-	3,408,836
Fundraising events, net of expenses of \$109,539	250,369	-	250,369
Gift shop sales, net of cost of goods sold of \$1,391,305	2,418,692	-	2,418,692
Food service income, net of cost of goods sold of \$241,708	426,531	-	426,531
Sea turtle nesting fees	106,891	-	106,891
Grant income	167,985	-	167,985
Contributions	18,358,817	3,793,536	22,152,353
In-kind contributions	398,778	-	398,778
Boat and vehicle donations, net of impairment losses and related expenses of \$37,967	28,033	-	28,033
Realized and unrealized gains on investments	1,714	-	1,714
Interest and dividend income	292,518	-	292,518
Net assets released from restrictions	64,175	(64,175)	-
Total revenues and support	34,494,903	3,729,361	38,224,264
Operating Expenses			
Animal care	4,544,095	-	4,544,095
Research and education	9,996,770	-	9,996,770
Management and general	1,679,062	-	1,679,062
Fundraising	1,037,526	-	1,037,526
Total operating expenses	17,257,453	-	17,257,453
Changes in Net Assets Before Other Changes	17,237,450	3,729,361	20,966,811
Other Changes - Revenue (Expense)			
Excess of assets acquired over liabilities assumed in acquisition of S2S	91,237	16,159	107,396
Miscellaneous revenue	84,510	-	84,510
Loss on disposal of assets	(1,449,459)	-	(1,449,459)
Change in third-party endowments	-	69,827	69,827
Total other changes	(1,273,712)	85,986	(1,187,726)
Change in Net Assets	15,963,738	3,815,347	19,779,085
Net Assets, Beginning of Year	33,298,594	2,892,037	36,190,631
Net Assets, End of Year	\$ 49,262,332	\$ 6,707,384	\$ 55,969,716

See notes to combined financial statements

CLEARWATER MARINE AQUARIUM, INC.
COMBINED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED SEPTEMBER 30, 2019
(WITH COMPARATIVE TOTALS FOR 2018)

	Animal Care	Research and Education	Total Program Services	Management and General	Fundraising	Total 2019	Total 2018
Salaries and related expenses							
Salaries and wages	\$ 2,001,433	\$ 4,305,514	\$ 6,306,947	\$ 1,109,553	\$ 326,191	\$ 7,742,691	\$ 7,163,443
Retirement	46,647	91,670	138,317	134,476	37,463	310,256	202,739
Other employee benefits	109,228	131,912	241,140	275,442	629	517,211	587,382
Payroll taxes	148,036	284,639	432,675	53,100	14,954	500,729	488,693
Total salaries and related expenses	<u>2,305,344</u>	<u>4,813,735</u>	<u>7,119,079</u>	<u>1,572,571</u>	<u>379,237</u>	<u>9,070,887</u>	<u>8,442,257</u>
Other operating expenses							
Advertising	383	1,416,130	1,416,513	9,863	10,518	1,436,894	1,643,720
Computer services	42,696	213,073	255,769	70,889	4,523	331,181	279,379
Depreciation and amortization	493,705	1,218,718	1,712,423	32,325	-	1,744,748	1,895,377
Insurance	153,443	147,971	301,414	7,943	380	309,737	259,131
Interest expense	50,444	527,981	578,425	1,683	-	580,108	469,001
Merchant processing fees	-	366,360	366,360	98	-	366,458	304,730
Office expenses	2,454	9,550	12,004	18,627	571	31,202	40,987
Postage and shipping	8,096	41,948	50,044	8,311	7,167	65,522	22,667
Professional fees:							
Legal	11,369	510	11,879	49,227	341	61,447	106,243
Accounting	-	-	-	69,618	-	69,618	63,061
Other	13,963	267,398	281,361	93,913	3,658	378,932	118,348
Repairs and maintenance	196,089	226,784	422,873	5,505	460	428,838	320,700
Royalties	-	485,449	485,449	-	-	485,449	516,987
Supplies	845,930	458,395	1,304,325	4,671	18,585	1,327,581	1,201,468
Telephone	10,040	18,510	28,550	2,184	472	31,206	45,810
Travel and entertainment	35,161	143,447	178,608	20,568	890	200,066	97,845
Occupancy and utilities	347,355	261,313	608,668	55,990	1,359	666,017	695,005
Miscellaneous	(972)	37,640	36,668	42,266	945	79,879	154,771
Personnel enhancement	39,784	68,839	108,623	2,895	102	111,620	106,479
Capital campaign expenses	-	-	-	-	293,934	293,934	444,019
Construction related expenses	9,420	9,420	18,840	-	-	18,840	29,468
Total other operating expenses	<u>2,259,360</u>	<u>5,919,436</u>	<u>8,178,796</u>	<u>496,576</u>	<u>343,905</u>	<u>9,019,277</u>	<u>8,815,196</u>
Total expenses	<u>\$ 4,564,704</u>	<u>\$ 10,733,171</u>	<u>\$ 15,297,875</u>	<u>\$ 2,069,147</u>	<u>\$ 723,142</u>	<u>\$ 18,090,164</u>	<u>\$ 17,257,453</u>

See notes to combined financial statements

**CLEARWATER MARINE AQUARIUM, INC. AND AFFILIATE
COMBINED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2019 AND 2018**

	2019	2018
Cash Flows from Operating Activities:		
Change in net assets	\$ 20,419,058	\$ 19,779,085
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	1,326,616	1,268,821
Film cost amortization	320,018	576,883
Bad debt expense	30,000	106,159
Loss on disposals of fixed assets	56,144	1,449,459
Loss on disposals of film costs	-	1,460
Donated boat and vehicle inventory	(77,500)	-
Realized and unrealized gain on investments	(71,529)	(1,714)
Amortization of debt issuance costs	98,113	69,333
Depreciation/(appreciation) in externally controlled endowments	38,813	(69,827)
Acquisition of S2S	-	(107,396)
Contributions restricted for long-term purposes	(18,867,474)	(21,462,299)
Changes in assets and liabilities:		
Accounts receivable	76,191	(7,106)
Contribution receivable	(235,294)	(3,822,185)
Grant receivable	(40,978)	44,644
Inventory	(243,052)	40,565
Other current assets	(99,460)	(198,471)
Accounts payable and accrued expenses	4,052,513	1,728,056
Deferred revenue	273,858	43,779
Net cash provided by (used in) operating activities	7,056,037	(560,754)
Cash Flows from Investing Activities:		
Purchases of investments	(8,075,863)	(6,530,708)
Proceeds from sales of investments	7,944,506	-
Proceeds from sale of property and equipment	7,167	12,611
Purchases of property and equipment	(26,692,418)	(8,579,771)
Net cash used in investing activities	(26,816,608)	(15,097,868)
Cash Flows from Financing Activities:		
Contributions restricted for long-term purposes	18,867,474	21,462,299
Proceeds on notes payable	-	50,001
Payments on notes payable	(457,587)	(701,023)
Cash paid for deferred loan costs	-	(269,844)
Net cash provided by financing activities	18,409,887	20,541,433
Net (Decrease) Increase in Cash and Cash Equivalents	(1,350,684)	4,882,811
Cash and Cash Equivalents at Beginning of Year	17,547,598	12,664,787
Cash and Cash Equivalents at End of Year	\$ 16,196,914	\$ 17,547,598
Total Cash Consisted of the Following at September 30:		
Cash and cash equivalents	\$ 5,108,291	\$ 4,054,544
Restricted cash	11,088,623	13,493,054
	\$ 16,196,914	\$ 17,547,598
Supplemental Cash Flow Information:		
Cash paid for interest	\$ 477,938	\$ 440,583
Interest paid and capitalized to construction in progress	\$ -	\$ 801

See notes to combined financial statements

CLEARWATER MARINE AQUARIUM, INC. AND AFFILIATE
NOTES TO COMBINED FINANCIAL STATEMENTS
SEPTEMBER 30, 2019 AND 2018

NOTE A - NATURE OF ORGANIZATION

Clearwater Marine Aquarium, Inc. (CMA) is a nonprofit corporation located in Clearwater, Florida. CMA is dedicated to public education, the rescue, rehabilitation and release of sick or injured marine life, research, and creating life-changing inspirational connections to its rescued animals for sick, injured, and developmentally disabled kids and wounded soldiers.

Revenue and support for CMA's programs and activities is generated primarily through admission, gift shop revenue, animal care experiences, education boat tours, grants, and contributions from the public.

Sea to Shore Alliance, Inc. (S2S) is a nonprofit corporation located in Clearwater, Florida. S2S works to protect threatened marine species such as sea turtles, manatees and right whales, and improve the health and productivity of coastal environments for the benefit of people and marine life.

On June 30, 2018, CMA executed an affiliation agreement with S2S. As a result of the affiliation agreement, CMA has obtained control of S2S such that the financial information of S2S will be combined with CMA. This affiliation will be treated as an acquisition for accounting purposes. The following summarizes the assets, liabilities, and net assets transferred as of the acquisition date:

Assets Acquired:

Cash	\$	9,618
Accounts receivable		38,300
Inventory		29,396
Other current assets		24,824
Property and equipment		74,255
	<u>\$</u>	<u>176,393</u>

Liabilities Assumed:

Accounts payable and accrued expenses	\$	43,524
Deferred revenue		3,875
Notes payable		21,598
	<u>\$</u>	<u>68,997</u>

Net Assets:

Unrestricted net assets	\$	91,237
Temporarily restricted net assets		16,159
	<u>\$</u>	<u>107,396</u>

The excess of the assets acquired over the liabilities assumed in the S2S acquisition have been reported as a contribution within non-operating income (expense) on the accompanying 2018 combined statement of activities.

CLEARWATER MARINE AQUARIUM, INC. AND AFFILIATE
NOTES TO COMBINED FINANCIAL STATEMENTS
SEPTEMBER 30, 2019 AND 2018

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Combination and Presentation

The accompanying combined financial statements include the accounts of CMA and S2S (collectively, the Organization). The combined financial statements of the Organization have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (US GAAP). All material intercompany transactions and balances have been eliminated in combination. Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions.

The Organization presents information regarding its financial position and activities according to two classes of net assets described as follows:

- Net assets without donor restrictions – Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Organization. These net assets may be used at the discretion of the Organization’s management and the board of directors.
- Net assets with donor restrictions – Net assets subject to stipulations imposed by donors, and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Organization or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

Measure of Operations

The statements of activities reports all changes in net assets, including changes in net assets from operating and nonoperating activities. Operating activities consist of those items attributable to the Organization’s ongoing services. Nonoperating activities, if any, are limited to other activities considered to be of a more unusual or nonrecurring nature.

Use of Estimates

The preparation of combined financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the combined financial statements. Estimates also affect the reported amounts of revenue and expenses during the reporting period. Accordingly, actual results could differ from those estimates. Significant estimates include the collectability of receivables, determination of the useful lives of the property and equipment, amortization of film costs, and allocation of functional expenses.

Fair Value Measurement

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on a measurement date. An entity is required to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. There are three levels of inputs that may be used to measure fair value:

- Level 1: Quoted market prices in active markets for identical assets or liabilities.
- Level 2: Observable market-based inputs or unobservable inputs that are corroborated by market data.
- Level 3: Unobservable inputs that are not corroborated by market data.

The inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the financial instrument’s level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement.

CLEARWATER MARINE AQUARIUM, INC. AND AFFILIATE
NOTES TO COMBINED FINANCIAL STATEMENTS
SEPTEMBER 30, 2019 AND 2018

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Revenue Recognition

Contributions received are recorded as increases in net assets without donor restrictions and net assets with donor restrictions, depending on the existence and/or nature of any donor restrictions.

All donor-restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires (that is, when a stipulated time restriction ends, or the purpose of the restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions.

Contributions that are restricted by the donor are reported as increases in net assets without donor restrictions if the restrictions expire or are otherwise satisfied in the fiscal year in which the contributions are recognized.

Program service revenue is recognized at the time that the services are provided.

Grants are recognized as support when performance occurs pursuant to the contract agreement. Grants are included in contributions in the accompanying statements of activities.

Cash and Cash Equivalents

At September 30, 2019 and 2018, 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 net assets with donor restrictions until spent.

Financial instruments which potentially subject the Organization to concentrations of credit risk consist principally of cash held in financial institutions in excess of federally insured limits. From time to time throughout the years ended September 30, 2019 and 2018, the Organization's cash balance may have exceeded the federally insured limit. However, the Organization has not experienced and does not expect to incur any losses in such accounts.

Restricted Cash

Restricted cash represents amounts to be used for the Organization's construction project to expand CMA.

Accounts Receivable

The Organization 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, 2019 and 2018.

Inventory

Inventory consists primarily of merchandise held for sale by the Organization's gift shop and is stated at the lower of average cost or market. Management periodically reviews inventory items for obsolescence and slow moving items and has determined no allowance is considered necessary at September 30, 2019 and 2018.

CLEARWATER MARINE AQUARIUM, INC. AND AFFILIATE
NOTES TO COMBINED FINANCIAL STATEMENTS
SEPTEMBER 30, 2019 AND 2018

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Contributions Receivable

Contribution receivables are recorded at their estimated net realizable value when a pledge is made from a viable source and is in written form. Contributions to be received after one year are discounted to present value using Treasury bill rates with similar terms with an added amount for economic uncertainty. Contributions receivable are recorded as donor restricted until the pledge payment is received and/or the purpose is met. Contributions receivable are evaluated on a regular basis and management establishes an allowance as necessary. Management has established an allowance for uncollectible contributions receivable in the amount of \$105,000 at September 30, 2019 and 2018, respectively. Bad debt expense was \$30,000 and \$106,159 for the years ended September 30, 2019 and 2018, respectively.

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. Depreciation is computed using the straight-line method over the following estimated useful lives of the related assets:

	<u>Years</u>
Building and improvements	5 - 40
Furniture, fixtures and equipment	3 - 15
Boats and vehicles	5 - 10

Investments

Investments in equity securities with readily determinable fair values are measured at fair value based on quoted market prices. Realized and unrealized gains and losses on sales and market value adjustments are recognized in the combined statement of activities. Investment fees are included within general and administrative expenses in the accompanying combined statements of activities. The Organization's investments are donor restricted and represent amounts to be used for the construction project to expand CMA.

Donated Items

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

The Organization includes the fair market value of these services in the combined financial statements when they meet the criteria for recognition under *Accounting Standards Codification (ASC) 958, Not-for-Profit Entities*.

CLEARWATER MARINE AQUARIUM, INC. AND AFFILIATE
NOTES TO COMBINED FINANCIAL STATEMENTS
SEPTEMBER 30, 2019 AND 2018

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Expense Allocation

The costs of providing the various programs and other activities have been summarized on a functional basis in the accompanying combined statements of activities and functional expenses. Directly identifiable expenses are charged to programs and supporting services. Expenses related to more than one function are charged to programs and supporting services on the basis of periodic time and expense studies. Management and general expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Organization. These functions are defined as follows:

- Program services - the costs associated with the Organization's efforts to achieve the stated mission and goals.
- Management and general - the costs of operating the Organization's offices, including gathering, processing, and maintaining financial information.
- Fundraising - the costs associated with soliciting contributions or holding special events for the benefit of the Organization.

Advertising Costs

Advertising is expensed as incurred or upon the date the advertising publications are first released. Advertising expense totaled \$1,436,894 and \$1,643,720 for the years ended September 30, 2019 and 2018, respectively. Included in advertising expense in 2019 and 2018 is donated advertising in the amount of \$11,750 and \$27,052, respectively.

Deferred Loan Costs

The costs of obtaining certain debt are capitalized and amortized over the life of the debt and are classified as a reduction of the notes payable on the accompanying combined statements of financial position (**NOTE K**). Amortization of the deferred loan costs is charged to interest expense within the combined statements of activities.

Income Taxes

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

The Organization accounts for the effect of any uncertain tax positions based on a "more likely than not" threshold to the recognition of the tax positions being sustained based on the technical merits of the position under scrutiny by the applicable taxing authority. If a tax position or positions are deemed to result in uncertainties of those positions, the unrecognized tax benefit is estimated based on a "cumulative probability assessment" that aggregates the estimated tax liability for all uncertain tax positions. The Organization has identified its tax status as a tax-exempt entity as its only significant tax position; however, the Organization has determined that such tax position does not result in an uncertainty requiring recognition. The Organization is not currently under examination by any taxing jurisdiction. The Organization's federal returns are generally open for examination for three years following the date filed.

CLEARWATER MARINE AQUARIUM, INC. AND AFFILIATE
NOTES TO COMBINED FINANCIAL STATEMENTS
SEPTEMBER 30, 2019 AND 2018

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Film Costs

The Organization has capitalized film costs associated with three films: two documentaries and a major motion picture. During fiscal year 2012, the Organization began efforts to launch a documentary surrounding one of its acclaimed dolphins. During both 2013 and 2014, the Organization incurred expenses meeting the definition of film costs to be capitalized under *ASC No. 926, Entertainment - Films*.

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.

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, 2019 and 2018.

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

Reclassifications

Certain amounts in the 2018 combined financial statement presentation have been reclassified to conform to the 2019 presentation. Net assets and changes in net assets are unchanged due to these reclassifications.

New Accounting Pronouncement

On August 18, 2016, the Financial Accounting Standards Board issued Accounting Standards Update 2016-14, Not-for-Profit Entities (Topic 958) – *Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources and the lack of consistency in the type of information provided about expenses and investment return. The Organization has adjusted the presentation of these statements accordingly.

CLEARWATER MARINE AQUARIUM, INC. AND AFFILIATE
NOTES TO COMBINED FINANCIAL STATEMENTS
SEPTEMBER 30, 2019 AND 2018

NOTE C – AVAILABILITY AND LIQUIDITY

The following represents the Organization's financial assets available to meet general expenditures over the next twelve months at September 30:

	<u>2019</u>	<u>2018</u>
Financial Assets:		
Cash and cash equivalents	\$ 5,108,291	\$ 4,054,544
Accounts receivable	54,188	130,379
Grant receivable	49,671	8,693
	<u>5,212,150</u>	<u>4,193,616</u>
Total available financial assets	\$ 5,212,150	\$ 4,193,616
Less financial assets unavailable for general expenditures within one year due to:		
Donor restricted contributions	92,759	29,494
	<u>92,759</u>	<u>29,494</u>
Net financial assets available to meet cash needs for general expenditures within one year	<u>\$ 5,119,391</u>	<u>\$ 4,164,122</u>

As part of the Organization's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities and other obligations come due. As described in **NOTE J**, the Organization also has a \$1,500,000 line of credit available for use in meeting financial obligations in the event of an unanticipated liquidity need.

NOTE D - CONTRIBUTIONS RECEIVABLE

Contributions receivable consist of the following at September 30:

	<u>2019</u>	<u>2018</u>
Gross contributions receivable	\$ 4,578,849	\$ 4,126,970
Less: Allowance for uncollectible contributions receivable	(105,000)	(105,000)
Less: Unamortized discount	(348,861)	(102,276)
	<u>4,124,988</u>	<u>3,919,694</u>
Contributions receivable, net	\$ 4,124,988	\$ 3,919,694
Amounts due in:		
Less than one year	\$ 1,563,025	\$ 2,895,403
One to five years	2,099,154	1,231,567
Thereafter	916,670	-
	<u>4,578,849</u>	<u>4,126,970</u>

Contributions receivable consist primarily of promises from individuals and corporations. The applicable discount rate for amounts due in more than one-year ranges from 2.55% to 3.94%.

CLEARWATER MARINE AQUARIUM, INC. AND AFFILIATE
NOTES TO COMBINED FINANCIAL STATEMENTS
SEPTEMBER 30, 2019 AND 2018

NOTE E - PROPERTY AND EQUIPMENT

Property and equipment consists of the following at September 30:

	<u>2019</u>	<u>2018</u>
Land and improvements	\$ 5,358,855	\$ 5,355,935
Building and improvements	22,742,965	21,352,812
Furniture, fixtures, and equipment	4,472,761	4,689,510
Vehicles and boats	1,549,473	1,356,461
Construction in progress	35,543,831	10,571,262
	<u>69,667,885</u>	<u>43,325,980</u>
Less accumulated depreciation	<u>(7,237,250)</u>	<u>(6,252,836)</u>
	<u>\$ 62,430,635</u>	<u>\$ 37,073,144</u>

Depreciation expense was \$1,326,616 and \$1,268,821 for the years ended September 30, 2019 and 2018, respectively. Depreciation will commence on amounts in construction in progress when the items are completed and placed into service. See **NOTE R** for a description of the construction in progress.

NOTE F - INVESTMENTS

The Organization's investments consist of the following at September 30:

	<u>2019</u>		<u>2018</u>	
	<u>Cost</u>	<u>Market</u>	<u>Cost</u>	<u>Market</u>
Cash and cash equivalents	\$ 200,152	\$ 200,152	\$ 109,653	\$ 109,653
Certificate of deposit	514,749	514,749	503,850	503,850
US Government bonds	2,586,521	2,600,926	2,358,256	2,358,504
Corporate bonds	3,057,851	3,085,385	3,108,935	3,110,281
Foreign bonds	330,219	334,096	449,568	450,134
	<u>\$ 6,689,492</u>	<u>\$ 6,735,308</u>	<u>\$ 6,530,262</u>	<u>\$ 6,532,422</u>
Total	<u>\$ 6,689,492</u>	<u>\$ 6,735,308</u>	<u>\$ 6,530,262</u>	<u>\$ 6,532,422</u>

The following schedule summarizes investment return on the above investments for the years ended September 30, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Interest and dividends on investments	\$ 136,025	\$ 26,862
Realized and unrealized gain on investments	<u>71,529</u>	<u>1,714</u>
Total investment return	<u>\$ 207,554</u>	<u>\$ 28,576</u>

CLEARWATER MARINE AQUARIUM, INC. AND AFFILIATE
NOTES TO COMBINED FINANCIAL STATEMENTS
SEPTEMBER 30, 2019 AND 2018

NOTE G - FILM COSTS

The Organizations film costs consist of the following at September 30:

<u>Components of Film Costs</u>	<u>2019</u>	<u>2018</u>
Released film costs - Dolphin Tale 2	\$ 5,537,664	\$ 5,537,664
Released film costs - Documentary	208,186	208,186
CMA musical DVD costs	-	1,040
	<u>5,745,850</u>	<u>5,746,890</u>
Accumulated amortization of film costs	<u>(3,074,295)</u>	<u>(2,754,277)</u>
Film costs, net	<u>\$ 2,671,555</u>	<u>\$ 2,992,613</u>

Film costs of \$5,537,664 relating to *Dolphin Tale 2* were capitalized in the year ending September 30, 2014. As of September 30, 2019 and 2018, accumulated amortization associated with *Dolphin Tale 2* totaled \$2,866,109 and \$2,546,091, respectively. The Organization expects that approximately \$437,239 of *Dolphin Tale 2* costs will be amortized over the next 12 months. Within three years of September 30, 2019, the Organization expects to have amortized approximately 79% of the total costs. The Organization expects to fully amortize the film by 2024. The estimates of expected amortization are based on *Dolphin Tale 2*'s release and the impact on attendance to the Organization.

Winter's Documentary, released in 2013, incurred total film costs of approximately \$347,000 with approximately \$208,000 of these costs being capitalized. During 2018, costs associated with the documentary were fully amortized.

NOTE H - EXTERNALLY CONTROLLED ENDOWMENTS

The Organization'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 Organization has no direct influence over the investment policy of either fund. 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 Organization's policy is to appropriate interest and dividends received from these endowments for operations. Therefore, interest and dividend income is reported as increases in net assets without donor restriction.

The Board of Directors of the Organization 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 Organization classifies as net assets with donor restrictions of a permanent nature (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.

**CLEARWATER MARINE AQUARIUM, INC. AND AFFILIATE
NOTES TO COMBINED FINANCIAL STATEMENTS
SEPTEMBER 30, 2019 AND 2018**

NOTE H - EXTERNALLY CONTROLLED ENDOWMENTS - CONTINUED

Endowment net asset composition by type of fund at September 30, 2019 and 2018:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Summary of Endowment Assets at September 30, 2019:			
Externally controlled endowments	\$ -	\$ 2,719,383	\$ 2,719,383
Summary of Endowment Assets at September 30, 2018:			
Externally controlled endowments	\$ -	\$ 2,758,196	\$ 2,758,196

Changes in endowment net assets for the years ended September 30, 2019 and 2018:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Changes in Endowment Net Assets for the year ended September 30, 2019:			
Endowment net assets, beginning	\$ -	\$ 2,758,196	\$ 2,758,196
Investments return:			
Unrealized loss	-	(38,813)	(38,813)
Net assets released from restrictions	-	-	-
Total funds	<u>\$ -</u>	<u>\$ 2,719,383</u>	<u>\$ 2,719,383</u>
Changes in Endowment Net Assets for the year ended September 30, 2018:			
Endowment net assets, beginning	\$ -	\$ 2,688,369	\$ 2,688,369
Investments return:			
Unrealized gain	-	69,827	69,827
Net assets released from restrictions	-	-	-
Total funds	<u>\$ -</u>	<u>\$ 2,758,196</u>	<u>\$ 2,758,196</u>

CLEARWATER MARINE AQUARIUM, INC. AND AFFILIATE
NOTES TO COMBINED FINANCIAL STATEMENTS
SEPTEMBER 30, 2019 AND 2018

NOTE H - EXTERNALLY CONTROLLED ENDOWMENTS - CONTINUED

These endowment assets are held in perpetuity and are invested and managed by outside trustees in accordance with trust instruments established by the donors. The fair market value of the assets held in the endowment trusts are considered to be the most appropriate estimates of the discounted values of the estimated future revenue streams, and are therefore the basis used to record these future streams of revenue. Changes in the fair market value of the endowment trusts are included in other changes in net assets with donor restrictions.

NOTE I - DEFERRED COMPENSATION PLAN

The Organization implemented an unfunded executive deferred compensation plan subject to Section 457(f) of the Internal Revenue Code in 2015. An accrual for deferred compensation totaling \$80,000 is included within accounts payable and accrued expenses on the statements of financial position as of September 30, 2019 and 2018. Deferred compensation expense was \$80,000 for each of the years ended September 30, 2019 and 2018, respectively.

NOTE J - LINE-OF-CREDIT

The Organization has a \$1.5 million line-of-credit with a bank. The interest rate is One-Month LIBOR plus 2.25% (4.38% at September 30, 2019). The line-of-credit matures on April 3, 2020. There were no amounts drawn under the line-of-credit September 30, 2019 and 2018. The line is collateralized by certain receivables, inventory, and equipment.

NOTE K - LONG-TERM DEBT

Long-term debt at September 30, 2019 and 2018 consists of the following:

	2019	2018
Note payable to financial institution; monthly payments of \$412, including interest at 7.99%; collateralized by a vehicle; maturing December 2022	\$ 14,085	\$ 17,742
Note payable to financial institution; monthly payments of \$269, including interest at 13.99%; collateralized by a vehicle; satisfied during 2019	-	2,556
Series 2010 bonds payable. Principal payable in monthly installments of \$35,834 plus interest at 68% of one-month LIBOR plus 1.787% (3.16% at September 30, 2019) through July 2024. Secured by all real property and improvements	2,075,149	2,505,157

CLEARWATER MARINE AQUARIUM, INC. AND AFFILIATE
NOTES TO COMBINED FINANCIAL STATEMENTS
SEPTEMBER 30, 2019 AND 2018

NOTE K - LONG-TERM DEBT - CONTINUED

	2019	2018
<p>Series 2018 bonds payable. Interest is payable monthly on principal amounts outstanding at 79% of one-month LIBOR plus 2.0875% (3.5% at September 30, 2019). Interest only payments will continue for thirty-six months from the loan date of March 1, 2018 at which point the loan will be amortized over a twenty-five year period with 300 monthly payments of principal and interest with all unpaid principal and interest due and payable in March 2024</p>	50,001	50,001
<p>Note payable to bank with current monthly installments of \$3,589 including interest at one-month LIBOR plus 1.85% (3.63% at September 30, 2019) through July 2021 with a single payment of all remaining unpaid principal and accrued interest due August 2021. Secured by a mortgage on real property</p>	608,754	630,120
<p>Note payable to bank in monthly installments of \$35,667 plus interest through April 2018, then interest only through April 2021, and then four payments of \$40,663 plus interest through August 2021 with a single payment of all remaining unpaid principal and accrued interest due September 2021. Interest accrues on the unpaid principal balance at one-month LIBOR plus 1.85% (3.69% at September 30, 2019). Secured by a mortgage on the parking garage</p>	10,450,331	10,450,331
<p>Total long-term debt</p>	13,198,320	13,655,907
<p>Less unamortized debt issuance costs</p>	285,768	383,881
<p>Long-term debt, less unamortized debt issuance costs</p>	12,912,552	13,272,026
<p>Less current portion</p>	458,494	455,663
<p>Long-term debt, net</p>	\$ 12,454,058	\$ 12,816,363

CLEARWATER MARINE AQUARIUM, INC. AND AFFILIATE
NOTES TO COMBINED FINANCIAL STATEMENTS
SEPTEMBER 30, 2019 AND 2018

NOTE K - LONG-TERM DEBT - CONTINUED

Future maturities of the notes payable for each of the five years subsequent to September 30, 2019 and thereafter, are as follows:

Year Ending September 30,	Principal Payment Due
2020	\$ 458,494
2021	11,468,851
2022	434,649
2023	431,208
2024	355,117
Thereafter	50,001
	\$ 13,198,320

In addition to the loan agreements described above, during the year ended September 30, 2018, the Organization obtained a \$13 million non-revolving construction line-of-credit from a bank. Advances under this agreement were to accrue interest at One-Month LIBOR plus 2.25%. The Organization was required to make monthly payments of accrued interest during the term of the loan. All amounts advanced under this line-of-credit plus any accrued and unpaid interest were due on September 27, 2019. The organization did not draw on this line-of-credit during 2018 or 2019. The line-of-credit expired on September 27, 2019 and was not renewed.

During the year ended September 30, 2018, the Organization also obtained financing for the expansion project through a bond issue involving the Pinellas County Industrial Development Authority and the Organization's bank. The Series 2018 bonds (the "Bonds") have a borrowing limit of \$14,941,824. The amount outstanding on the Bonds of \$50,001 at September 30, 2019 and 2018 was for the payment of certain closing costs of the bond issue. Advances are limited to a period of not before eighteen months from the closing date of the bonds (March 1, 2018) and not after thirty-six months from the closing date. Repayment of the then outstanding principal amount of the Bonds plus accrued interest will commence thirty-seven months from the closing date based on a twenty-five year amortization period. All unpaid principal amounts plus accrued interest will be due and payable on March 27, 2024. This loan contains restrictive covenants described below and is cross collateralized and cross defaulted with the \$13 million non-revolving construction line-of-credit described above. Amounts outstanding under the bonds are collateralized by essentially all assets of the Organization.

The Organization's loans include restrictive covenants that, among other things, require a minimum debt service coverage ratio and limit indebtedness for money borrowed as a percentage of unrestricted net assets. Other loan covenants include additional restrictions on incurring new debt and lease obligations, limits on investing activities, maintaining the Organization's charitable status and requiring certain reports be submitted to the bank. The Organization was in compliance with these covenants at September 30, 2019 and 2018.

The City of Clearwater has certain reversionary rights that limit the Organization's ability to borrow against the real property to \$25,000,000.

CLEARWATER MARINE AQUARIUM, INC. AND AFFILIATE
NOTES TO COMBINED FINANCIAL STATEMENTS
SEPTEMBER 30, 2019 AND 2018

NOTE L – NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consisted of the following at September 30:

	<u>2019</u>	<u>2018</u>
Temporary restrictions:		
Contributions receivable, net	\$ 4,124,988	\$ 3,919,694
Donor restricted contributions	92,759	29,494
	<u>4,217,747</u>	<u>3,949,188</u>
Total net assets with temporary restrictions		
Permanent restrictions - endowments:		
Thomas Cooper	1,896,463	1,946,867
Edna Klauser	822,920	811,329
	<u>2,719,383</u>	<u>2,758,196</u>
Total net assets with permanent restrictions		
Total net assets with donor restrictions	<u>\$ 6,937,130</u>	<u>\$ 6,707,384</u>

Net assets of \$3,691,278 and \$64,175 were released from restrictions during the years ended September 30, 2019 and 2018, respectively, by incurring expenses satisfying the restricted purposes, or by occurrence of other events specified by donors.

NOTE M - IN-KIND CONTRIBUTIONS

A substantial number of unpaid volunteers have made significant contributions of their time to develop the Organization's programs principally in the areas of animal care, education, and daily operations. The value of this contributed time is not reflected in these combined financial statements as it does not meet the criteria for in-kind revenue and expense recognition. The total hours contributed during both 2019 and 2018 were approximately 93,000 and 99,000, respectively.

During the years ended September 30, 2019 and 2018, the Organization received in-kind contributions for services provided to the Organization. These contributions include direct mail advertisements and CT scans performed on sea turtles and have been recorded as unrestricted contributions at their estimated fair market value (FMV) at the time of donation.

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

	<u>2019</u>	<u>2018</u>
FMV of time spent working on Winter's prosthetic tail	\$ 167,000	\$ 178,000
Other donated services	159,241	220,778
	<u>326,241</u>	<u>398,778</u>
Total in-kind contributions	<u>\$ 326,241</u>	<u>\$ 398,778</u>

CLEARWATER MARINE AQUARIUM, INC. AND AFFILIATE
NOTES TO COMBINED FINANCIAL STATEMENTS
SEPTEMBER 30, 2019 AND 2018

NOTE N - RELATED PARTY TRANSACTIONS

During 2018, The Organization purchased auction items, food, and beverages from restaurants owned by one of CMA's Board of Directors. Total payments to these restaurants during the year ended September 30, 2019 and 2018 was approximately \$21,700 and \$41,000, respectively.

CMA 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, 2019. CMA's share of the net cash surrender value as of September 30, 2019 and 2018 is \$29,755 and \$36,085, or 25% and 31%, respectively. The ownership factor on the contract of CMA decreases each year as the CEO's ownership increases. As of September 30, 2019 and 2018, CMA owned approximately \$124,700 and \$153,000 or 25% and 31%, respectively, of the contract's death benefit.

NOTE O - MERCHANDISE ROYALTIES

The Organization 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 both the combined statement of activities and statement of activities and totaled \$452,876 and \$471,674 for the years ended September 30, 2019 and 2018, respectively.

NOTE P - DEFINED CONTRIBUTION BENEFIT PLAN

The Organization sponsors a 401(k) savings plan for employees who have attained one year of service, worked at least 1,000 hours and have reached the age of 21. The Organization 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 Organization contributed approximately \$122,000 to the Plan for each of the years ended September 30, 2019 and 2018.

NOTE Q - OPERATING LEASES

The Organization leases certain office space under non-cancelable operating lease agreements with expired during 2019. Also included in rent expense are month-to-month leases for parking and office space. Total rent expense under these leases was approximately \$194,000 and \$137,000 for the years ended September 30, 2019 and 2018, respectively

On February 7, 2017, Pinellas County entered into a license agreement with the Organization to use designated County property within Fred Howard Park in Tarpon Springs for a Marine Mammal Stranding Rehabilitation Facility. The agreement is for 10 years and may be renewed for two additional five-year terms. The agreement is cancelable by either party with twelve months' notice. The Organization is responsible for all applicable permitting, buildout, and operating costs of the facility. The facility was placed in service in 2019.

NOTE R - CMA EXPANSION

CMA's current facility is capacity constrained and limits increased future growth. The facility operates as a marine hospital and education center 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, CMA is currently undergoing a capital expansion 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 habitat, and over 74,500 square feet of guest space in a new building 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. The expansion of CMA is expected to be completed in 2020.

CLEARWATER MARINE AQUARIUM, INC. AND AFFILIATE
NOTES TO COMBINED FINANCIAL STATEMENTS
SEPTEMBER 30, 2019 AND 2018

NOTE S - FAIR VALUE OF FINANCIAL INSTRUMENTS

The Organization's investments are reported at fair value in the accompanying combined statements of financial position. Following is a description of valuation methodologies used for investments measured at fair value.

Cash and cash equivalents - The carrying amounts reported in the combined statements of financial position approximate the fair value due to the short maturities of those investments.

Certificate of Deposit - Valued at face value plus accrued interest which approximates fair value.

US treasury securities, government sponsored enterprise securities, and corporate bonds – Valued using quoted market prices and/or other observable market data for the same or comparable instruments and transactions in establishing the prices, discounted cash flow models and other pricing models. These models are primarily industry standard models that consider various assumptions including time value and yield curve as well as other relevant economic measures.

Externally controlled endowment - The investments are managed by an unrelated third party and are valued based upon the third-party information without adjustment. The Organization does not develop nor are they provided with the quantitative inputs used to develop the fair market values.

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.

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 2019 and 2018.

The fair values of assets measured on a recurring basis at September 30, 2019 are as follows:

	<u>Fair Value Measurements at Reporting Date Using</u>			
	<u>Assets Measured at Fair Value at September 30, 2019</u>	<u>Quoted Prices in Active Markets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Cash and cash equivalents	\$ 200,152	\$ 200,152	\$ -	\$ -
Certificate of deposit	514,749	-	514,749	-
Bonds	6,020,407	-	6,020,407	-
Externally controlled endowment	2,719,383	-	-	2,719,383
	<u>\$ 9,454,691</u>	<u>\$ 200,152</u>	<u>\$ 6,535,156</u>	<u>\$ 2,719,383</u>

**CLEARWATER MARINE AQUARIUM, INC. AND AFFILIATE
NOTES TO COMBINED FINANCIAL STATEMENTS
SEPTEMBER 30, 2019 AND 2018**

NOTE S - FAIR VALUE OF FINANCIAL INSTRUMENTS - CONTINUED

The fair values of assets measured on a recurring basis at September 30, 2018 are as follows:

	Fair Value Measurements at Reporting Date Using			
	Assets Measured at Fair Value at September 30, 2018	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash and cash equivalents	\$ 109,653	\$ 109,653	\$ -	\$ -
Certificate of deposit	503,850	-	503,850	-
Bonds	5,918,919	-	5,918,919	-
Externally controlled endowment	2,758,196	-	-	2,758,196
	\$ 9,290,618	\$ 109,653	\$ 6,422,769	\$ 2,758,196

The following is a reconciliation of the Organization's level 3 investments:

	2019	2018
Balance at beginning of year	\$ 2,758,196	\$ 2,688,369
Change in fair value of third-party endowments	(38,813)	69,827
	\$ 2,719,383	\$ 2,758,196

NOTE T – SELF INSURANCE

During the fiscal year ended September 30, 2019, the Organization became self-insured for certain losses related to its employee health insurance plan. The expected ultimate costs for claims incurred are estimated based principally on an analysis of historical claims data and estimates of claims incurred but not reported. Losses are accrued and charged to operations when it is probable that a loss has been incurred and the amount can be reasonably estimated. Recoveries of claims paid in excess of stop-loss insurance limits are accrued and reduce claims expense. The Organization maintains a third-party stop-loss insurance policy to cover claims costs in excess of predetermined retained amounts. Costs related to the administration of the plan and related claims are expensed as incurred. At September 30, 2019, the Organization has recorded a receivable from the third party stop-loss insurance company for claims paid by the Organization in excess of policy stop-loss limits. This receivable of approximately \$225,000 is included in other current assets in the accompanying statements of financial position. The Organization does not maintain specific financial reserves for claims and other expenses incurred under the plan as the Organization's general financial reserves are deemed by management to be adequate to pay such costs as they are incurred.

NOTE U - SUBSEQUENT EVENTS

Management of the Organization has evaluated all subsequent events through January 27, 2020, the date the combined financial statements were available to be issued. The Organization is not aware of any subsequent events which would require recognition or disclosure in the combined financial statements.

SUPPLEMENTARY INFORMATION

**CLEARWATER MARINE AQUARIUM, INC. AND AFFILIATE
COMBINING STATEMENT OF FINANCIAL POSITION
SEPTEMBER 30, 2019**

	<u>ASSETS</u>			
	Clearwater Marine Aquarium, Inc.	Sea to Shore Alliance, Inc.	Elimination	Total
Current assets				
Cash and cash equivalents	\$ 5,062,046	\$ 46,245	\$ -	\$ 5,108,291
Restricted cash	11,088,623	-	-	11,088,623
Accounts Receivable	52,195	1,993	-	54,188
Grant receivable	49,671	-	-	49,671
Current portion of contribution receivable	1,458,025	-	-	1,458,025
Inventory	1,346,649	32,315	-	1,378,964
Due from affiliate	185,853	-	(185,853)	-
Other current assets	736,753	17,020	-	753,773
Total current assets	19,979,815	97,573	(185,853)	19,891,535
Property and Equipment, Net	62,343,679	86,956	-	62,430,635
Other Assets				
Investments	6,735,308	-	-	6,735,308
Film costs, net	2,671,555	-	-	2,671,555
Contribution receivable, net	2,666,963	-	-	2,666,963
Externally controlled endowments	2,719,383	-	-	2,719,383
Total Assets	<u>\$ 97,116,703</u>	<u>\$ 184,529</u>	<u>\$ (185,853)</u>	<u>\$ 97,115,379</u>
	<u>LIABILITIES AND NET ASSETS</u>			
Current Liabilities				
Accounts payable and accrued expenses	\$ 7,354,993	\$ 12,798	\$ -	\$ 7,367,791
Deferred compensation	80,000	-	-	80,000
Deferred revenue	362,859	3,403	-	366,262
Due to affiliate	-	185,853	(185,853)	-
Current portion of notes payable	454,536	3,958	-	458,494
Total current liabilities	8,252,388	206,012	(185,853)	8,272,547
Notes Payable, Net	12,443,931	10,127	-	12,454,058
Total Liabilities	20,696,319	216,139	(185,853)	20,726,605
Net assets (deficit)				
Without donor restrictions	69,576,013	(124,369)	-	69,451,644
With donor restrictions	6,844,371	92,759	-	6,937,130
Total net assets (deficit)	76,420,384	(31,610)	-	76,388,774
Total Liabilities and Net Assets	<u>\$ 97,116,703</u>	<u>\$ 184,529</u>	<u>\$ (185,853)</u>	<u>\$ 97,115,379</u>

See independent auditor's report

**CLEARWATER MARINE AQUARIUM, INC. AND AFFILIATE
COMBINING STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2019**

	Clearwater Marine Aquarium, Inc.	Sea to Shore Alliance, Inc.	Elimination	Total
Revenue and Support				
Admissions and member fees	\$ 9,310,537	\$ -	\$ -	\$ 9,310,537
Educational program fees	3,929,577	-	-	3,929,577
Fundraising events, net of expenses of \$121,495	250,354	-	-	250,354
Gift shop sales, net of cost of goods sold of \$1,339,720	2,745,522	-	-	2,745,522
Food service income, net of cost of goods sold of \$301,400	562,330	-	-	562,330
Sea turtle nesting fees	72,108	-	-	72,108
Grant income	174,433	575,458	-	749,891
Contributions	19,346,710	452,754	-	19,799,464
In-kind contributions	326,241	-	-	326,241
Boat and vehicle donations, net of impairment losses and related expenses of \$30,489	53,111	-	-	53,111
Realized and unrealized gains on investments	71,529	-	-	71,529
Interest and dividend income	500,795	-	-	500,795
Total revenue and support	37,343,247	1,028,212	-	38,371,459
Operating Expenses				
Animal care	4,564,704	-	-	4,564,704
Research and education	9,736,155	997,016	-	10,733,171
Management and general	2,003,517	65,630	-	2,069,147
Fundraising	690,310	32,832	-	723,142
Total operating expenses	16,994,686	1,095,478	-	18,090,164
Changes in Net Assets Before Other Changes	20,348,561	(67,266)	-	20,281,295
Other Changes - Revenue (Expense)				
Miscellaneous revenue	211,281	21,439	-	232,720
Change in third-party endowments	(38,813)	-	-	(38,813)
Gain (loss) on disposal of assets	(56,144)	-	-	(56,144)
Total non-operating income (expense)	116,324	21,439	-	137,763
Change in Net Assets	20,464,885	(45,827)	-	20,419,058
Net Assets, Beginning of Year	55,955,499	14,217	-	55,969,716
Net Assets (Deficit), End of Year	\$ 76,420,384	\$ (31,610)	\$ -	\$ 76,388,774

See independent auditor's report