

Clearwater Marine Aquarium, Inc. And Affiliate

Combined Financial Statements

**For the Years Ended
September 30, 2022 and 2021**



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INDEPENDENT AUDITOR'S REPORT

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

Opinion

We have audited the accompanying combined financial statements of Clearwater Marine Aquarium, Inc. and Affiliate (a Nonprofit Organization), which comprise the combined statements of financial position as of September 30, 2022 and 2021 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, 2022, and the related notes to the combined financial statements.

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the combined financial position of Clearwater Marine Aquarium, Inc. and Affiliate as of September 30, 2022 and 2021, and the changes in net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Clearwater Marine Aquarium, Inc. and Affiliate and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

In preparing the combined financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Clearwater Marine Aquarium, Inc. and Affiliate's ability to continue as a going concern within one year after the date that the combined financial statements are available to be issued.

CONTINUED

INDEPENDENT AUDITOR'S REPORT - CONTINUED

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the combined financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the combined financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the combined financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the combined financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Clearwater Marine Aquarium, Inc. and Affiliate's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the combined financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Clearwater Marine Aquarium, Inc. and Affiliate's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Report on Summarized Comparative Information

We have previously audited Clearwater Marine Aquarium, Inc. and Affiliate's 2021 combined financial statements, and we expressed an unmodified audit opinion on those audited combined financial statements in our report dated February 11, 2022. In our opinion, the summarized comparative information presented herein as of and for the year ended September 30, 2021, is consistent, in all material respects, with the audited combined financial statements from which it has been derived.

PDR CPAs + Advisors
Oldsmar, Florida
February 24, 2023

**CLEARWATER MARINE AQUARIUM, INC. AND AFFILIATE
COMBINED STATEMENTS OF FINANCIAL POSITION
SEPTEMBER 30, 2022 AND 2021**

	2022	2021
<u>ASSETS</u>		
Current Assets		
Cash and cash equivalents	\$ 1,415,178	\$ 4,377,686
Restricted cash	2,397,738	570,956
Accounts receivable	197,039	221,353
Grants receivable	39,172	16,444
Current portion of contributions receivable	112,250	2,081,500
Inventory, net	1,007,044	1,060,904
Other current assets	625,767	418,383
Total current assets	5,794,188	8,747,226
Property and Equipment, Net	89,948,814	91,651,840
Other Assets		
Investments	152,081	151,932
Film costs, net	900,000	1,350,000
Contributions receivable, net	61,894	147,584
Board designated funds	10,491,893	12,459,347
Externally controlled endowments	2,472,431	3,308,516
Total Assets	\$ 109,821,301	\$ 117,816,445
<u>LIABILITIES AND NET ASSETS</u>		
Current Liabilities		
Accounts payable and accrued expenses	\$ 2,170,604	\$ 2,832,560
Deferred compensation	-	95,003
Deferred revenue	289,318	562,635
Current portion of notes payable	1,131,011	12,381,357
Total current liabilities	3,590,933	15,871,555
Long-Term Liabilities		
Note payable - PPP	-	1,606,026
Notes payable, net	23,002,840	14,492,880
Total long-term liabilities	23,002,840	16,098,906
Total Liabilities	26,593,773	31,970,461
Net Assets		
Without donor restrictions:		
Operating	3,631,454	2,187,748
Property and equipment	65,814,963	64,777,603
Board designated for investment and growth	10,491,893	12,459,347
Total net assets without donor restrictions	79,938,310	79,424,698
With donor restrictions	3,289,218	6,421,286
Total net assets	83,227,528	85,845,984
Total Liabilities and Net Assets	\$ 109,821,301	\$ 117,816,445

See accompanying notes to combined financial statements

CLEARWATER MARINE AQUARIUM, INC. AND AFFILIATE
COMBINED STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2022
(WITH COMPARATIVE TOTALS FOR 2021)

	Without Donor	With Donor	Total	
	Restrictions	Restrictions	2022	2021
Revenue and Support				
Admissions and member fees	\$ 10,917,362	\$ -	\$ 10,917,362	\$ 13,773,530
Educational program fees	3,608,129	-	3,608,129	4,059,322
Fundraising events, net of expenses of \$87,831 and \$52,206, respectively	561,999	-	561,999	222,025
Gift shop sales, net of cost of goods sold of \$2,095,163 and \$1,666,743, respectively	2,282,281	-	2,282,281	3,743,205
Food service income, net of cost of goods sold of \$475,915 and \$480,481, respectively	715,210	-	715,210	912,100
Sea turtle nesting fees	129,925	-	129,925	107,985
Grant income	2,415,983	-	2,415,983	9,202,223
Contributions	1,325,166	778,152	2,103,318	2,354,661
Contributed nonfinancial assets	166,665	-	166,665	108,753
Interest and dividend income	133,940	-	133,940	117,713
Net assets released from restrictions	3,074,135	(3,074,135)	-	-
Total revenue and support	25,330,795	(2,295,983)	23,034,812	34,601,517
Operating Expenses				
Animal care	6,995,271	-	6,995,271	6,377,088
Research and education	15,892,724	-	15,892,724	14,219,366
Management and general	2,688,301	-	2,688,301	2,301,073
Fundraising	1,139,582	-	1,139,582	421,703
Total operating expenses	26,715,878	-	26,715,878	23,319,230
Changes in Net Assets Before Other Changes	(1,385,083)	(2,295,983)	(3,681,066)	11,282,287
Other Changes - Revenue (Expense)				
Miscellaneous revenue	402,669	-	402,669	478,592
Gain on forgiveness of note payable - PPP	1,606,026	-	1,606,026	1,627,900
Change in third-party endowments	-	(866,085)	(866,085)	509,317
Transfer to permanent endowment	(30,000)	30,000	-	-
Other expense	(80,000)	-	(80,000)	-
Loss on disposal of assets	-	-	-	(29,423)
Total non-operating income (expense)	1,898,695	(836,085)	1,062,610	2,586,386
Change in Net Assets	513,612	(3,132,068)	(2,618,456)	13,868,673
Net Assets, Beginning of Year	79,424,698	6,421,286	85,845,984	71,977,311
Net Assets, End of Year	\$ 79,938,310	\$ 3,289,218	\$ 83,227,528	\$ 85,845,984

See accompanying notes to combined financial statements

**CLEARWATER MARINE AQUARIUM, INC. AND AFFILIATE
COMBINED STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2021**

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and Support			
Admissions and member fees	\$ 13,773,530	\$ -	\$ 13,773,530
Educational program fees	4,059,322	-	4,059,322
Fundraising events, net of expenses of \$52,206	222,025	-	222,025
Gift shop sales, net of cost of goods sold of \$1,666,743	3,743,205	-	3,743,205
Food service income, net of cost of goods sold of \$480,481	912,100	-	912,100
Sea turtle nesting fees	107,985	-	107,985
Grant income	9,202,223	-	9,202,223
Contributions	1,305,242	1,049,419	2,354,661
In-kind contributions	108,753	-	108,753
Interest and dividend income	117,713	-	117,713
Net assets released from restrictions	605,234	(605,234)	-
Total revenue and support	34,157,332	444,185	34,601,517
Operating Expenses			
Animal care	6,377,088	-	6,377,088
Research and education	14,219,366	-	14,219,366
Management and general	2,301,073	-	2,301,073
Fundraising	421,703	-	421,703
Total operating expenses	23,319,230	-	23,319,230
Changes in Net Assets Before Other Changes	10,838,102	444,185	11,282,287
Other Changes - Revenue (Expense)			
Miscellaneous revenue	478,592	-	478,592
Gain on forgiveness of note payable - PPP	1,627,900	-	1,627,900
Change in third-party endowments	-	509,317	509,317
Loss on disposal of assets	(29,423)	-	(29,423)
Total non-operating income (expense)	2,077,069	509,317	2,586,386
Change in Net Assets	12,915,171	953,502	13,868,673
Net Assets, Beginning of Year	66,509,527	5,467,784	71,977,311
Net Assets, End of Year	\$ 79,424,698	\$ 6,421,286	\$ 85,845,984

See accompanying notes to combined financial statements

**CLEARWATER MARINE AQUARIUM, INC. AND AFFILIATE
COMBINED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED SEPTEMBER 30, 2022
(WITH COMPARATIVE TOTALS FOR 2021)**

	Animal Care	Research and Education	Total Program Services	Management and General	Fundraising	Total	
						2022	2021
Salaries and related expenses							
Salaries and wages	\$ 2,753,669	\$ 5,886,117	\$ 8,639,786	\$ 1,082,479	\$ 621,105	\$ 10,343,370	\$ 8,667,879
Retirement	-	26,496	26,496	107,243	26,509	160,248	152,663
Other employee benefits	121,408	244,702	366,110	624,029	14,389	1,004,528	1,454,381
Payroll taxes	203,619	398,645	602,264	77,605	42,014	721,883	654,037
Total salaries and related expenses	<u>3,078,696</u>	<u>6,555,960</u>	<u>9,634,656</u>	<u>1,891,356</u>	<u>704,017</u>	<u>12,230,029</u>	<u>10,928,960</u>
Other operating expenses							
Advertising	331	2,430,133	2,430,464	9,448	1,097	2,441,009	2,307,969
Computer services	71,084	262,658	333,742	70,278	5,422	409,442	390,407
Depreciation and amortization	1,266,854	2,143,414	3,410,268	55,314	-	3,465,582	3,349,458
Insurance	434,731	222,440	657,171	20,102	1,442	678,715	635,044
Interest expense	9	871,862	871,871	16,499	-	888,370	763,169
Merchant processing fees	-	436,860	436,860	-	-	436,860	514,495
Office expenses	18,065	17,920	35,985	22,948	537	59,470	34,864
Postage and shipping	17,711	102,286	119,997	2,583	319	122,899	74,113
Professional fees:							
Legal	-	-	-	132,938	-	132,938	216,669
Accounting	-	-	-	89,700	-	89,700	38,776
Other	34,021	903,446	937,467	86,737	396,932	1,421,136	949,845
Repairs and maintenance	445,219	252,341	697,560	14,232	1,256	713,048	314,666
Royalties	-	262,457	262,457	-	-	262,457	362,952
Supplies	802,028	633,975	1,436,003	11,244	18,175	1,465,422	1,340,296
Telephone	13,821	18,535	32,356	1,242	735	34,333	28,037
Travel and entertainment	21,950	152,874	174,824	12,777	2,923	190,524	117,977
Occupancy and utilities	667,014	322,197	989,211	31,807	2,807	1,023,825	871,964
Miscellaneous	-	91,609	91,609	183,814	2,029	277,452	42,686
Personnel enhancement	123,737	211,757	335,494	35,282	978	371,754	29,048
Capital campaign expenses	-	-	-	-	913	913	2,883
Construction related expenses	-	-	-	-	-	-	4,952
Total other operating expenses	<u>3,916,575</u>	<u>9,336,764</u>	<u>13,253,339</u>	<u>796,945</u>	<u>435,565</u>	<u>14,485,849</u>	<u>12,390,270</u>
Total expenses	<u>\$ 6,995,271</u>	<u>\$ 15,892,724</u>	<u>\$ 22,887,995</u>	<u>\$ 2,688,301</u>	<u>\$ 1,139,582</u>	<u>\$ 26,715,878</u>	<u>\$ 23,319,230</u>

See accompanying notes to combined financial statements

**CLEARWATER MARINE AQUARIUM, INC. AND AFFILIATE
COMBINED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2022 AND 2021**

	2022	2021
Cash Flows from Operating Activities:		
Change in net assets	\$ (2,618,456)	\$ 13,868,673
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	3,015,582	2,899,458
Film cost amortization	450,000	450,000
Bad debt expense	38,500	35,000
Inventory reserve	545,000	-
Loss on disposals of fixed assets	-	29,423
Realized and unrealized gain on investments	(149)	-
Amortization of debt issuance costs	63,399	76,300
Depreciation/(appreciation) in externally controlled endowments	866,085	(509,317)
Gain on forgiveness of note payable - PPP	(1,606,026)	(1,627,900)
Changes in assets and liabilities:		
Accounts receivable	24,314	(142,931)
Contribution receivable	2,016,440	289,310
Grant receivable	(22,728)	37,897
Inventory	(491,140)	298,880
Other current assets	(207,384)	(77,404)
Accounts payable and accrued expenses	(661,959)	(1,976,984)
Deferred compensation	(95,003)	24,169
Deferred revenue	(273,317)	372,673
Net cash provided by operating activities	1,043,158	14,047,247
Cash Flows from Investing Activities:		
Purchases of endowments	(30,000)	-
Proceeds from sales of investments	-	349,298
Proceeds from sale of property and equipment	-	43,274
Purchases of property and equipment	(1,312,553)	(3,521,976)
Net cash used in investing activities	(1,342,553)	(3,129,404)
Cash Flows from Financing Activities:		
Proceeds from notes payable	-	4,449,838
Payments on notes payable	(2,779,510)	(1,055,423)
Cash paid for deferred loan costs	(24,275)	-
Net cash (used in) provided by financing activities	(2,803,785)	3,394,415
Net (Decrease) Increase in Cash and Cash Equivalents	(3,103,180)	14,312,258
Cash and Cash Equivalents at Beginning of Year	17,407,989	3,095,731
Cash and Cash Equivalents at End of Year	\$ 14,304,809	\$ 17,407,989
Total Cash Consisted of the Following at September 30:		
Cash and cash equivalents	\$ 1,415,178	\$ 4,377,686
Restricted cash	2,397,738	570,956
Board designated fund	10,491,893	12,459,347
	\$ 14,304,809	\$ 17,407,989
Supplemental Cash Flow Information:		
Cash paid for interest	\$ 797,882	\$ 610,195

See accompanying notes to combined financial statements

CLEARWATER MARINE AQUARIUM, INC. AND AFFILIATE
NOTES TO COMBINED FINANCIAL STATEMENTS
SEPTEMBER 30, 2022 AND 2021

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 and 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 obtained control of S2S such that the financial information of S2S is combined with CMA.

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 U.S. 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, provision for obsolete inventory, determination of the useful lives of the property and equipment, amortization of film costs, and allocation of functional expenses.

CLEARWATER MARINE AQUARIUM, INC. AND AFFILIATE
NOTES TO COMBINED FINANCIAL STATEMENTS
SEPTEMBER 30, 2022 AND 2021

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Fair Value Measurement

The combined financial statements are prepared in accordance with U.S. GAAP standards, for all financial assets and liabilities and for nonfinancial assets and liabilities recognized or disclosed at fair value in the combined financial statements or on a recurring basis (at least annually). 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.

Cash and Cash Equivalents

At September 30, 2022 and 2021, 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, 2022 and 2021, 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 as well as a reserve account required by a bank loan. The reserve requirement was \$2,000,000 and \$1,000,000 at September 30, 2022 and 2021, respectively.

Accounts and Grants Receivable

The Organization considers all accounts and grants receivable to be substantially collectible. When collection is doubtful, an allowance for doubtful accounts is established. Accounts and grants 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, 2022 and 2021.

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 net realizable value. During 2022, management determined that inventory was impaired and as a result established an inventory reserve totaling approximately \$545,000 at September 30, 2022. Management determined no allowance was considered necessary at September 30, 2021.

CLEARWATER MARINE AQUARIUM, INC. AND AFFILIATE
NOTES TO COMBINED FINANCIAL STATEMENTS
SEPTEMBER 30, 2022 AND 2021

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 \$50,000 and \$105,000 at September 30, 2022 and 2021, respectively. Bad debt expense was approximately \$39,000 and \$36,000 for the years ended September 30, 2022 and 2021, respectively.

Property and Equipment

Property and equipment with an acquisition cost or donated value of \$2,500 or more and a useful life of more than one year are capitalized. Purchases of property and equipment are recorded at cost. Donations of property and equipment are recorded at their estimated fair market value. 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
Vehicles and boats	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 management and general expenses in the accompanying combined statements of activities.

Board Designated Fund

In September 2021, the Board of Directors approved the establishment of a Board designated fund consisting of cash held in a money market account. The purpose of the fund is to segregate monies from general operations for investment and growth. Board designated funds are included in net assets without donor restrictions.

Revenue Recognition

Certain grants received by the Organization are considered conditional contributions since the grant agreements require the Organization to perform services, incur expenses or meet contract objectives in order to earn the grant funding. Advance payments received under these grants, if any, are deferred until earned. Revenue is earned and recognized in the combined financial statements when eligible expenses are incurred, services performed or grant objectives met.

CLEARWATER MARINE AQUARIUM, INC. AND AFFILIATE
NOTES TO COMBINED FINANCIAL STATEMENTS
SEPTEMBER 30, 2022 AND 2021

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Revenue Recognition - Continued

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.

Revenues from admissions, memberships, program fees, and retail sales are considered exchange transactions. Revenues from exchange transactions are recognized when control of the goods and services are transferred to the Organization's customers in an amount that reflects the consideration the Organization expects to be entitled to in exchange for those goods or services. Payments received in advance of the transaction are recorded as deferred revenue.

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*.

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 \$2,441,009 and \$2,307,969 for the years ended September 30, 2022 and 2021, 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.

CLEARWATER MARINE AQUARIUM, INC. AND AFFILIATE
NOTES TO COMBINED FINANCIAL STATEMENTS
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NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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.

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*.

Historically as part of its evaluation of the recoverability of film costs, management evaluated the expected total ultimate revenue over the life of the project and compared that amount to actual revenue earned to date to determine the actual amortization expense for the year. During 2020, management determined that a change to straight line amortization was the most accurate method for amortizing the remaining film costs.

In addition, the estimated ultimate revenue is compared to remaining film costs, net to determine if an impairment charge is necessary. During the year ended September 30, 2020, the Organization determined that the film costs were impaired (**NOTE G**).

Summarized Comparative Information

The accompanying combined financial statements include certain prior year summarized comparative total amounts. Such information does not include sufficient detail to constitute a presentation in conformity with US GAAP. Accordingly, such information should be read in conjunction with the Organization’s combined financial statements for the year ended September 30, 2021, from which the summarized information was derived.

New Accounting Pronouncement

In September 2020, the Financial Accounting Standards Board issued Accounting Standards Update 2020-07 (Topic 958) – *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. The new guidance requires nonprofit entities to present contributed nonfinancial assets as a separate line item in the statement of activities, apart from contributions of cash or other financial assets. The standard also increases the disclosure requirements around contributed nonfinancial assets, including disaggregating by category the types of contributed nonfinancial assets a nonprofit entity has received. Adoption of this standard did not have a significant impact on the combined financial statements, with the exception of increased disclosures.

CLEARWATER MARINE AQUARIUM, INC. AND AFFILIATE
NOTES TO COMBINED FINANCIAL STATEMENTS
SEPTEMBER 30, 2022 AND 2021

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>2022</u>	<u>2021</u>
Financial Assets:		
Cash and cash equivalents	\$ 1,415,178	\$ 4,377,686
Accounts receivable	197,039	221,353
Grants receivable	39,172	16,444
	<u>1,651,389</u>	<u>4,615,483</u>
Total available financial assets	\$ 1,651,389	\$ 4,615,483
Less financial assets unavailable for general expenditures within one year due to:		
Donor restricted contributions	<u>642,643</u>	<u>883,686</u>
Net financial assets available to meet cash needs for general expenditures within one year	<u>\$ 1,008,746</u>	<u>\$ 3,731,797</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 B**, the Organization has approximately \$10,490,000 in board designated funds available for use in meeting financial obligations in the event of an unanticipated liquidity need. Additionally, the Organization has a \$1,500,000 line of credit available for use in meeting financial obligations described in **NOTE J**.

NOTE D - CONTRIBUTIONS RECEIVABLE

Contributions receivable consist of the following at September 30:

	<u>2022</u>	<u>2021</u>
Gross contributions receivable	\$ 231,232	\$ 2,372,482
Less: Allowance for uncollectible contributions receivable	(50,000)	(105,000)
Less: Unamortized discount	<u>(7,088)</u>	<u>(38,398)</u>
Contributions receivable, net	<u>\$ 174,144</u>	<u>\$ 2,229,084</u>
Amounts due in:		
Less than one year	\$ 162,250	\$ 2,186,500
One to five years	<u>68,982</u>	<u>185,982</u>
	<u>\$ 231,232</u>	<u>\$ 2,372,482</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 1.16% to 3.94%.

CLEARWATER MARINE AQUARIUM, INC. AND AFFILIATE
NOTES TO COMBINED FINANCIAL STATEMENTS
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NOTE E - PROPERTY AND EQUIPMENT

Property and equipment consists of the following at September 30:

	<u>2022</u>	<u>2021</u>
Land and improvements	\$ 5,603,855	\$ 5,603,855
Building and improvements	90,401,019	90,212,946
Furniture, fixtures, and equipment	5,386,406	5,034,059
Vehicles and boats	1,596,576	1,415,660
Construction in progress	1,225,069	633,851
	<u>104,212,925</u>	<u>102,900,371</u>
Less accumulated depreciation	<u>(14,264,111)</u>	<u>(11,248,531)</u>
	<u>\$ 89,948,814</u>	<u>\$ 91,651,840</u>

Depreciation expense was \$3,015,582 and \$2,899,458 for the years ended September 30, 2022 and 2021, respectively. Depreciation will commence on amounts in construction in progress when the items are completed and placed into service. Construction in progress represents costs associated with the ongoing renovation of the aquarium.

NOTE F - INVESTMENTS

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

	<u>2022</u>		<u>2021</u>	
	<u>Cost</u>	<u>Market</u>	<u>Cost</u>	<u>Market</u>
Cash and cash equivalents	\$ 717	\$ 717	\$ 717	\$ 717
Certificate of deposit	<u>151,364</u>	<u>151,364</u>	<u>151,215</u>	<u>151,215</u>
Total	<u>\$ 152,081</u>	<u>\$ 152,081</u>	<u>\$ 151,932</u>	<u>\$ 151,932</u>

The following schedule summarizes investment return on the above investments for the years ended September 30, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Interest and dividends on investments	<u>\$ 149</u>	<u>\$ 2,297</u>

NOTE G - FILM COSTS

Film costs of \$5,537,664 relating to *Dolphin Tale 2* were capitalized in the year ended September 30, 2014. During the year ended September 30, 2020, the Organization experienced a significant decline in attendance due to COVID-19 which caused the Organization to reexamine the value of the film costs. The Organization determined that film costs associated with *Dolphin Tale 2* were impaired and recorded an impairment loss of approximately \$533,000. Amortization expense was \$450,000 for the years ended September 30, 2022 and 2021, respectively. Accumulated amortization amounted to \$4,105,031 and \$3,655,031 as of September 30, 2022 and 2021, respectively.

CLEARWATER MARINE AQUARIUM, INC. AND AFFILIATE
NOTES TO COMBINED FINANCIAL STATEMENTS
SEPTEMBER 30, 2022 AND 2021

NOTE G - FILM COSTS - CONTINUED

The Organization expects to amortize the remaining *Dolphin Tale 2* costs straight line over the next two years at \$450,000 annually. The estimates of expected amortization are based on *Dolphin Tale 2*'s release and the impact on attendance to the Organization.

NOTE H - EXTERNALLY CONTROLLED ENDOWMENTS

In 2022, the Organization invested \$30,000 with the Community Foundation of Tampa Bay (CFTB) which is classified as net assets with donor restrictions. Unrealized gains and losses from the investment are included in the combined statement of activities within change in third-party endowments. Since the funds were transferred to the CFTB by the Organization and the Organization is named the beneficiary, these funds are included in the accompanying combined statements of financial position. As of September 30, 2022, the fair value of this endowment was \$27,111.

In addition to this initial investment the CFTB matched \$10,000 for the benefit of the Organization. The CFTB has variance power over these funds and thus these funds are not considered an asset of the Organization. The balance of these funds was \$8,975 as of September 30, 2022.

The Organization's other third-party endowments consist of two additional 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.

Endowment net asset composition by type of fund at September 30, 2022 and 2021:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Summary of Endowment Assets at September 30, 2022:			
Externally controlled endowments	\$ -	\$ 2,472,431	\$ 2,472,431
Summary of Endowment Assets at September 30, 2021:			
Externally controlled endowments	\$ -	\$ 3,308,516	\$ 3,308,516

CLEARWATER MARINE AQUARIUM, INC. AND AFFILIATE
NOTES TO COMBINED FINANCIAL STATEMENTS
SEPTEMBER 30, 2022 AND 2021

NOTE H - EXTERNALLY CONTROLLED ENDOWMENTS - CONTINUED

Changes in endowment net assets for the years ended September 30, 2022 and 2021:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Changes in Endowment Net Assets for the year ended September 30, 2022:			
Endowment net assets, beginning	\$ -	\$ 3,308,516	\$ 3,308,516
Change in value of endowment fund	-	(767,915)	(767,915)
Contributions	-	30,000	30,000
Distributions	-	(98,170)	(98,170)
Net change in endowment assets	<u>-</u>	<u>(836,085)</u>	<u>(836,085)</u>
Total funds	<u>\$ -</u>	<u>\$ 2,472,431</u>	<u>\$ 2,472,431</u>

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Changes in Endowment Net Assets for the year ended September 30, 2021:			
Endowment net assets, beginning	\$ -	\$ 2,799,199	\$ 2,799,199
Change in value of endowment fund	-	622,261	622,261
Distributions	-	(112,944)	(112,944)
Net change in endowment assets	<u>-</u>	<u>509,317</u>	<u>509,317</u>
Total funds	<u>\$ -</u>	<u>\$ 3,308,516</u>	<u>\$ 3,308,516</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. Changes in the fair market value of the endowment trusts are included in other changes in net assets with donor restrictions.

CLEARWATER MARINE AQUARIUM, INC. AND AFFILIATE
NOTES TO COMBINED FINANCIAL STATEMENTS
SEPTEMBER 30, 2022 AND 2021

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. The accrual for deferred compensation totaled \$-0- and \$95,003 as of September 30, 2022 and 2021, respectively. Deferred compensation expense was approximately \$-0- and \$54,200 for the years ended September 30, 2022 and 2021, respectively.

NOTE J - LINE-OF-CREDIT

The Organization has a \$1.5 million line-of-credit with a bank which was modified in September 2022. The interest rate is the bank's secured overnight financing rate plus 3.25% with a minimum rate of 3.25% (6.23% at September 30, 2022). The line-of-credit matures on March 26, 2024. There was no outstanding balance on the line-of-credit at September 30, 2022 and 2021. The line is collateralized by all business assets of the Organization excluding real estate.

NOTE K - LONG-TERM DEBT

Long-term debt at September 30, 2022 and 2021 consists of the following:

	2022	2021
Note payable to financial institution; monthly payments of \$412, including interest at 7.99%; collateralized by a vehicle; maturing December 2022.	\$ 338	\$ 4,945
Note payable pursuant to the Paycheck Protection Program (the "PPP"), accruing interest at 1.0%, maturing March 2026.	-	1,606,026
Note payable to bank. Payable in installments of principal prior to each December 31, beginning December 31, 2020, in the amounts necessary so that as of December 31 of each year, the outstanding principal balance of this note is not greater than the lesser of 80% of pledges receivable or \$2,250,000 at 12/31/20, \$1,750,000 at 12/31/21, \$1,000,000 at 12/31/22, and \$500,000 at 12/31/23, with one final payment of all remaining principal and accrued interest due March, 2025. Interest accrues at one-month LIBOR plus 2.5%. This note is secured by all assets of the Organization. Note payable was paid in full at September 30, 2022.	-	1,120,450
Note payable to bank with monthly payments of interest only starting June 2021 at the greater of the bank's secured overnight rate plus 3.25% or 3.5% (3.5% at September 30, 2021) through June 2022 with a single payment of all remaining unpaid principal and accrued interest due June 9, 2022. Secured by a mortgage on real property. Note payable was paid in full at September 30, 2022.	-	466,667
Note payable to bank with current monthly installments of \$3,572 including interest at 4.25% through May 2030. Secured by a mortgage on real property.	529,396	548,991

CLEARWATER MARINE AQUARIUM, INC. AND AFFILIATE
NOTES TO COMBINED FINANCIAL STATEMENTS
SEPTEMBER 30, 2022 AND 2021

NOTE K - LONG-TERM DEBT - CONTINUED

	2022	2021
Series 2018 bonds payable. Interest is payable monthly on principal amounts outstanding at .79% of one-month LIBOR plus 2.0875% (4.12% at September 30, 2022). 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. Monthly installments will be \$49,800 plus accrued interest through March 2024 at which time all remaining principal and interest will be due and payable. Bond is secured by all assets of the Organization.	14,095,224	14,692,824
Note payable to bank with monthly payments of \$5,163, plus interest at the greater of the bank's secured overnight rate plus 2.5% or 2.5% (5.48% at September 30, 2022) through March 2024, with a single payment of all remaining unpaid principal and accrued interest due March 26, 2024. Secured by a mortgage on real property. This loan was modified in 2022 as described in the paragraph below.	557,627	557,627
Note payable to bank with monthly payments of \$37,526, plus interest at the greater of the bank's secured overnight rate plus 2.50% or 2.50% (5.48% at September 30, 2022) through March 2024 with a single payment of all remaining unpaid principal and accrued interest due March 26, 2024. Secured by a mortgage on real property. This loan was modified in 2022 as described in the paragraph below.	9,043,841	9,614,431
Total long-term debt	24,226,426	28,611,961
Less unamortized debt issuance costs	92,575	131,698
Long-term debt, less unamortized debt issuance costs	24,133,851	28,480,263
Less current portion	1,131,011	12,381,357
Long-term debt, net	\$ 23,002,840	\$ 16,098,906

Loan Modifications

In September 2022, the Organization's bank modified two of the loans as noted in the above table. The modifications were similar for each loan. The interest rate was modified to be the bank's secured overnight financing rate plus 2.5% with a minimum effective rate of 2.5%. The required monthly payments were modified from interest only payments to payments of principal plus interest including a single payment of all remaining unpaid principal and accrued interest at maturity. The maturity date was changed from June 2022 to March 2024.

CLEARWATER MARINE AQUARIUM, INC. AND AFFILIATE
NOTES TO COMBINED FINANCIAL STATEMENTS
SEPTEMBER 30, 2022 AND 2021

NOTE K - LONG-TERM DEBT - CONTINUED

Future maturities of the notes payable for each of the five years subsequent to September 30, 2022 and thereafter, are as follows:

<u>Year Ending September 30,</u>	<u>Principal Payment Due</u>
2023	\$ 1,131,011
2024	22,608,531
2025	22,648
2026	23,629
2027	24,653
Thereafter	<u>415,954</u>
	<u>\$ 24,226,426</u>

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. 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. 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 is also required to create and maintain a reserve account beginning with the period starting September 30, 2021. The required reserve balance is \$1 million for the first period and grows by \$1 million per subsequent period until the balance reaches \$3 million. The current reserve requirement is \$2 million. The Organization was in compliance with its financial covenants at September 30, 2022.

Paycheck Protection Program Note Payable

In April 2020 and March 2021 the Organization received PPP loans in the amount of \$1,627,900 and \$1,606,026, respectively. The Organization used all proceeds from the loans for qualifying expenses and applied for forgiveness. In August 2021 and June 2022 the Organization received approval for forgiveness and the loans were fully forgiven. The Organization recognized a gain on forgiveness of the notes payable which is included in the accompanying combined financial statements of activities for the years ended September 30, 2022 and September 30, 2021.

CLEARWATER MARINE AQUARIUM, INC. AND AFFILIATE
NOTES TO COMBINED FINANCIAL STATEMENTS
SEPTEMBER 30, 2022 AND 2021

NOTE L - NET ASSETS WITH DONOR RESTRICTIONS

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

	2022	2021
Temporary restrictions:		
Contributions receivable, net	\$ 174,144	\$ 2,229,084
Donor restricted contributions	642,643	883,686
Total net assets with temporary restrictions	816,787	3,112,770
Permanent restrictions - endowments:		
Thomas Cooper	1,751,455	2,301,287
Edna Klauser	693,864	1,007,229
Winter Endowment	27,112	-
Total net assets with permanent restrictions	2,472,431	3,308,516
Total net assets with donor restrictions	\$ 3,289,218	\$ 6,421,286

Net assets of \$3,074,135 and \$605,234 were released from restrictions during the years ended September 30, 2022 and 2021, respectively, by incurring expenses satisfying the restricted purposes, or by occurrence of other events specified by donors.

NOTE M - CONTRIBUTED NONFINANCIAL ASSETS

The Organization receives in-kind contributions of time and pro bono services from members of the community and volunteers related to program operations, special events, and fund-raising campaigns. Donated services are recognized as contributions if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Organization. The Organization recognizes contributed nonfinancial asset revenue and a corresponding expense in an amount approximating the estimated fair value at the time of the donation.

For the years ended September 30, 2022 and 2021, the Organization received in-kind contributions estimated as follows:

September 30, 2022				
	Animal Care	Research and Education	Fundraising	Total
X-rays services	\$ 101,915	\$ -	\$ -	\$ 101,915
Event Hospitality	-	-	40,000	40,000
Vehicles/Boats	-	24,750	-	24,750
	\$ 101,915	\$ 24,750	\$ 40,000	\$ 166,665

CLEARWATER MARINE AQUARIUM, INC. AND AFFILIATE
NOTES TO COMBINED FINANCIAL STATEMENTS
SEPTEMBER 30, 2022 AND 2021

NOTE M - CONTRIBUTED NONFINANCIAL ASSETS - CONTINUED

September 30, 2021

	<u>Animal Care</u>	<u>Research and Education</u>	<u>Fundraising</u>	<u>Total</u>
X-rays services	\$ 94,503	\$ -	\$ -	\$ 94,503
Vehicles/Boats	-	14,250	-	14,250
	<u>\$ 94,503</u>	<u>\$ 14,250</u>	<u>\$ -</u>	<u>\$ 108,753</u>

All donated services and assets were utilized by the Organization's programs and supporting services. There were no donor-imposed restrictions associated with the donated services and assets. Donated services are valued based on current rates for similar event services. Donated goods are valued at the wholesale prices that would be received for selling similar products.

NOTE N - RELATED PARTY TRANSACTIONS

The Organization purchased auction items, food, and beverages from restaurants owned by a member of CMA's Board of Directors. Total payments to these restaurants during the year ended September 30, 2022 and 2021 was approximately \$1,127 and \$4,100, respectively.

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*. Royalties totaled \$262,457 and \$362,952 for the years ended September 30, 2022 and 2021, 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 \$132,000 and \$130,000 to the Plan for the years ended September 30, 2022 and 2021, respectively.

NOTE Q - OPERATING LEASES

The Organization leases certain equipment under non-cancelable operating lease agreements which expired in August of 2022. Also included in rent expense are month-to-month leases for parking and office space. Total rent expense under these leases was approximately \$28,000 and \$53,000 for the years ended September 30, 2022 and 2021, 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.

CLEARWATER MARINE AQUARIUM, INC. AND AFFILIATE
NOTES TO COMBINED FINANCIAL STATEMENTS
SEPTEMBER 30, 2022 AND 2021

NOTE R - 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.

Externally controlled endowments- 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. Management has determined that these items should be reported at Level 3 because the fair values for these assets have unobservable inputs.

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 2022 and 2021.

The fair values of assets measured on a recurring basis at September 30, 2022 are as follows:

	Fair Value Measurements at Reporting Date Using			
Assets Measured at Fair Value at September 30, 2022	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Cash and cash equivalents	\$ 717	\$ 717	\$ -	\$ -
Certificate of deposit	151,364	-	151,364	-
Externally controlled endowments	2,472,431	-	-	2,472,431
	\$ 2,624,512	\$ 717	\$ 151,364	\$ 2,472,431

CLEARWATER MARINE AQUARIUM, INC. AND AFFILIATE
NOTES TO COMBINED FINANCIAL STATEMENTS
SEPTEMBER 30, 2022 AND 2021

NOTE R - FAIR VALUE OF FINANCIAL INSTRUMENTS - CONTINUED

The fair values of assets measured on a recurring basis at September 30, 2021 are as follows:

	Fair Value Measurements at Reporting Date Using			
	Assets Measured at Fair Value at September 30, 2021	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash and cash equivalents	\$ 717	\$ 717	\$ -	\$ -
Certificate of deposit	151,215	-	151,215	-
Externally controlled endowments	3,308,516	-	-	3,308,516
	\$ 3,460,448	\$ 717	\$ 151,215	\$ 3,308,516

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

	2022	2021
Balance at beginning of year	\$ 3,308,516	\$ 2,799,199
Contributions	30,000	-
Change in fair value of third-party endowments	(866,085)	509,317
Balance at end of year	\$ 2,472,431	\$ 3,308,516

NOTE S - SELF INSURANCE

The Organization is 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, 2022 and 2021, the Organization has recorded a payable for estimated claims incurred but not paid. The accrual totaled approximately \$203,000 and \$430,000, respectively and is included within accounts payable and accrued expenses in the accompanying statements of financial position. At September 30, 2022 and 2021, 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 totaled approximately \$94,000 and \$60,000, respectively, and is included in other current assets in the accompanying combined 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.

CLEARWATER MARINE AQUARIUM, INC. AND AFFILIATE
NOTES TO COMBINED FINANCIAL STATEMENTS
SEPTEMBER 30, 2022 AND 2021

NOTE T - COMMITMENTS AND CONTINGENCIES

The Organization is exposed to various unasserted potential claims encountered in the normal course of business. In the opinion of management, the resolution of these matters will not have a material effect on the Organization's financial position or the results of its operations.

NOTE U - SUBSEQUENT EVENTS

The Organization has evaluated subsequent events through February 24, 2023, the date the combined financial statements were available to be issued.

On January 1, 2023, the Organization entered into an agreement with a company to sell all its retail related inventory. At completion of the sale, the purchasing company will assume responsibility for operating the Organization's retail store and warehouse for an initial term expiring September 30, 2030. The Organization will receive monthly payments based on a percentage of all sales from the company going forward.