

Clearwater Marine Aquarium, Inc.

FINANCIAL STATEMENTS AND SUPPLEMENTARY FINANCIAL INFORMATION

For the Years Ended
September 30, 2014 and 2013



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REPORT



INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of Clearwater Marine Aquarium, Inc. ("the Aquarium") (a nonprofit organization), which comprise the statements of financial position as September 30, 2014 and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Clearwater Marine Aquarium, Inc. as of September 30, 2014, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Other Information

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

Other Information

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 19, 2015, on our consideration of Clearwater Marine Aquarium Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. The report is an integral part of an audit performed in accordance with *Government Auditing Standards*, in considering Clearwater Marine Aquarium Inc.'s internal control over financial reporting and compliance.

Report on Summarized Comparative Information

We have previously audited the Aquarium's 2013 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated March 6, 2014. In our opinion, the summarized comparative information presented herein as of and for the year ended September 30, 2013, is consistent, in all material respects, with the audited financial statements from which it has been derived.

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

CARR, RIGGS & INGRAM, LLC

Clearwater, Florida
March 19, 2015



FINANCIAL STATEMENTS

Clearwater Marine Aquarium, Inc.
Statements of Financial Position

<i>September 30,</i>	Unrestricted	Temporary Restricted	Permanently Restricted	Total 2014	2013 (Summarized)
Assets:					
Current assets:					
Cash	\$ 185,787	\$ 5,714	\$ -	\$ 191,501	\$ 428,999
Accounts receivable	67,394	-	-	67,394	62,929
Accounts receivable - Grants	-	-	-	-	250,000
Contribution receivable	-	269,642	-	269,642	74,940
Investments	1,208,536	-	-	1,208,536	2,496,487
Gift shop inventory	1,340,512	-	-	1,340,512	1,005,006
Boat and vehicle inventory, net of estimated selling expenses of \$3,312 and \$10,304, respectively	3,888	-	-	3,888	12,096
Other current assets	563,817	-	-	563,817	269,966
Total current assets	3,369,934	275,356	-	3,645,290	4,600,423
Property and equipment, net	20,266,510	-	-	20,266,510	18,620,504
Film costs, net	5,818,660	-	-	5,818,660	566,413
Bond costs, net	162,876	-	-	162,876	183,583
Long term contribution receivable	-	221,043	-	221,043	156,200
Externally controlled endowments	-	682,593	1,932,658	2,615,251	2,535,469
Total assets	\$ 29,617,980	\$ 1,178,992	\$ 1,932,658	\$ 32,729,630	\$ 26,662,592
Liabilities and net assets:					
Current liabilities:					
Accounts payable and accrued expenses	\$ 1,658,598	\$ -	\$ -	\$ 1,658,598	\$ 1,471,886
Deferred revenue	205,396	-	-	205,396	26,355
Current portion of notes payable	460,298	-	-	460,298	464,436
Total current liabilities	2,324,292	-	-	2,324,292	1,962,677
Notes payable, net of current portion	5,254,472	-	-	5,254,472	5,710,632
Total liabilities	7,578,764	-	-	7,578,764	7,673,309
Net assets:					
Unrestricted	22,039,216	-	-	22,039,216	16,216,960
Temporarily restricted	-	1,178,992	-	1,178,992	839,665
Permanently restricted	-	-	1,932,658	1,932,658	1,932,658
Total net assets	22,039,216	1,178,992	1,932,658	25,150,866	18,989,283
Total liabilities and net assets	\$ 29,617,980	\$ 1,178,992	\$ 1,932,658	\$ 32,729,630	\$ 26,662,592

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

Clearwater Marine Aquarium, Inc. Statements of Activities

Year ending September 30,	2014			2013 (Summarized)	
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
Revenue and support:					
Admissions and member fees	\$ 6,444,526	\$ -	\$ -	\$ 6,444,526	\$ 7,200,533
Animal encounter fees	2,055,840	-	-	2,055,840	2,287,499
Education program fees	360,292	-	-	360,292	266,907
Production company income (Note 13)	1,192,855	-	-	1,192,855	-
Fundraising events, net of expenses of \$165,807 and \$ 52,392, respectively	81,383	-	-	81,383	118,054
Gift shop sales, net of cost of goods sold of \$1,185,149 and \$1,550,941, respectively	1,793,568	-	-	1,793,568	2,145,872
Food service income, net of cost of goods sold of \$217,508 and \$263,579, respectively	467,545	-	-	467,545	509,784
Sea turtle nesting fees	130,000	-	-	130,000	130,000
Grant income	4,826,000	-	-	4,826,000	268,535
Contributions	7,070	298,545	-	305,615	520,297
Non-cash contributions	2,002,290	-	-	2,002,290	725,472
Boat and vehicle donations, net of impairment losses and related expenses of \$27,176 and \$33,432, respectively	14,125	-	-	14,125	38,482
Licensing and merchandise royalties	106,313	-	-	106,313	48,838
Hotel sponsorships	25,772	-	-	25,772	6,501
(Depreciation) in investments	(2,413)	-	-	(2,413)	(84,333)
Interest and dividend income	137,262	-	-	137,262	149,618
Total revenue and support	19,642,428	298,545	-	19,940,973	14,332,059
Net assets released from restrictions	39,000	(39,000)	-	-	-
Operating expenses:					
Animal care	3,408,631	-	-	3,408,631	2,663,930
Education	8,636,889	-	-	8,636,889	7,796,846
General and administrative	1,595,599	-	-	1,595,599	1,392,404
Fundraising	139,807	-	-	139,807	168,586
Interest	39,580	-	-	39,580	4,310
Total operating expenses	13,820,506	-	-	13,820,506	12,026,076
Non-operating income/(expense):					
Osceola development, net of expenses of \$392,671 and \$ 211,306, respectively	(35,606)	-	-	(35,606)	(123,189)
Miscellaneous income	22,740	-	-	22,740	54,301
Loss on disposal of fixed asset	(25,800)	-	-	(25,800)	-
Appreciation in third party endowment	-	79,782	-	79,782	96,964
Total other changes	(38,666)	79,782	-	76,722	28,076
Increase in net assets	5,822,256	339,327	-	6,161,583	2,334,059
Net assets, beginning of year	16,216,960	839,665	1,932,658	18,989,283	16,655,224
Net assets, end of year	\$ 22,039,216	\$ 1,178,992	\$ 1,932,658	\$ 25,150,866	\$ 18,989,283

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

Clearwater Marine Aquarium, Inc. Statements of Cash Flows

<i>Year ending September 30,</i>	2014	2013 (Summarized)
Increase in net assets	\$ 6,161,583	\$ 2,334,059
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	1,139,316	743,001
Film cost amortization	38,253	-
Bad debt expense	426	5,617
Gain on sale of property and equipment	(10,200)	-
Donated boat and vehicle inventory	(20,700)	(39,981)
(Gain)/loss on sale of boats and vehicles	(24,651)	(47,464)
Donated property, plant and equipment	(873,000)	-
Donated film costs	(537,664)	-
Depreciation in investments	2,413	84,333
(Appreciation) in externally controlled endowments	(79,782)	(96,963)
Changes in net assets and liabilities:		
Accounts receivable	(4,891)	(218,774)
Contribution receivable	(259,545)	(100,890)
Gift shop inventory	(335,506)	12,018
Boat and vehicle inventory, net	(2,942)	4,950
Film costs	(4,502,837)	(510,279)
Other current assets	(293,850)	(21,915)
Accounts payable	186,712	194,920
Deferred revenue	179,041	19,537
Net cash provided by operating activities	762,176	2,362,169
Investing activities:		
Proceeds from sale of boats and vehicles	56,501	90,595
Purchases of investments	(5,077,423)	(2,575,000)
Sale of investments	6,362,961	-
Purchases of property and equipment	(1,793,735)	(6,128,238)
Net cash used by investing activities	(451,696)	(8,612,643)
Financing activities:		
Payments of bond costs	(87,680)	-
Proceeds from bonds payable	-	5,075,209
Payments on bonds payable	(430,008)	(465,842)
Proceeds from notes payable	-	1,524,896
Payments on notes payable	(30,290)	(5,025)
Net cash provided by/(used by) financing activities	(547,978)	6,129,238
Net decrease in cash	(237,498)	(121,236)
Cash at beginning of year	428,999	550,235
Cash at end of year	\$ 191,501	\$ 428,999
Supplemental disclosures of cash flows information:		
Cash paid for interest, including capitalized interest of \$87,967 and \$56,482, respectively.	127,547	83,586
Donated property	\$ 837,000	\$ -
Donated film costs	\$ 537,664	\$ -
Taxes paid	\$ -	\$ 2,020

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

NOTE 1: ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

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

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

Basis of Accounting

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

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

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

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

Revenue Recognition

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

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

Comparative Financial Information

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended September 30, 2013, from which the summarized information was derived.

Cash

At September 30, 2014 and 2013, cash consists of monies held in checking accounts, savings accounts, cash in the Aquarium's investment portfolio, and petty cash. Cash contributions for a specific purpose are recorded as temporary restricted until spent.

Accounts Receivable

The Aquarium considers all accounts receivable to be substantially collectible. When collection is doubtful, an allowance for doubtful accounts is established for accounts receivable. Accounts receivable are monitored continuously and are written off or reserved when deemed uncollectible based on contractual terms and age of the account. There was no allowance for doubtful accounts as of September 30, 2014 and 2013.

Accounts Receivable/Revenue – Grants

At September 30, 2013, the Aquarium has accrued for \$250,000 in grant receivable due from the State of Florida. The grant, which became effective July 1, 2013 and expires June 30, 2014, is for \$1,000,000. The purpose of the grant is for costs associated with the development and production of *Dolphin Tale 2*. The grant receivable was collected during 2014 as well as the full amount of the grant.

On November 20, 2013, the Aquarium and the State of Florida entered into a grant agreement to provide up to \$4,000,000 in additional funding towards the development, construction, and production of *Dolphin Tale 2*. The grant agreement requires specific deliverables to be completed by the Aquarium in order to receive payments. The full amount of this grant was received in 2014.

These two grants were used to pay costs associated with the development and production of *Dolphin Tale 2* in full during 2014.

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

Gift Shop Inventory

Inventory consists of merchandise held for sale by the Aquarium gift shop and is stated at the lower of average cost or market. All gift shop inventory is considered to be finished goods.

Contribution Receivable

Contribution receivables are recorded as a receivable when a pledge is made from a viable source and is in written form. Contributions receivable are recorded as temporarily restricted until the pledge is received and/or the purpose is met. As of September 30, 2014 and 2013, Management has established an allowance for uncollectible pledges, as of September 20, 2014 in the amount of \$30,000. Contributions receivable are evaluated on a regular basis and management establishes the allowance as necessary. If management expects the cash from the contribution receivable to be received more than one year in the future, the promises to give revenue and receivable are discounted for the time value of money (i.e., net present value) at a discount rate of 2% for the year ended September 30, 2014.

Donated Boat and Vehicle Inventory

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

For the years ended September 30, 2014 and 2013, the Aquarium recorded impairment write-downs totaling \$3,500 and \$6,650, respectively.

Property and Equipment

Property and equipment with an acquisition cost or donated value of \$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. Interest expense incurred on the bond obligation is capitalized and included in construction in progress in Note 6. Depreciation is computed using the straight-line method over the following estimated useful lives of the related assets:

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

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

Use of Estimates

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

Investments

Investments in equity securities with readily determinable fair values are measured at fair value based on quoted market prices. Gains and losses on market value adjustments and sales are recognized in the statements of activities.

Donated Items

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

The Aquarium includes the fair market value of these services in the financials when they meet the criteria for recognition under ASC 958.

Advertising Costs

Advertising is expensed as incurred or upon the date the advertising publications are first released. Advertising expense totaled \$1,655,864 and \$1,069,457 for the years ended September 30, 2014 and 2013, respectively. Included in advertising expense in 2014 and 2013 is donated advertising in the approximate amount of \$668,200 and \$215,750, respectively.

Bond Costs

The costs of obtaining the bonds are capitalized and amortized over the life of the bond. For the year ended September 30, 2014 and 2013, \$136,632 has been capitalized and is being amortized over the life of the 2011 bonds. Accumulated amortization as of September 30, 2014 and 2013 is \$65,729 and \$61,298, respectively. The bond costs will be amortized in full by December 2031 (maturity of the bonds). Amortization expense for 2014 and 2013 is \$4,431 and \$4,431, respectively. As of September 30, 2014, the Aquarium has capitalized \$87,680 in costs relating to expected new bond financing.

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

Income Taxes

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

In accordance with *ASC 740, Income Taxes*, an entity's income tax returns are subject to examination by the applicable taxing authorities. The time period during which a return may be selected by a taxing authority for examination generally ends at the later of three years after the initial due date of the return or three years after the return is filed. The Aquarium's 990 is subject to examination by the Internal Revenue Service for the last three years.

Film Costs

As of September 30, 2014, the Aquarium has capitalized film costs associated with two films: A documentary and a major motion picture. During fiscal year 2012 the Aquarium began efforts to launch a documentary surrounding one of its acclaimed dolphins. During both 2013 and 2014, the Aquarium incurred expenses meeting the definition of film costs to be capitalized under *ASC No. 926, Entertainment – Films*. Filming of the documentary completed in fiscal year 2013 and the film went on sale in July of 2013.

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

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 year ending September 30, 2014. See Note 3 for details over film costs.

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

Reclassifications

The Aquarium has reclassified bond costs net of amortization on the Statements of Financial Position and Statements of Cash Flows in 2013 to conform with the 2014 presentation. The Aquarium reclassified the bond costs of \$183,583 out of construction in progress.

Clearwater Marine Aquarium, Inc.
Notes to Financial Statements

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

Reclassifications (Continued)

The Aquarium has reclassified interest expense relating to a loan to purchase land relating to the Osceola Development on the Statement of Activities in 2013 to conform with the 2014 presentation. The Aquarium reclassified \$27,793 into interest expense and out of Osceola Development.

Subsequent Events

Management of the Plan applies the provisions of ASC 855, *Subsequent Events*, which establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before the financial statements are issued. See Note 20, *Subsequent Events*.

NOTE 2: CONTRIBUTION RECEIVABLE

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

<u>Expected receipt of contribution in:</u>	<u>Amount</u>
2015	\$ 269,642
2016	101,870
2017	59,740
2018	59,240
2019	16,490
Thereafter	25,240
<hr/>	
Gross contribution receivable	532,222
Less:	
Discount on contributions	(11,537)
Allowance for uncollectible contribution receivable	(30,000)
<hr/>	
<u>Net contributions receivable</u>	<u>\$ 490,685</u>

Contributions receivable consist primarily of promises from individuals and corporations within the Tampa Bay area. Management has established the allowance account as its estimate of the uncollectible promises to give of approximately \$30,000 and \$ 0 at September 30, 2014 and 2013, respectively.

NOTE 3: FILM COSTS

The components of film costs, net as of September 30, 2014 are as follows:

Released film costs - Dolphin Tale 2	\$	5,537,664
Released film costs - documentary		327,698
Amortization of film costs		(46,702)
<hr/>		
Film costs, net	\$	5,818,660
<hr/> <hr/>		

The Aquarium expects to amortize approximately \$76,000 in the next fiscal year relating to the documentary. The Aquarium expects to amortize 100% of the film costs for the documentary by September 30, 2016.

Film costs, of \$5,537,664, relating to *Dolphin Tale 2* were released September 19, 2014. In October of 2014, the Aquarium will begin amortizing film costs associated with *Dolphin Tale 2*. The Aquarium expects to amortize approximately \$660,000 in the next fiscal year relating to *Dolphin Tale 2* and to amortize 100% of the film costs for *Dolphin Tale 2*, by September 30, 2024.

NOTE 4: FAIR VALUE MEASUREMENT

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

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

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

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

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

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

NOTE 4: FAIR VALUE MEASUREMENT (Continued)

Equities: Comprised of common stock and an electronic traded fund (ETF) valued at the closing price reported in the active market in which the individual securities are traded.

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

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

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

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

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

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

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

Changes in Fair Value Levels

The availability of observable market data is monitored to assess the appropriate classification of financial instruments within the fair value hierarchy. Changes in economic conditions or model-based valuation techniques may require the transfer of financial instruments from one fair value level to another. In such instances, the transfer is reported at the beginning of the reporting period. There were no transfers in 2014 or 2013.

Clearwater Marine Aquarium, Inc.
Notes to Financial Statements

NOTE 4: FAIR VALUE MEASUREMENT (Continued)

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

<u>September 30,</u>	<u>2014</u>			
<u>Description</u>	Assets Measured at Fair Value	Level 1	Level 2	Level 3
<u>Money Market</u>	\$ 4,670	\$ 4,670	\$ -	\$ -
<u>Mutual Funds</u>				
Bond fund	278,374	278,374	-	-
Absolute return fund	925,492	925,492	-	-
	1,203,866	1,203,866	-	-
Beneficial interest in perpetual trusts	2,615,251	-	-	2,615,251
Boat and vehicle inventory, net	3,888	-	-	3,888
Life insurance contract	26,897	-	-	26,897
	2,646,036	-	-	2,646,036
Grand total	\$ 3,854,572	\$ 1,208,536	\$ -	\$ 2,646,036
<u>September 30,</u>	<u>2013</u>			
<u>Description</u>	Assets Measured at Fair Value	Level 1	Level 2	Level 3
<u>Equities:</u>				
Large cap equities	\$ 7,507	\$ 7,507	\$ -	\$ -
Emerging market bond ETF	85,260	85,260	-	-
	92,767	92,767	-	-
<u>Mutual Funds</u>				
Delaware diversified bond fund (Class A)	89,860	89,860	-	-
Delaware diversified income fund	702,681	702,681	-	-
Doubleline total return bond fund (Class I)	624,303	624,303	-	-
Doubleline low duration bond fund (Class I)	511,930	511,930	-	-
Pimco low duration fund	474,946	474,946	-	-
	2,403,720	2,403,720	-	-
Beneficial interest in perpetual trusts	2,535,469	-	-	2,535,469
Boat and vehicle inventory, net	12,096	-	-	12,096
Life insurance contract	30,831	-	-	30,831
	2,578,396	-	-	2,578,396
Grand total	\$ 5,074,883	\$ 2,496,487	\$ -	\$ 2,578,396

Clearwater Marine Aquarium, Inc.
Notes to Financial Statements

NOTE 4: FAIR VALUE MEASUREMENT (Continued)

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

<i>Year ending September 30,</i>	2014	2013
	Boat and vehicle inventory, net	
Beginning balance at fair value	\$ 12,096	\$ 20,196
Donated boats and vehicles	20,700	39,981
Less: Sales	(56,501)	(90,595)
Plus: Realized gains	24,651	47,464
Less: Impairments	(3,500)	(6,650)
Prepaid expenses	6,442	1,700
Ending balance at fair value	\$ 3,888	\$ 12,096
	Beneficial interest in third party endowment	
Beginning balance at fair value	\$ 2,535,469	\$ 2,438,505
Unrealized gains	79,782	96,964
Ending balance at fair value	\$ 2,615,251	\$ 2,535,469
	Life insurance contract	
Beginning balance at fair value	\$ 30,831	\$ 23,160
Change in surrender value	(3,934)	7,671
Ending balance at fair value	\$ 26,897	\$ 30,831

NOTE 5: CASH SURRENDER VALUE OF LIFE INSURANCE

The Aquarium and its CEO own, as co-owners, a universal life insurance policy on the life of the CEO with a death benefit of \$500,000 as of September 30, 2014. The policy is structured to provide the Aquarium and its CEO an undivided interest in the funding policy in direct proportion to their premium share. As of September 30, 2014 and 2013 the Aquarium funded approximately \$11,086 and \$11,086, of the fiscal year premium, respectively. The Aquarium's share of the net cash surrender value as of September 30, 2014 and September 30, 2013 is \$26,897, and 30,831, or 54% and 62% respectively.

Clearwater Marine Aquarium, Inc.
Notes to Financial Statements

NOTE 5: CASH SURRENDER VALUE OF LIFE INSURANCE (Continued)

The ownership factor on the contract of CMA decreases each year and the CEO's ownership factor increases each year. As of September 30, 2014, the Aquarium owned approximately 54%, or \$270,000, of the contract's death benefit. As of September 30, 2013 the Aquarium owned 62%, or \$307,950, of the contract's death benefit.

NOTE 6: PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

<i>September 30,</i>	2014	2013
Land and improvements	\$ 7,812,641	\$ 7,399,597
Buildings and improvements	10,287,860	5,671,558
Furniture, fixtures and equipment	3,149,387	2,471,323
Vehicles and boats	997,020	957,491
Construction in progress	1,862,777	4,989,056
	24,109,685	21,489,025
Less: Accumulated depreciation	(3,843,175)	(2,868,521)
Property and equipment, net	\$ 20,266,510	\$ 18,620,504

NOTE 7: LAND

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

NOTE 8: THIRD PARTY ENDOWMENTS

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

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

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

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

Endowment net asset composition by type of fund as of September 30, 2014:

	Temporarily Restricted	Permanently Restricted	Total
Third party endowment funds	\$ 682,593	\$ 1,932,658	\$ 2,615,251

Clearwater Marine Aquarium, Inc.
Notes to Financial Statements

NOTE 8: THIRD PARTY ENDOWMENTS (Continued)

Changes in endowment net assets for the year ended September 30, 2014:

	Temporarily Restricted	Permanently Restricted	Total
Third party endowment, beginning of year	\$ 602,811	\$ 1,932,658	\$ 2,535,469
Unrealized gain	79,782	-	79,782
Third party endowment net assets, end of year	\$ 682,593	\$ 1,932,658	\$ 2,615,251

These endowment assets are held in perpetuity and are invested and managed by outside trustees in accordance with trust instruments established by the donors. The fair market value of the assets held in the endowment trusts are considered to be the most appropriate estimates of the discounted values of the estimated future revenue streams, and are therefore the basis used to record these future streams of revenue. For the years ended September 30, 2014 and 2013, the fair market value of the assets that support the revenue streams to the Aquarium increased by \$79,782 and \$96,963, respectively.

NOTE 9: LONG-TERM DEBT

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

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

The Agreement contains covenants that require the Aquarium to maintain compliance with laws, maintain its tax exempt status, report to the lender as required, and demonstrate key financial ratios, including a threshold of unrestricted net assets. The Bond is secured by all assets and real property belonging to the Aquarium as well as any property, plant and equipment purchased in the future. The interest rate shall be the sum of (i) 68% of One-Month LIBOR (.18% at September 30, 2014), as adjusted monthly with changes in One-Month LIBOR and (ii) 65% of the interest spread of 2.75% per annum (or 1.7875%). The interest rate shall be subject to adjustment in the event of decreases in the Bank's maximum statutory marginal tax rate, upon a determination of taxability or in the event the Bond is determined to not be bank qualified under Section 265(b)(3) of the Internal Revenue code.

Clearwater Marine Aquarium, Inc.
Notes to Financial Statements

NOTE 9: LONG-TERM DEBT (Continued)

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

The following summarizes all long-term debt of the Organization as of September 30, 2014 and 2013:

<i>Year ending September 30,</i>	2014	2013
Twenty year term bond collateralized by all real property of the Aquarium. Principal is payable in monthly installments of \$35,834 beginning on January 29, 2012. Interest is variable based on LIBOR rates. Bond matures on December 29, 2031.	\$ 4,225,189	\$ 4,655,197
Note payable collateralized by the income, rents, receivables, and profits of the underlying property. Principal installments of \$7,583 is payable beginning on March, 5, 2016. Interest is variable based on 1 month LIBOR + 2.25% and is payable beginning on March 5, 2013. Note matures February 5, 2018.	1,365,000	1,365,000
Principal and interest payments of \$2,869 commenced on August 12, 2013 until the note matures on July 2, 2018. Interest is fixed at 2.90%.	124,581	154,871
Total of debt obligations	5,714,770	6,175,068
Less: current portion of notes payable	(460,298)	(464,436)
Notes payable, net of current portion	\$ 5,254,472	\$ 5,710,632

<i>Year ending September 30,</i>	Principal Payment Due
2016	\$ 555,432
2017	555,432
2018	1,638,451
2019	430,008
2020	430,008
Thereafter	1,645,141
Total	\$ 5,254,472

Clearwater Marine Aquarium, Inc.
Notes to Financial Statements

NOTE 10: TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consist of the following:

<i>September 30,</i>	2014	2013
Temporary restricted net assets, beginning of year	\$ 839,665	\$ 636,811
Contributions/(release from restrictions), net	259,545	105,890
Appreciation (depreciation) of externally controlled third party endowments	79,782	96,964
Temporarily restricted net assets, end of year	\$ 1,178,992	\$ 839,665

NOTE 11: PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets consist of the following:

<i>September 30,</i>	2014	2012
Externally controlled third party endowments:		
Thomas Cooper	\$ 1,362,500	\$ 1,362,500
Edna Klauser	570,158	570,158
Total	\$ 1,932,658	\$ 1,932,658

NOTE 12: IN-KIND CONTRIBUTIONS

A substantial number of unpaid volunteers have made significant contributions of their time to develop the Aquarium's programs principally in the areas of animal care, education, and daily operations. The value of this contributed time is not reflected in these financial statements as it does not meet the criteria for in-kind revenue and expense recognition. The total hours contributed during both 2014 and 2013 were approximately 134,489 and 125,000, respectively.

During the year, the Aquarium received in-kind contributions for services provided to the Aquarium. These contributions have been recorded as unrestricted contributions at their estimated fair market value at the time of donation.

Clearwater Marine Aquarium, Inc.
Notes to Financial Statements

NOTE 12: IN-KIND CONTRIBUTIONS (Continued)

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

<i>For the year ended September 30,</i>	2014	2013
FMV of time spent working on Winter's prosthetic tail	\$ 197,000	\$ 214,000
Other donated services	1,805,290	511,472
Total non-cash contributions	\$ 2,002,290	\$ 725,472

NOTE 13: PRODUCTION COMPANY INCOME

During 2014 and related to the production of the major motion picture *Dolphin Tale 2*, the Aquarium received income from the production company in accordance with their agreements relating to the production of the movie. The amounts received are as follows as of September 30, 2014:

Description	Amount
Reimbursement for closure during filming	\$ 500,000
Forgiveness of production costs payment	537,664
Reimbursement for pool renovations	155,191
Total	\$ 1,192,855

NOTE 14: RELATED PARTY TRANSACTIONS

A member of the Board of Directors provided contracting services for various facility additions and improvements during the current year. The total fair market value of services provided during the years ended September 30, 2014 and 2013, totaled \$66,940 and \$25,034, respectively.

The Aquarium purchased merchandise from a company owned by one of the Aquarium's Board of Directors. Total payments to this company during the years ended September 30, 2014 and 2013 totaled \$50,447 and \$25,664, respectively.

The Aquarium also purchased transportation services for the benefit of its guests. The Executive Director of the Company is also a Director the Aquarium's Board. Expenses incurred associated with this function for the year end September 30, 2014 and 2013 totaled \$539,451 and \$636,588, respectively.

NOTE 15: MERCHANDISING ROYALTIES

The Aquarium pays merchandising royalties on the sale of merchandise to the Production Company which produced the feature films (*Dolphin Tale* and *Dolphin Tale 2*). These Royalties are included in the Education Expense line item on the Statement of Activities and totaled \$225,654 and \$336,299 for the years ended September 30, 2014 and 2013, respectively.

NOTE 16: DEFINED CONTRIBUTION BENEFIT PLAN

The Aquarium sponsors a 401(k) savings plan for employees who have attained one year of service and have reached the age of 21. The Aquarium matches 100% of participant contributions that are not over 3% of the participant's compensation and 50% of participant contributions that are over 3% but not over 5% of the participant's compensation. The Aquarium contributed \$89,914 and \$64,938 to the Plan during the years ended September 30, 2014 and 2013, respectively.

NOTE 17: CONCENTRATION RISK

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

NOTE 18: OPERATING LEASE

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

The lease calls for rental payments over the 30 month lease totaling \$58,867, which is equivalent to the capital expenditures incurred by the City of Clearwater to make initial repairs on the Harborview Center building. The rental payments are calculated at a \$1 per visitor fee until the full amount is paid to the City of Clearwater, and thereafter the rent is \$1 per lease year. Rent paid as of September 30, 2014 and 2013 is \$21,256 in each year.

Under the terms of the lease, the Aquarium secured rights to use of the second floor of the Harborview Center building. On January 24, 2014, the Aquarium executed an amendment which states the lease term shall expire sixty (60) days from the grand opening of the new Aquarium. In the event that the Aquarium fails to enter into a lease for the City Hall property by June 1, 2015, then the Harborview lease shall expire six months later on November 30, 2015. Further, in the event the Aquarium fails to have all funds necessary for the construction of the new Aquarium by August 1, 2016, the Harborview lease shall expire on January 31, 2017.

NOTE 18: OPERATING LEASE (Continued)

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

NOTE 19: OSCEOLA DEVELOPMENT

For the years ended September 30, 2014 and 2013 the Aquarium generated revenues of approximately \$357,000 and \$110,000, respectively, and expenses of approximately \$426,000 and \$234,000, respectively, relating to the development of the new aquarium. These revenues and related costs have been presented as nonoperating in the Statements of Activities.

On November 5, 2013 the City of Clearwater obtained voter approval in order to lease the property for the Project (defined in Note 16) for an initial term of 60 years. The Aquarium is responsible for the construction, design, maintenance, and funding of the Project. The Aquarium plans to finance the Project through a combination of funding sources. However, no general fund revenues of the City will be expended for this Project. The City will have no obligation or liability in the event the Aquarium defaults on any of its loans. In the event of default, the Aquarium's lender will be limited to changing the management of the new aquarium and assuming all of the Aquarium's rights and obligations for the remainder of the lease or abandoning the City Property and disassembling the building and collecting the Aquarium's assets. The Aquarium shall have all funds necessary for the construction by no later than August 1, 2016.

Prior to commencing construction, the Aquarium shall obtain a payment and performance bond covering the hard costs of construction under the general contract, which bond shall name the City as well as any third party construction lender as dual obliges. By no later than June 1, 2015, the Aquarium and the City shall agree to the terms of the lease for the City Property. The City agrees to vacate the City Property upon 180 days' notice from the Aquarium and verification by the City that the Aquarium has the necessary financing to commence construction.

The Aquarium shall pay the City \$.50 per ticket of admissions revenue actually received by the Aquarium not to exceed \$7,500,000 plus accrued interest in order to provide for the replacement of the City Hall ("City Hall Payment"). A principal payment will be made quarterly based on paid ticket sales for the previous quarter.

NOTE 19: OSCEOLA DEVELOPMENT (Continued)

Following the City's funding of the City Hall capital project, but not before the opening of the new aquarium, interest will accrue and will be paid annually in arrears by the Aquarium based on the actual cost for a new City Hall not to exceed \$7,500,000. The annual interest rate will be set at the beginning day of the lease period and reset at each anniversary date based on the interest rate consistent with the City's cash pool rate of return rounded to the nearest 10th of a percent. The annual interest rate will be applied to the average annual principal and accrued interest balance of the Aquarium's obligation of the preceding year until the actual cost of the new City Hall or \$7,500,000, whichever is less is recaptured by the City. Following full payment of the City Hall Payment, the Aquarium shall pay an annual rent payment of \$250,000 per year to the City.

NOTE 20: SUBSEQUENT EVENTS

Management evaluated all events or transactions that occurred after September 30, 2014 through March 19, 2015, the date the financial statements were available to be issued. In 2015, the Aquarium was awarded a \$2 Million grant from the State of Florida for construction on the west coast of Florida. As of the date of this report, the Aquarium has received \$500,000.

Clearwater Marine Aquarium, Inc.
Schedule of Expenditures of State Awards

State Agency	CSFA Number	Contract/ Grant Number	Expenditures
STATE AGENCY NAME			
STATE OF FLORIDA			
DEPARTMENT OF STATE:			
/ Division of Cultural Affairs	45.014*	14.9906	\$ 750,000
Department of Economic Opportunity	40.012*	SB-14-026	4,000,000
TOTAL STATE FINANCIAL ASSISTANCE			\$ 4,750,000

NOTE 1: This schedule is prepared on the accrual basis of accounting.

NOTE 2: State expenditures represent the fiscal year ended September 30, 2014, only.

* Denotes major state projects

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

A. Summary of Audit Results

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

CSFA #	Name of Program
<u>State Projects</u>	
State of Florida, Department of State	
Division of Cultural Affairs	
45.014	Cultural Facilities Grant Program
Department of Economic Opportunity	
40.012	Local Economic Development Initiatives

8. The threshold for distinguishing Types A and B programs was \$300,000 for major state awards projects.
9. Clearwater Marine Aquarium Inc. was not determined to be a low-risk auditee for purposes of the major state projects.

B. Findings – Financial Statements Audit

None

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

None



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

D. Other Issues

No management letter issued during the current year.

E. Prior Year Findings and Questioned Costs

This is the first year for a State of Florida Single audit for Clearwater Marine Aquarium Inc., therefore there were no prior year findings or questioned costs.

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

To the Board of Directors
Clearwater Marine Aquarium

Report on Compliance for Each Major State Project

We have audited Clearwater Marine Aquarium Inc.'s compliance with the types of compliance requirements described in the *Department of Financial Services' State Projects Compliance Supplement* that could have a direct and material effect on each of Clearwater Marine Aquarium Inc.'s major State projects for the year ended September 30, 2014. Clearwater Marine Aquarium Inc.'s major State projects are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major State Project

In our opinion, Clearwater Marine Aquarium Inc. complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major State projects for the year ended September 30, 2014.

Report on Internal Control Over Compliance

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

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

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

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

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

CARR, RIGGS & INGRAM, LLC

Clearwater, Florida
March 19, 2015

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

To the Board of Trustees
Clearwater Marine Aquarium

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Clearwater Marine Aquarium Inc. (a nonprofit organization), which comprise the statement of financial position as of September 30, 2014, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated March 19, 2015.

Internal Control Over Financial Reporting

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

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

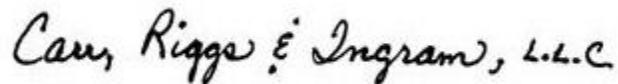
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not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

Compliance and Other Matters

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

Purpose of this Report

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

A handwritten signature in black ink that reads "Carr, Riggs & Ingram, L.L.C." in a cursive script.

CARR, RIGGS & INGRAM, LLC

Clearwater, Florida
March 19, 2015