

**SOUTH CAROLINA AQUARIUM
CHARLESTON, SOUTH CAROLINA**

AUDITED FINANCIAL STATEMENTS

FOR THE YEARS ENDED MARCH 31, 2017 AND 2016

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of South Carolina Aquarium (a nonprofit organization), which comprise the statements of financial position as of March 31, 2017 and 2016, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor 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 South Carolina Aquarium as of March 31, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.



Mount Pleasant, South Carolina
August 4, 2017

**SOUTH CAROLINA AQUARIUM
STATEMENTS OF FINANCIAL POSITION
MARCH 31, 2017 AND 2016**

	2017	2016
<u>ASSETS</u>		
<u>Current Assets</u>		
Cash and cash equivalents	\$ 1,305,929	\$ 1,434,414
Cash and cash equivalents, designated	-	904,050
Accounts receivable	145,139	119,565
Grants receivable	200,000	150,000
Unconditional promises to give, net, current (Note 2)	1,038,168	1,270,753
Prepaid expenses	257,627	267,101
Investments (Note 3)	98,163	98,065
Total current assets	3,045,026	4,243,948
<u>Long-term Assets</u>		
Unconditional promises to give, net, net of current (Note 2)	1,006,892	1,954,582
Property and equipment, net (Note 4)	13,172,581	9,318,965
Total long-term assets	14,179,473	11,273,547
Total assets	\$ 17,224,499	\$ 15,517,495

See accompanying notes to the financial statements.

**SOUTH CAROLINA AQUARIUM
STATEMENTS OF FINANCIAL POSITION - CONTINUED
MARCH 31, 2017 AND 2016**

	2017	2016
<u>LIABILITIES AND NET ASSETS</u>		
<u>Current Liabilities</u>		
Accrued interest - bonds payable (Note 7)	\$ 35,438	\$ -
Accrued payroll and related expenses	101,799	81,261
Accounts payable	1,404,155	300,111
Advanced deposits and deferred revenues	387,323	377,992
Lease termination fee payable, current (Note 8)	31,841	39,933
Program agency funds	411,954	-
Bonds payable, current portion (Note 7)	225,000	225,000
Accrued wellness days	52,235	52,235
Deferred membership fees	500,073	542,098
Promissory notes, current portion (Note 6)	51,034	34,437
Total current liabilities	3,200,852	1,653,067
<u>Long-term Liabilities</u>		
Promissory notes, net of current portion (Note 6)	86,751	67,042
Lease termination fee payable, net of current (Note 8)	245,668	270,104
Bonds payable, net of current portion (Note 7)	2,025,000	2,250,000
Total long-term liabilities	2,357,419	2,587,146
Total liabilities	5,558,271	4,240,213
<u>Net Assets</u>		
Unrestricted		
Board designated for endowment (Note 10)	463,133	-
Undesignated	7,923,168	4,966,238
Total unrestricted	8,386,301	4,966,238
Temporarily restricted (Note 9)	3,279,927	5,847,911
Permanently restricted (Note 10)	-	463,133
Total net assets	11,666,228	11,277,282
Total liabilities and net assets	\$ 17,224,499	\$ 15,517,495

See accompanying notes to the financial statements.

**SOUTH CAROLINA AQUARIUM
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED MARCH 31, 2017**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<u>Support and Revenues</u>				
Admissions	\$ 5,596,238	\$ -	\$ -	\$ 5,596,238
Memberships	1,221,084	-	-	1,221,084
Annual campaign and contributions	1,450,734	1,032,961	-	2,483,695
Grants	271,617	118,301	-	389,918
Corporate sponsorships	182,476	232,461	-	414,937
Concessions	654,166	-	-	654,166
Facility rentals	410,793	-	-	410,793
Program revenues	213,124	-	-	213,124
Fundraising events, net of \$141,098 of expense	141,552	-	-	141,552
Investment income and losses, net	1,221	-	-	1,221
Miscellaneous	266,147	-	-	266,147
Total support and revenues	<u>10,409,152</u>	<u>1,383,723</u>	<u>-</u>	<u>11,792,875</u>
<u>Net Assets Released from Restrictions</u>	<u>4,414,840</u>	<u>(3,951,707)</u>	<u>(463,133)</u>	<u>-</u>
<u>Expenses from Operations (Note 11)</u>				
Program services:				
Husbandry	1,377,366	-	-	1,377,366
Facilities	1,272,350	-	-	1,272,350
Education	922,501	-	-	922,501
Conservation	335,644	-	-	335,644
External affairs	1,691,619	-	-	1,691,619
Guest programs	1,624,944	-	-	1,624,944
Memberships	225,261	-	-	225,261
Total program services	<u>7,449,685</u>	<u>-</u>	<u>-</u>	<u>7,449,685</u>
Supporting services:				
Executive, finance, and administration	1,878,173	-	-	1,878,173
Annual campaign and fundraising	872,010	-	-	872,010
Membership development	48,811	-	-	48,811
Total supporting services	<u>2,798,994</u>	<u>-</u>	<u>-</u>	<u>2,798,994</u>
Total expenses from operations	<u>10,248,679</u>	<u>-</u>	<u>-</u>	<u>10,248,679</u>
Changes in net assets from operations (Note 13)	<u>4,575,313</u>	<u>(2,567,984)</u>	<u>(463,133)</u>	<u>1,544,196</u>
<u>Other Expenses</u>				
Interest expense	(93,238)	-	-	(93,238)
Depreciation expense	(718,137)	-	-	(718,137)
Aquarium Conservation Partnership Summit	(183,014)	-	-	(183,014)
Loss on removal of 4D Theater	(160,861)	-	-	(160,861)
Total other expenses	<u>(1,155,250)</u>	<u>-</u>	<u>-</u>	<u>(1,155,250)</u>
Increase (decrease) in net assets	3,420,063	(2,567,984)	(463,133)	388,946
Net assets, beginning of year	<u>4,966,238</u>	<u>5,847,911</u>	<u>463,133</u>	<u>11,277,282</u>
Net assets, end of year	<u>\$ 8,386,301</u>	<u>\$ 3,279,927</u>	<u>\$ -</u>	<u>\$ 11,666,228</u>

See accompanying notes to the financial statements.

**SOUTH CAROLINA AQUARIUM
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED MARCH 31, 2016**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<u>Support and Revenues</u>				
Admissions	\$ 5,643,331	\$ -	\$ -	\$ 5,643,331
Memberships	1,176,491	-	-	1,176,491
Annual campaign and contributions	679,283	821,829	-	1,501,112
Grants	575,716	1,000,000	-	1,575,716
Corporate sponsorships	363,562	175,000	-	538,562
Concessions	622,187	-	-	622,187
Facility rentals	375,780	-	-	375,780
Program revenues	192,800	-	-	192,800
Fundraising events, net of \$140,004 of expense	111,424	-	-	111,424
Investment income and losses, net	2,627	-	-	2,627
Miscellaneous	148,234	-	-	148,234
Total support and revenues	<u>9,891,435</u>	<u>1,996,829</u>	<u>-</u>	<u>11,888,264</u>
<u>Net Assets Released from Restrictions</u>	<u>2,449,864</u>	<u>(2,449,864)</u>	<u>-</u>	<u>-</u>
<u>Expenses from Operations (Note 11)</u>				
Program services:				
Husbandry	1,286,621	-	-	1,286,621
Facilities	1,259,163	-	-	1,259,163
Education	895,117	-	-	895,117
Conservation	392,138	-	-	392,138
External affairs	1,937,357	-	-	1,937,357
Guest programs	1,519,982	-	-	1,519,982
Memberships	201,697	-	-	201,697
Total program services	<u>7,492,075</u>	<u>-</u>	<u>-</u>	<u>7,492,075</u>
Supporting services:				
Executive, finance, and administration	1,720,433	-	-	1,720,433
Annual campaign and fundraising	962,016	-	-	962,016
Membership development	45,566	-	-	45,566
Total supporting services	<u>2,728,015</u>	<u>-</u>	<u>-</u>	<u>2,728,015</u>
Total expenses from operations (Note 13)	<u>10,220,090</u>	<u>-</u>	<u>-</u>	<u>10,220,090</u>
Changes in net assets from operations	<u>2,121,209</u>	<u>(453,035)</u>	<u>-</u>	<u>1,668,174</u>
<u>Other Expenses</u>				
Interest expense	(71,030)	-	-	(71,030)
Depreciation expense	(797,042)	-	-	(797,042)
Total other expenses, net	<u>(868,072)</u>	<u>-</u>	<u>-</u>	<u>(868,072)</u>
Increase (decrease) in net assets	1,253,137	(453,035)	-	800,102
Net assets, beginning of year	<u>3,713,101</u>	<u>6,300,946</u>	<u>463,133</u>	<u>10,477,180</u>
Net assets, end of year	<u>\$ 4,966,238</u>	<u>\$ 5,847,911</u>	<u>\$ 463,133</u>	<u>\$ 11,277,282</u>

See accompanying notes to the financial statements.

**SOUTH CAROLINA AQUARIUM
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED MARCH 31, 2017 AND 2016**

	<u>2017</u>	<u>2016</u>
<u>Cash Flows from Operating Activities</u>		
Changes in net assets	\$ 388,946	\$ 800,102
Adjustments to reconcile changes in net assets to net cash used for operating activities:		
Contributions received restricted for acquisition of exhibits and capital	(1,400,960)	(2,017,258)
Amortization of discount on unconditional promises to give	(8,038)	(31,592)
Amortization of deferred interest on operating lease termination payable	14,972	27,063
Purchase of animal and plant collections	5,357	17,976
Change in allowance and bad debt expense	44,600	14,450
Depreciation	718,137	797,042
Loss on disposal of fixed assets	141,844	-
(Increase) decrease in:		
Accounts receivable	(25,574)	30,899
Grants receivable	(50,000)	35,000
Unconditional promises to give	(942,887)	231,680
Prepaid expenses	9,474	(46,759)
Increase (decrease) in:		
Accrued interest - bonds payable	35,438	(41,175)
Accounts payable	196,693	(867,263)
Accrued payroll and related expenses	20,538	(135,566)
Accrued wellness days	-	6,197
Advanced deposits and deferred revenues	9,331	139,766
Program agency funds	411,954	-
Deferred membership fees	(42,025)	54,153
Net cash used for operating activities	<u>(472,200)</u>	<u>(985,285)</u>
<u>Cash Flows from Investing Activities</u>		
Purchase of animal and plant collections	(5,357)	(17,976)
Purchase of investments	(98)	-
Proceeds from sale of investments	-	1,748,334
Purchase of property and equipment	(3,734,246)	(2,370,264)
Net cash used for investing activities	<u>(3,739,701)</u>	<u>(639,906)</u>
<u>Cash Flows from Financing Activities</u>		
Contributions collected restricted for acquisition of exhibits and capital	3,487,560	2,217,258
Payments on bonds payable	(225,000)	(225,000)
Payments on notes payable	(35,694)	(33,098)
Payments on lease termination payable	(47,500)	(47,500)
Payments on capital lease	-	(7,298)
Net cash provided by financing activities	<u>3,179,366</u>	<u>1,904,362</u>
Net increase (decrease) in cash and cash equivalents	(1,032,535)	279,171
Cash and cash equivalents, beginning of year	<u>2,338,464</u>	<u>2,059,293</u>
Cash and cash equivalents, end of year	<u>\$ 1,305,929</u>	<u>\$ 2,338,464</u>

See accompanying notes to the financial statements.

**SOUTH CAROLINA AQUARIUM
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2017 AND 2016**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

The South Carolina Aquarium (the "Aquarium") is a non-profit organization incorporated in 1992. The Aquarium is devoted to the understanding and conservation of South Carolina's natural aquatic habitats. The Aquarium's primary objective is to inspire conservation of the natural world by exhibiting and caring for animals, by excelling in education and research, and by providing an exceptional visitor experience. The Aquarium's primary facility, which is located in Charleston, South Carolina, opened May 19, 2000, and is leased from the City of Charleston. The Aquarium's support comes primarily from admission fees, memberships, grants and contributions.

Basis of Accounting

The Aquarium prepares its financial statements in accordance with accounting principles generally accepted in the United States of America, which involves the application of the accrual method of accounting. Consequently, revenues and gains are recognized when earned, and expenses and losses are recognized when incurred.

Financial Statement Presentation

Financial statement presentation follows the recommendations of the Accounting Standards Codification (ASC) 958, Section 210, *Not-for-Profit Entities, Balance Sheet*. Under ASC No. 958, Section 210, the Aquarium is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

The following describes the three net asset classes:

Unrestricted Net Assets

Net assets without donor imposed restrictions and currently available for program and supporting services.

Temporarily Restricted Net Assets

Net assets subject to donor imposed stipulations that may or will be met by actions of the Aquarium and/or the passage of time.

Permanently Restricted Net Assets

Net assets restricted by donors to be maintained permanently by the Aquarium.

Cash and Cash Equivalents

The Aquarium considers all highly liquid debt instruments purchased with an initial maturity of three months or less to be cash equivalents, unless cash is held long-term and/or with investment objectives.

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

Accounts Receivable

Accounts receivable relate primarily to concession revenues and group ticket sales. Management evaluates the collectability of outstanding balances based on historical collection experience and the specific accounts outstanding, and establishes an allowance for doubtful accounts based on management's estimate of amounts that will not be collected. Accounts receivable are determined to be past due on contractual terms, which are unsecured and are non-interest bearing. It is the Aquarium's policy to charge off uncollectible amounts when management determines the receivable will not be collected. As of March 31, 2017 and 2016, management estimated all accounts receivable to be fully collectible.

**SOUTH CAROLINA AQUARIUM
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2017 AND 2016**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Contributions, Promises to Give, and Other Receivables

Contributions are recognized when the donor makes a promise to give to the Aquarium that is in substance, unconditional. Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. The Aquarium records contributions as restricted if they are received with donor stipulations that limit their use either through purpose or time restrictions. When donor restrictions expire, that is, when a time restriction ends or a purpose restriction is fulfilled, temporarily restricted net assets are reclassified to unrestricted net assets and are reported in the statement of activities as net assets released from restrictions. It is the Aquarium's policy to record temporarily restricted contributions received and expended in the same accounting period in the unrestricted net asset class. Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. Discount rates ranged from 0.56% to 1.93% for each of the years ended March 31, 2017 and 2016. Amortization of the discount is presented with contribution revenue.

The Aquarium uses the allowance method to account for uncollectible amounts based on management's estimate of the collectability of the amount receivable. Management does not accrue interest or finance charges on overdue balances. Receivables are considered impaired if payments are not received in accordance with the terms of the receivable. It is the Aquarium's policy to charge off uncollectible amounts when management determines the receivable will not be collected. The allowance for doubtful accounts was \$17,150 and \$18,050 for the years ended March 31, 2017 and 2016, respectively.

Property and Equipment

Property and equipment are recorded at cost, or, if donated, at estimated fair market value at the date of donation. Depreciation is provided over the estimated useful lives of the assets using the straight-line method. The estimated useful lives range from 3 to 39 years. It is the policy of the Aquarium to capitalize assets costing \$5,000 or more with a useful life exceeding one year.

Investment Income and Losses, Net

Investment income, gains and losses are reported as increases or decreases in unrestricted net assets in the year in which they are recognized unless a donor or law temporarily or permanently restricts their use. Release of restriction is determined either by the end of a stipulated time period or accomplishment of a restriction's purpose.

Animal and Plant Collections

The costs of purchasing or collecting live animals and plants are expensed as incurred. Donated specimens are not valued and, therefore, are not reflected in the financial statements. There were no proceeds received related to non-capitalized collection items during the years ended March 31, 2017 and 2016. Purchases of non-capitalized collection items were \$5,357 and \$17,976 for the years ended March 31, 2017 and 2016, respectively.

Expense Allocation

Directly identifiable expenses are charged to program and supporting services. Expenses related to more than one function are allocated to program and supporting services based on various factors determined by management.

Agency Funds

The Aquarium is the administrating entity for a \$583,000 study provided by the South Carolina Ports Authority. The Aquarium will disburse funds to participating partners in the study.

**SOUTH CAROLINA AQUARIUM
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2017 AND 2016**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Advertising

The Aquarium expenses advertising costs as incurred. Advertising costs totaled \$475,513 and \$474,070 for the years ended March 31, 2017 and 2016, respectively.

Donated Services and Equipment

The Aquarium records various types of in-kind support including donated professional services, supplies, and equipment. Contributed professional services are recognized if the services received (a) create or enhance long-lived assets, or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. Contributions of tangible assets are recognized at fair market value when received. The amounts reflected in the accompanying financial statements as in-kind support are offset by like amounts included in expenses or assets, if capitalized. Services donated in 2017 and 2016 include advertising, special events supplies, construction labor and miscellaneous, and are recognized in the external affairs program, husbandry program, fundraising supporting services and property and equipment, respectively. In-kind contributions were for various supplies, equipment, and other services and totaled \$117,041 and \$85,985 for the years ended March 31, 2017 and 2016, respectively.

A substantial number of unpaid volunteers have made significant contributions of their time and performed a variety of tasks that assisted the Aquarium with its operation and do not meet the two recognition criteria described above. Accordingly, the value of this donated time is not reflected in the financial statements.

Income Tax Status

The Aquarium is exempt from federal income tax as an organization described in Section 501(c)(3) of the Internal Revenue Code.

Recent Accounting Pronouncements

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (“ASU”) 2016-14 *Not-for Profit Entities* (Topic 958) – *Presentation of Financial Statements of Not-for-Profit Entities*. The amendments in the update make certain improvements that address many of the identified issues of current financial reporting for not-for-profits. A second phase of the project is expected to address more protracted issues identified by the FASB. The update addresses some of the current financial reporting challenges as follows: 1) reduces complexity in reporting donor imposed restrictions; 2) improves transparency and utility in assessing a not-for-profit’s liquidity; 3) enhances the consistency of reporting of not-for-profit expenses by nature and function; and 4) unifies the preparation of the direct-method of cashflow statement preparation. The amendments in this update go into effect for annual financial statements issued for years beginning after December 15, 2017.

In February 2016, the FASB issued ASU 2016-02 *Leases* (Topic 842). The core principle of Topic 842 is that a lessee should recognize the assets and liabilities that arise from leases. A lessee should recognize in the statement of financial position a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term. When measuring assets and liabilities arising from a lease, a lessee (and a lessor) should include payments to be made in optional periods only if the lessee is reasonably certain to exercise an option to extend the lease or not to exercise an option to terminate the lease. Similarly, optional payments to purchase the underlying asset should be included in the measurement of lease assets and lease liabilities only if the lessee is reasonably certain to exercise that purchase option. For leases with a term of 12 months or less, a lessee is permitted to make an accounting policy election by class of underlying asset not to recognize lease assets and lease liabilities. If a lessee makes this election, it should recognize lease expense for such leases generally on a straight-line basis over the lease term. The amendments in this Update are effective for fiscal years beginning after December 15, 2019.

**SOUTH CAROLINA AQUARIUM
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2017 AND 2016**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates. Areas requiring significant estimates include the economic useful lives of fixed assets for depreciation purposes, the allowance for doubtful accounts, and the discount on unconditional promises to give. It is at least reasonably possible that the significant estimates used will change within the next year.

2. UNCONDITIONAL PROMISES TO GIVE

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

	<u>2017</u>	<u>2016</u>
Unconditional promises to give	\$ 2,139,449	\$ 3,328,662
Less: Unamortized discount	<u>(77,239)</u>	<u>(85,277)</u>
Present value of unconditional promises to give	2,062,210	3,243,385
Less: Allowance for uncollectible promises to give	<u>(17,150)</u>	<u>(18,050)</u>
Unconditional promises to give, net	<u>\$ 2,045,060</u>	<u>\$ 3,225,335</u>

Gross amounts receivable at March 31:

2018	\$ 1,055,318
2019	479,000
2020	326,800
2021	149,666
2022	128,665
Thereafter	<u>-</u>
	<u>\$ 2,139,449</u>

3. INVESTMENTS

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

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

**SOUTH CAROLINA AQUARIUM
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2017 AND 2016**

3. INVESTMENTS - CONTINUED

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

All of the Aquarium's investments were valued at fair value under Level 2 inputs at March 31, 2017 and 2016.

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

	2017		2016	
	Cost	Fair Value	Cost	Fair Value
Money market funds	\$ 98,163	\$ 98,163	\$ 98,065	\$ 98,065
	\$ 98,163	\$ 98,163	\$ 98,065	\$ 98,065
	2017	2016		
Interest and dividends	\$ 1,221	\$ 2,627		
	\$ 1,221	\$ 2,627		

4. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at March 31:

	Expected Useful Life	2017	2016
Software	3 years	\$ 424,924	\$ 375,576
Transportation equipment	5-7 years	428,190	348,440
Furniture, fixtures and equipment	7 years	2,833,459	2,868,318
Exhibits	2-10 years	6,451,379	7,433,605
Leasehold improvements	7-39 years	8,162,159	7,623,511
Projects under construction	Nondepreciable	4,584,226	813,810
		22,884,337	19,463,260
Accumulated depreciation		(9,711,756)	(10,144,295)
		\$ 13,172,581	\$ 9,318,965

Depreciation expense for the years ended March 31, 2017 and 2016 totaled \$718,137 and \$797,042, respectively.

**SOUTH CAROLINA AQUARIUM
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2017 AND 2016**

5. REVOLVING LINE OF CREDIT

On January 29, 2010, the Aquarium signed a \$400,000 revolving line of credit. The revolving line of credit bears interest at 5%. Payments of monthly accrued interest only are due through the maturity date of February 16, 2016. The line matured and was extended through August 17, 2017 and was increased to \$750,000. The line of credit had an outstanding balance of \$0 at March 31, 2017 and 2016.

6. LONG-TERM DEBT

On April 6, 2011, the Aquarium signed a commercial vehicle note in the amount of \$47,153. The note bears interest of 5.5% and matures on April 6, 2018. Principal and interest payments of \$679 are due monthly. The note is secured by a Mercedes-Benz Sprinter Van and has a balance of \$7,194 and \$14,715 at March 31, 2017 and 2016, respectively.

On April 6, 2012, the Aquarium signed a \$176,000 commercial promissory note for the acquisition of a new ticketing system. The note bears interest at 4.85% and matures on April 6, 2019. Principal and interest payments of \$2,532 are due monthly. The promissory note is secured by a blanket lien in assets and has a balance of \$60,059 and \$86,764 at March 31, 2017 and 2016, respectively.

On February 15, 2017, the Aquarium signed a \$72,000 term loan for the acquisition of a new boat. The note bears interest at 3.95% and matures on January 25, 2021. Principal and interest payments of \$1,626 are due monthly. The note is secured by the boat and a blanket lien in other assets. The note has a balance of \$70,532 at March 31, 2017.

Future minimum principal payments at March 31, 2017 are as follows:

2018	\$	51,034
2019		49,288
2020		18,283
2021		19,180
		<u>137,785</u>
	\$	<u>137,785</u>

7. BONDS PAYABLE

Bonds payable consist of the following at March 31:

	2017	2016
South Carolina Jobs - Economic Development Authority Economic Development Revenue Bond (SC Aquarium Project) Series 2014: Serial bonds due in annual installments of \$225,000 each October 1st. Interest is due semi-annually in April and October at annual rates ranging from 2.50% to 3.60%.	<u>\$ 2,250,000</u>	<u>\$ 2,475,000</u>
Less: current portion	<u>225,000</u>	<u>225,000</u>
	<u>\$ 2,025,000</u>	<u>\$ 2,250,000</u>

**SOUTH CAROLINA AQUARIUM
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2017 AND 2016**

7. BONDS PAYABLE - CONTINUED

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

Scheduled repayments on bonds payable at March 31, 2017 are as follows:

2018	\$	225,000
2019		225,000
2020		225,000
2021		225,000
2022		225,000
Thereafter		1,125,000
		\$ 2,250,000

8. LEASE TERMINATION FEE PAYABLE

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

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

2018	\$	47,500
2019		47,500
2020		47,500
2021		47,500
2022		47,500
Thereafter		95,000
		332,500
Amount representing interest		(54,991)
		\$ 277,509

**SOUTH CAROLINA AQUARIUM
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2017 AND 2016**

9. TEMPORARILY RESTRICTED NET ASSETS

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors during the years ended March 31 as follows:

	<u>2017</u>	<u>2016</u>
Research programs	\$ 24,712	\$ -
Education programs	50,000	124,597
Capital and maintenance programs	790,559	1,832,125
Exhibit development	3,086,436	493,142
Board designated endowment	463,133	-
	<u>\$ 4,414,840</u>	<u>\$ 2,449,864</u>

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

	<u>2017</u>	<u>2016</u>
Restricted as to time:		
Term Endowment	\$ 147,935	\$ 147,935
Restricted as to purpose:		
Research programs	-	24,712
Education programs	300,000	385,000
Capital and maintenance programs	1,325,374	2,115,933
Launch of sea turtle conservation and research program	500,000	-
Exhibit development	1,006,618	3,174,331
	<u>\$ 3,279,927</u>	<u>\$ 5,847,911</u>

10. ENDOWMENT

The Aquarium's endowment consists of one endowment established by a donor during the year ended December 31, 2010. The fund's only asset is currently an unrestricted promise to give that is collectible in the subsequent year. As required by accounting principles generally accepted in the United States of America, the net assets associated with the endowment are classified and reported based on the existence or absence of donor imposed restrictions. During the year ended March 31, 2017, the Aquarium was notified by the donor's representatives that the intention of the gift would be modified to the discretion of the board of directors of the Aquarium. The Aquarium's board determined the remaining gift would be designated by the board for a general-purpose endowment.

Interpretation of Relevant Law

The Aquarium has interpreted the State of South Carolina's enacted version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift, as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Aquarium classifies as board designated or permanently restricted net assets the original value of the gifts donated to the endowment and the original value of subsequent gifts to the endowment. The remaining portion of the donor-restricted fund that is not classified as board designated or permanently restricted net assets is classified as designated or temporarily restricted until those amounts are appropriated for expenditure by the Aquarium in a manner consistent with the standards of prudence prescribed by UPMIFA.

**SOUTH CAROLINA AQUARIUM
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2017 AND 2016**

10. ENDOWMENT - CONTINUED

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

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

The following tables present the Aquarium's endowment net asset classification and composition at March 31, 2017 and 2016:

Endowment net assets consist of the following at March 31:

	2017	2016
Working capital endowment	\$ -	\$ 463,133
Board designated endowment	463,133	-
	\$ 463,133	\$ 463,133

Strategies Employed for Achieving Investment Objectives

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

11. PROGRAM AND SUPPORTING SERVICES

The costs of providing various programs and their supporting services have been summarized on a functional basis.

The Aquarium's program services are classified within the following:

Husbandry collects and maintains plants and animals for the exhibits.

Facilities maintain the building and animal life support systems.

Education designs and implements the complete Education Master Plan. The department also manages a volunteer force.

Conservation to lead conservation efforts for our wildlife and wild spaces and inspire the public for these initiatives.

External Affairs includes media and community relations, special events and group sales.

**SOUTH CAROLINA AQUARIUM
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2017 AND 2016**

11. PROGRAM AND SUPPORTING SERVICES - CONTINUED

Guest Programs includes admissions, security staff and environmental services.

Memberships include management of the membership program.

The Aquarium's supporting services include:

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

Annual Campaign and Fundraising conducts fundraising activities through donor education, fulfillment and management.

Membership Development activities include soliciting for prospective members and membership dues, membership relations, and similar activities.

Certain costs, primarily facilities expenses and employee benefits, have been allocated to the program and supporting services benefited.

12. DEFINED CONTRIBUTION PLAN

The Aquarium maintains a defined contribution 401(k) plan (the "Plan") covering substantially all the full time salaried employees with one year or more of service. Under the Plan, the Aquarium makes matching contributions equal to 50% of the first 6% of the employee's contribution. Contribution expense relating to the Plan for the years ended March 31, 2017 and 2016 was \$116,539 and \$98,432, respectively.

13. CHANGE IN NET ASSETS FROM OPERATIONS

Management has elected to present depreciation expense and interest expense as other income (expense) rather than expenses from operations in the Statements of Activities for the years ended March 31, 2017 and 2016. Depreciation and interest are allocated to program and supporting services as follows for the years ended March 31:

	<u>Depreciation Expense</u>		<u>Interest Expense</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Program services	\$ 610,416	\$ 677,486	\$ 93,238	\$ 71,030
Supporting services:				
Executive, finance and administration	100,540	111,586	-	-
Annual campaign/fundraising	7,181	7,970	-	-
	<u>\$ 718,137</u>	<u>\$ 797,042</u>	<u>\$ 93,238</u>	<u>\$ 71,030</u>

The Aquarium Conservation Partnership Summit is allocated 100% to conservation- program activities; the loss on removal of 4-D theater is allocated 100% to executive, finance and administration.

**SOUTH CAROLINA AQUARIUM
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2017 AND 2016**

14. CONCENTRATION OF CREDIT RISK

From time to time, the Aquarium has operating accounts and other demand accounts with financial institutions in excess of the Federal Depository Insurance Company (FDIC) limit. The FDIC permanently raised the insurance level to \$250,000. The Aquarium had \$384,733 in amounts in excess of the FDIC limit at March 31, 2017.

At March 31, 2017 and 2016, unconditional promises to give and grants receivable consisted of corporate, governmental, and individual contributors. The five largest balances comprised 61% and 88% of the total balance outstanding at March 31, 2017 and 2016, respectively. Inherent to its operations, the Aquarium is dependent on the ongoing admissions and other revenue sources that are generated primarily from the Charleston tri-county area.

15. LEASES

Facility and Warehouses

The Aquarium leases warehouses and operating facilities under operating lease agreements. The leases expire at various dates through July 6, 2045. The facility leases contain renewal options, and require the Aquarium to pay certain executory costs such as taxes, maintenance and insurance, where applicable. Rent expense for these leases totaled \$35,881 and \$35,016 for the years ended March 31, 2017 and 2016, respectively.

The Aquarium has an agreement with the City of Charleston to lease the land and facilities that house the Aquarium operations for a minimal monthly payment. In lieu of rent, the agreement includes a clause which states that the excess annual revenues over expenses, including provision for debt service and reserve for depreciation, will be split evenly as follows:

Fifty percent (50%) will be placed in a fund for the future capital improvements and a reserve for operating shortfalls in the sum of \$2,000,000 to be maintained during the term of the lease.

Fifty percent (50%) will be paid annually to the City of Charleston to reduce the City Bond indebtedness in the principal amount of \$9,500,000 until such debt has been paid in full.

Under the terms of this agreement, the Aquarium did not have any lease payments to the City of Charleston for the years ended March 31, 2017 and 2016.

4-D Theater Operations

On April 1, 2010, Aquarium signed an equipment, services, and support lease with an operator for its 4-D theater operations. The agreement provided for the equipment, installation, training and technical support for a 50-seat 4-D theater. The agreement was for 10 years and matures in May 2020. The lease provided for quarterly payments based upon a payment schedule defined in the agreement. Total expense under this lease agreement for the years ended March 31, 2017 and 2016 were \$117,262 and \$273,879, respectively. The Aquarium terminated the lease during the year ended March 31, 2017.

**SOUTH CAROLINA AQUARIUM
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2017 AND 2016**

15. LEASES - CONTINUED

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

2018	\$	3,939
Thereafter		-
		\$ 3,939

16. STATEMENT OF CASH FLOWS SUPPLEMENTAL INFORMATION

Supplemental cash flow information for the years ended March 31:

	2017	2016
Cash payments for interest made during the year	\$ 57,800	\$ 112,205

Supplemental Disclosure of Noncash Investing and Financing Activities:

Capital assets acquired through issuance of accounts payable	\$ 907,351	\$ -
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17. COMMITMENTS AND CONTINGENCIES

In June 2005, the Aquarium entered into a contract to lease retail space to a vendor to operate the gift shop for a term of five years. This agreement was amended on January 13, 2010, extending the term of the agreement for an additional five-year period through June 2, 2015. On June 22, 2015, the Aquarium signed the third amendment to this agreement. The agreement provides for (2) five-year extension terms through June 2, 2025. The agreement also provides for a guaranteed investment of \$150,000 in capital improvements to the utilized space during the lease term, but focusing on the food concession area. Rent is paid to the Aquarium monthly in arrears, is calculated based upon a percentage of gross receipts collected, and is guaranteed to exceed \$310,000 annually provided annual attendance does not fall below 390,000 visitors. The annual payment guarantee to the Aquarium shall be reduced by the same percentage as the attendance shortfall. Amounts received by the Aquarium under this agreement for the years ended March 31, 2017 and 2016 were \$424,289 and \$412,305, respectively. Amounts received are included in concessions revenue in the Statements of Activities.

In April 2006, the Aquarium signed a services agreement with a vendor to provide photographic and imaging services to patrons in the facility. The agreement was for an initial term of three years, with an automatic renewal of an additional three years if either of the parties did not notify each other of termination. The agreement was automatically extended and matured on April 2015. On April 1, 2015, the Aquarium signed an extension to this agreement. The extension is for five years and matures on April 1, 2020. The Aquarium receives a percentage of net sales revenues as defined within the agreement. Amounts received by the Aquarium under this agreement for the years ended March 31, 2017 and 2016 were \$165,703 and \$150,177, respectively. Amounts received are included in concessions revenue in the Statements of Activities.

**SOUTH CAROLINA AQUARIUM
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2017 AND 2016**

17. COMMITMENTS AND CONTINGENCIES - CONTINUED

On May 21, 2007, the Aquarium signed a concession agreement with a vendor to operate a food concession area in the facility. The agreement was amended on January 13, 2010, extending the term for an additional five years through June 2, 2015. On June 22, 2015, the Aquarium signed the third amendment to this agreement. The agreement provides for (2) five-year extension terms through June 2, 2025. The Aquarium receives rent based upon an agreed percentage of gross sales as defined within the agreement. Amounts received by the Aquarium under this agreement for the years ended March 31, 2017 and 2016 were \$49,174 and \$44,555, respectively. Amounts received are included in concessions revenue in the Statements of Activities.

On April 1, 2010, the Aquarium signed a licensed film property and services agreement associated with its 4-D theater operation. The agreement is for ten years and matures on May 27, 2020. The service agreement provides for the access and installation of up to two licensed films per year at the Aquarium's 4-D theater. The services agreement provided for a semi-annual payment through the term of the agreement. Amounts incurred by the Aquarium under this agreement for the years ended March 31, 2017 and 2016 were \$37,500 and \$75,000, respectively. The agreement was terminated during the year ended March 31, 2017.

18. RELATED PARTY TRANSACTIONS

Board of Director Members made contributions and unconditional promises to give totaling approximately \$299,220 and \$532,202 during the years ended March 31, 2017 and 2016, respectively. Outstanding balances of unconditional promises to give from board members, gross of applicable discounts and allowances, totaled \$769,358 and \$2,445,548 at March 31, 2017 and 2016, respectively.

19. THE WATERSHED FUND CAPITAL CAMPAIGN

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

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

20. SUBSEQUENT EVENT

Management has evaluated the effect subsequent events would have on the financial statements of the Aquarium at March 31, 2017 through August 4, 2017, which is the date the financial statements were available to issue. Based upon this evaluation, no adjustments or additional disclosures were provided in these financial statements beyond those described below:

On April 5, 2017, the Aquarium signed a \$370,700 promissory note for the acquisition of a CT scanner for its sea turtle care center. The note provides for (84) monthly payment of \$5,108. The Aquarium has not yet taken possession of the CT scanner.

**SOUTH CAROLINA AQUARIUM
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2017 AND 2016**

20. SUBSEQUENT EVENT- CONTINUED

On May 12, 2017, the Aquarium extended its commercial line of credit dated January 19, 2010. The amount available under the line of credit remained at \$750,000 and matures on August 19, 2018.