

**SOUTH CAROLINA AQUARIUM
CHARLESTON, SOUTH CAROLINA**

AUDITED FINANCIAL STATEMENTS

FOR THE YEARS ENDED MARCH 31, 2013 AND 2012

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, 2013 and 2012, 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

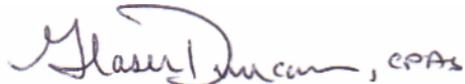
Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about 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, 2013 and 2012, 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
July 30, 2013

**SOUTH CAROLINA AQUARIUM
STATEMENTS OF FINANCIAL POSITION
MARCH 31, 2013 AND 2012**

| | 2013 | 2012 |
|--|---------------------|---------------------|
| <u>ASSETS</u> | | |
| <u>Current Assets</u> | | |
| Cash and cash equivalents | \$ 969,010 | \$ 468,269 |
| Investments - trading securities | - | 12,151 |
| Accounts receivable | 236,707 | 326,379 |
| Grants receivable | 275,901 | 3,985 |
| Current portion of unconditional promises to give, net | 87,840 | 200,641 |
| Prepaid expenses | 171,132 | 163,668 |
| Total current assets | 1,740,590 | 1,175,093 |
| <u>Property and Equipment, net</u> | 4,250,779 | 4,128,290 |
| <u>Other Assets</u> | | |
| Investments, restricted | 51,326 | 51,191 |
| Donated real property, net | 115,000 | 215,000 |
| Non-current portion of unconditional promises to give, net | 425,867 | 514,274 |
| Total other assets | 592,193 | 780,465 |
| Total assets | \$ 6,583,562 | \$ 6,083,848 |
| <u>LIABILITIES AND NET ASSETS</u> | | |
| <u>Current Liabilities</u> | | |
| Accounts payable | \$ 440,214 | \$ 338,904 |
| Accrued payroll and related expenses | 142,878 | 149,321 |
| Accrued wellness days | 49,094 | 42,477 |
| Advanced deposits and deferred revenues | 325,636 | 315,119 |
| Deferred membership fees | 407,811 | 407,777 |
| Accrued loss on sublease, current portion | - | 50,994 |
| Capital lease obligation | 18,240 | 17,918 |
| Promissory notes, current portion | 30,691 | 21,962 |
| Line of credit | 400,000 | 135,000 |
| Total current liabilities | 1,814,564 | 1,479,472 |
| <u>Long-term Liabilities</u> | | |
| Promissory notes, net of current portion | 160,826 | 35,986 |
| Capital lease obligation, net of current portion | 20,469 | 34,471 |
| Total long-term liabilities | 181,295 | 70,457 |
| Total liabilities | 1,995,859 | 1,549,929 |
| <u>Net Assets</u> | | |
| Unrestricted | 3,495,794 | 3,437,185 |
| Temporarily restricted | 628,776 | 633,601 |
| Permanently restricted | 463,133 | 463,133 |
| Total net assets | 4,587,703 | 4,533,919 |
| Total liabilities and net assets | \$ 6,583,562 | \$ 6,083,848 |

See accompanying notes to the financial statements.

**SOUTH CAROLINA AQUARIUM
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED MARCH 31, 2013**

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
|---|---------------------|-----------------------------------|-----------------------------------|---------------------|
| <u>Support and Revenues</u> | | | | |
| Admissions | \$ 4,814,868 | \$ - | \$ - | \$ 4,814,868 |
| Memberships | 1,015,181 | - | - | 1,015,181 |
| Annual campaign and contributions | 629,228 | 15,378 | - | 644,606 |
| Grants | 476,016 | 254,183 | - | 730,199 |
| Corporate sponsorships | 352,809 | - | - | 352,809 |
| Concessions | 575,458 | - | - | 575,458 |
| Facility rentals | 498,473 | - | - | 498,473 |
| Program revenues | 228,448 | - | - | 228,448 |
| Fundraising events | 251,712 | - | - | 251,712 |
| Investment income and losses, net | 854 | - | - | 854 |
| Miscellaneous | 55,886 | - | - | 55,886 |
| Total support and revenues | <u>8,898,933</u> | <u>269,561</u> | <u>-</u> | <u>9,168,494</u> |
| <u>Net Assets Released from Restrictions</u> | <u>274,386</u> | <u>(274,386)</u> | <u>-</u> | <u>-</u> |
| <u>Expenses from Operations</u> | | | | |
| Program services: | | | | |
| Husbandry | 1,254,538 | - | - | 1,254,538 |
| Facilities | 1,071,611 | - | - | 1,071,611 |
| Education | 617,311 | - | - | 617,311 |
| External affairs | 1,395,730 | - | - | 1,395,730 |
| Guest programs | 1,443,964 | - | - | 1,443,964 |
| Memberships | 119,094 | - | - | 119,094 |
| Total program services | <u>5,902,248</u> | <u>-</u> | <u>-</u> | <u>5,902,248</u> |
| Supporting services: | | | | |
| Executive, finance and administration | 1,566,631 | - | - | 1,566,631 |
| Annual campaign and fundraising | 838,595 | - | - | 838,595 |
| Membership development | 64,344 | - | - | 64,344 |
| Total supporting services | <u>2,469,570</u> | <u>-</u> | <u>-</u> | <u>2,469,570</u> |
| Total expenses from operations | <u>8,371,818</u> | <u>-</u> | <u>-</u> | <u>8,371,818</u> |
| Changes in net assets from operations | <u>801,501</u> | <u>(4,825)</u> | <u>-</u> | <u>796,676</u> |
| <u>Other Income (Expenses)</u> | | | | |
| AZA Semi-annual meeting host expenses, net | (44,614) | - | - | (44,614) |
| Interest expense | (17,275) | - | - | (17,275) |
| Depreciation expense | (497,297) | - | - | (497,297) |
| Valuation adjustment to donated real property | (100,000) | - | - | (100,000) |
| Subleased property rent and maintenance costs | (418,106) | - | - | (418,106) |
| Sublease income | 334,400 | - | - | 334,400 |
| Total other expense, net | <u>(742,892)</u> | <u>-</u> | <u>-</u> | <u>(742,892)</u> |
| Increase (decrease) in net assets | 58,609 | (4,825) | - | 53,784 |
| Net assets, beginning of year | <u>3,437,185</u> | <u>633,601</u> | <u>463,133</u> | <u>4,533,919</u> |
| Net assets, end of year | <u>\$ 3,495,794</u> | <u>\$ 628,776</u> | <u>\$ 463,133</u> | <u>\$ 4,587,703</u> |

See accompanying notes to the financial statements.

**SOUTH CAROLINA AQUARIUM
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED MARCH 31, 2012**

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
|---|---------------------|-----------------------------------|-----------------------------------|---------------------|
| <u>Support and Revenues</u> | | | | |
| Admissions | \$ 4,545,944 | \$ - | \$ - | \$ 4,545,944 |
| Memberships | 811,781 | - | - | 811,781 |
| Annual campaign and contributions | 696,627 | 295,145 | - | 991,772 |
| Grants | 366,690 | 120,809 | - | 487,499 |
| Corporate sponsorships | 884,102 | - | - | 884,102 |
| Concessions | 562,923 | - | - | 562,923 |
| Facility rentals | 508,000 | - | - | 508,000 |
| Program revenues | 213,471 | - | - | 213,471 |
| Fundraising events | 164,597 | - | - | 164,597 |
| Investment income and losses, net | 405 | - | - | 405 |
| Miscellaneous | 71,859 | - | - | 71,859 |
| Total support and revenues | <u>8,826,399</u> | <u>415,954</u> | <u>-</u> | <u>9,242,353</u> |
| <u>Net Assets Released from Restrictions</u> | <u>559,419</u> | <u>(559,419)</u> | <u>-</u> | <u>-</u> |
| <u>Expenses from Operations</u> | | | | |
| Program services: | | | | |
| Husbandry | 1,196,394 | - | - | 1,196,394 |
| Facilities | 1,010,570 | - | - | 1,010,570 |
| Education | 652,560 | - | - | 652,560 |
| External affairs | 1,425,394 | - | - | 1,425,394 |
| Guest programs | 1,423,875 | - | - | 1,423,875 |
| Memberships | 159,556 | - | - | 159,556 |
| Total program services | <u>5,868,349</u> | <u>-</u> | <u>-</u> | <u>5,868,349</u> |
| Supporting services: | | | | |
| Executive, finance and administration | 1,705,872 | - | - | 1,705,872 |
| Annual campaign and fundraising | 689,660 | - | - | 689,660 |
| Membership development | 63,236 | - | - | 63,236 |
| Total supporting services | <u>2,458,768</u> | <u>-</u> | <u>-</u> | <u>2,458,768</u> |
| Total expenses from operations | <u>8,327,117</u> | <u>-</u> | <u>-</u> | <u>8,327,117</u> |
| Changes in net assets from operations | <u>1,058,701</u> | <u>(143,465)</u> | <u>-</u> | <u>915,236</u> |
| <u>Other Income (Expenses)</u> | | | | |
| Interest expense | (8,262) | - | - | (8,262) |
| Depreciation expense | (362,132) | - | - | (362,132) |
| Valuation adjustment to donated real property | (85,000) | - | - | (85,000) |
| Subleased property rent and maintenance costs | (378,766) | - | - | (378,766) |
| Sublease income | 346,466 | - | - | 346,466 |
| Total other expense, net | <u>(487,694)</u> | <u>-</u> | <u>-</u> | <u>(487,694)</u> |
| Increase (decrease) in net assets | 571,007 | (143,465) | - | 427,542 |
| Net assets, beginning of year | <u>2,866,178</u> | <u>777,066</u> | <u>463,133</u> | <u>4,106,377</u> |
| Net assets, end of year | <u>\$ 3,437,185</u> | <u>\$ 633,601</u> | <u>\$ 463,133</u> | <u>\$ 4,533,919</u> |

See accompanying notes to the financial statements.

**SOUTH CAROLINA AQUARIUM
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED MARCH 31, 2013 AND 2012**

| | 2013 | 2012 |
|--|-------------|-------------|
| <u>Cash Flows from Operating Activities</u> | | |
| Changes in net assets | \$ 53,784 | \$ 427,542 |
| Adjustments to reconcile changes in net assets to net cash provided by operating activities: | | |
| Contribution of stock | - | (12,151) |
| Contribution of property and equipment | - | (203,087) |
| Contributions received restricted for the acquisition of property and equipment | - | (260,000) |
| Amortization of discount on unconditional promises to give | (12,884) | (117,813) |
| Amortization of loss on sublease | (50,994) | (87,472) |
| Loss (gain) on disposal of property and equipment, net | 18,474 | (1,514) |
| Loss on impairment of value of investment in donated real property | 100,000 | 85,000 |
| Purchase of animal and plant collections | 7,739 | 27,321 |
| Bad debts | 5,442 | 124,402 |
| Depreciation | 497,297 | 362,132 |
| (Increase) decrease in: | | |
| Accounts receivable | 89,672 | (124,973) |
| Grants receivable | (271,916) | 150,015 |
| Unconditional promises to give | 208,650 | 127,732 |
| Prepaid expenses | (7,464) | (1,684) |
| Increase in: | | |
| Accounts payable | 101,310 | 147,229 |
| Accrued payroll and related expenses | (6,443) | 24,643 |
| Accrued wellness days | 6,617 | 12,921 |
| Other liabilities | 10,517 | 25,564 |
| Deferred membership fees | 34 | 96,740 |
| Net cash provided by operating activities | 749,835 | 802,547 |
| <u>Cash Flows from Investing Activities</u> | | |
| Purchase of animal and plant collections | (7,739) | (27,321) |
| Purchase of investments | (135) | (432) |
| Proceeds from sale of investments | 12,151 | - |
| Investment in internally produced construction in progress | - | (222,654) |
| Proceeds from sale of property and equipment | 650 | - |
| Purchase of property and equipment | (638,910) | (754,022) |
| Net cash used for investing activities | (633,983) | (1,004,429) |
| <u>Cash Flows from Financing Activities</u> | | |
| Net proceeds on line of credit | 265,000 | 135,000 |
| Proceeds on notes payable | 176,000 | 57,948 |
| Payments on notes payable | (42,431) | - |
| Contributions received restricted for acquisition of property and equipment | - | 260,000 |
| Payments on capital lease | (13,680) | (12,486) |
| Net cash provided by financing activities | 384,889 | 440,462 |
| Net increase in cash and cash equivalents | 500,741 | 238,580 |
| Cash and cash equivalents, beginning of year | 468,269 | 229,689 |
| Cash and cash equivalents, end of year | \$ 969,010 | \$ 468,269 |

See accompanying notes to the financial statements.

**SOUTH CAROLINA AQUARIUM
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2013 AND 2012**

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 and from 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 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, excluding cash held in brokerage or investment accounts.

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, 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, 2013 and 2012, management estimated all accounts receivable to be fully collectible.

**SOUTH CAROLINA AQUARIUM
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2013 AND 2012**

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 .28% to 2.20% and .60% to 2.24% for the years ended March 31, 2013, and 2012, respectively. 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 \$25,000 for each of the years ended March 31, 2013 and 2012, respectively.

Inventory Valuation

Inventory consists of gift shop items that are currently being sold on consignment with the Aquarium's third party gift shop operator. The Aquarium has fully reserved the value of the inventory due to the limited amount of items left and the uncertainty of their future sale.

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 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.

Donated Real Property

During 2002, the Aquarium received a contribution of real property from a donor. The property is valued at a reasonable estimate of its fair value at year-end based on offers received from outside third parties to purchase the property from the Aquarium. The property is classified as a long-term investment, as the Aquarium plans to sell the property in some future period. During 2013, the Aquarium reduced the value of the property to its net realizable value from anticipated proceeds from an auction sale.

Deferred Membership Fees

Membership dues and sponsorships are recorded as deferred revenue and recognized ratably over the membership or sponsorship period, which is generally one year.

Investment Income and Losses, Net

Investment income and gains and losses are reported as increases or decreases in unrestricted net assets in the period 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 purpose restriction.

**SOUTH CAROLINA AQUARIUM
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2013 AND 2012**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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 2012 and 2013 include billboard advertising, special events supplies, construction labor and miscellaneous advertising, 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 \$212,030 and \$557,346 for the years ended March 31, 2013, and 2012, 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.

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 year ended March 31, 2013 and 2012. Purchases of non-capitalized collection items were \$7,739 and \$27,321 for the years ended March 31, 2013, and 2012, 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.

Advertising

The Aquarium expenses advertising costs as incurred. Advertising costs totaled \$330,296 and \$298,524 for the years ended March 31, 2013 and 2012, respectively.

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.

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.

**SOUTH CAROLINA AQUARIUM
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2013 AND 2012**

2. UNCONDITIONAL PROMISES TO GIVE

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

| | 2013 | 2012 |
|--|-------------------|-------------------|
| Unconditional promises to give | \$ 559,449 | \$ 773,541 |
| Less: Unamortized discount | (20,742) | (33,626) |
| Present value of unconditional promises to give | 538,707 | 739,915 |
| Less: Allowance for uncollectible promises to give | (25,000) | (25,000) |
| Unconditional promises to give, net | <u>\$ 513,707</u> | <u>\$ 714,915</u> |
| Gross Amounts receivable in: | | |
| Less than one year | \$ 88,800 | \$ 202,908 |
| One to five years | 470,649 | 570,633 |
| More than five years | - | - |
| | <u>\$ 559,449</u> | <u>\$ 773,541</u> |

3. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at March 31:

| | Expected Useful Life | 2013 | 2012 |
|-----------------------------------|-------------------------|---------------------|---------------------|
| Software | 3 years | \$ 282,299 | \$ 88,747 |
| Transportation equipment | 5-7 years | 348,440 | 348,440 |
| Furniture, fixtures and equipment | 7 years | 2,715,262 | 2,813,152 |
| Exhibits | 2-10 years | 6,197,306 | 5,626,980 |
| Leasehold improvements | 7-39 years | 3,500,144 | 3,433,821 |
| Projects under construction | Nondepreciable | 188,108 | 517,071 |
| | | 13,231,559 | \$ 12,828,211 |
| Accumulated depreciation | | (8,980,780) | (8,699,921) |
| | | <u>\$ 4,250,779</u> | <u>\$ 4,128,290</u> |

Depreciation expense for the year ended March 31, 2013 and 2012 totaled \$497,297 and \$362,132, respectively.

**SOUTH CAROLINA AQUARIUM
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2013 AND 2012**

4. 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.
- 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 1 and Level 2 inputs at March 31, 2013 and 2012.

| | 2013 | | 2012 | |
|------------------------|------------------|-------------------|---------------|-------------------|
| | Cost | Fair Value | Cost | Fair Value |
| Money market funds | \$ 30,941 | \$ 30,941 | \$ 30,860 | \$ 30,860 |
| Common stock | - | - | 12,151 | 12,151 |
| Certificate of deposit | 20,385 | 20,385 | 20,331 | 20,331 |
| | <u>\$ 51,326</u> | <u>\$ 51,326</u> | <u>63,342</u> | <u>63,342</u> |
| | 2013 | 2012 | | |
| Interest and dividends | <u>\$ 854</u> | <u>\$ 405</u> | | |
| | <u>\$ 854</u> | <u>\$ 405</u> | | |

The certificate of deposit is in the name of the Aquarium for the benefit of the owner of the Fountain Walk Complex under the terms of the Aquarium’s operating lease. The money market funds are a term-endowment created in 2001.

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 the 5%. Payments of monthly accrued interest only are due through the maturity date of the line. The line matured on January 24, 2013 and was increased to \$600,000 and extended. The line of credit had an outstanding balance of \$400,000 and \$135,000 at March 31, 2013, and 2012, respectively.

**SOUTH CAROLINA AQUARIUM
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2013 AND 2012**

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 \$34,920 and at March 31, 2013 and 2012, 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 \$156,597 and \$0 at March 31, 2013 and 2012, respectively.

Future minimum principal payments at March 31, 2013 are as follows:

| | | | |
|--|------------|----|---------|
| | 2014 | \$ | 30,691 |
| | 2015 | | 31,173 |
| | 2016 | | 32,764 |
| | 2017 | | 34,437 |
| | 2018 | | 35,805 |
| | Thereafter | | 26,647 |
| | | \$ | 191,517 |

7. 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:

| | 2013 | 2012 |
|--|-------------|-------------|
| Sea turtle rescue program | \$ - | \$ 28,115 |
| Education programs | 45,145 | 121,091 |
| Animal medical facility support and education programs | 108,432 | 359,463 |
| Advertising | 120,809 | 47,000 |
| Other | - | 3,750 |
| | \$ 274,386 | \$ 559,419 |

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

| | 2013 | 2012 |
|---|-------------|-------------|
| Restricted as to time: | | |
| Endowment | \$ 147,935 | \$ 147,935 |
| Restricted as to purpose: | | |
| Education programs | 14,335 | 45,145 |
| Advertising | 89,848 | 120,809 |
| Animal holding facility and Sea Turtle Hospital program | 376,658 | 319,712 |
| | \$ 628,776 | \$ 633,601 |

**SOUTH CAROLINA AQUARIUM
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2013 AND 2012**

8. ENDOWMENT

The Aquarium's endowment consists of one endowment established by the donor during the year ended December 31, 2010. The fund's only asset is currently an unrestricted promise to give that is collectible in future periods. 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.

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 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 permanently restricted net assets is classified as temporarily restricted until those amounts are appropriated for expenditure by the Aquarium in a manner consistent with the standards of prudence prescribed by UPMIFA.

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, 2013 and 2012:

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
|-------------------------------------|---------------------|-----------------------------------|-----------------------------------|-------------------|
| Donor-restricted endowment funds | \$ - | \$ - | \$ 463,133 | \$ 463,133 |
| Total funds | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 463,133</u> | <u>\$ 463,133</u> |

Permanently restricted net assets consist of the following at March 31:

| | <u>2013</u> | <u>2012</u> |
|---------------------------|-------------------|-------------------|
| Working capital endowment | \$ 463,133 | 463,133 |
| | <u>\$ 463,133</u> | <u>\$ 463,133</u> |

**SOUTH CAROLINA AQUARIUM
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2013 AND 2012**

8. ENDOWMENT - CONTINUED

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).

9. 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.

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

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/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.

10. 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 year ended March 31, 2013 and 2012 was \$78,402 and \$59,809, respectively.

**SOUTH CAROLINA AQUARIUM
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2013 AND 2012**

11. CHANGE IN NET ASSETS FROM OPERATIONS

Management has elected to present depreciation expense, interest expense, and sublease property income and expense as other expense rather than as part of expenses from operations in the Statement of Activities and Changes in Net Assets for the years ended March 31, 2013 and 2012.

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>2013</u> | <u>2012</u> | <u>2013</u> | <u>2012</u> |
| Program services | \$ 422,702 | \$ 307,813 | \$ 9,574 | \$ - |
| Supporting services: | | | | |
| Executive, finance and administration | 69,622 | 50,698 | 7,701 | 8,262 |
| Annual campaign/fundraising | 4,973 | 3,621 | - | - |
| | <u>\$ 497,297</u> | <u>\$ 362,132</u> | <u>\$ 17,275</u> | <u>\$ 8,262</u> |

12. 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 \$584,162 in amounts in excess of the FDIC limit at March 31, 2013.

At March 31, 2013 and 2012, unconditional promises to give and grants receivable consisted of corporate, governmental and individual contributors. The five largest balances comprised 96% and 81% of the total balance outstanding at March 31, 2013 and 2012, respectively. Inherent to its operations, the Aquarium is dependent on the ongoing admissions and other revenue sources that are generated from the Charleston tri-county area.

13. LEASES

The Aquarium leases facilities and equipment under various operating lease agreements. The leases expire at various dates through July 6, 2045. The facility lease contains renewal options for periods ranging from 6 months to 50 years, and requires the Aquarium to pay all executory cost such as taxes, maintenance and insurance, where applicable. Rent expense for these leases totaled \$418,105 and \$378,766 for the years ended March 31, 2013 and 2012.

On April 1, 2010, Aquarium signed an equipment, services and support lease with an operator for its 4-D theater operations. The agreement provides for the equipment, installation, training and technical support for a 50-seat 4-D theater. The agreement is for 10 years, and matures in May 2020. The lease provides for quarterly payments based upon a payment schedule defined in the agreement. Total expense under this lease agreement for the years ended March 31, 2013 and 2012 was \$369,625 and \$358,125, respectively.

**SOUTH CAROLINA AQUARIUM
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2013 AND 2012**

13. LEASES - CONTINUED

Future minimum lease payments under these operating leases as of March 31, 2013 are as follows:

| | | | |
|------------|--|----|--------------|
| 2014 | | \$ | 664,987 |
| 2015 | | | 680,938 |
| 2016 | | | 693,321 |
| 2017 | | | 713,994 |
| 2018 | | | 711,150 |
| Thereafter | | | 3,127,544 |
| | | | \$ 6,591,934 |

The Aquarium signed a sublease agreement with a third-party associated with the Fountain Walk Complex it leases under an operating lease. The tenant terminated the lease on June 30, 2006, and on July 1, 2006, the Aquarium entered into a new sublease agreement for the Fountain Walk Complex with a new third-party. The sublease ended February 29, 2013 with an option to extend the term for eight additional years. The tenant did not exercise its option to renew the lease.

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, 2013 and 2012.

The Aquarium leases equipment under a capital lease agreement. The book value at March 31 was as follows:

| | 2013 | | 2012 |
|--------------------------|-------------|----|-------------|
| Capital costs | \$ 71,650 | \$ | 71,650 |
| Accumulated depreciation | (36,942) | | (25,077) |
| | \$ 34,708 | | \$ 46,573 |

**SOUTH CAROLINA AQUARIUM
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2013 AND 2012**

13. LEASES - CONTINUED

Depreciation expense for the above equipment under capital lease was \$11,865 for each of the years ended March 31, 2013 and 2012. Minimum future lease payments under capital leases as of March 31, 2012 are as follows:

| | | | |
|------------------------------|------|----|---------|
| | 2014 | \$ | 17,918 |
| | 2015 | | 17,918 |
| | 2016 | | 8,960 |
| Net minimum lease payments | | | 44,796 |
| Amount representing interest | | | (6,087) |
| | | \$ | 38,709 |

14. LOSS ON SUBLEASE

In connection with the termination of the sublease agreement for the Fountain Walk Complex on June 30, 2006, the Aquarium recognized an accrued loss of \$450,426 during the year ended December 31, 2006. The accrued loss represented the net present value of the excess of lease and executory costs for the Aquarium's operating lease for the Fountain Walk Complex over the sublease payments to be received for this property for the term of the sublease. This accrued loss was amortized over the term of the sublease and offset operating lease expense.

The following amounts are included in the statement of financial position related to the accrued loss on sublease as of March 31:

| | 2013 | 2012 |
|--|------|-----------|
| Accrued loss on sublease | \$ - | \$ 85,022 |
| Less: Current year amortization of sublease loss | - | (34,028) |
| Accrued loss on sublease, net | \$ - | \$ 50,994 |

15. STATEMENT OF CASH FLOWS SUPPLEMENTAL INFORMATION

Supplemental cash flow information for the years ended March 31:

| | 2013 | 2012 |
|---|-----------|-----------|
| Supplemental Disclosures of Cash Flow Information: | | |
| Cash payments for interest made during the year | \$ 17,275 | \$ 8,262 |
| Supplemental Disclosure of Noncash Investing and Financing Activities: | | |
| Contributions of stock | \$ - | \$ 12,151 |

**SOUTH CAROLINA AQUARIUM
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2013 AND 2012**

16. 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. 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 year ended March 31, 2013 and 2012 were \$345,786 and \$347,855, 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 matures in April 2015. The Aquarium receives a percentage of net sales revenues as defined within the agreement. Amounts received by the Aquarium under this agreement for the year ended March 31, 2013 and 2012 were \$134,105 and \$117,389, respectively. Amounts received are included in concessions revenue in the Statement of Activities.

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. 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 year ended March 31, 2013 and 2012 were \$59,874 and \$66,185, respectively. Amounts received are included in concessions revenue in the Statement 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 in April 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 provides 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, 2013 and 2012 were \$82,500.

17. RELATED PARTY TRANSACTIONS

Board of Director members made contributions and unconditional promises to give totaling approximately \$370,903 and \$649,000 during the years ended March 31, 2013 and 2012, respectively. Outstanding balances of unconditional promises to give from board members, gross of applicable discounts and allowances, totaled \$26,250 and \$262,025 at March 31, 2013 and 2012, respectively.

The Aquarium maintains its depository accounts, notes payable and line of credit with a commercial bank related to one of its board members. Total interest expense incurred under this line of credit totaled \$17,275 and \$8,262 for the years ended March 31, 2013 and 2012, respectively.

18. SUBSEQUENT EVENT

Management has evaluated the effect subsequent events would have on the financial statements of the Company through July 30, 2013, 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 aside from the matter described below.