

South Carolina Aquarium

Report on Financial Statements

For the year ended December 31, 2018

South Carolina Aquarium

Contents

Page

Independent Auditor's Report	1-2
---	------------

Financial Statements

Statement of Financial Position	3
---------------------------------------	---

Statement of Activities	4
-------------------------------	---

Statement of Functional Expenses	5
--	---

Statement of Cash Flows	6
-------------------------------	---

Notes to Financial Statements	7-19
-------------------------------------	------

Independent Auditor's Report

Board of Directors
South Carolina Aquarium
Charleston, South Carolina

Report on the Financial Statements

We have audited the accompanying financial statements of the South Carolina Aquarium (the "Aquarium"), which comprise the statement of financial position as of December 31, 2018 and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

Adoption of a New Accounting Standard

As discussed in Note 1, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2016-14, *Not for Profit Entities: Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses presentation of net asset classifications for consistency and understandability, provides information about liquidity and availability of resources, and allows consistency in information provided about expenses and investment return. The Aquarium adopted ASU 2016-14 during the year ended December 31, 2018, and it was applied retrospectively. The adoption of this standard did not have any impact on the Aquarium's net assets or changes in net assets. Our opinion is not modified with respect to this matter.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Aquarium as of December 31, 2018, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

A handwritten signature in black ink that reads "Elliott Davis, LLC". The signature is written in a cursive, flowing style.

Charleston, South Carolina
May 21, 2019

South Carolina Aquarium
Statement of Financial Position
As of December 31, 2018

Assets

Current assets

Cash and cash equivalents	\$ 859,051
Accounts receivable	133,478
Grants receivable	400,000
Unconditional promises to give, net	875,736
Inventory	12,357
Prepaid expenses	253,289
Investments	573,580
Total current assets	<u>3,107,491</u>

Long-term assets

Unconditional promises to give, net	714,256
Property and equipment, net	14,432,509
Total long-term assets	<u>15,146,765</u>
Total assets	<u>\$ 18,254,256</u>

Liabilities and Net Assets

Current liabilities

Accounts and retainage payable	\$ 183,341
Accrued expenses	653,179
Advance deposits	207,449
Program agency funds	135,788
Deferred membership fees	581,182
Lease termination fee payable	36,373
Bond payable	225,000
Capital leases payable	72,456
Line of credit	1,250,000
Promissory notes	29,566
Total current liabilities	<u>3,374,334</u>

Long-term liabilities

Lease termination fee payable, net	166,559
Capital leases payable	288,697
Bonds payable	1,575,000
Promissory notes	20,839
Total long-term liabilities	<u>2,051,095</u>
Total liabilities	<u>5,425,429</u>

Net assets

Without donor restrictions	
Undesignated	9,388,323
Board designated	463,133
With donor restrictions	2,977,371
Total net assets	<u>12,828,827</u>
Total liabilities and net assets	<u>\$ 18,254,256</u>

See Notes to Financial Statements

South Carolina Aquarium**Statement of Activities****For the year ended December 31, 2018**

	Without Donor Restrictions	With Donor Restrictions	Total
Support and revenues			
Admissions	\$ 6,413,745	\$ -	\$ 6,413,745
Memberships	1,334,959	-	1,334,959
Contributed revenue	991,564	1,913,634	2,905,198
Special events	597,067	-	597,067
Concessions	632,231	-	632,231
Program revenues	43,420	-	43,420
Fundraising events, net of \$156,200 of expense	349,664	-	349,664
Supplemental	123,987	-	123,987
Gain on sale of property and equipment	450	-	450
Miscellaneous	251,774	-	251,774
Total support and revenues	<u>10,738,861</u>	<u>1,913,634</u>	<u>12,652,495</u>
Net assets released from restrictions	<u>850,885</u>	<u>(850,885)</u>	<u>-</u>
Expenses			
Program services:			
Facilities	2,444,969	-	2,444,969
Guest programs	2,135,004	-	2,135,004
Husbandry	1,524,654	-	1,524,654
Education	1,265,530	-	1,265,530
Conservation	804,513	-	804,513
Memberships	254,225	-	254,225
Total program services	<u>8,428,895</u>	<u>-</u>	<u>8,428,895</u>
Supporting services:			
Management and general	2,720,384	-	2,720,384
Annual campaign and fundraising	733,060	-	733,060
Membership development	143,256	-	143,256
Total supporting services	<u>3,596,700</u>	<u>-</u>	<u>3,596,700</u>
Total expenses from operations	<u>12,025,595</u>	<u>-</u>	<u>12,025,595</u>
Change in net assets from operations	<u>(435,849)</u>	<u>1,062,749</u>	<u>626,900</u>
Net assets, beginning of year	<u>10,287,305</u>	<u>1,914,622</u>	<u>12,201,927</u>
Net assets, end of year	<u>\$ 9,851,456</u>	<u>\$ 2,977,371</u>	<u>\$ 12,828,827</u>

See Notes to Financial Statements

South Carolina Aquarium
Statement of Functional Expenses
For the year ended December 31, 2018

	Facilities	Guest Programs	Husbandry	Education	Conservation	Memberships	Management and General	Annual Campaign and Fundraising	Membership Development	Total Expenses
Expenses:										
Payroll and benefits	\$ 468,211	\$ 1,856,393	\$ 1,155,792	\$ 1,106,495	\$ 676,316	\$ 155,615	\$ 1,426,297	\$ 600,400	\$ 107,435	\$ 7,552,954
Public relations and marketing	2,102	107,455	1,051	26,581	25,196	27,593	549,615	38,855	25,004	803,452
Occupancy	710,158	-	-	-	-	-	-	-	-	710,158
Repairs and maintenance	195,585	82,923	54,712	1,556	11,952	240	1,708	241	61	348,978
IT and communication	29,898	46,086	14,949	30,657	8,234	30,657	107,301	31,037	8,234	307,053
Husbandry	-	-	205,531	-	34,046	-	-	-	-	239,577
Loan interest	10,123	1,286	17,725	-	-	-	51,113	-	-	80,247
Bank fees	-	-	-	-	-	-	161,288	-	-	161,288
Insurance (non-benefit)	-	-	-	-	-	-	146,761	-	-	146,761
Professional fees	49,446	1,650	550	1,100	275	1,100	64,780	1,195	275	120,371
Miscellaneous	513	21,252	16,834	11,799	4,588	14,963	26,190	8,159	588	104,886
General supplies	16,354	5,798	48,113	4,859	16,113	619	5,523	1,824	225	99,428
Fundraising and board engagement	-	-	-	-	142	6,145	48,613	41,070	-	95,970
Grant support	-	-	-	71,709	-	-	-	-	-	71,709
Programs	-	3,212	-	6,745	19,098	16,061	773	331	221	46,441
Travel and professional development	-	7,297	9,397	2,614	7,907	586	10,746	2,788	567	41,902
Consultants	-	525	-	525	525	525	28,738	2,388	525	33,751
Personnel support	-	1,127	-	890	121	121	23,246	182	121	25,808
Operating leases	-	-	-	-	-	-	2,967	-	-	2,967
Total operating expenses	1,482,390	2,135,004	1,524,654	1,265,530	804,513	254,225	2,655,659	728,470	143,256	10,993,701
Depreciation	872,077	-	-	-	-	-	41,309	4,590	-	917,976
Bond interest	63,225	-	-	-	-	-	-	-	-	63,225
Disaster expense and other losses	27,277	-	-	-	-	-	2,839	-	-	30,116
Tax expense	-	-	-	-	-	-	20,577	-	-	20,577
Total expenses	\$ 2,444,969	\$ 2,135,004	\$ 1,524,654	\$ 1,265,530	\$ 804,513	\$ 254,225	\$ 2,720,384	\$ 733,060	\$ 143,256	\$ 12,025,595

See Notes to Financial Statements

South Carolina Aquarium**Statement of Cash Flows****For the year ended December 31, 2018****Operating activities**

Change in net assets	\$ 626,900
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Donated assets	(295,000)
Amortization of discount on unconditional promises to give	(64,103)
Amortization of deferred interest on operating lease termination	10,123
Bad debt	(2,842)
Loss on purchase of inventory	2,839
Gain on sale of property and equipment	(450)
Depreciation	917,976
Changes in:	
Accounts receivable	30,368
Grants receivable	(400,000)
Prepaid expenses	(33,261)
Inventory	(1,226)
Unconditional promises to give, net	619,097
Accounts and retainage payable	(10,676)
Advance deposits	(25,392)
Accrued other expenses	149,888
Program agency funds	(211,147)
Deferred membership fees	22,580
Net cash provided by operating activities	<u>1,335,674</u>

Investing activities

Purchase of property and equipment	(492,233)
Purchases of investments	<u>(484,961)</u>
Net cash used for investing activities	<u>(977,194)</u>

Financing activities

Payments on bonds payable	(225,000)
Payments on promissory notes	(47,884)
Payments on lease termination fee payable	(47,500)
Payments on capital leases payable	<u>(52,811)</u>
Net cash used for financing activities	<u>(373,195)</u>
Net decrease in cash and cash equivalents	(14,715)

Cash and cash equivalents, beginning of year	<u>873,766</u>
Cash and cash equivalents, end of year	<u><u>\$ 859,051</u></u>

Supplemental cash flow information

Interest paid	\$ 141,897
Taxes paid	<u>\$ 20,577</u>

Non-cash investing and financing activities

Property and equipment acquired through capital lease	<u>\$ 19,590</u>
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See Notes to Financial Statements

South Carolina Aquarium

Notes to Financial Statements

December 31, 2018

Note 1. Summary of Significant Accounting Policies

Organization:

The South Carolina 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's financial statements have been prepared on an accrual basis in accordance with accounting principles generally accepted in the United States of America ("GAAP").

Net assets:

The Aquarium's net assets are classified as follows:

Net assets without donor restrictions: Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the organization. These net assets may be used at the discretion of the Aquarium's management and the board of directors.

Net assets with donor restrictions: Net assets that are subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Aquarium or by the passage of time (that is, when a stipulated time restriction ends or purpose restriction is accomplished). Other donor restrictions are perpetual in nature, whereby the donor stipulates the funds be maintained in perpetuity. The Aquarium does not have any donor restrictions that are perpetual in nature as of December 31, 2018.

Revenue recognition:

Contributions received are recorded as support without donor restrictions or support with donor restrictions, depending on the existence and/or nature of any donor restrictions. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the Statement of Activities as net assets released from restrictions. It is the Aquarium's policy to record restricted contributions received and expended in the same accounting period as contributions without donor restrictions.

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.

South Carolina Aquarium

Notes to Financial Statements

December 31, 2018

Note 1. Summary of Significant Accounting Policies, Continued

Availability of funds for general expenditures:

The Aquarium has certain net assets that are available for general expenditures within one year of December 31, 2018 based on conducting the normal activities of its programs in the coming year. Accordingly, the related resources have been included in the quantitative information detailing the financial assets available to meet general expenditures within one year (see Note 2).

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. Management does not accrue interest or finance charges on overdue balances. It is the Aquarium's policy to charge off uncollectible amounts when management determines the receivable will not be collected. As of December 31, 2018, management estimated all accounts receivable to be fully collectible, and thus no allowance has been recorded.

Unconditional promises to give, net and grants receivable:

Contributions are recognized when the donor makes a promise to give to the Aquarium that is in substance, unconditional. Grant revenue is recognized when the grant has been awarded and any related performance objectives have been met. 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 1.04% - 4.75% for the year ended December 31, 2018. Amortization of the discount is presented with contributed revenue.

The Aquarium uses the allowance method to account for uncollectible amounts based on management's estimate of the collectability of the amount receivable. 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 for the year ended December 31, 2018.

Membership revenue:

Revenues generated from memberships are generally collected in advance and recognized ratably over the membership period of one year.

Property and equipment, net:

Property and equipment are recorded at cost, or, if donated, at estimated fair market value at the date of donation. Depreciation is calculated over the estimated useful lives of the assets using the straight-line method. The estimated useful lives range from 2 to 40 years. It is the policy of the Aquarium to capitalize assets costing \$5,000 or more with a useful life exceeding one year.

South Carolina Aquarium

Notes to Financial Statements

December 31, 2018

Note 1. Summary of Significant Accounting Policies, Continued

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 December 31, 2018. Purchases of non-capitalized collection items were \$32,294 for the year ended December 31, 2018.

Agency funds:

The Aquarium is the administering entity for a \$583,000 study provided by the South Carolina Ports Authority. The Aquarium will disburse funds to participating partners in the study. Amounts remaining to be disbursed under the grant totaled \$135,788 as of December 31, 2018.

Advertising:

The Aquarium expenses advertising costs as incurred. Advertising costs totaled \$456,568 for the year ended December 31, 2018, and is included in public relations and marketing on the Statement of Functional Expenses.

Donated services, equipment and assets:

The Aquarium records various types of in-kind support including donated professional services, supplies, equipment and other assets. 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.

Supplies donated in 2018 include animal and husbandry supplies, and are recognized in the husbandry program. In-kind contributions totaled \$6,019 for the year ended December 31, 2018. The Aquarium also received donated land of \$295,000 during the year ended December 31, 2018.

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 taxes:

The Aquarium is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code as a charitable organization whereby only unrelated business income, if any, as defined by the Code, is subject to federal income tax. The Aquarium is classified by the Internal Revenue Service as other than a private foundation.

South Carolina Aquarium

Notes to Financial Statements

December 31, 2018

Note 1. Summary of Significant Accounting Policies, Continued

Income taxes, continued:

The Aquarium's policy is to report accrued interest related to unrecognized tax benefits, when applicable, as interest expense and to report penalties as other expense. Management has evaluated the tax positions of the Aquarium and does not believe that any uncertain tax positions or unrecognized tax benefits exist for the year ended December 31, 2018.

Use of estimates:

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

Expense allocation:

The costs of providing various programs and activities have been summarized on a functional basis in the Statements of Activities and Functional Expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

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

Facilities maintain the building and animal life support systems.

Guest Programs includes admissions, security staff and environmental services.

Husbandry collects and maintains plants and animals for the exhibits.

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

Conservation leads conservation efforts for the wildlife and wild spaces and inspire the public for these initiatives.

Memberships include management of the membership program.

The Aquarium's supporting services include:

Management and General provides accounting, human resources, marketing, administration and information services support.

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

South Carolina Aquarium

Notes to Financial Statements

December 31, 2018

Note 1. Summary of Significant Accounting Policies, Continued

Expense allocation, continued:

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

The financial statements report certain categories of expenses that are attributable to more than one program or supporting function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated and the method of allocation include:

<u>Expense Type</u>	<u>Method of Allocation</u>
Payroll and benefits	Time and effort
Public relations and marketing	Direct costs for advertising; Time and effort for remaining
Repairs and maintenance	Direct costs to program; Time and effort for remaining
IT and communication	Direct costs to program; Time and effort for remaining
Fundraising and board engagements	Direct cost to programs
Husbandry	Direct cost to programs
Loan interest	Direct costs for specific programs
Professional fees	Direct costs to program; Time and effort for remaining
Miscellaneous	Direct costs to program; Time and effort for remaining
General supplies	Direct costs to program; Time and effort for remaining
Programs	Direct costs to program; Time and effort for remaining
Travel and Professional Development	Direct costs to program; Time and effort for remaining
Consultants	Direct costs to program; Time and effort for remaining
Personnel Support	Direct costs to program; Time and effort for remaining
Depreciation	Square footage
Disaster expense and other losses	Direct costs

New accounting pronouncements:

The Financial Accounting Standards Board ("FASB"), on August 18, 2016, published ASU ("Accounting Standards Update") No. 2016-14, *Not for Profit Entities: Presentation of Financial Statements of Not-for-Profit Entities*. The standard changes how not-for-profit organizations classify their net assets, with groups required to categorize assets as either those with donor restrictions or without. The standard also requires new information about an organization's liquidity and an analysis of expenses by nature and function. The update aims to help charities, universities, foundations, and other not-for-profit groups better convey how they spend and manage their resources. The Aquarium has adopted this standard for the year ended December 31, 2018 and has adjusted the presentation of these statements accordingly.

South Carolina Aquarium

Notes to Financial Statements

December 31, 2018

Note 1. Summary of Significant Accounting Policies, Continued

New accounting pronouncements, continued:

In May 2014, the FASB issued guidance to change the recognition of revenue from contracts with customers. The core principle of the new guidance is that an entity should recognize revenue to reflect the transfer of goods and services to customers in an amount equal to the consideration the entity receives or expects to receive. In August 2015, the FASB deferred the effective date of ASU 2014-09, *Revenue from Contracts with Customers*. As a result of the deferral, the guidance in ASU 2014-09 will be effective for the Aquarium for reporting periods beginning after December 15, 2018. The Aquarium is currently evaluating the impact of this new guidance on its financial statements.

In February 2016, FASB amended the Leases topic of the Accounting Standards Codification to revise certain aspects of recognition, measurement, presentation, and disclosure of leasing transactions. The amendments will be effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. The Company is currently evaluating the effect that implementation of the new standard will have on its financial position, results of operations, and cash flows.

In June 2018, the FASB issued ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, an update to clarify and improve the scope and the accounting guidance for contributions received and contributions made. The clarifying guidance will be effective for annual periods beginning after December 15, 2019. Early adoption is permitted. The Aquarium is currently in the process of evaluating the impact of adoption of this guidance on the financial statements.

Other accounting standards that have been issued or proposed by the FASB or other standards-setting bodies are not expected to have a material impact on the Aquarium's net assets or changes in net assets.

Reclassifications:

Certain reclassifications have been made to the Aquarium's net assets released for restrictions related to the donor time-restricted unconditional promises to give. Our opinion is not modified with respect to this matter. These reclassifications had no impact on total net assets, changes in net assets, or cash flows.

Subsequent events:

In preparing these financial statements, the Aquarium has evaluated events and transactions for potential recognition or disclosure through May 21, 2019, the date the financial statements were available to be issued.

South Carolina Aquarium

Notes to Financial Statements

December 31, 2018

Note 2. Availability and Liquidity

Financial assets available for general expenditures, that are without donor or other restrictions limiting their use within one year of the Statement of Financial Position date of December 31, 2018, are comprised of the following at December 31, 2018:

Financial assets at year end	\$ 18,254,256
Less amounts not available to be used within one year due to illiquidity:	
Prepaid expenses	253,289
Inventory	12,357
Property and equipment, net	14,432,509
	<u>14,698,155</u>
Less amounts not available to be used within one year due to availability:	
Non-current unconditional promises to give, net	714,256
Donor imposed restrictions, long-term	448,888
	<u>1,163,144</u>

Financial assets available to meet cash needs for general expenditures within one year \$ 2,392,957

The Aquarium's goal is to maintain financial assets to cover operating expenses over a reasonable period of time. Any funds in excess of the adequate operating expense coverage are invested with the objectives of preserving capital and long-term growth. The Aquarium has a \$1,250,000 line of credit which was fully drawn on December 31, 2018 to meet cash flow needs due to the seasonality of its guest visitation.

Note 3. Unconditional Promises to Give, Net

Unconditional promises to give, net consisted of the following at December 31, 2018:

Unconditional promises to give	\$ 1,662,350
Less: unamortized discount	<u>(55,208)</u>
Present value of unconditional promises to give	1,607,142
Less: Allowance for uncollectible promises to give	<u>(17,150)</u>
unconditional promises to give, net	<u>\$ 1,589,992</u>

Amounts expected to be collected for the years ended December 31, are as follows:

2019	\$ 875,736
2020	394,948
2021	312,666
2022	<u>79,000</u>
	<u>\$ 1,662,350</u>

South Carolina Aquarium

Notes to Financial Statements

December 31, 2018

Note 4. Fair Value Measurements

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*, 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: Unadjusted quoted prices in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices within Level 1 that are observable for the asset or liability, either directly or indirectly through corroboration with observable market data.

Level 3: Inputs that are unobservable for the asset or liability and include situations where there is little, if any, market activity for the asset or liability. These inputs into the determination of fair value are based upon the best information in the circumstances and may require significant management judgment or estimation.

The following table presents the Aquarium's fair value hierarchy for those assets measured at fair value on a recurring basis as of December 31, 2018:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Money market funds	\$ 572,094	\$ -	\$ -	\$ 572,094
Mutual funds	<u>1,486</u>	<u>-</u>	<u>-</u>	<u>1,486</u>
	<u>\$ 573,580</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 573,580</u>

Note 5. Property and Equipment, Net

Property and equipment, net consisted of the following at December 31:

	<u>Expected Useful Life</u>	<u>Amount</u>
Software	2 years	\$ 202,221
Transportation equipment	5-7 years	494,182
Furniture, fixtures and equipment	7 years	3,354,325
Exhibits	2-10 years	12,726,405
Leasehold improvements	7-40 years	8,195,757
Projects under construction and land	Non-depreciable	<u>611,196</u>
		25,584,086
Accumulated depreciation		<u>(11,151,577)</u>
		<u>\$ 14,432,509</u>

Depreciation expense for the year ended December 31, 2018 totaled \$917,976.

South Carolina Aquarium

Notes to Financial Statements

December 31, 2018

Note 6. Revolving Line of Credit

The Aquarium has a revolving line of credit in the amount of \$1,250,000, which is effective through August 19, 2019 and bears interest at a base rate plus 1% (6.5% at December 31, 2018), with a floor of 5.00%. The balance was \$1,250,000 as of December 31, 2018.

Note 7. Promissory Notes

On April 6, 2011, the Aquarium signed a commercial vehicle note in the amount of \$47,153. The note bore interest of 5.5% with principal and interest payments of \$679 and was paid in full in February 2018.

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 on assets and has a balance of \$10,055 at December 31, 2018.

On February 15, 2017, the Aquarium signed a \$72,000 term loan for the acquisition of a 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 on other assets. The note has a balance of \$40,350 at December 31, 2018.

Future minimum principal payments at December 31, 2018 are as follows:

2019	\$ 29,566
2020	19,512
2021	<u>1,327</u>
	<u>\$ 50,405</u>

Note 8. Capital Leases Payable

On November 24, 2017, the Aquarium signed a master lease agreement for the acquisition of a CT scanner for the sea turtle recovery center. The agreement requires 84 payments of \$5,548 and carries an implied interest rate of 4.135%. The agreement has a bargain purchase option at the end of the lease term in the amount of \$100. The lease is collateralized with the underlying equipment.

On August 10, 2018, the Aquarium signed a capital lease for the acquisition of computer equipment. The agreement requires 36 payments of \$449 and has a bargain purchase option at the end of the lease term.

South Carolina Aquarium**Notes to Financial Statements****December 31, 2018**

Note 8. Capital Leases Payable, Continued

Future minimum lease payments under this agreement as of December 31, 2018, are as follows:

2019	\$	72,456
2020		72,456
2021		72,455
2022		66,579
2023		66,579
Thereafter		<u>10,628</u>
Total minimum lease payments		361,153
Less: amounts representing interest		<u>(43,813)</u>
	\$	<u>317,340</u>

The combined interest expense paid on the revolving line of credit, promissory notes and capital leases payable was \$80,247 (also see note 6 and 7).

Note 9. Bonds Payable

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.

At December 31, 2018 the balance of the bonds payable were \$1,800,000. Amounts are due in installments of \$225,000 each on October 1st with interest due semiannually at rates ranging from 2.5% to 3.6%.

Future payments on bonds payable at December 31, 2018 are as follows:

2019	\$	225,000
2020		225,000
2021		225,000
2022		225,000
2023		225,000
Thereafter		<u>675,000</u>
	\$	<u>1,800,000</u>

Interest expense incurred on bonds payable for the year ended December 31, 2018 was \$63,225.

South Carolina Aquarium

Notes to Financial Statements

December 31, 2018

Note 10. 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 December 31 under this agreement are as follows:

2019	\$	47,500
2020		47,500
2021		47,500
2022		47,500
2023		<u>47,500</u>
Total minimum payments		237,500
Less: amount representing interest		<u>(34,568)</u>
	\$	<u>202,932</u>

Note 11. Net Assets With Donor Restrictions

Net assets with donor restrictions consisted of the following at December 31:

Restricted as to time:	
Pledge receivables, net	\$ 571,261
Restricted as to purpose:	
Education programs	293,900
Exhibit development	109,764
Sea turtle hospital	53,000
Sea turtle conservation and research program	300,000
Capital and maintenance programs	388,375
Conservation	25,000
Other programs	50,000
Aviary mesh project	992,624
Donor recognition	<u>193,447</u>
	<u>\$ 2,977,371</u>

Note 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 100% of the first 3% of the employee's contribution and 50% of the next 2% of the employee's contribution, for a total match of up to 4%. Contribution expense relating to the Plan for the year ended December 31, 2018 was \$135,117.

South Carolina Aquarium

Notes to Financial Statements

December 31, 2018

Note 13. 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 of \$250,000 per bank. The Aquarium has not experienced any losses associated with these financial institutions.

Note 14. Operating Leases

Facility and warehouses:

The Aquarium leases two warehouses under two operating lease agreements. One of the agreements expired September 16, 2018, and a new agreement for the same space was signed with an expiration date of September 30, 2021. The initial monthly lease payment is \$2,272 with payment increases of 3% per year and contains one three-year renewal option. In addition, the agreement requires the Aquarium to pay certain executory costs such as taxes, maintenance and insurance, where applicable, which approximated \$800 per month in 2018.

The second agreement originally commenced in June 2012 and was renewed in May 2017 for another five year term, expiring on May 31, 2022. The initial monthly lease payment of the renewal is \$2,209 with payment increases of 3% per year. In addition, the agreement requires the Aquarium to pay for certain costs above and beyond general maintenance, where applicable, as incurred.

Rent expense for these leases totaled \$43,031 for the year ended December 31, 2018.

The Aquarium has an agreement with the City of Charleston to lease the land and facilities that house the Aquarium operations for annual rent of \$1. 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 the agreement, the Aquarium did not make any lease payments to the City of Charleston for the year ended December 31, 2018.

Future minimum payments at December 31 under these agreement are as follows:

2019	\$	55,431
2020		56,742
2021		51,213
2022		<u>11,417</u>
	\$	<u>174,803</u>

South Carolina Aquarium

Notes to Financial Statements

December 31, 2018

Note 15. Commitments and Contingencies

In May 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 year ended December 31, 2018 were \$434,919. Amounts received are included in concessions revenue in the Statement 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 year ended December 31, 2018 were \$135,935. 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. 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 year ended December 31, 2018 were \$46,377. Amounts received are included in concessions revenue in the Statement of Activities.

The Aquarium has additional food concession agreements with short term agreements less than a year. Food concession revenue from these short term agreements for the year ended December 31, 2018 totaled \$15,000.

Note 16. Related Party Transactions

Members of the Board of Directors made contributions and unconditional promises to give totaling approximately \$574,855 during the year ended December 31, 2018. Outstanding balances of unconditional promises to give from board members, totaled \$450,000 at December 31, 2018.

In addition, three board members held events at the Aquarium and paid a total of \$3,675.

The Aquarium's bonds payable are held by a related party and had a balance of \$1,800,000 at December 31, 2018. Interest incurred under these bonds was \$63,225 for the year ended December 31, 2018.