

**SOUTH CAROLINA AQUARIUM
CHARLESTON, SOUTH CAROLINA**

AUDITED FINANCIAL STATEMENTS

FOR THE NINE-MONTH PERIOD ENDED DECEMBER 31, 2017

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 December 31, 2017, and the related statements of activities and cash flows for the nine-month period 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 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 December 31, 2017, and the changes in its net assets and its cash flows for the nine-month period ended in accordance with accounting principles generally accepted in the United States of America.



Charleston, South Carolina
March 31, 2018

**SOUTH CAROLINA AQUARIUM
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2017**

ASSETS

Current Assets

Cash and cash equivalents	\$ 873,766
Accounts receivable	163,846
Unconditional promises to give, net, current (Note 2)	1,342,575
Prepaid expenses	233,998
Investments (Note 3)	88,619
Total current assets	<u>2,702,804</u>

Long-term Assets

Unconditional promises to give, net, net of current (Note 2)	799,569
Property and equipment, net (Note 4)	14,543,212
Total long-term assets	<u>15,342,781</u>

Total assets	<u>\$ 18,045,585</u>
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See accompanying notes to the financial statements.

**SOUTH CAROLINA AQUARIUM
STATEMENT OF FINANCIAL POSITION - CONTINUED
DECEMBER 31, 2017**

LIABILITIES AND NET ASSETS

Current Liabilities

Accrued interest - bonds payable (Note 8)	\$	16,200
Accrued payroll and related expenses		244,275
Accounts payable		376,012
Advanced deposits and deferred revenues		267,064
Lease termination fee payable, current (Note 9)		32,686
Program agency funds		316,935
Bonds payable, current portion (Note 8)		225,000
Accrued wellness days		56,598
Deferred membership fees		558,602
Capital lease payable, current portion (Note 7)		51,002
Equipment line of credit note (Note 5)		500,000
Revolving line of credit note (Note 5)		750,000
Promissory notes, current portion (Note 6)		47,176
Total current liabilities		3,441,550

Long-term Liabilities

Capital lease payable, net of current portion (Note 7)		343,372
Promissory notes, net of current portion (Note 6)		51,113
Lease termination fee payable, net of current (Note 9)		207,623
Bonds payable, net of current portion (Note 8)		1,800,000
Total long-term liabilities		2,402,108

Total liabilities		5,843,658
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Net Assets

Unrestricted		
Board designated operating reserve (Note 10)		463,133
Undesignated		9,824,172
Total unrestricted		10,287,305
Temporarily restricted (Note 10)		1,914,622
Total net assets		12,201,927

Total liabilities and net assets	\$	18,045,585
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**SOUTH CAROLINA AQUARIUM
STATEMENT OF ACTIVITIES
FOR THE NINE-MONTH PERIOD ENDED DECEMBER 31, 2017**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
<u>Support and Revenues</u>			
Admissions	\$ 5,191,529	\$ -	\$ 5,191,529
Memberships	949,807	-	949,807
Annual campaign and contributions	664,942	142,197	807,139
Grants	289,042	-	289,042
Corporate sponsorships	567,631	-	567,631
Concessions	563,589	-	563,589
Facility rentals	378,693	-	378,693
Program revenues	117,620	-	117,620
Fundraising events, net of \$163,333 of expense	372,433	-	372,433
Investment income and losses, net	696	-	696
Miscellaneous	187,404	-	187,404
Total support and revenues	<u>9,283,386</u>	<u>142,197</u>	<u>9,425,583</u>
<u>Net Assets Released from Restrictions</u>	<u>1,507,502</u>	<u>(1,507,502)</u>	<u>-</u>
<u>Expenses from Operations (Note 11)</u>			
Program services:			
Husbandry	1,109,710	-	1,109,710
Facilities	1,031,000	-	1,031,000
Education	765,379	-	765,379
Conservation	471,131	-	471,131
External affairs	1,164,751	-	1,164,751
Guest programs	1,206,215	-	1,206,215
Memberships	138,900	-	138,900
Total program services	<u>5,887,086</u>	<u>-</u>	<u>5,887,086</u>
Supporting services:			
Executive, finance, and administration	1,671,360	-	1,671,360
Annual campaign and fundraising	606,973	-	606,973
Membership development	31,230	-	31,230
Total supporting services	<u>2,309,563</u>	<u>-</u>	<u>2,309,563</u>
Total expenses from operations	<u>8,196,649</u>	<u>-</u>	<u>8,196,649</u>
Changes in net assets from operations (Note 13)	<u>2,594,239</u>	<u>(1,365,305)</u>	<u>1,228,934</u>
<u>Other Expenses</u>			
Interest expense	(78,689)	-	(78,689)
Depreciation expense	(614,546)	-	(614,546)
Total other expenses	<u>(693,235)</u>	<u>-</u>	<u>(693,235)</u>
Increase (decrease) in net assets	1,901,004	(1,365,305)	535,699
Net assets, beginning of year	<u>8,386,301</u>	<u>3,279,927</u>	<u>11,666,228</u>
Net assets, end of year	<u>\$ 10,287,305</u>	<u>\$ 1,914,622</u>	<u>\$ 12,201,927</u>

See accompanying notes to the financial statements.

**SOUTH CAROLINA AQUARIUM
STATEMENT OF CASH FLOWS
FOR THE NINE-MONTH PERIOD ENDED DECEMBER 31, 2017**

<u>Cash Flows from Operating Activities</u>	
Changes in net assets	\$ 535,699
Adjustments to reconcile changes in net assets to net cash provided by operating activities:	
Contributions received restricted for acquisition of exhibits and capital	(80,125)
Amortization of discount on unconditional promises to give	(3,624)
Amortization of deferred interest on operating lease termination payable	10,300
Purchase of animal and plant collections	12,092
Change in allowance and bad debt expense	143
Depreciation	614,546
Loss on disposal of fixed assets	7,963
(Increase) decrease in:	
Accounts receivable	(18,707)
Grants receivable	200,000
Unconditional promises to give	(139,106)
Prepaid expenses	23,629
Increase (decrease) in:	
Accrued interest - bonds payable	(19,238)
Accounts payable	(1,028,143)
Accrued payroll and related expenses	142,476
Accrued wellness days	4,363
Advanced deposits and deferred revenues	(120,259)
Program agency funds	(95,019)
Deferred membership fees	58,529
Net cash provided by operating activities	<u>105,519</u>
<u>Cash Flows from Investing Activities</u>	
Purchase of animal and plant collections	(12,092)
Proceeds of investments	9,544
Purchase of property and equipment	(1,089,077)
Net cash used for investing activities	<u>(1,091,625)</u>
<u>Cash Flows from Financing Activities</u>	
Contributions collected restricted for acquisition of exhibits and capital	125,628
Payments on bonds payable	(225,000)
Payments on notes payable	(39,496)
Payments on lease termination payable	(47,500)
Proceeds on lines of credit	750,000
Payments on capital leases	(9,689)
Net cash provided by financing activities	<u>553,943</u>
Net decrease in cash and cash equivalents	(432,163)
Cash and cash equivalents, beginning of period	<u>1,305,929</u>
Cash and cash equivalents, end of period	<u>\$ 873,766</u>

See accompanying notes to the financial statements.

**SOUTH CAROLINA AQUARIUM
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017**

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.

Unrestricted Board Designated Net Assets

Unrestricted net assets that are designated for purpose through board action.

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. The Aquarium did not have any permanently restricted net assets at December 31, 2017.

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.

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 December 31, 2017, management estimated all accounts receivable to be fully collectible.

**SOUTH CAROLINA AQUARIUM
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017**

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 the nine-month period ended December 31, 2017. 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 at December 31, 2017.

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 nine-month period ended December 31, 2017. Purchases of non-capitalized collection items were \$12,092 for the nine-month period ended December 31, 2017.

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 and another \$30,000 grant. The Aquarium will disburse funds to participating partners in the study.

**SOUTH CAROLINA AQUARIUM
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Advertising

The Aquarium expenses advertising costs as incurred. Advertising costs totaled \$308,560 for the nine-month period ended December 31, 2017.

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 during the nine-month period ended 2017 include advertising, special events supplies, and miscellaneous and are recognized in the external affairs program, husbandry program, fundraising supporting services and property and equipment, 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; and 3) enhances the consistency of reporting of not-for-profit expenses by nature and function. 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
DECEMBER 31, 2017**

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 December 31, 2017:

Unconditional promises to give	\$ 2,232,909
Less: Unamortized discount	(73,615)
Present value of unconditional promises to give	2,159,294
Less: Allowance for uncollectible promises to give	(17,150)
Unconditional promises to give, net	\$ 2,142,144

Gross amounts receivable at December 31:

2018	\$ 1,342,575
2019	440,000
2020	216,667
2021	183,667
2022	50,000
Thereafter	-
	\$ 2,232,909

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.
- 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.

**SOUTH CAROLINA AQUARIUM
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017**

3. INVESTMENTS - CONTINUED

All of the Aquarium's investments were valued at fair value under Level 1 inputs at December 31, 2017. Investments are comprised of the following at December 31, 2017:

	<u>Cost</u>	<u>Fair Value</u>
Money market funds	\$ 88,619	\$ 88,619
	<u>\$ 88,619</u>	<u>\$ 88,619</u>

Investment income for the nine-month period ended December 31, 2017 was:

Interest and dividends	<u>\$ 696</u>
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4. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at December 31, 2017:

	<u>Expected Useful Life</u>	
Software	3 years	\$ 424,924
Transportation equipment	5-7 years	494,182
Furniture, fixtures and equipment	7 years	3,480,216
Exhibits	2-10 years	11,946,336
Leasehold improvements	7-39 years	8,171,721
Projects under construction	Nondepreciable	<u>341,321</u>
		24,858,700
Accumulated depreciation		<u>(10,315,488)</u>
		<u>\$ 14,543,212</u>

Depreciation expense for the nine-month period ended December 31, 2017 totaled \$614,546.

5. LINES OF CREDIT

On January 29, 2010, the Aquarium signed a \$400,000 revolving commercial line of credit. The revolving line of credit bears interest at the prime rate plus 1% (5.50% at December 31, 2017). Payments of monthly accrued interest only are due through the maturity date of February 16, 2016. The line matured and was extended through August 19, 2018 and was increased to \$750,000. The line of credit had an outstanding balance of \$750,000 at December 31, 2017. Subsequent to period-end, this line of credit was surrendered and consolidated into a new line of credit agreement.

On December 6, 2017, the Aquarium signed a \$500,000 line of credit note. Payments of monthly accrued interest only are due through the maturity date of March 15, 2018. The line of credit note bears interest at the prime rate plus 1% (5.50% at December 31, 2017). The line of credit had an outstanding balance of \$500,000 at December 31, 2017. Subsequent to period-end, this line of credit was surrendered and consolidated into a new line of credit agreement.

**SOUTH CAROLINA AQUARIUM
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017**

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 \$1,271 at December 31, 2017.

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 16, 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 \$39,159 at December 31, 2017.

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 \$57,859 at December 31, 2017. Future minimum principal payments at December 31, 2017 are as follows:

2018	\$	47,176
2019		29,103
2020		22,010
2021		-
		-
	\$	98,289

7. CAPITAL LEASE PAYABLE

On November 24, 2017, the Aquarium signed a master lease agreement for the acquisition of a CT scanner for its 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, and the agreement is collateralized with the underlying equipment. At December 31, 2017, the following payments are required under the terms of the agreement:

2018	\$	66,579
2019		66,579
2020		66,579
2021		66,579
2022		66,579
Thereafter		122,074
Net minimum lease payments		454,969
Amount representing interest		(60,595)
	\$	394,374

**SOUTH CAROLINA AQUARIUM
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017**

8. BONDS PAYABLE

Bonds payable consist of the following at December 31, 2017:

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%.

\$ 2,025,000

Less: current portion

225,000

\$ 1,800,000

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. Subsequent to bond closing, the bonds were acquired by a new holder that is a related party to the Aquarium.

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

2018	\$	225,000
2019		225,000
2020		225,000
2021		225,000
2022		225,000
Thereafter		<u>900,000</u>
		<u><u>\$ 2,025,000</u></u>

Interest expense incurred on bonds payable for the nine-month period ended December 31, 2017 was \$51,637.

9. 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.

**SOUTH CAROLINA AQUARIUM
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017**

9. LEASE TERMINATION FEE PAYABLE - CONTINUED

Future minimum payments at December 31, 2017 under this agreement are as follows:

	2018	\$	47,500
	2019		47,500
	2020		47,500
	2021		47,500
	2022		47,500
	Thereafter		47,500
			285,000
Amount representing interest			(44,691)
		\$	240,309

10. DESIGNATED AND RESTRICTED NET ASSETS

Unrestricted Board Designated

The Aquarium has established a board designated reserve for operations during the nine-month period ended December 31, 2017. The reserve will be invested to limit market risk and will be utilized for operating needs of the Aquarium. Draws of up to a total balance of \$200,000 can be made at the Chief Financial Officer's recommendation and Chief Executive Officer's approval. Draws above a total amount of \$200,000 require Finance Committee approval. Draws shall be repaid within 90-days of disbursement, and extensions, if needed, require Finance Committee approval. The Aquarium did not make any draws on the reserve during the nine-month period ended December 31, 2017.

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 nine-month period ended December 31, 2017 as follows:

Education programs	\$	206,264
Exhibit development		868,488
Maintenance and capital projects		332,750
Launch of sea turtle conservation and research program		100,000
		1,507,502
	\$	1,507,502

Temporarily restricted net assets consisted of the following at December 31, 2017:

Restricted as to time:		
Term endowment	\$	147,935
Restricted as to purpose:		
Education programs		93,736
Capital and maintenance programs		1,092,624
Launch of sea turtle conservation and research program		400,000
Exhibit development		161,130
Other		19,197
		1,914,622
	\$	1,914,622

**SOUTH CAROLINA AQUARIUM
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017**

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.

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 100% of the first 3%, and 50% of the next 2%, of the employee's contribution. Contribution expense relating to the Plan for the nine-month period was \$90,381.

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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 Statement of Activities for the nine-month period ended December 31, 2017. Depreciation and interest are allocated to program and supporting services as follows for the nine-month period ended December 31, 2017:

	Depreciation Expense	Interest Expense
Program services	\$ 583,819	\$ 78,689
Supporting services:		
Executive, finance and administration	27,654	-
Annual campaign/fundraising	3,073	-
	\$ 614,546	\$ 78,689

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 \$383,300 in amounts in excess of the FDIC limit at December 31, 2017.

At December 31, 2017, unconditional promises to give and grants receivable consisted of corporate, governmental, and individual contributors. The five largest balances comprised 64% at December 31, 2017. 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 two warehouses under operating lease agreements. The warehouse leases contain renewal options and require the Aquarium to pay certain executory costs such as taxes, maintenance and insurance, where applicable. The agreements expire on June 1, 2022 and September 16, 2018, respectively, and have annual increases of 3%. Rent expense for these leases totaled \$27,410 for the nine-month period ended December 31, 2017.

The Aquarium has an agreement with the City of Charleston to lease the land and facilities that house the Aquarium operations. The lease expires on July 6, 2045. 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.

**SOUTH CAROLINA AQUARIUM
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15. LEASES - CONTINUED

Under the terms of this agreement, the Aquarium did not have any lease payments to the City of Charleston for the nine-month period ended December 31, 2017.

Future minimum lease payments under these operating leases as of December 31, 2017 are as follows:

2018	\$	35,030
2019		25,388
2020		26,150
2021		26,935
2022		11,417
Thereafter		-
	\$	124,920

16. STATEMENT OF CASH FLOWS SUPPLEMENTAL INFORMATION

Supplemental cash flow information for the nine-month period ended December 31, 2017:

Cash payments for interest made during the period	\$	97,927
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Supplemental Disclosure of Noncash Investing and Financing Activities:

Capital assets acquired through issuance of notes payable	\$	904,063
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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 nine-month period ended was \$362,825. 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 nine-month period ended was \$147,272. Amounts received are included in concessions revenue in the Statement of Activities.

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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 nine-month period ended was \$38,492. Amounts received are included in concessions revenue in the Statement of Activities.

18. RELATED PARTY TRANSACTIONS

Board of Director Members made contributions and unconditional promises to give totaling approximately \$274,922 during the nine-month period ended December 31, 2017. Outstanding balances of unconditional promises to give from board members, gross of applicable discounts and allowances, totaled \$633,358 at December 31, 2017.

The Aquarium's bonds payable are held by a related party and had a balance of \$2,025,000 at December 31, 2017. Interest incurred under these bonds was \$51,637 for the nine-month period ended December 31, 2017.

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 December 31, 2017 through March 31, 2018 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 February 27, 2018, the Aquarium extended and restructured its line of credit agreements dated January 19, 2010 and December 6, 2017. The amount available under the line of credit increased to \$1,250,000 and the line matures on August 31, 2018.