

THE NORTH CAROLINA AQUARIUM SOCIETY
Raleigh, North Carolina
AUDITED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

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INDEPENDENT AUDITOR'S REPORT

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Board of Directors
The North Carolina Aquarium Society
Raleigh, North Carolina

Report on the Financial Statements

We have audited the accompanying financial statements of The North Carolina Aquarium Society (a nonprofit organization), which comprise the statements of financial position as of December 31, 2019 and 2018, and the related statements of activities and changes in net assets, cash flows, and functional expenses 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.

Auditor's Responsibility

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

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

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

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The North Carolina Aquarium Society as of December 31, 2019 and 2018, 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.

Blackman & Sloop

Chapel Hill, North Carolina
April 15, 2020

THE NORTH CAROLINA AQUARIUM SOCIETY

STATEMENTS OF FINANCIAL POSITION

December 31, 2019 and 2018

EXHIBIT A

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ASSETS

	<u>2019</u>	<u>2018</u>
CURRENT ASSETS:		
Cash and cash equivalents	\$ 1,081,756	\$ 1,695,743
Certificates of deposit	-	654,849
Promises to give - current, net	215,900	130,027
Sales tax and other receivables	204,217	147,869
Investments	7,036,425	5,007,094
Inventory	728,973	605,127
Other current assets	101,885	76,823
	<u>9,369,156</u>	<u>8,317,532</u>
TOTAL CURRENT ASSETS		
PROPERTY AND EQUIPMENT:		
Aquarium expansion project	26,001,951	26,001,951
Equipment, furniture, and fixtures	679,039	607,595
Leasehold improvements	211,580	160,316
	<u>26,892,570</u>	<u>26,769,862</u>
Less: accumulated depreciation	<u>(9,480,539)</u>	<u>(8,730,062)</u>
	<u>17,412,031</u>	<u>18,039,800</u>
NET PROPERTY AND EQUIPMENT		
OTHER ASSETS:		
Cash and investments held with bond trustee	3,841,926	3,676,681
Investment return receivable	32,985	22,959
Promises to give - noncurrent, net	311,638	101,825
	<u>4,186,549</u>	<u>3,801,465</u>
TOTAL OTHER ASSETS		
TOTAL ASSETS	<u>\$ 30,967,736</u>	<u>\$ 30,158,797</u>

The accompanying Notes to Financial Statements are an integral part of these financial statements.

THE NORTH CAROLINA AQUARIUM SOCIETY

STATEMENTS OF FINANCIAL POSITION

December 31, 2019 and 2018

EXHIBIT A

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LIABILITIES AND NET ASSETS

	<u>2019</u>	<u>2018</u>
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	\$ 193,966	\$ 121,932
Accrued wages and benefits	447,329	634,071
Bond loan accrued expenses	21,569	31,215
Deferred revenue - current	40,493	28,750
Deferred rent - current	2,871	-
Bond loan payable - current	<u>1,500,000</u>	<u>1,440,000</u>
TOTAL CURRENT LIABILITIES	<u>2,206,228</u>	<u>2,255,968</u>
NONCURRENT LIABILITIES:		
Deferred revenue - noncurrent	3,558	2,785
Deferred rent - noncurrent	8,482	11,829
NC Aquariums security deposit	1,495,488	1,495,488
Unearned aquarium lease revenue	1,690,284	1,596,303
Bond loan payable - noncurrent	<u>10,309,538</u>	<u>11,796,999</u>
TOTAL NONCURRENT LIABILITIES	<u>13,507,350</u>	<u>14,903,404</u>
TOTAL LIABILITIES	<u>15,713,578</u>	<u>17,159,372</u>
NET ASSETS:		
Without donor restrictions:		
Undesignated	10,272,025	7,562,009
Designated by the Board for operating reserve	2,500,000	2,500,000
Designated by the Board for Aquarium Legacy Fund	498,471	374,046
Designated by the Board for NC Aquarium commitments	<u>731,282</u>	<u>1,810,195</u>
Total without donor restrictions	14,001,778	12,246,250
With donor restrictions:		
Purpose restrictions	966,176	562,761
Donor-restricted endowment	20,000	20,000
Time-restricted for future periods	266,204	170,826
Underwater endowments	-	(412)
Total with donor restrictions	<u>1,252,380</u>	<u>753,175</u>
TOTAL NET ASSETS	<u>15,254,158</u>	<u>12,999,425</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 30,967,736</u>	<u>\$ 30,158,797</u>

The accompanying Notes to Financial Statements are an integral part of these financial statements.

THE NORTH CAROLINA AQUARIUM SOCIETY

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

EXHIBIT B

For the Years Ended December 31, 2019 and 2018

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	2019			2018
	Without Donor Restrictions	With Donor Restrictions	Total	Total
SUPPORT AND REVENUE:				
Gift shop sales	\$ 5,695,012	\$ -	\$ 5,695,012	\$ 5,049,002
Less: cost of goods sold	(2,251,151)	-	(2,251,151)	(1,966,689)
Net gift shop sales	3,443,861	-	3,443,861	3,082,313
Concessions	377,729	-	377,729	397,291
Membership	1,767,581	-	1,767,581	1,753,728
In-kind contributions	277,061	-	277,061	237,942
Contributions, grants, and sponsorships	204,073	1,114,893	1,318,966	749,497
NC Aquarium lease revenue and contributions	1,710,135	-	1,710,135	1,703,591
Other income	3,908	6,430	10,338	5,634
Investment return, net	1,098,257	3,728	1,101,985	(166,082)
	8,882,605	1,125,051	10,007,656	7,763,914
Net assets released from restrictions	530,927	(530,927)	-	-
TOTAL SUPPORT AND REVENUE	9,413,532	594,124	10,007,656	7,763,914
EXPENSES:				
Program services:				
Aquarium/Pier support	3,995,251	-	3,995,251	3,632,554
Gift shop	2,222,628	-	2,222,628	2,030,252
Membership development	429,641	-	429,641	459,810
Total program services	6,647,520	-	6,647,520	6,122,616
Supporting services:				
Management and general	794,106	-	794,106	832,022
Fundraising	215,817	-	215,817	311,029
Total Supporting Services	1,009,923	-	1,009,923	1,143,051
TOTAL FUNCTIONAL EXPENSES	7,657,443	-	7,657,443	7,265,667
Loss on disposal of property and equipment	-	-	-	785
Bad debt expense	561	94,919	95,480	24,147
TOTAL OTHER (INCOME) EXPENSES	561	94,919	95,480	24,932
TOTAL EXPENSES	7,658,004	94,919	7,752,923	7,290,599
CHANGES IN NET ASSETS	1,755,528	499,205	2,254,733	473,315
NET ASSETS - BEGINNING OF YEAR	12,246,250	753,175	12,999,425	12,526,110
NET ASSETS - END OF YEAR	\$ 14,001,778	\$ 1,252,380	\$ 15,254,158	\$ 12,999,425

The accompanying Notes to Financial Statements are an integral part of these financial statements.

THE NORTH CAROLINA AQUARIUM SOCIETY

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

EXHIBIT B

For the Years Ended December 31, 2019 and 2018

Page 2 of 2

	2018		Total
	Without Donor Restrictions	With Donor Restrictions	
SUPPORT AND REVENUE:			
Gift shop sales	\$ 5,049,002	\$ -	\$ 5,049,002
Less: cost of goods sold	(1,966,689)		(1,966,689)
Net gift shop sales	3,082,313	-	3,082,313
Concessions	397,291	-	397,291
Membership	1,753,728	-	1,753,728
In-kind contributions	237,942	-	237,942
Contributions, grants, and sponsorships	206,355	543,142	749,497
NC Aquarium lease revenue and contributions	1,703,591	-	1,703,591
Other income	5,634	-	5,634
Investment return, net	(165,670)	(412)	(166,082)
	7,221,184	542,730	7,763,914
Net assets released from restrictions	790,426	(790,426)	-
TOTAL SUPPORT AND REVENUE	8,011,610	(247,696)	7,763,914
EXPENSES:			
Program services:			
Aquarium/Pier support	3,632,554	-	3,632,554
Gift shop	2,030,252	-	2,030,252
Membership development	459,810	-	459,810
Total program services	6,122,616	-	6,122,616
Supporting services:			
Management and general	832,022	-	832,022
Fundraising	311,029	-	311,029
Total Supporting Services	1,143,051	-	1,143,051
TOTAL FUNCTIONAL EXPENSES	7,265,667	-	7,265,667
Gain on disposal of property and equipment	785	-	785
Bad debt expense	20,147	4,000	24,147
TOTAL OTHER (INCOME) EXPENSES	20,932	4,000	24,932
TOTAL EXPENSES	7,286,599	4,000	7,290,599
CHANGES IN NET ASSETS	725,011	(251,696)	473,315
NET ASSETS - BEGINNING OF YEAR	11,521,239	1,004,871	12,526,110
NET ASSETS - END OF YEAR	\$ 12,246,250	\$ 753,175	\$ 12,999,425

The accompanying Notes to Financial Statements are an integral part of these financial statements.

THE NORTH CAROLINA AQUARIUM SOCIETY

STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2019 and 2018

EXHIBIT C

	<u>2019</u>	<u>2018</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	\$ 2,254,733	\$ 473,315
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	750,721	742,706
Amortization of bond issuance costs	12,539	12,539
Loss on disposal of property and equipment	-	785
Realized gain on sale of investments	(125,314)	(201,658)
Unrealized (gain) loss on investments	(713,035)	571,958
Increase (decrease) in cash arising from changes in assets and liabilities:		
Promises to give	(295,686)	98,939
Sales tax and other receivables	(56,348)	100,180
Inventory	(123,846)	(154,117)
Other current assets	(25,062)	40,112
Accounts payable and accrued expenses	72,034	(89,371)
Accrued wages and benefits	(186,742)	50,760
Bond loan accrued expenses	(9,646)	(10,926)
Deferred revenue	12,516	3,267
Deferred rent	(476)	10,517
Unearned aquarium lease revenue	93,981	37,849
	<u>1,660,369</u>	<u>1,686,855</u>
NET CASH FLOWS PROVIDED BY OPERATING ACTIVITIES		
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(122,952)	(119,888)
Proceeds from sale of property and equipment	-	1,200
Purchase of certificates of deposit	-	(650,000)
Redemption of certificates of deposit	654,849	-
Purchase of investments	(6,871,908)	(3,439,911)
Proceeds from sale of investments	5,701,226	3,433,081
Change in investment return receivable	(10,026)	(6,057)
Change in investments held with bond trustee	(40,605)	(5,049)
	<u>(689,416)</u>	<u>(786,624)</u>
NET CASH FLOWS USED IN INVESTING ACTIVITIES		
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal payment on bond loan	(1,440,000)	(1,385,000)
	<u>(1,440,000)</u>	<u>(1,385,000)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(469,047)	(484,769)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	3,426,232	3,911,001
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 2,957,185</u>	<u>\$ 3,426,232</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS:		
Cash and cash equivalents	1,081,756	1,695,743
Cash held with bond trustee	1,875,429	1,730,489
Total cash and cash equivalents	<u>2,957,185</u>	<u>3,426,232</u>
SUPPLEMENTAL INFORMATION:		
Cash paid during the year for interest	<u>\$ 189,551</u>	<u>\$ 197,629</u>
Cash paid during the year for unrelated business income taxes	<u>\$ 21,000</u>	<u>\$ 31,400</u>
In-kind contributions	<u>\$ 277,061</u>	<u>\$ 237,942</u>

THE NORTH CAROLINA AQUARIUM SOCIETY

STATEMENTS OF FUNCTIONAL EXPENSES

For the Years Ended December 31, 2019 and 2018

Exhibit D

Page 1 of 2

	Program Services				Supporting Services			2019 Grand Total	2018 Total
	Aquarium/Pier Support	Gift Shop	Membership Development	Total	Management and General	Fundraising	Total		
Salaries	\$ 110,162	\$ 1,061,700	\$ 166,971	\$ 1,338,833	\$ 349,629	\$ 102,578	\$ 452,207	\$ 1,791,040	\$ 1,774,454
Employee benefits	32,065	269,923	48,933	350,921	103,484	26,315	129,799	480,720	462,895
Payroll taxes	11,320	79,931	12,372	103,623	20,040	9,341	29,381	133,004	138,902
Total salaries and related expenses	153,547	1,411,554	228,276	1,793,377	473,153	138,234	611,387	2,404,764	2,376,251
Advertising and promotion	458,837	910	4,130	463,877	-	9,500	9,500	473,377	193,934
Aquarium and pier personnel and supplements	165,253	-	-	165,253	-	-	-	165,253	51,617
Aquarium Scholars and education grants	141,971	-	-	141,971	-	-	-	141,971	147,797
Bank and merchant service fees	22,147	80,635	16,345	119,127	13,023	-	13,023	132,150	129,155
Board expenses	51,313	-	-	51,313	-	-	-	51,313	31,306
Bond interest and fees expense	305,570	-	-	305,570	-	-	-	305,570	344,381
Conservation and sustainability grants	94,500	-	-	94,500	-	-	-	94,500	309,180
Displays and fixtures	34,021	4,654	5,372	44,047	450	812	1,262	45,309	291,422
Dues and subscriptions	35,735	-	100	35,835	6,195	2,596	8,791	44,626	32,206
Facility and equipment rent	42,086	28,730	13,455	84,271	71,046	3,098	74,144	158,415	150,307
Freight	880	157,816	2,453	161,149	2,152	4,791	6,943	168,092	149,684
Insurance	-	9,572	-	9,572	30,187	-	30,187	39,759	42,873
Jennette's Pier operational support	250,000	-	-	250,000	-	-	-	250,000	552,091
Licenses and fees	8,319	839	549	9,707	8,457	100	8,557	18,264	23,043
Loss on damaged goods	-	32,156	-	32,156	-	-	-	32,156	29,061
Member benefit	-	-	20,037	20,037	-	-	-	20,037	14,583
Miscellaneous	3,738	6,033	393	10,164	7,849	-	7,849	18,013	32,678
Postage and printing	43,052	986	91,257	135,295	180	2,228	2,408	137,703	133,866
Professional fees	72,016	35,683	21,390	129,089	105,202	18,937	124,139	253,228	249,325
Renovation of Conservatory for Otter Exhibit Fort Fisher	1,000,000	-	-	1,000,000	-	-	-	1,000,000	-
Repairs and maintenance	37,777	4,609	2,842	45,228	1,798	10,005	11,803	57,031	258,565
Special events	22,667	-	-	22,667	-	3,382	3,382	26,049	37,563
Staff development and training	64,952	4,962	1,385	71,299	14,870	-	14,870	86,169	82,498
Supplies and equipment	110,126	54,103	2,726	166,955	16,789	11,477	28,266	195,221	291,053
Telephone and internet	29,018	23,671	4,539	57,228	11,064	1,800	12,864	70,092	86,038
Travel, subsistence, and meetings	175,640	28,224	13,236	217,100	5,618	8,857	14,475	231,575	220,054
Bad debt expense	-	-	-	-	95,480	-	95,480	95,480	24,147
Loss on disposal of property and equipment	-	-	-	-	-	-	-	-	785
Income taxes	-	-	-	-	18,024	-	18,024	18,024	24,488
Total other expenses	3,169,618	473,583	200,209	3,843,410	408,384	77,583	485,967	4,329,377	3,933,700
Total expenses before depreciation and in-kind expenses	3,323,165	1,885,137	428,485	5,636,787	881,537	215,817	1,097,354	6,734,141	6,309,951
Depreciation	666,717	74,799	1,156	742,672	8,049	-	8,049	750,721	742,706
In-kind marketing, services, supplies	5,369	-	-	5,369	-	-	-	5,369	3,606
In-kind facility rent	-	262,692	-	262,692	-	-	-	262,692	234,336
Total expenses	3,995,251	2,222,628	429,641	6,647,520	889,586	215,817	1,105,403	7,752,923	7,290,599
Less: Bad debt expense	-	-	-	-	(95,480)	-	(95,480)	(95,480)	(24,147)
Less: Loss on disposal of property and equipment	-	-	-	-	-	-	-	-	(785)
Total functional expenses	\$ 3,995,251	\$ 2,222,628	\$ 429,641	\$ 6,647,520	\$ 794,106	\$ 215,817	\$ 1,009,923	\$ 7,657,443	\$ 7,265,667

THE NORTH CAROLINA AQUARIUM SOCIETY

STATEMENTS OF FUNCTIONAL EXPENSES

For the Years Ended December 31, 2019 and 2018

Exhibit D

Page 2 of 2

	Program Services				Supporting Services			2018 Total
	Aquarium/Pier Support	Gift Shop	Membership Development	Total	Management and General	Fundraising	Total	
Salaries	\$ 136,155	\$ 961,976	\$ 177,399	\$ 1,275,530	\$ 361,793	\$ 137,131	\$ 498,924	\$ 1,774,454
Employee benefits	35,217	254,678	44,911	334,806	94,113	33,976	128,089	462,895
Payroll taxes	8,622	72,883	13,060	94,565	35,584	8,753	44,337	138,902
Total salaries and related expenses	179,994	1,289,537	235,370	1,704,901	491,490	179,860	671,350	2,376,251
Advertising and promotion	186,020	734	-	186,754	710	6,470	7,180	193,934
Aquarium and pier personnel and supplements	51,617	-	-	51,617	-	-	-	51,617
Aquarium Scholars and education grants	147,797	-	-	147,797	-	-	-	147,797
Bank and investment fees	13,698	88,139	16,213	118,050	11,105	-	11,105	129,155
Board expenses	31,306	-	-	31,306	-	-	-	31,306
Bond interest and fees expense	344,381	-	-	344,381	-	-	-	344,381
Conservation and sustainability grants	309,180	-	-	309,180	-	-	-	309,180
Displays and fixtures	280,662	6,445	2,842	289,949	-	1,473	1,473	291,422
Dues and subscriptions	26,465	171	-	26,636	3,714	1,856	5,570	32,206
Facility and equipment rent	35,105	30,991	13,108	79,204	68,085	3,018	71,103	150,307
Freight	8,971	130,302	6,291	145,564	535	3,585	4,120	149,684
Insurance	-	13,463	-	13,463	29,410	-	29,410	42,873
Jennette's Pier operational support	552,091	-	-	552,091	-	-	-	552,091
Licenses and fees	11,121	4,071	659	15,851	7,142	50	7,192	23,043
Loss on damaged goods	-	29,061	-	29,061	-	-	-	29,061
Member benefit	-	-	14,583	14,583	-	-	-	14,583
Miscellaneous	16,516	7,757	210	24,483	8,170	25	8,195	32,678
Postage and printing	24,935	1,049	102,986	128,970	97	4,799	4,896	133,866
Professional fees	38,206	11,171	17,586	66,963	125,172	57,190	182,362	249,325
Repairs and maintenance	227,459	7,991	3,652	239,102	2,867	16,596	19,463	258,565
Special events	26,712	-	200	26,912	-	10,651	10,651	37,563
Staff development and training	60,669	4,429	669	65,767	16,731	-	16,731	82,498
Supplies and equipment	191,008	48,568	32,661	272,237	13,435	5,381	18,816	291,053
Telephone and internet	43,357	27,732	1,448	72,537	12,501	1,000	13,501	86,038
Travel, subsistence, and meetings	154,961	30,542	7,389	192,892	8,087	19,075	27,162	220,054
Bad debt expense	-	-	-	-	24,147	-	24,147	24,147
Gain on disposal of property and equipment	-	-	-	-	785	-	785	785
Income taxes	-	-	-	-	24,488	-	24,488	24,488
Total other expenses	2,782,237	442,616	220,497	3,445,350	357,181	131,169	488,350	3,933,700
Total expenses before depreciation and in-kind expenses	2,962,231	1,732,153	455,867	5,150,251	848,671	311,029	1,159,700	6,309,951
Depreciation	666,717	63,763	3,943	734,423	8,283	-	8,283	742,706
In-kind marketing, services, supplies	3,606	-	-	3,606	-	-	-	3,606
In-kind facility rent	-	234,336	-	234,336	-	-	-	234,336
Total expenses	3,632,554	2,030,252	459,810	6,122,616	856,954	311,029	1,167,983	7,290,599
Less: Bad debt expense	-	-	-	-	(24,147)	-	(24,147)	(24,147)
Less: Loss on disposal of property and equipment	-	-	-	-	(785)	-	(785)	(785)
Total functional expenses	\$ 3,632,554	\$ 2,030,252	\$ 459,810	\$ 6,122,616	\$ 832,022	\$ 311,029	\$ 1,143,051	\$ 7,265,667

The accompanying Notes to Financial Statements are an integral part of these financial statements,

THE NORTH CAROLINA AQUARIUM SOCIETY**NOTES TO FINANCIAL STATEMENTS**

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ORGANIZATION

The North Carolina Aquarium Society (the “Society”), a nonprofit corporation, was formed on February 26, 1986. The purpose of the Society is to develop, encourage and promote public awareness of, interest in, and support for the North Carolina Aquariums (the “Aquariums”) and to serve as a philanthropic society for the continued maintenance, support and promotion of the educational, conservation, and research purposes of the Aquariums.

In May 2011, the State of North Carolina (the “State”) opened Jennette’s Pier located at Nags Head, North Carolina. The Society was instrumental in helping to raise the funds necessary for the construction of the Pier and assisting with the management of the construction project.

The Society is supported primarily through memberships, donor contributions, and gift shop revenue. The State is responsible for opening the gift shops. The Society is responsible for providing the merchandise for the gift shops and concession stands, and providing staff training and overall financial administration.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**A. Basis of Accounting.**

The Society’s financial statements are presented on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America (“U.S. GAAP”). Accordingly, revenues are recognized when earned, and expenses are recognized when the obligation is incurred.

The Society reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets outside of the fiscal year in which they are received. When a donor 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 statements of activities and changes in net assets as net assets released from restrictions.

B. Cash and Cash Equivalents.

Cash and cash equivalents consist of monies on deposit at financial institutions and other highly liquid investments with initial maturities of three months or less. At times, the Society places deposits with high-quality financial institutions that may be in excess of federally insured amounts. The Society has not experienced any financial loss related to such deposits.

C. Promises to Give.

Unconditional promises to give are recognized as support and assets in the period received. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

THE NORTH CAROLINA AQUARIUM SOCIETY**NOTES TO FINANCIAL STATEMENTS**

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SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**C. Promises to Give (Continued).**

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.

The Society provides an allowance for uncollectible accounts equal to the estimated losses that are expected to be incurred in their collection. The allowance is based on historical collection experience and a review by management of the current status of the existing promises to give.

D. Accounts Receivable and Other Receivables.

Accounts receivable and other receivables are recorded at their net realizable value. The Society provides an allowance for doubtful accounts equal to the estimated losses that are expected to be incurred in their collection. The allowance is based on historical collection experience and a review by management of the current status of existing receivables. As of December 31, 2019 and 2018, all receivables were deemed collectible by management.

E. Investments.

Investments in marketable securities are stated at fair value based on readily available published fair values. Net investment return is reported in the statements of activities and changes in net assets and consists of interest and dividend income, realized, and unrealized gains and losses, less external investment expenses.

F. Inventory.

Inventory is stated at the lower of cost (average cost) or market, and consists of gift shop inventory.

G. Property and Equipment.

Property and equipment are stated at cost for purchased assets and at fair value on the date of the gift for donated assets. Property and equipment are capitalized if the life is expected to be greater than one year and if the cost exceeds \$3,000. Depreciation is calculated using the straight-line method over the estimated useful lives of the respective assets which range from three to thirty-nine years for equipment, furniture, and fixtures, leasehold improvements, and Aquarium expansion projects.

Expenditures for repairs and maintenance are charged to expense as incurred. The cost of major renewals and betterments are capitalized and depreciated over their estimated useful lives. The cost and related accumulated depreciation of property and equipment are removed from the accounts upon disposition and any resulting gain or loss is reflected in the statements of activities and changes in net assets.

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SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

H. Impairment of Long-Lived Assets.

The Society reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. Recoverability is measured by a comparison of the carrying amount to the future net undiscounted cash flow expected to be generated and any estimated proceeds from the eventual disposition. If the long-lived assets are considered to be impaired, the impairment to be recognized is measured at the amount by which the carrying amount exceeds the fair value as determined by an appraisal, discounted cash flow analysis or other valuation technique. There were no impairment losses recognized for the years ended December 31, 2019 and 2018.

I. Deferred Revenue.

Membership revenue and other program fees which are paid in advance are deferred and subsequently recognized in the periods to which they relate.

J. Net Assets.

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions. The governing board has designated, from net assets without donor restrictions, net assets for an operating reserve.

Net Assets With Donor Restrictions – Net assets subject to donor- (or certain grantor-) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

K. Donated Assets, Materials, and Services.

The Society reports gifts of land, buildings, and equipment as support without donor restrictions unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as support with donor restrictions when the assets are placed in service. During the years ended December 31, 2019 and 2018, the value of donated space totaled \$262,692 and \$234,366, respectively.

THE NORTH CAROLINA AQUARIUM SOCIETY**NOTES TO FINANCIAL STATEMENTS**

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SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**K. Donated Assets, Materials, and Services (Continued).**

The Society recognizes donated services which create or enhance non-financial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. During the years ended December 31, 2019 and 2018, donated marketing services and supplies totaled \$5,369 and \$3,606, respectively.

L. Revenue and Revenue Recognition.

The Society recognizes revenue from gift shop sales at the point of sale. Membership dues, which are nonrefundable, are comprised of an exchange element based on the value of benefits provided, and a contribution element for the difference between the total dues paid and the exchange element. The Society recognizes the exchange portion of membership dues over the membership period, and the contribution portion immediately.

The Society recognizes contributions when cash, securities or other assets, an unconditional promise to give, or a notification of a beneficial interest is received. Conditional promises to give – that is, those with a measurable performance or other barrier and a right of return – are not recognized until the conditions on which they depend have been met.

M. Advertising and Marketing.

Advertising and marketing costs are expensed as incurred and totaled \$473,377 and \$193,934, for the years ended December 31, 2019 and 2018, respectively.

N. Income Tax Status.

The North Carolina Aquarium Society is a not-for-profit organization exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. It has been classified as an organization that is not a private foundation under Section 509(a)(3) of the Internal Revenue Code. The Society is required to file a Return of Organization Exempt from Income Tax (Form 990) annually with the IRS. In addition, the Society is subject to income tax on net income that is derived from business activities that are unrelated to their exempt purpose. The Society files an Exempt Organization Business Income Tax Return (Form 990-T) with the IRS to report its unrelated business taxable income on specific gift shop merchandise items. If applicable, penalties and interest assessed by income taxing authorities related to uncertain tax positions are included as interest expense in the statements of activities and changes in net assets.

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SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

O. Estimates.

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

P. Change in Accounting Principle.

In August 2016, FASB issued ASU 2016-15, *Statement of Cash Flows (Topic 230), Classification of Certain Cash Receipts and Cash Payments*. This guidance is intended to reduce the diversity in practice in how certain transactions are classified in the statement of cash flows. In addition, in November 2016, FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230), Restricted Cash*. This ASU provides additional guidance related to transfers between cash and restricted cash and how entities present, in their statements of cash flows, the cash receipts and cash payments that directly affect the restricted cash accounts. The Society has adopted these provisions in the accompanying financial statements.

FASB Accounting Standards Codification Topic 606, *Revenue from Contracts with Customers*, as amended, supersedes or replaces nearly all GAAP revenue recognition guidance. These standards establish a new contract and control-based revenue recognition model, change the basis for deciding when revenue is recognized over time or at a point in time, and expand disclosures about revenue. The Society has implemented Topic 606 and have adjusted the presentation in these financial statements accordingly. The amendments have been applied retrospectively to all periods presented, with no effect on net assets.

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NOTES TO FINANCIAL STATEMENTS

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LIQUIDITY AND AVAILABILITY

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the balance sheet date, comprise the following:

Liquid current financial assets:	
Cash and cash equivalents	\$ 1,081,756
Promises to give - current, net	215,900
Sales tax and other receivables	204,217
Investments	<u>7,036,425</u>
	<u>8,538,298</u>
Less amounts unavailable for general expenditures	
within one year, due to:	
Restrictions by donors	(800,742)
Restrictions by board designations	<u>(3,729,853)</u>
	<u>(4,530,595)</u>
Financial assets available to meet cash needs for	
general expenditures within one year	<u>\$ 4,007,703</u>

The Society's endowment funds consist of donor-restricted endowments. Income from donor-restricted endowments is restricted for specific purposes, with the exception of the amounts available for general use. Donor-restricted endowment funds are not available for general expenditure.

As part of the Society's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In addition, the Society invests cash in excess of daily requirements in short-term investments, CDs, and money market funds. To help manage unanticipated liquidity needs, the Society has a board-designated operating reserve of \$2.5 million. Although the Society, does not intend to spend from its board-designated operating reserve other than amounts appropriated for general expenditure as part of its annual budget approval and appropriation process, amounts from its board designated operating reserve could be made available if necessary. The board-designated operating reserve may be drawn upon, in the event of financial distress or an immediate liquidity need resulting from events outside the typical life cycle of converting financial assets to cash or settling financial liabilities.

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LIQUIDITY AND AVAILABILITY (CONTINUED).

Additionally, the Society has a contractual commitment to the NC Aquariums for \$1.2 million annually for operational support, in addition to any specifically requested capital support. Board-designated commitments to the NC Aquariums include any approved unspent support from the previous year. As of December 31, 2019, the Society has a board-designated commitment of \$731,282 to the NC Aquariums. The designated support is not reflected in the accompanying liquidity and availability schedule above. Although the Society does not intend to spend from its board-designated support commitment, amounts could be made available if necessary in the event of financial distress.

FINANCIAL INSTRUMENTS AND CREDIT RISK

The Society invested in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such change could materially affect the amounts reported in the statements of financial position.

PROMISES TO GIVE

Promises to give consist of the following at December 31:

	2019	2018
Receivable in less than one year	\$ 215,900	\$ 130,027
Receivable in one to five years	297,125	107,918
Receivable beyond five years	40,625	-
Total gross promises to give	553,650	237,945
Discount at a rate of 3.4% and 2.6%, respectively	(26,112)	(6,093)
Net present value of promises to give	<u>\$ 527,538</u>	<u>\$ 231,852</u>

FAIR VALUE OF ASSETS

U.S. GAAP defines fair value 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. It also establishes a fair value hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are those that market participants would use in pricing the asset or liability based on market data obtained from sources independent of the Society. Unobservable inputs reflect the Society's assumptions about the inputs market participants would use in pricing the asset or liability developed based on the best information available in the circumstances.

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FAIR VALUE OF ASSETS (CONTINUED)

The fair value hierarchy is categorized into three levels based on the inputs as follows:

Level 1 - Quoted prices are available in active markets for identical assets as of the reporting date.

Level 2 - Valuations based on inputs other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, are valued at prices for similar assets or liabilities in markets that are not active, or determined through the use of models or other valuation methodologies.

Level 3 - Pricing inputs are unobservable and include situations where there is little, if any, market activity for the asset. Fair value for these assets is determined using valuation methodologies that consider a range of factors, including but not limited to the price at which the asset was acquired, the nature of the asset, local market conditions, trading values on public exchanges for comparable securities, current and projected operating performance and financing transactions subsequent to the acquisition of the asset. The inputs into the determination of fair value require significant management judgment. Due to the inherent uncertainty of these estimates, these values may differ materially from the values that would have been used had a ready market for these assets existed.

The Society's investments are classified as Level 1 and Level 2. No assets or liabilities are classified as Level 3.

There were no changes during the years ending December 31, 2019 and 2018, to the Society's valuation techniques used to measure asset values on a recurring basis.

The following table summarizes the assets of the Society for which fair value is determined on a recurring basis as of December 31, 2019. As required by U.S. GAAP, assets are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

Investments held with bond trustee do not include cash and cash equivalents totaling \$1,875,429 at December 31, 2019.

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments:				
Equity securities	\$ 2,548,477	\$ -	\$ -	\$ 2,548,477
Mutual funds	2,435,439	-	-	2,435,439
Bonds	-	2,052,509	-	2,052,509
Total investments	<u>4,983,916</u>	<u>2,052,509</u>	<u>-</u>	<u>7,036,425</u>
Investments held with bond trustee:				
U.S. Government bonds	<u>1,966,497</u>	<u>-</u>	<u>-</u>	<u>1,966,497</u>
	<u>\$ 6,950,413</u>	<u>\$ 2,052,509</u>	<u>\$ -</u>	<u>\$ 9,002,922</u>

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FAIR VALUE OF ASSETS (CONTINUED)

The following table summarizes the assets of the Society for which fair value is determined on a recurring basis as of December 31, 2018. As required by U.S. GAAP, assets are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

Investments held with bond trustee do not include cash and cash equivalents totaling \$1,730,489 at December 31, 2018.

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments:				
Equity securities	\$ 1,217,212	\$ -	\$ -	\$ 1,217,212
Mutual funds	1,935,295	-	-	1,935,295
Bonds	-	1,854,587	-	1,854,587
Total investments	<u>3,152,507</u>	<u>1,854,587</u>	<u>-</u>	<u>5,007,094</u>
Investments held with bond trustee:				
U.S. Government bonds	1,946,192	-	-	1,946,192
	<u>\$ 5,098,699</u>	<u>\$ 1,854,587</u>	<u>\$ -</u>	<u>\$ 6,953,286</u>

DEFERRED REVENUE

Membership revenue is recognized monthly over the membership term. Deferred membership dues represent the fair value of membership dues received as of December 31, 2019 and 2018, for membership terms that extend beyond the fiscal year. Deferred membership revenue as of December 31, 2019 and 2018, totaled \$44,051 and \$31,535, respectively.

BOND LOAN PAYABLE

On January 1, 2004, the Society entered into a loan agreement with the North Carolina Capital Facilities Finance Agency (the "Agency") in which the Agency committed to make a loan to the Society in the principal amount of \$26,745,000. The funds were provided from the proceeds of the Agency's issuance of \$26,745,000 Revenue Bonds (North Carolina Aquarium Society Project) Series 2004 (the "Bonds"). The Society used these funds to finance the renovations, construction, and equipping of an expansion of the North Carolina Aquarium at Pine Knoll Shores. Under the terms of the loan agreement, the Society has a general, unconditional obligation to make loan payments sufficient to pay the full amount of the bonds, consisting of principal, interest and redemption payments, if any, in addition to certain other fees and expenses.

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BOND LOAN PAYABLE (CONTINUED)

Under the loan agreement, the bonds are subject to a mandatory sinking fund redemption provision on June 1, of years 2007 through 2026, under the following schedule:

<u>Year</u>	<u>Amount</u>	<u>Year</u>	<u>Amount</u>
2007	\$ 885,000	2017	\$ 1,330,000
2008	925,000	2018	1,385,000
2009	960,000	2019	1,440,000
2010	1,000,000	2020	1,500,000
2011	1,040,000	2021	1,560,000
2012	1,085,000	2022	1,625,000
2013	1,130,000	2023	1,695,000
2014	1,175,000	2024	1,765,000
2015	1,225,000	2025	1,835,000
2016	1,275,000	2026	1,910,000
			<u>\$ 26,745,000</u>

Notwithstanding the sinking fund redemption provision, the bonds may be redeemed partially or in whole, at any time prior to the maturity date. The bonds are also subject to extraordinary optional and mandatory redemption provisions. The bonds will mature on June 1, 2026.

The outstanding bond loan payable totaled \$11,890,000 and \$13,330,000, at December 31, 2019 and 2018, respectively. The future scheduled maturities of the bond loan payable are as follows:

<u>Year Ending December 31,</u>	
2020	\$ 1,500,000
2021	1,560,000
2022	1,625,000
2023	1,695,000
2024	1,765,000
Thereafter	<u>3,745,000</u>
Future scheduled maturities	11,890,000
Bond issuance cost, net amortization	<u>(80,462)</u>
Total bond loan payable	<u>\$ 11,809,538</u>

The fair value of the bond loan payable approximates its carrying value.

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BOND LOAN PAYABLE (CONTINUED)

In accordance with U.S. GAAP, bond issuance costs are presented in the statements of financial position as a reduction of the carrying amount of the long-term bond. The bond issuance costs are then amortized and reported as interest expense. Unamortized bond issuance costs included in bond loan payable on the statements of financial position totals \$80,462 and \$93,001 as of December 31, 2019 and 2018, respectively.

Interest payable on the bond will follow that of the original bonds. The bonds will initially bear interest at a weekly interest rate, and interest is payable on the first business day of each month. The method of determining the interest rate may be changed from time to time to bond interest term rates or long-term interest rates as prescribed in the bond documents. Under the bond interest term rates, interest is payable in arrears on the day next succeeding the last day thereof. Under the long-term interest rate, interest is payable semiannually in arrears, on each May 1 and November 1. At no time shall the bonds bear interest of more than 12% per year. For the years ended December 31, 2019 and 2018, interest expense totaled \$181,126 and \$205,542, respectively.

Bond Loan Annual Fees

The Society is required to pay annual fees related to the activity on the bond loan. Annual payments include trustee fees, administrative fees, rating fees, arbitrage calculations, etc. For the years ended December 31, 2019 and 2018, bond loan annual fees totaled \$111,905 and \$126,300, respectively. The State either reimbursed the Society for fees paid or has directly paid the fees on behalf of the Society. The Society considers these payments to be annual contributions made to the Society.

Bond Loan Issuance Costs

Bond loan issuance costs of \$280,048 relate to the registration and issuance of the revenue bonds and are recorded at cost. These costs are amortized over the life of the bonds using the straight-line method. Amortization of \$12,539 is recorded as interest expense for the years ended December 31, 2019 and 2018, in accordance with U.S. GAAP. Accumulated amortization totaled \$199,586 and \$187,047, for the years ended December 31, 2019 and 2018, respectively. Bond issuance costs are presented net of bond loan payable in the statements of financial position in accordance with U.S. GAAP.

Trust Agreement

There is a trust agreement (the "Agreement") between the Agency and US Bank (the "Trustee") for the purpose of authorizing the bonds and securing the payment. The Agreement requires the proceeds of the bond to be deposited and held by the Trustee in the following four funds: the project fund, the bond fund, the redemption fund, and the debt service reserve fund. Funds held by the Trustee totaled \$3,841,926 and \$3,676,681, as of December 31, 2019 and 2018, respectively.

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BOND LOAN PAYABLE (CONTINUED)**Letter of Credit and Reimbursement Agreement**

Simultaneous with the issuance of the bonds, the Society entered into a letter of credit and reimbursement agreement with Bank of America, N.A. (the "Credit Facility"), for a direct-pay letter of credit in an amount of up to \$27,052,751, of which \$26,745,000 will support the principal of the bonds, and \$307,751 will support up to 35 days' interest at an assumed rate of 12% per annum. The letter of credit is secured by the Pine Knoll Shores Aquarium land, building, and improvements and expires March 31, 2021 with the same terms. The outstanding letter of credit totaled \$12,026,816 and \$13,483,386, at December 31, 2019 and 2018, respectively.

The Trustee will draw on the Credit Facility to make the required payments of principal and interest on the bond and to pay the purchase price of the bonds upon optional or mandatory tender. The Credit Facility carries certain affirmative and negative covenants. The Society is in compliance with the required covenants at December 31, 2019 and 2018.

Lease Agreements

On January 22, 2004, the Society entered into a \$1 ground lease with the State whereby the State is leasing the real property and improvements of the North Carolina Aquarium at Pine Knoll Shores (the "Premises") to the Society in order to facilitate its expansion and renovation of the Premises. The ground lease terminates at midnight on June 1, 2026.

The Society entered into a second lease agreement (the "Sublease") with the State for the purpose of leasing the Premises back to the State for operation. The Sublease requires the State to make base and additional rental payments sufficient enough to pay the debt service on the bond loan payable when it becomes due and payable, along with payment of other related fees and expenses. The obligation of the State to pay the base and additional rentals is absolute and unconditional, but dependent upon and subject to appropriation by the North Carolina General Assembly of Aquarium revenue. The Sublease terminates on June 1, 2026. As of December 31, 2019 and 2018, a lease security deposit of \$1,495,488 is maintained in the debt service fund of the bond trustee accounts as fulfillment of the State's obligation to pay the base and additional rentals.

With the assistance of the Trustee, the State calculates the amount of funds needed to cover the base and additional rentals under the Sublease agreement, after consideration is given to the remaining funds in the Trustee account. The State remitted to the Society lease payments of \$1,690,284 and \$1,596,303, for the years ended December 31, 2019 and 2018. The Society recognized lease revenue totaling \$1,596,303 and \$1,558,454, for the years ended December 31, 2019 and 2018, respectively.

NET ASSETS WITHOUT DONOR RESTRICTIONS: BOARD DESIGNATED

The Society's Board of Directors has established a board-designated operating reserve of \$2.5 million. With approval from the Board of Directors, the board-designated operating reserve may be drawn upon, in the event of financial distress or an immediate liquidity need resulting from events outside the typical life cycle of converting financial assets to cash or settling financial liabilities. No funds were drawn from the operating reserve during 2019 or 2018.

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**NET ASSETS WITHOUT DONOR RESTRICTIONS: BOARD DESIGNATED
(CONTINUED)**

On September 11, 2014, the Society's Board of Directors Executive Committee approved the establishment of the Tetlow and Roy Park Aquarium Legacy Fund for innovative educational programs and exhibits at the Aquariums and Pier. The contributions to the Legacy Fund are matched by an equal amount from the Society. The Society's Board of Directors is responsible for managing the Legacy Fund and making decisions regarding allocation of resources. The Legacy Fund at December 31, 2019 and 2018 totaled \$498,471 and \$374,046, respectively, and is recorded as net assets without donor restrictions.

During 2019, the Society's Board of Directors approved \$1.2 million funding to be used by the Aquariums and Pier through June 30, 2019 for operational support. The operational support is not reflected in the accompanying financial statements. In accordance with U.S. GAAP, the Society will recognize the expense for the support of the Aquariums and Pier when the transfer of assets occur. Board designated net assets include any approved unspent operational and capital support from the previous year. The carryforward amount is \$731,282 at December 31, 2019.

During 2018, the Society's Board of Directors approved \$1.2 million funding to be used by the Aquariums and Pier through June 30, 2019 for operational support and \$1 million to be used by the Fort Fisher Aquarium for an Otter Exhibit capital project. The operational support is not reflected in the accompanying financial statements. In accordance with U.S. GAAP, the Society will recognize the expense for the support of the Aquariums and Pier when the transfer of assets occurs. Board designated net assets include any approved unspent operational and capital support from the previous year. The carryforward amount is \$1,810,195 at December 31, 2018.

ENDOWMENT

U.S. GAAP provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the State Uniform Prudent Management of Institutional Funds Act of 2006 (SPMIFA) and requires additional disclosures about an organization's endowment funds.

Interpretation of Relevant Law

The Board of Directors of The North Carolina Aquarium Society has interpreted SPMIFA 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 Society retains in perpetuity (a) the original value of gifts donated to the endowment, and (b) any accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added. Donor-restricted amounts not retained in perpetuity are subject to appropriation for expenditure by the Society in a manner consistent with the standard of prudence prescribed by SPMIFA.

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ENDOWMENT (CONTINUED)

We consider the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- 1) The duration and preservation of the fund,
- 2) The purposes of the Society and the donor-restricted endowment fund,
- 3) General economic conditions,
- 4) The possible effect of inflation and deflation,
- 5) The expected total return from income and the appreciation of investments,
- 6) Other resources of the Society, and
- 7) The investment policies of the Society.

Return Objectives and Risk Parameters

Endowment assets include those assets of donor-restricted funds that the Society must hold in perpetuity or for a donor-specified period(s). The Society's endowment funds are maintained in mutual funds.

Funds with Deficiencies

From time to time, certain donor-restricted endowment funds may have fair values less than the amount required to be maintained by donors or by law (underwater endowments). The Society has interpreted SPMIFA to permit spending from underwater endowments in accordance with prudent measures required under law. At December 31, 2018, funds with original gift value of \$20,000, fair value of \$19,588, and deficiencies of \$412 were reported in net assets with donor restrictions. These amounts were fully recovered during 2019 due to favorable market conditions.

The changes in endowment net assets for the year ended December 31, 2019, are as follows:

	Without Donor <u>Restrictions</u>	With Donor <u>Restrictions</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ -	\$ 19,588	\$ 19,588
Net investment return:	<u>-</u>	<u>3,868</u>	<u>3,868</u>
Contributions	-	-	-
Appropriation of endowment assets for expenditure	<u>-</u>	<u>(140)</u>	<u>(140)</u>
Endowment net assets, end of year	<u><u>\$ -</u></u>	<u><u>\$ 23,316</u></u>	<u><u>\$ 23,316</u></u>

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ENDOWMENT (CONTINUED)

The changes in endowment net assets for the year ended December 31, 2018, are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ -	\$ 21,055	\$ 21,055
Net investment return:	<u>-</u>	<u>(1,297)</u>	<u>(1,297)</u>
Contributions	-	-	-
Appropriation of endowment assets for expenditure	-	<u>(170)</u>	<u>(170)</u>
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ 19,588</u>	<u>\$ 19,588</u>

Investment and Spending Policy

The Society has adopted investment and spending policies for the endowment that attempt to provide a predictable stream of funding for operations while seeking to maintain the purchasing power of the endowment assets. Over time, long-term rates of return should be equal to an amount sufficient to maintain the purchasing power of the endowment assets and to cover the costs of managing the endowment investments. The target minimum rate of return is the weighted average of the MSCI all Country World Index (60%), Bloomberg Barclays Capital US Aggregate (37.5%) and the Bank of America Merrill Lynch 3 Month Treasury Bill Index (2.5%) on an annual basis. Actual returns in any given year may vary from this amount. To satisfy this long-term rate-of-return objective, the investment portfolio is structured on a total-return approach through which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). A significant portion of the funds are invested to seek growth of principal over time. The Board of Directors determines the endowment spending-rate on an annual basis.

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NETS ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are restricted for the following purposes or periods:

	<u>2019</u>	<u>2018</u>
Subject to expenditure for specified purpose:		
Aquarium and Pier experience	\$ 198,774	\$ 92,247
Conservation, sustainability, and education programs	397,187	331,574
Capital projects	-	7,750
Promises to give, the proceeds from which have been restricted by donor for		
Aquarium and Pier experience	172,215	77,635
Conservation, sustainability, and education programs	<u>198,000</u>	<u>53,555</u>
	<u>966,176</u>	<u>562,761</u>
Subject to the passage of time:		
Promises to give that are not restricted by donors, but which are unavailable for expenditure until due	262,888	170,826
Endowments:		
Subject to Society's endowment spending policy and appropriation:		
Donor-restricted endowment	20,000	20,000
Earnings on endowment	3,316	-
Underwater Endowment	<u>-</u>	<u>(412)</u>
With Donor Restrictions, net assets	<u>\$ 1,252,380</u>	<u>\$ 753,175</u>

OPERATING LEASE

At December 31, 2019 and 2018, the Society is obligated under an office space lease agreement in Raleigh, North Carolina through February 2022. The agreement requires monthly payments of \$10,309 as of December 31, 2019 with a 3% increase annually. Future minimum lease payments under the lease agreement at December 31, 2019 are as follows:

<u>Year Ending December 31,</u>	
2020	127,417
2021	131,251
2022	<u>22,535</u>
	<u>\$ 281,203</u>

In accordance with U.S. GAAP, lease payments are recognized ratably over the lease agreement. Rent expense under the lease agreement totaled \$124,546, for the years ended December 31, 2019 and 2018. Deferred rent recorded totaled \$11,353 and \$11,829, at December 31, 2019 and 2018, respectively.

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OPERATING LEASE (CONTINUED)

The State reimburses the Society for office space utilized under the lease agreement. In March 2018, the lease agreement was renegotiated to extend the term through February 2021 and increase the monthly reimbursement payment from \$1,551 to \$2,000. Lease payment reimbursements totaled \$24,000 and \$23,102 for the years ended December 31, 2019 and 2018, respectively. Minimum lease rentals through 2021 under the lease agreement total \$24,000 in 2020 and \$4,000 in 2021. Rent expense gifted to the State totaled \$17,075 and \$16,912, for the years ended December 31, 2019 and 2018, respectively.

EMPLOYEE BENEFIT PLANS

The Society has a defined contribution retirement plan covering employees who have completed one month of service. The Society makes an annual contribution of ten percent of each qualified employees' salary. The Society also has a 401(k) plan which allows employees to make contributions and the Society matches up to 3% of the employee's contribution. Employee benefit plan expenses totaled \$196,636 and \$173,537, for the years ended December 31, 2019 and 2018, respectively.

SICK LEAVE PAY

Employees can accrue up to 2,000 hours of sick leave. Effective December 1, 2014, any employee who has reached 55 years of age and has worked with the Society for three years is entitled to receive all unpaid sick leave upon retirement. As of December 31, 2019 and 2018, accrued sick leave totaled \$254,253 and \$233,211, respectively. Accrued sick leave is reflected as part of accrued wages and benefits in the statements of financial position.

INCOME TAXES

The Society records revenue for gift shop sales. Various merchandise sold in the gift shops is considered unrelated business income. The Society files federal and state corporate income tax returns and records in the financial statements the corresponding income tax expense for tax owed on the unrelated business income. Unrelated business income tax expense recorded for the years ended December 31, 2019 and 2018, totaled \$18,024 and \$24,488, respectively.

CONCENTRATIONS

The Society received approximately 34% and 40% of its revenue for the years ended December 31, 2019 and 2018, respectively, from the operation of the Aquariums' gift shops. If the Society was to no longer be responsible for the Aquariums' gift shops and the relationship terminates, the impact could be financially significant to the Society.

The Society received approximately 20% and 25% of its revenue for the years ended December 31, 2019 and 2018, respectively, from the State of North Carolina. The Society is dependent on this revenue to service the debt on the bond loan payable and associated fees.

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RELATED PARTY TRANSACTIONS

The Society purchases and resells several books written by the President and several puzzles illustrated by the Director of Retail Operations. The total cost of books and puzzles purchased for the years ended December 31, 2019 and 2018, were \$1,100 and \$5,253, respectively.

Members of the Board of Directors and management of the Society make contributions for the support of general operations and the Society's programs and exhibits. The Society received contributions from related parties totaling \$424,324 and \$168,136, at December 31, 2019 and 2018, respectively. The Society had outstanding related party promises to give of \$261,000 and \$37,500, at December 31, 2019 and 2018, respectively.

NORTH CAROLINA AQUARIUM AND PIER SUPPORT

In providing support to the Aquarium/Pier, the Society contributed \$44,996 and \$42,278 for the year ended December 31, 2019 and 2018, respectively, to go toward supplementing the salaries of the four Aquarium/Pier directors and the division director.

The Society provided direct and indirect support to the Aquarium/Pier of \$2,647,092 and \$1,348,159 for the year ended December 31, 2019, respectively. Included within the \$2,647,092 of direct support is \$1,647,092 in specific operational support and \$1,000,000 in capital support. The Society provided direct and indirect support to the Aquarium/Pier of \$2,247,513 and \$1,385,027 for the year ended December 31, 2019 and 2018, respectively.

FUNCTIONAL ALLOCATION OF EXPENSES

The financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include depreciation, which is allocated on square footage, and salaries, employee benefits, payroll taxes, professional fees, travel, and supplies and equipment, which are allocated on the basis of time and effort.

RECLASSIFICATIONS

Certain reclassifications have been made to the 2018 financial statements in order to conform to the 2019 presentation. Such reclassifications had no effect on net assets.

SUBSEQUENT EVENTS

Management has evaluated subsequent events for recognition or disclosure through April 15, 2020, which was the date that the financial statements were available to be issued.

On January 30, 2020, the World Health Organization (WHO) announced a global health emergency because of a new strain of coronavirus originating in Wuhan, China (the COVID-19 outbreak) and the risks to the international community as the virus spreads globally beyond its point of origin. In March 2020, the WHO classified the COVID-19 outbreak as a pandemic, based on the rapid increase in exposure globally.

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SUBSEQUENT EVENTS (CONTINUED)

The full impact of the COVID-19 outbreak continues to evolve as of the date of this report. As such, it is uncertain as to the full magnitude that the pandemic will have on the Society's financial condition, liquidity, and future results of operations. Management is actively monitoring the global situation on its financial condition, liquidity, operations, suppliers, industry, and workforce. Given the daily evolution of the COVID-19 outbreak and the global responses to curb its spread, the Society is not able to estimate the effects of the COVID-19 outbreak on its results of operations, financial condition, or liquidity for calendar year 2020.

Based on the economic impact of COVID-19, The fair value of the investment portfolio has declined approximately 19% to a balance of \$5,931,518 as of March 31, 2020.

Management did not identify any other events that occurred subsequent to year-end that require disclosure in these financial statements.