

THE NORTH CAROLINA AQUARIUM SOCIETY
Raleigh, North Carolina
AUDITED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019



**NORTH CAROLINA
AQUARIUM SOCIETY**

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INDEPENDENT AUDITOR'S REPORT

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, 2020 and 2019, 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, 2020 and 2019, 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.

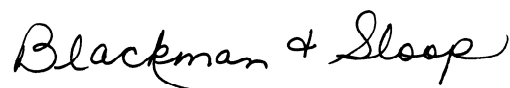
Other Matters***Other Information***

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated July 6, 2021, on our consideration of The North Carolina Aquarium Society's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance.

That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering The North Carolina Aquarium Society's internal control over financial reporting and compliance.



Chapel Hill, North Carolina
July 6, 2021

THE NORTH CAROLINA AQUARIUM SOCIETY

STATEMENTS OF FINANCIAL POSITION

December 31, 2020 and 2019

EXHIBIT A

Page 1 of 2

ASSETS

	<u>2020</u>	<u>2019</u>
CURRENT ASSETS:		
Cash and cash equivalents	\$ 6,429,586	\$ 1,081,756
Promises to give - current, net	267,400	215,900
Sales tax and other receivables	137,026	204,217
Investments	2,531,892	7,036,425
Inventory	937,403	728,973
Other current assets	91,981	101,885
TOTAL CURRENT ASSETS	<u>10,395,288</u>	<u>9,369,156</u>
PROPERTY AND EQUIPMENT:		
Aquarium expansion project	26,001,951	26,001,951
Equipment, furniture, and fixtures	675,779	679,039
Leasehold improvements	211,580	211,580
	<u>26,889,310</u>	<u>26,892,570</u>
Less: accumulated depreciation	<u>(10,230,361)</u>	<u>(9,480,539)</u>
NET PROPERTY AND EQUIPMENT	<u>16,658,949</u>	<u>17,412,031</u>
OTHER ASSETS:		
Cash and investments held with bond trustee	3,897,577	3,841,926
Investment return receivable	6,419	32,985
Promises to give - noncurrent, net	579,015	311,638
TOTAL OTHER ASSETS	<u>4,483,011</u>	<u>4,186,549</u>
TOTAL ASSETS	<u>\$ 31,537,248</u>	<u>\$ 30,967,736</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, 2020 and 2019

EXHIBIT A

Page 2 of 2

LIABILITIES AND NET ASSETS

	<u>2020</u>	<u>2019</u>
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	\$ 127,592	\$ 193,966
Accrued wages and benefits	229,026	447,329
Bond loan accrued expenses	30,030	21,569
Deferred revenue - current	29,108	40,493
Deferred rent - current	-	2,871
Bond loan payable - current	<u>1,560,000</u>	<u>1,500,000</u>
TOTAL CURRENT LIABILITIES	<u>1,975,756</u>	<u>2,206,228</u>
NONCURRENT LIABILITIES:		
Deferred revenue - noncurrent	2,680	3,558
Deferred rent - noncurrent	16,562	8,482
NC Aquariums security deposit	1,495,488	1,495,488
Unearned aquarium lease revenue	1,577,751	1,690,284
Bond loan payable - noncurrent	8,762,076	10,309,538
Paycheck Protection Program loan	<u>494,600</u>	<u>-</u>
TOTAL NONCURRENT LIABILITIES	<u>12,349,157</u>	<u>13,507,350</u>
TOTAL LIABILITIES	<u>14,324,913</u>	<u>15,713,578</u>
NET ASSETS:		
Without donor restrictions:		
Undesignated	10,869,852	10,272,025
Board-designated	<u>3,910,112</u>	<u>3,729,753</u>
Total without donor restrictions	<u>14,779,964</u>	<u>14,001,778</u>
With donor restrictions	<u>2,432,371</u>	<u>1,252,380</u>
TOTAL NET ASSETS	<u>17,212,335</u>	<u>15,254,158</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 31,537,248</u>	<u>\$ 30,967,736</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

For the Years Ended December 31, 2020 and 2019

EXHIBIT B

Page 1 of 2

	2020			2019
	Without Donor Restrictions	With Donor Restrictions	Total	Total
SUPPORT AND REVENUE:				
Gift shop sales	\$ 724,081	\$ -	\$ 724,081	\$ 5,695,012
Less: cost of goods sold	(285,706)	-	(285,706)	(2,251,151)
Net gift shop sales	438,375	-	438,375	3,443,861
Concessions	141,698	-	141,698	377,729
Membership	821,073	-	821,073	1,767,581
In-kind contributions	259,070	-	259,070	277,061
Contributions, grants, and sponsorships	278,881	3,079,537	3,358,418	1,318,966
NC Aquarium lease revenue and contributions	1,798,195	-	1,798,195	1,710,135
Other income	474	7,322	7,796	10,338
Investment return, net	210,842	3,480	214,322	1,101,985
	<u>3,948,608</u>	<u>3,090,339</u>	<u>7,038,947</u>	<u>10,007,656</u>
Net assets released from restrictions	1,895,519	(1,895,519)	-	-
TOTAL SUPPORT AND REVENUE	<u>5,844,127</u>	<u>1,194,820</u>	<u>7,038,947</u>	<u>10,007,656</u>
EXPENSES:				
Program services:				
Aquarium/Pier support	2,242,010	-	2,242,010	3,995,251
Gift shop	1,515,146	-	1,515,146	2,222,628
Membership development	343,904	-	343,904	430,545
Total program services	<u>4,101,060</u>	<u>-</u>	<u>4,101,060</u>	<u>6,648,424</u>
Supporting services:				
Management and general	776,485	-	776,485	794,106
Fundraising	188,396	-	188,396	214,913
Total Supporting Services	<u>964,881</u>	<u>-</u>	<u>964,881</u>	<u>1,009,019</u>
TOTAL FUNCTIONAL EXPENSES	<u>5,065,941</u>	<u>-</u>	<u>5,065,941</u>	<u>7,657,443</u>
Bad debt expense	-	14,829	14,829	95,480
TOTAL EXPENSES	<u>5,065,941</u>	<u>14,829</u>	<u>5,080,770</u>	<u>7,752,923</u>
CHANGES IN NET ASSETS	778,186	1,179,991	1,958,177	2,254,733
NET ASSETS - BEGINNING OF YEAR	<u>14,001,778</u>	<u>1,252,380</u>	<u>15,254,158</u>	<u>12,999,425</u>
NET ASSETS - END OF YEAR	<u>\$ 14,779,964</u>	<u>\$ 2,432,371</u>	<u>\$ 17,212,335</u>	<u>\$ 15,254,158</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, 2020 and 2019

Page 2 of 2

	2019		Total
	Without Donor Restrictions	With Donor Restrictions	
SUPPORT AND REVENUE:			
Gift shop sales	\$ 5,695,012	\$ -	\$ 5,695,012
Less: cost of goods sold	(2,251,151)		(2,251,151)
Net gift shop sales	3,443,861	-	3,443,861
Concessions	377,729	-	377,729
Membership	1,767,581	-	1,767,581
In-kind contributions	277,061	-	277,061
Contributions, grants, and sponsorships	204,073	1,114,893	1,318,966
NC Aquarium lease revenue and contributions	1,710,135	-	1,710,135
Other income	3,908	6,430	10,338
Investment return, net	1,098,257	3,728	1,101,985
	<u>8,882,605</u>	<u>1,125,051</u>	<u>10,007,656</u>
Net assets released from restrictions	530,927	(530,927)	-
TOTAL SUPPORT AND REVENUE	<u>9,413,532</u>	<u>594,124</u>	<u>10,007,656</u>
EXPENSES:			
Program services:			
Aquarium/Pier support	3,995,251	-	3,995,251
Gift shop	2,222,628	-	2,222,628
Membership development	430,545	-	430,545
Total program services	<u>6,648,424</u>	<u>-</u>	<u>6,648,424</u>
Supporting services:			
Management and general	794,106	-	794,106
Fundraising	214,913	-	214,913
Total Supporting Services	<u>1,009,019</u>	<u>-</u>	<u>1,009,019</u>
TOTAL FUNCTIONAL EXPENSES	<u>7,657,443</u>	<u>-</u>	<u>7,657,443</u>
Bad debt expense	561	94,919	95,480
TOTAL EXPENSES	<u>7,658,004</u>	<u>94,919</u>	<u>7,752,923</u>
CHANGES IN NET ASSETS	1,755,528	499,205	2,254,733
NET ASSETS - BEGINNING OF YEAR	<u>12,246,250</u>	<u>753,175</u>	<u>12,999,425</u>
NET ASSETS - END OF YEAR	<u>\$ 14,001,778</u>	<u>\$ 1,252,380</u>	<u>\$ 15,254,158</u>

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

THE NORTH CAROLINA AQUARIUM SOCIETY

STATEMENTS OF CASH FLOWS

EXHIBIT C

For the Years Ended December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	\$ 1,958,177	\$ 2,254,733
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	753,082	750,721
Amortization of bond issuance costs	12,539	12,539
Realized gain on sale of investments	(258,327)	(125,314)
Unrealized loss (gain) on investments	168,017	(713,035)
Increase in cash arising from changes in assets and liabilities:		
Promises to give	(318,877)	(295,686)
Sales tax and other receivables	67,191	(56,348)
Inventory	(208,430)	(123,846)
Other current assets	9,904	(25,062)
Accounts payable and accrued expenses	(66,374)	72,034
Accrued wages and benefits	(218,303)	(186,742)
Bond loan accrued expenses	8,461	(9,646)
Deferred revenue	(12,263)	12,516
Deferred rent	5,209	(476)
Unearned aquarium lease revenue	(112,533)	93,981
NET CASH FLOWS PROVIDED BY OPERATING ACTIVITIES	<u>1,787,473</u>	<u>1,660,369</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	-	(122,952)
Redemption of certificates of deposit	-	654,849
Purchase of investments	(2,559,242)	(6,871,908)
Proceeds from sale of investments	7,167,717	5,701,226
Change in investment return receivable	26,566	(10,026)
Redemption of bond held with board trustee	1,435,000	-
Change in investments held with bond trustee	(25,003)	(40,605)
NET CASH FLOWS PROVIDED BY (USED IN) INVESTING ACTIVITIES	<u>6,045,038</u>	<u>(689,416)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from Paycheck Protection Program Loan	494,600	-
Principal payment on bond loan	(1,500,000)	(1,440,000)
NET CASH FLOWS USED IN INVESTING ACTIVITIES	<u>(1,005,400)</u>	<u>(1,440,000)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	6,827,111	(469,047)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>2,957,185</u>	<u>3,426,232</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 9,784,296</u>	<u>\$ 2,957,185</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS:		
Cash and cash equivalents	\$ 6,429,586	\$ 1,081,756
Cash held with bond trustee	<u>3,354,710</u>	<u>1,875,429</u>
Total cash and cash equivalents	<u>9,784,296</u>	<u>2,957,185</u>
SUPPLEMENTAL INFORMATION:		
Cash paid during the year for interest	\$ 80,271	\$ 189,551
Cash paid during the year for unrelated business income taxes	<u>\$ 21,440</u>	<u>\$ 21,000</u>
In-kind contributions	<u>\$ 259,070</u>	<u>\$ 277,061</u>

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

THE NORTH CAROLINA AQUARIUM SOCIETY

STATEMENTS OF FUNCTIONAL EXPENSES

For the Years Ended December 31, 2020 and 2019

Exhibit D

Page 1 of 2

	Program Services				Supporting Services			2020	2019
	Aquarium/Pier Support	Gift Shop	Membership Development	Total	Management and General	Fundraising	Total	Grand Total	Total
Salaries	\$ 105,194	\$ 695,394	\$ 161,783	\$ 962,371	\$ 374,220	\$ 115,227	\$ 489,447	\$ 1,451,818	\$ 1,791,040
Employee benefits	27,214	226,612	47,739	301,565	88,443	23,185	111,628	413,193	480,720
Payroll taxes	8,929	58,189	12,089	79,207	25,203	7,904	33,107	112,314	133,004
Total salaries and related expenses	141,337	980,195	221,611	1,343,143	487,866	146,316	634,182	1,977,325	2,404,764
Advertising and promotion	122,556	374	-	122,930	115	6,791	6,906	129,836	473,377
Aquarium and pier personnel and supplements	43,967	-	-	43,967	-	-	-	43,967	165,253
Aquarium Scholars and education grants	17,223	-	-	17,223	-	-	-	17,223	141,971
Bank and merchant service fees	5,418	9,722	9,040	24,180	9,053	-	9,053	33,233	132,150
Bond interest and fees expense	185,218	-	-	185,218	-	-	-	185,218	305,570
Conservation and sustainability grants	102,831	-	-	102,831	-	-	-	102,831	94,500
Displays and fixtures	173,735	2,149	-	175,884	-	-	-	175,884	45,309
Dues and subscriptions	35,328	106	-	35,434	2,200	70	2,270	37,704	44,626
Facility and equipment rent	21,505	18,370	11,416	51,291	76,255	2,792	79,047	130,338	158,415
Freight	4,431	31,416	1,649	37,496	356	2,709	3,065	40,561	168,092
Insurance	-	9,577	-	9,577	34,162	-	34,162	43,739	39,759
Jennette's Pier operational support	300,000	-	-	300,000	-	-	-	300,000	250,000
Licenses and fees	11,382	240	-	11,622	4,694	-	4,694	16,316	18,264
Loss on damaged goods	-	12,734	-	12,734	-	-	-	12,734	32,156
Member benefit	-	-	6,498	6,498	-	-	-	6,498	20,037
Miscellaneous	10,776	5,757	-	16,533	5,714	-	5,714	22,247	69,326
Postage and printing	29,226	5,525	65,264	100,015	192	545	737	100,752	137,703
Professional fees	27,713	48,537	18,269	94,519	125,384	20,519	145,903	240,422	253,228
Renovation of Conservatory for Otter Exhibit Fort Fisher	-	-	-	-	-	-	-	-	1,000,000
Repairs and maintenance	33,530	1,659	2,779	37,968	1,606	3,970	5,576	43,544	57,031
Special events	56,580	-	-	56,580	-	-	-	56,580	26,049
Staff development and training	33,204	1,795	115	35,114	2,043	-	2,043	37,157	86,169
Supplies and equipment	118,530	16,423	910	135,863	5,546	1,590	7,136	142,999	195,221
Telephone and internet	38,038	31,663	4,691	74,392	10,183	2,086	12,269	86,661	70,092
Travel, subsistence, and meetings	39,629	12,784	1,346	53,759	1,346	1,008	2,354	56,113	231,575
Bad debt expense	-	-	-	-	14,829	-	14,829	14,829	95,480
COVID-19	7,682	4,584	-	12,266	1,275	-	1,275	13,541	-
Income taxes	-	-	-	-	366	-	366	366	18,024
Total other expenses	1,418,502	213,415	121,977	1,753,894	295,319	42,080	337,399	2,091,293	4,329,377
Total expenses before depreciation and in-kind expenses	1,559,839	1,193,610	343,588	3,097,037	783,185	188,396	971,581	4,068,618	6,734,141
Depreciation	666,717	77,920	316	744,953	8,129	-	8,129	753,082	750,721
In-kind marketing, services, supplies	15,454	-	-	15,454	-	-	-	15,454	5,369
In-kind facility rent	-	243,616	-	243,616	-	-	-	243,616	262,692
Total expenses	2,242,010	1,515,146	343,904	4,101,060	791,314	188,396	979,710	5,080,770	7,752,923
Less: Bad debt expense	-	-	-	-	(14,829)	-	(14,829)	(14,829)	(95,480)
Total functional expenses	\$ 2,242,010	\$ 1,515,146	\$ 343,904	\$ 4,101,060	\$ 776,485	\$ 188,396	\$ 964,881	\$ 5,065,941	\$ 7,657,443

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

THE NORTH CAROLINA AQUARIUM SOCIETY

STATEMENTS OF FUNCTIONAL EXPENSES

For the Years Ended December 31, 2020 and 2019

Exhibit D

Page 2 of 2

	Program Services				Supporting Services			2019 Total
	Aquarium/Pier Support	Gift Shop	Membership Development	Total	Management and General	Fundraising	Total	
Salaries	\$ 110,162	\$ 1,061,700	\$ 167,875	\$ 1,339,737	\$ 349,629	\$ 101,674	\$ 451,303	\$ 1,791,040
Employee benefits	32,065	269,923	48,933	350,921	103,484	26,315	129,799	480,720
Payroll taxes	11,320	79,931	12,372	103,623	20,040	9,341	29,381	133,004
Total salaries and related expenses	153,547	1,411,554	229,180	1,794,281	473,153	137,330	610,483	2,404,764
Advertising and promotion	458,837	910	4,130	463,877	-	9,500	9,500	473,377
Aquarium and pier personnel and supplements	165,253	-	-	165,253	-	-	-	165,253
Aquarium Scholars and education grants	141,971	-	-	141,971	-	-	-	141,971
Bank and investment fees	22,147	80,635	16,345	119,127	13,023	-	13,023	132,150
Bond interest and fees expense	305,570	-	-	305,570	-	-	-	305,570
Conservation and sustainability grants	94,500	-	-	94,500	-	-	-	94,500
Displays and fixtures	34,021	4,654	5,372	44,047	450	812	1,262	45,309
Dues and subscriptions	35,735	-	100	35,835	6,195	2,596	8,791	44,626
Facility and equipment rent	42,086	28,730	13,455	84,271	71,046	3,098	74,144	158,415
Freight	880	157,816	2,453	161,149	2,152	4,791	6,943	168,092
Insurance	-	9,572	-	9,572	30,187	-	30,187	39,759
Jennette's Pier operational support	250,000	-	-	250,000	-	-	-	250,000
Licenses and fees	8,319	839	549	9,707	8,457	100	8,557	18,264
Loss on damaged goods	-	32,156	-	32,156	-	-	-	32,156
Member benefit	-	-	20,037	20,037	-	-	-	20,037
Miscellaneous	55,051	6,033	393	61,477	7,849	-	7,849	69,326
Postage and printing	43,052	986	91,257	135,295	180	2,228	2,408	137,703
Professional fees	72,016	35,683	21,390	129,089	105,202	18,937	124,139	253,228
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
Special events	22,667	-	-	22,667	-	3,382	3,382	26,049
Staff development and training	64,952	4,962	1,385	71,299	14,870	-	14,870	86,169
Supplies and equipment	110,126	54,103	2,726	166,955	16,789	11,477	28,266	195,221
Telephone and internet	29,018	23,671	4,539	57,228	11,064	1,800	12,864	70,092
Travel, subsistence, and meetings	175,640	28,224	13,236	217,100	5,618	8,857	14,475	231,575
Bad debt expense	-	-	-	-	95,480	-	95,480	95,480
Income taxes	-	-	-	-	18,024	-	18,024	18,024
Total other expenses	3,169,618	473,583	200,209	3,843,410	408,384	77,583	485,967	4,329,377
Total expenses before depreciation and in-kind expenses	3,323,165	1,885,137	429,389	5,637,691	881,537	214,913	1,096,450	6,734,141
Depreciation	666,717	74,799	1,156	742,672	8,049	-	8,049	750,721
In-kind marketing, services, supplies	5,369	-	-	5,369	-	-	-	5,369
In-kind facility rent	-	262,692	-	262,692	-	-	-	262,692
Total expenses	3,995,251	2,222,628	430,545	6,648,424	889,586	214,913	1,104,499	7,752,923
Less: Bad debt expense	-	-	-	-	(95,480)	-	(95,480)	(95,480)
Total functional expenses	\$ 3,995,251	\$ 2,222,628	\$ 430,545	\$ 6,648,424	\$ 794,106	\$ 214,913	\$ 1,009,019	\$ 7,657,443

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.

THE NORTH CAROLINA AQUARIUM SOCIETY

NOTES TO FINANCIAL STATEMENTS

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SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Promises to Give.

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, 2020 and 2019, 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 and online 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.

THE NORTH CAROLINA AQUARIUM SOCIETY

NOTES TO FINANCIAL STATEMENTS

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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, 2020 and 2019.

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, support and revenue, 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, 2020 and 2019, the value of donated space totaled \$243,616 and \$262,692, 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, 2020 and 2019, donated marketing services and supplies totaled \$15,454 and \$5,369, 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. Revenue from gift shop sales at December 31, 2020 and 2019 amounted to \$724,081 and \$5,695,012, respectively. Membership dues revenue at December 31, 2020 and 2019 amounted to \$821,073 and \$1,767,581, respectively. Deferred membership dues amounted to \$31,788 and \$44,051 at December 31, 2020 and 2019, respectively.

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 \$129,836 and \$473,377, for the years ended December 31, 2020 and 2019, 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.

THE NORTH CAROLINA AQUARIUM SOCIETY

NOTES TO FINANCIAL STATEMENTS

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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. New Accounting Pronouncements.

In June 2018, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This standard assists entities in evaluating whether transactions should be accounted for as contributions or exchange transactions and determining whether a contribution is conditional. The Society has implemented the provisions of ASU 2018-08 applicable to both contributions received and to contributions made in the accompanying financial statements under a modified prospective basis. Accordingly, there is no effect on net assets in connection with the implementation of ASU 2018-08.

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:

	<u>2020</u>	<u>2019</u>
Liquid current financial assets:		
Cash and cash equivalents	\$ 6,429,586	\$ 1,081,756
Promises to give - current, net	267,400	215,900
Sales tax and other receivables	137,026	204,217
Investments	<u>2,531,892</u>	<u>7,036,425</u>
	<u>9,365,904</u>	<u>8,538,298</u>
Less amounts unavailable for general expenditures within one year, due to:		
Restrictions by donors	(1,725,184)	(800,742)
Restrictions by board designations	<u>(3,910,112)</u>	<u>(3,729,853)</u>
	<u>(5,635,296)</u>	<u>(4,530,595)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 3,730,608</u>	<u>\$ 4,007,703</u>

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

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LIQUIDITY AND AVAILABILITY (CONTINUED)

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. 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. On March 17, 2020, the NC Aquariums closed to the public as mandated by the Governor of the State of North Carolina in response to the COVID-19 pandemic. As a result, the revenues and cash flows related to gift shop sales and membership were negatively impacted creating financial distress for the Society. The Society appropriated \$700,000, from the its board-designated operating reserve for general expenditures as part of its annual budget approval and appropriation process to compensate for the loss of revenue.

The Society has a contractual commitment to the NC Aquariums for \$1.5 million, for operational support in 2020, in addition, to any specifically requested capital support. Board-designated commitments to the NC Aquariums includes any approved unspent support from the previous year. As of December 31, 2020, the Society has a board-designated commitment of \$1,416,159, 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.

THE NORTH CAROLINA AQUARIUM SOCIETY

NOTES TO FINANCIAL STATEMENTS

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PROMISES TO GIVE

Promises to give consist of the following at December 31:

	<u>2020</u>	<u>2019</u>
Receivable in less than one year	\$ 267,400	\$ 215,900
Receivable in one to five years	387,125	297,125
Receivable beyond five years	<u>225,000</u>	<u>40,625</u>
Total gross promises to give	879,525	553,650
Discount at a rate of 2.0% and 3.4%, respectively	<u>(33,110)</u>	<u>(26,112)</u>
Net present value of promises to give	<u>\$ 846,415</u>	<u>\$ 527,538</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.

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, 2020 and 2019, to the Society's valuation techniques used to measure asset values on a recurring basis.

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NOTES TO FINANCIAL STATEMENTS

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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, 2020. 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 \$3,354,710, at December 31, 2020.

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments:				
Equity securities	\$ 910,720	\$ -	\$ -	\$ 910,720
Mutual funds	932,658	-	-	932,658
Bonds	-	688,514	-	688,514
Total investments	<u>1,843,378</u>	<u>688,514</u>	<u>-</u>	<u>2,531,892</u>
Investments held with bond trustee:				
U.S. Government bonds	<u>542,867</u>	<u>-</u>	<u>-</u>	<u>542,867</u>
	<u>\$ 2,386,245</u>	<u>\$ 688,514</u>	<u>\$ -</u>	<u>\$ 3,074,759</u>

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>

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

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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, 2020 and 2019, for membership terms that extend beyond the fiscal year. Deferred membership revenue as of December 31, 2020 and 2019, totaled \$31,788 and \$44,051, respectively.

PAYCHECK PROTECTION PROGRAM LOAN

The Society received a loan of \$494,600, from First Citizens Bank on May 4, 2020, pursuant to the Paycheck Protection Program (PPP) under Division A, Title 1 of the Coronavirus Aid, Relief, and Economic Security Act (CARES Act), which was enacted March 27, 2020. The interest rate is 1% per annum, payable monthly commencing ten months following the end of the covered period as defined by the Small Business Administration (SBA). The Loan is guaranteed by the SBA and matures five years from the date of disbursement. There are no application or other fees associated with the loan. Proceeds may be used to pay compensation and benefit costs in order to retain workers and to make mortgage interest payments, lease payments, and utility payments. The Society intends to use the entire loan amount for qualifying expenses. Under the terms of the PPP, some or all of the loan may be forgiven if the funds are used for qualifying expenses as described by the CARES act.

Subsequent to signing the original loan agreement, the SBA issued additional guidelines giving the Society 10 months from the last day of the 24-week covered period to apply for loan forgiveness. Once the application is submitted, the lender has 60 days to act on the application and forward its recommendation to the SBA, who then has 90 days to act on that recommendation and remit the forgiveness proceeds to the lender, at which point the payments on the unforgiven balance, if any, of the loan would begin. If the Society does not apply for loan forgiveness, the earliest date for commencement of payments of principal and interest is 10 months after the last day of the 24-week covered period.

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.

THE NORTH CAROLINA AQUARIUM SOCIETY

NOTES TO FINANCIAL STATEMENTS

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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 \$10,390,000 and \$11,890,000, at December 31, 2020 and 2019, respectively. The future scheduled maturities of the bond loan payable are as follows:

<u>Year Ending December 31,</u>	
2021	\$ 1,560,000
2022	1,625,000
2023	1,695,000
2024	1,765,000
2025	1,835,000
Thereafter	1,910,000
Future scheduled maturities	10,390,000
Bond issuance cost, net amortization	(67,923)
Total bond loan payable	<u>\$ 10,322,077</u>

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

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 \$67,923 and \$80,462, as of December 31, 2020 and 2019, respectively.

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BOND LOAN PAYABLE (CONTINUED)

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, 2020 and 2019, interest expense totaled \$70,121 and \$181,126, 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, 2020 and 2019, bond loan annual fees totaled \$102,430 and \$111,905, 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, 2020 and 2019, in accordance with U.S. GAAP. Accumulated amortization totaled \$212,125 and \$199,586, for the years ended December 31, 2020 and 2019, 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 \$3,897,577 and \$3,841,926, as of December 31, 2020 and 2019, respectively.

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 \$10,509,556 and \$12,026,816, at December 31, 2020 and 2019, respectively.

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NOTES TO FINANCIAL STATEMENTS

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BOND LOAN PAYABLE (CONTINUED)

Letter of Credit and Reimbursement Agreement (continued)

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, 2020 and 2019.

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, 2020 and 2019, 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 \$1,577,751 and \$1,690,284, for the years ended December 31, 2020 and 2019. The Society recognized lease revenue totaling \$1,690,284 and \$1,596,303, for the years ended December 31, 2020 and 2019, respectively.

NET ASSETS WITHOUT DONOR RESTRICTIONS: BOARD DESIGNATED

Board-designated net assets consists of unrestricted income which the board has designated for operating and capital reserve or program services use. Since all board-designated net assets result from an internal designation, they are not considered net assets with donor restrictions, but are classified and reported as net assets without donor restrictions.

	<u>2020</u>	<u>2019</u>
Operating reserves	\$ 1,800,000	\$ 2,500,000
Capital reserves	100,000	-
Park Aquarium Legacy Fund for education and exhibits	593,953	498,471
Board-designated unspent annual commitment to the NC Aquariums	<u>1,416,159</u>	<u>731,282</u>
Board Designated, net assets	<u>\$ 3,910,112</u>	<u>\$ 3,729,753</u>

THE NORTH CAROLINA AQUARIUM SOCIETY

NOTES TO FINANCIAL STATEMENTS

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NET ASSETS WITH DONOR RESTRICTIONS

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

	<u>2020</u>	<u>2019</u>
Subject to expenditure for specified purpose:		
Aquarium and Pier experience	\$ 871,183	\$ 198,774
Conservation, sustainability, and education programs	593,323	397,187
Promises to give, the proceeds from which have been restricted by donor for		
Aquarium and Pier experience	156,162	172,215
Conservation, sustainability, and education programs	255,017	198,000
Capital campaign	415,000	-
	<u>2,290,685</u>	<u>966,176</u>
Subject to the passage of time:		
Promises to give that are not restricted by donors, but which are unavailable for expenditure until due	114,890	262,888
Endowments:		
Subject to Society's endowment spending policy and appropriation:		
Donor-restricted endowment	20,000	20,000
Earnings on endowment	6,796	3,316
	<u>2,432,371</u>	<u>1,252,380</u>
Net Assets With Donor Restrictions	<u>\$ 2,432,371</u>	<u>\$ 1,252,380</u>

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.

THE NORTH CAROLINA AQUARIUM SOCIETY

NOTES TO FINANCIAL STATEMENTS

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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. As of December 31, 2020 and 2019, the endowment funds were above the required amounts.

The changes in endowment net assets for the year ended December 31, 2020, are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ -	\$ 23,316	\$ 23,316
Net investment return:	-	3,667	3,667
Contributions	-	-	-
Appropriation of endowment assets for expenditure	-	(187)	(187)
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ 26,796</u>	<u>\$ 26,796</u>

THE NORTH CAROLINA AQUARIUM SOCIETY

NOTES TO FINANCIAL STATEMENTS

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ENDOWMENT (CONTINUED)

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

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

THE NORTH CAROLINA AQUARIUM SOCIETY

NOTES TO FINANCIAL STATEMENTS

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OPERATING LEASE

At December 31, 2020 and 2019, the Society is obligated under an office space lease agreement in Raleigh, North Carolina. In September 2020, the lease agreement was renegotiated to extend the term through February 2023 and defer base rent payments by 50% for six months from October 2020 to March 2021. Base rent payments of \$10,144, are due as of December 31, 2020, with a 3% increase annually. Future minimum lease payments under the lease agreement at December 31, 2020, are as follows:

<u>Year Ending December 31,</u>	
2021	\$ 109,722
2022	160,073
2023	<u>22,182</u>
	<u>\$ 291,977</u>

In accordance with U.S. GAAP, lease payments are recognized ratably over the lease agreement. Rent expense under the lease agreement totaled \$110,779 and \$124,546, for the years ended December 31, 2020 and 2019, respectively. Deferred rent recorded totaled \$16,562 and \$11,353, at December 31, 2020 and 2019, respectively.

The State reimburses the Society for office space utilized under the lease agreement. The monthly reimbursement totals \$2,000. Lease payment reimbursements totaled \$20,000 and \$24,000, for the years ended December 31, 2020 and 2019, respectively. Rent expense gifted to the State totaled \$17,017 and \$17,075, for the years ended December 31, 2020 and 2019, 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. As a result of the Society's financial condition due to COVID-19, the defined contribution plan was frozen effective October 1, 2020 to be reinstated April 1, 2021. 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 \$177,983 and \$196,636, for the years ended December 31, 2020 and 2019, respectively.

SICK LEAVE PAY

Employees can accrue up to 2,000 hours of sick leave. Employees who have reached 55 year of age and have worked with the Society for three years are entitled to receive all unpaid sick leave upon retirement. As of December 31, 2020 and 2019, accrued sick leave totaled \$153,491 and \$254,253, respectively. Accrued sick leave is reflected as part of accrued wages and benefits in the statements of financial position.

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

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CONTINGENCIES

The ongoing novel coronavirus (“COVID-19”) pandemic and restrictions on non-essential businesses have caused disruption in the U.S. and global economies. Despite significant market rebounds across many asset classes, the continued rapid development of this situation and uncertainty regarding potential economic recovery precludes any prediction as to the ultimate adverse impact of COVID-19 on financial market and economic conditions. The estimates and assumptions underlying these financial statements are based on the information available as of December 31, 2020, including judgments about the financial market and economic conditions which may change over time.

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, 2020 and 2019, totaled \$366 and \$18,024, respectively.

CONCENTRATIONS

The Society received approximately 34% of its revenue for the year ended December 31, 2019, from the operation of the Aquariums’ gift shops.

The Society received approximately 46% and 20% of its revenue for the years ended December 31, 2020 and 2019, 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.

RELATED PARTY TRANSACTIONS

The Society purchases and resells several books written by the President and several puzzles and ornaments illustrated by the Director of Retail Operations. The total cost of books, puzzles and ornaments purchased for the years ended December 31, 2020 and 2019, were \$435 and \$1,100, 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 \$137,555 and \$424,324, at December 31, 2020 and 2019, respectively. The Society had outstanding related party promises to give of \$155,000 and \$261,000, at December 31, 2020 and 2019, respectively.

NORTH CAROLINA AQUARIUM AND PIER SUPPORT

In providing support to the Aquarium/Pier, the Society contributed \$43,967 and \$44,996, for the years ended December 31, 2020 and 2019, respectively, to go toward supplementing the salaries of the four Aquarium/Pier directors and the division director.

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

Page 18 of 18

NORTH CAROLINA AQUARIUM AND PIER SUPPORT (CONTINUED)

The Society provided direct and indirect support to the Aquarium/Pier of \$1,148,848 and \$1,093,162, for the year ended December 31, 2020, respectively. 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.

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 2019 financial statements in order to conform to the 2020 presentation. Such reclassifications had no effect on net assets.

SUBSEQUENT EVENTS

Management has evaluated subsequent events for recognition or disclosure through July 6, 2021, which was the date that the financial statements were available to be issued.

The Society received a second PPP loan of \$385,000, from First Citizens Bank on February 26, 2021. The interest rate is 1% per annum, payable monthly commencing ten months following the end of the covered period as defined by the SBA. The loan is guaranteed by the SBA Administration and matures five years from the date of disbursement. There are no application or other fees associated with the loan. The Society intends to use the entire loan amount for qualifying expenses. Under the terms of the PPP, some or all of the loan may be forgiven if the funds are used for qualifying expenses as described by the CARES act.

On March 15, 2021, the Society reopened the gift shops to the public following a year long closure as a result of COVID-19 pandemic. The gift shops are operating at reduced capacity following guidelines provided by the North Carolina Department of Health and Human Services.

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

THE NORTH CAROLINA AQUARIUM SOCIETY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended December 31, 2020

Federal/State Grantor/ Pass-through Grantor/ Program Title	Federal CFDA Number	Agency or Pass-through Number	Total Expenditures	Expenditures to Subrecipients
U.S. Department of the Treasury Passed through North Carolina Department of Natural and Cultural Resources COVID-19 Coronavirus Relief Funds	21.019	20-1892-0-1-806	\$ 1,500,000	\$ -

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of The North Carolina Aquarium Society, under programs of the federal government for the year ended December 31, 2020. The information in this Schedule is presented in accordance with requirements of *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements of Federal Awards* (Uniform Guidance). Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Because the Schedule presents only a selected portion of the operations of The North Carolina Aquarium Society, it is not intended and does not present the financial position, changes in net assets, or cash flows of The North Carolina Aquarium Society.

The North Carolina Aquarium Society has elected not to use the 10 percent de minimis indirect cost rate as allowed under the Uniform Guidance.

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INDEPENDENT AUDITOR’S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of The North Carolina Aquarium Society (a nonprofit organization), which comprise the statement of financial position as of December 31, 2020, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated July 6, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered The North Carolina Aquarium Society’s internal control over financial reporting (“internal control”) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of The North Carolina Aquarium Society’s internal control. Accordingly, we do not express an opinion on the effectiveness of the Society’s internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether The North Carolina Aquarium Society's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Society's internal control or on compliance. This report is an integral part of an audit performed with *Government Auditing Standards* in considering the Foundation's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Blackman & Sloop

Chapel Hill, North Carolina
July 6, 2021

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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE
UNIFORM GUIDANCE**

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

Report on Compliance for Each Major Federal Program

We have audited The North Carolina Aquarium Society's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of The North Carolina Aquarium Society's major federal programs for the year ended December 31, 2020. The North Carolina Aquarium Society's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of The North Carolina Aquarium Society's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about The North Carolina Aquarium Society's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances.

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We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of The North Carolina Aquarium Society's compliance.

Opinion on Each Major Federal Program

In our opinion, The North Carolina Aquarium Society complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2020.

Report on Internal Control Over Compliance

Management of The North Carolina Aquarium Society is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered The North Carolina Aquarium Society's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of The North Carolina Aquarium Society's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Purpose of this Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Blackman & Sloop

Chapel Hill, North Carolina
July 6, 2021

THE NORTH CAROLINA AQUARIUM SOCIETY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended December 31, 2020

A. Summary of Auditor's Results

1. The auditor's report expresses an unmodified opinion on the financial statements of The North Carolina Aquarium Society
2. No material weaknesses or significant deficiencies relating to the audit of the financial statements are reported in the "Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*."
3. No instances of noncompliance, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
4. No material weaknesses or significant deficiencies relating to the audit of the major federal award program is reported in the "Independent Auditor's Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by the Uniform Guidance."
5. The auditor's report on compliance for the major federal award program for The North Carolina Aquarium Society, expresses an unmodified opinion on the major federal program.
6. No audit findings that are required to be reported in accordance with 2 CFR Section 200.5516(a) are reported in this schedule.
7. The Coronavirus Relief Fund (CFDA #21.019) was tested as a major program.
8. The threshold for distinguishing Type A and B programs was \$750,000.
9. The North Carolina Aquarium Society did not qualify as a low-risk auditee.

B. Findings - Financial Statements Audit

None

C. Findings and Questioned Costs - Major Federal Award Programs Audit

None