

**THE NORTH CAROLINA AQUARIUM SOCIETY**  
**Raleigh, North Carolina**  
**AUDITED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020**



**NORTH CAROLINA  
AQUARIUM SOCIETY**

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Carla G. Daniel, EA  
Andrea W. Eason, CPA, CGMA  
Ben Johnson, CPA, MBA  
Robin H. McDuffie, CPA, CGMA  
M. Neely McLaughlin, CPA, MBA, CGMA  
Deetra B. Watson, CPA, CGMA



MEMBERS:  
American Institute of  
Certified Public Accountants  
  
North Carolina Association of  
Certified Public Accountants

## **INDEPENDENT AUDITOR'S REPORT**

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

### ***Opinion***

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, 2021 and 2020, 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.

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, 2021 and 2020, 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.

### ***Basis for Opinion***

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of The North Carolina Aquarium Society, and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***Responsibilities of Management 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about The North Carolina Aquarium Society's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

**BLACKMAN & SLOOP, CPAs, PA.**

Phone/919.942.8700 • Fax/919.968.4766 • Toll Free/877.854.7530  
The Exchange West at Meadowmont • 1414 Raleigh Road, Suite 300 • Chapel Hill, North Carolina 27517  
www.b-scpa.com • email:cpa@b-scpa.com

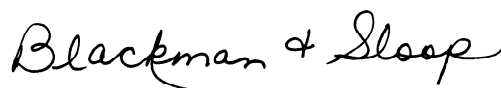
***Auditor's Responsibility for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 North Carolina Aquarium Society's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about The North Carolina Aquarium Society's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.



Chapel Hill, North Carolina  
April 29, 2022

## THE NORTH CAROLINA AQUARIUM SOCIETY

## STATEMENTS OF FINANCIAL POSITION

December 31, 2021 and 2020

EXHIBIT A

Page 1 of 2

ASSETS

	<u>2021</u>	<u>2020</u>
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 5,176,383	\$ 6,429,586
Promises to give - current, net	219,125	267,400
Sales tax and other receivables	251,105	137,026
Investments	8,688,261	2,531,892
Inventory	627,905	937,403
Other current assets	120,091	91,981
<b>TOTAL CURRENT ASSETS</b>	<u>15,082,870</u>	<u>10,395,288</u>
<b>PROPERTY AND EQUIPMENT:</b>		
Aquarium expansion project	26,001,951	26,001,951
Equipment, furniture, and fixtures	683,761	675,779
Leasehold improvements	211,580	211,580
	<u>26,897,292</u>	<u>26,889,310</u>
Less: accumulated depreciation	<u>(10,972,982)</u>	<u>(10,230,361)</u>
<b>NET PROPERTY AND EQUIPMENT</b>	<u>15,924,310</u>	<u>16,658,949</u>
<b>OTHER ASSETS:</b>		
Cash and investments held with bond trustee	3,959,425	3,897,577
Investment return receivable	7,153	6,419
Promises to give - noncurrent, net	614,643	579,015
<b>TOTAL OTHER ASSETS</b>	<u>4,581,221</u>	<u>4,483,011</u>
<b>TOTAL ASSETS</b>	<u>\$ 35,588,401</u>	<u>\$ 31,537,248</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, 2021 and 2020

EXHIBIT A

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LIABILITIES AND NET ASSETS

	<u>2021</u>	<u>2020</u>
<b>CURRENT LIABILITIES:</b>		
Accounts payable and accrued expenses	\$ 428,092	\$ 127,592
Accrued wages and benefits	284,782	229,026
Bond loan accrued expenses	8,115	30,030
Deferred revenue - current	51,742	29,108
Deferred rent - current	995	-
Bond loan payable - current	<u>1,625,000</u>	<u>1,560,000</u>
<b>TOTAL CURRENT LIABILITIES</b>	<u>2,398,726</u>	<u>1,975,756</u>
<b>NONCURRENT LIABILITIES:</b>		
Deferred revenue - noncurrent	5,354	2,680
Deferred rent - noncurrent	32,959	16,562
NC Aquariums security deposit	1,495,488	1,495,488
Unearned aquarium lease revenue	1,624,846	1,577,751
Bond loan payable - noncurrent	7,149,618	8,762,076
Paycheck Protection Program loan	<u>385,000</u>	<u>494,600</u>
<b>TOTAL NONCURRENT LIABILITIES</b>	<u>10,693,265</u>	<u>12,349,157</u>
<b>TOTAL LIABILITIES</b>	<u>13,091,991</u>	<u>14,324,913</u>
<b>NET ASSETS:</b>		
Without donor restrictions:		
Undesignated	14,161,312	10,869,852
Board-designated	<u>5,533,088</u>	<u>3,910,112</u>
Total without donor restrictions	<u>19,694,400</u>	<u>14,779,964</u>
With donor restrictions	<u>2,802,010</u>	<u>2,432,371</u>
<b>TOTAL NET ASSETS</b>	<u>22,496,410</u>	<u>17,212,335</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 35,588,401</u>	<u>\$ 31,537,248</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, 2021 and 2020

Page 1 of 2

	2021			2020
	Without Donor Restrictions	With Donor Restrictions	Total	Total
<b>SUPPORT AND REVENUE:</b>				
Gift shop sales	\$ 7,048,582	\$ -	\$ 7,048,582	\$ 724,081
Less: cost of goods sold	(2,691,478)	-	(2,691,478)	(285,706)
Net gift shop sales	4,357,104	-	4,357,104	438,375
Concessions	378,244	-	378,244	141,698
Membership	1,550,076	-	1,550,076	821,073
In-kind contributions	301,711	-	301,711	259,070
Contributions, grants, and sponsorships	966,250	1,017,186	1,983,436	3,358,418
NC Aquarium lease revenue and contributions	1,669,265	-	1,669,265	1,798,195
Other income	3,633	2,800	6,433	7,796
Investment return, net	541,225	2,969	544,194	214,322
	9,767,508	1,022,955	10,790,463	7,038,947
Net assets released from restrictions	653,316	(653,316)	-	-
<b>TOTAL SUPPORT AND REVENUE</b>	<b>10,420,824</b>	<b>369,639</b>	<b>10,790,463</b>	<b>7,038,947</b>
<b>EXPENSES:</b>				
Program services:				
Aquarium/Pier support	2,347,704	-	2,347,704	2,242,010
Gift shop	1,871,948	-	1,871,948	1,515,146
Membership development	354,392	-	354,392	343,904
Total program services	4,574,044	-	4,574,044	4,101,060
Supporting services:				
Management and general	725,142	-	725,142	776,485
Fundraising	207,202	-	207,202	188,396
Total Supporting Services	932,344	-	932,344	964,881
<b>TOTAL FUNCTIONAL EXPENSES</b>	<b>5,506,388</b>	<b>-</b>	<b>5,506,388</b>	<b>5,065,941</b>
Bad debt expense	-	-	-	14,829
<b>TOTAL EXPENSES</b>	<b>5,506,388</b>	<b>-</b>	<b>5,506,388</b>	<b>5,080,770</b>
<b>CHANGES IN NET ASSETS</b>	<b>4,914,436</b>	<b>369,639</b>	<b>5,284,075</b>	<b>1,958,177</b>
<b>NET ASSETS - BEGINNING OF YEAR</b>	<b>14,779,964</b>	<b>2,432,371</b>	<b>17,212,335</b>	<b>15,254,158</b>
<b>NET ASSETS - END OF YEAR</b>	<b>\$ 19,694,400</b>	<b>\$ 2,802,010</b>	<b>\$ 22,496,410</b>	<b>\$ 17,212,335</b>

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, 2021 and 2020

Page 2 of 2

	2020		
	Without Donor Restrictions	With Donor Restrictions	Total
<b>SUPPORT AND REVENUE:</b>			
Gift shop sales	\$ 724,081	\$ -	\$ 724,081
Less: cost of goods sold	(285,706)		(285,706)
Net gift shop sales	438,375	-	438,375
Concessions	141,698	-	141,698
Membership	821,073	-	821,073
In-kind contributions	259,070	-	259,070
Contributions, grants, and sponsorships	278,881	3,079,537	3,358,418
NC Aquarium lease revenue and contributions	1,798,195	-	1,798,195
Other income	474	7,322	7,796
Investment return, net	210,842	3,480	214,322
	<u>3,948,608</u>	<u>3,090,339</u>	<u>7,038,947</u>
Net assets released from restrictions	1,895,519	(1,895,519)	-
<b>TOTAL SUPPORT AND REVENUE</b>	<u>5,844,127</u>	<u>1,194,820</u>	<u>7,038,947</u>
<b>EXPENSES:</b>			
Program services:			
Aquarium/Pier support	2,242,010	-	2,242,010
Gift shop	1,515,146	-	1,515,146
Membership development	343,904	-	343,904
Total program services	<u>4,101,060</u>	<u>-</u>	<u>4,101,060</u>
Supporting services:			
Management and general	776,485	-	776,485
Fundraising	188,396	-	188,396
Total Supporting Services	<u>964,881</u>	<u>-</u>	<u>964,881</u>
<b>TOTAL FUNCTIONAL EXPENSES</b>	<u>5,065,941</u>	<u>-</u>	<u>5,065,941</u>
Bad debt expense	-	14,829	14,829
<b>TOTAL EXPENSES</b>	<u>5,065,941</u>	<u>14,829</u>	<u>5,080,770</u>
<b>CHANGES IN NET ASSETS</b>	778,186	1,179,991	1,958,177
<b>NET ASSETS - BEGINNING OF YEAR</b>	<u>14,001,778</u>	<u>1,252,380</u>	<u>15,254,158</u>
<b>NET ASSETS - END OF YEAR</b>	<u>\$ 14,779,964</u>	<u>\$ 2,432,371</u>	<u>\$ 17,212,335</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, 2021 and 2020

	<u>2021</u>	<u>2020</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Changes in net assets	\$ 5,284,075	\$ 1,958,177
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	745,642	753,082
Amortization of bond issuance costs	12,539	12,539
Realized gain on sale of investments	(326,559)	(258,327)
Unrealized loss (gain) on investments	(123,216)	168,017
Forgiveness of Paycheck Protection Program loan	(494,600)	-
Donated stock	(39,162)	-
Increase in cash arising from changes in assets and liabilities:		
Promises to give	12,647	(318,877)
Sales tax and other receivables	(114,079)	67,191
Inventory	309,498	(208,430)
Other current assets	(28,110)	9,904
Accounts payable and accrued expenses	300,500	(66,374)
Accrued wages and benefits	55,756	(218,303)
Bond loan accrued expenses	(21,915)	8,461
Deferred revenue	25,308	(12,263)
Deferred rent	17,392	5,209
Unearned aquarium lease revenue	47,095	(112,533)
<b>NET CASH FLOWS PROVIDED BY OPERATING ACTIVITIES</b>	<u>5,662,811</u>	<u>1,787,473</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchase of property and equipment	(11,003)	-
Purchase of investments	(7,978,139)	(2,559,242)
Proceeds from sale of investments	2,310,710	7,167,717
Change in investment return receivable	(734)	26,566
Redemption of bond held with board trustee	-	1,435,000
Change in investments held with bond trustee	13,025	(25,003)
<b>NET CASH FLOWS (USED IN) PROVIDED BY INVESTING ACTIVITIES</b>	<u>(5,666,141)</u>	<u>6,045,038</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from Paycheck Protection Program Loan	385,000	494,600
Principal payment on bond loan	(1,560,000)	(1,500,000)
<b>NET CASH FLOWS USED IN INVESTING ACTIVITIES</b>	<u>(1,175,000)</u>	<u>(1,005,400)</u>
<b>NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS</b>	(1,178,330)	6,827,111
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<u>9,784,296</u>	<u>2,957,185</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<u>\$ 8,605,966</u>	<u>\$ 9,784,296</u>
<b>RECONCILIATION OF CASH AND CASH EQUIVALENTS:</b>		
Cash and cash equivalents	\$ 5,176,383	\$ 6,429,586
Cash held with bond trustee	3,429,583	3,354,710
Total cash and cash equivalents	<u>\$ 8,605,966</u>	<u>\$ 9,784,296</u>
<b>SUPPLEMENTAL INFORMATION:</b>		
Cash paid during the year for interest	<u>\$ 4,688</u>	<u>\$ 80,271</u>
Cash paid during the year for unrelated business income taxes	<u>\$ -</u>	<u>\$ 21,440</u>
In-kind contributions	<u>\$ 301,711</u>	<u>\$ 259,070</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, 2021 and 2020

Exhibit D

Page 1 of 2

	Program Services				Supporting Services			2021 Grand Total	2020 Total
	Aquarium/Pier Support	Gift Shop	Membership Development	Total	Management and General	Fundraising	Total		
Salaries	\$ 66,836	\$ 869,577	\$ 165,396	\$ 1,101,809	\$ 311,363	\$ 115,170	\$ 426,533	\$ 1,528,342	\$ 1,451,818
Employee benefits	11,372	168,143	50,868	230,383	86,216	21,072	107,288	337,671	413,193
Payroll taxes	5,031	65,922	12,225	83,178	22,754	8,131	30,885	114,063	112,314
Total salaries and related expenses	83,239	1,103,642	228,489	1,415,370	420,333	144,373	564,706	1,980,076	1,977,325
Advertising and promotion	133,670	1,484	201	135,355	75	1,023	1,098	136,453	129,836
Aquarium and pier personnel and supplements	51,455	-	-	51,455	-	-	-	51,455	43,967
Aquarium Scholars and education grants	62,832	-	-	62,832	-	-	-	62,832	17,223
Bank and merchant service fees	7,877	104,564	23,469	135,910	15,172	-	15,172	151,082	33,233
Board expenses	13,726	-	-	13,726	-	-	-	13,726	-
Bond interest and fees expense	108,489	-	-	108,489	-	-	-	108,489	185,218
Conservation and sustainability grants	56,100	-	-	56,100	-	-	-	56,100	102,831
Displays and fixtures	126,256	954	72	127,282	120	3,256	3,376	130,658	175,884
Dues and subscriptions	35,221	106	-	35,327	4,513	6,176	10,689	46,016	37,704
Facility and equipment rent	20,401	15,965	11,071	47,437	80,012	2,876	82,888	130,325	130,338
Freight	2,089	142,743	733	145,565	70	1,338	1,408	146,973	40,561
Insurance	-	10,120	-	10,120	21,413	-	21,413	31,533	43,739
Jennette's Pier operational support	250,000	-	-	250,000	-	-	-	250,000	300,000
Licenses and fees	8,404	120	25	8,549	2,319	1,925	4,244	12,793	16,316
Loss on damaged goods	-	29,531	-	29,531	-	-	-	29,531	12,734
Member benefit	-	-	6,025	6,025	-	-	-	6,025	6,498
Miscellaneous	6,365	15,202	35	21,602	6,510	-	6,510	28,112	22,247
Postage and printing	1,275	3,830	61,408	66,513	172	4,519	4,691	71,204	100,752
Professional fees	272,592	40,265	12,914	325,771	121,819	20,801	142,620	468,391	240,422
Repairs and maintenance	99,792	6,915	1,729	108,436	2,439	10,203	12,642	121,078	43,544
Special events	173	210	-	383	-	-	-	383	56,580
Staff development and training	38,733	5,067	210	44,010	7,488	137	7,625	51,635	37,157
Supplies and equipment	167,983	25,522	1,192	194,697	2,126	6,998	9,124	203,821	142,999
Telephone and internet	37,676	31,953	5,772	75,401	10,721	2,007	12,728	88,129	86,661
Travel, subsistence, and meetings	45,146	10,940	1,047	57,133	796	1,570	2,366	59,499	56,113
Bad debt expense	-	-	-	-	-	-	-	-	14,829
COVID-19	174	1,054	-	1,228	10	-	10	1,238	13,541
Income taxes	-	-	-	-	21,478	-	21,478	21,478	366
Total other expenses	1,546,429	446,545	125,903	2,118,877	297,253	62,829	360,082	2,478,959	2,091,293
Total expenses before depreciation and in-kind expenses	1,629,668	1,550,187	354,392	3,534,247	717,586	207,202	924,788	4,459,035	4,068,618
Depreciation	666,717	71,369	-	738,086	7,556	-	7,556	745,642	753,082
In-kind marketing, services, supplies	51,319	-	-	51,319	-	-	-	51,319	15,454
In-kind facility rent	-	250,392	-	250,392	-	-	-	250,392	243,616
Total expenses	2,347,704	1,871,948	354,392	4,574,044	725,142	207,202	932,344	5,506,388	5,080,770
Less: Bad debt expense	-	-	-	-	-	-	-	-	(14,829)
Total functional expenses	\$ 2,347,704	\$ 1,871,948	\$ 354,392	\$ 4,574,044	\$ 725,142	\$ 207,202	\$ 932,344	\$ 5,506,388	\$ 5,065,941

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, 2021 and 2020

Exhibit D

Page 2 of 2

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

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, 2021 and 2020, 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, 2021 and 2020.

## I. 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 various reserves and projects and commitments to the North Carolina Aquariums.

*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.

## J. 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, 2021 and 2020, the value of donated space totaled \$250,392 and \$243,616, respectively.

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

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**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****J. 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, 2021 and 2020, donated marketing services and supplies totaled \$51,319 and \$15,454, respectively.

**K. 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. Payments are required at the time of sale or start of the membership period. Membership dues received in advance are deferred to the applicable period.

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 substantially met.

**L. Advertising and Marketing.**

Advertising and marketing costs are expensed as incurred and totaled \$136,453 and \$129,836, for the years ended December 31, 2021 and 2020, respectively.

**M. 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)**

N. 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.

**LIQUIDITY AND AVAILABILITY**

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statements of financial position, comprise the following at December 31:

	2021	2020
Liquid current financial assets:		
Cash and cash equivalents	\$ 5,176,383	\$ 6,429,586
Promises to give - current, net	219,125	267,400
Sales tax and other receivables	251,105	137,026
Investments	8,688,261	2,531,892
	14,334,874	9,365,904
Less amounts unavailable for general expenditures within one year, due to:		
Restrictions by donors	(2,117,367)	(1,725,184)
Restrictions by board designations	(5,533,088)	(3,910,112)
	(7,650,455)	(5,635,296)
Financial assets available to meet cash needs for general expenditures within one year	\$ 6,684,419	\$ 3,730,608



**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 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 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. On November 6, 2021, the Society reestablished the board-designated operating reserve to \$2.5 million.

The Society has a contractual commitment to the Aquariums for \$1.4 million, for operational support in 2021, in addition, to any specifically requested capital support. Board-designated commitments to the Aquariums includes any approved unspent support from the previous year. As of December 31, 2021, the Society has a board-designated commitment of \$1,850,152 to the 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:

	2021	2020
Receivable in less than one year	\$ 219,125	\$ 267,400
Receivable in one to five years	479,000	387,125
Receivable beyond five years	162,500	225,000
Total gross promises to give	860,625	879,525
Discount at a rate of 1.2% and 2.0%, respectively	(26,857)	(33,110)
Net present value of promises to give	\$ 833,768	\$ 846,415

#### 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, 2021 and 2020, to the Society's valuation techniques used to measure asset values on a recurring basis.

## THE NORTH CAROLINA AQUARIUM SOCIETY

## 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, 2021. 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 \$3,429,583 at December 31, 2021.

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<b>Investments:</b>				
Equity securities	\$ 5,905,573	\$ -	\$ -	\$ 5,905,573
Mutual funds	1,908,199	-	-	1,908,199
Bonds	-	874,489	-	874,489
<b>Total investments</b>	<u>7,813,772</u>	<u>874,489</u>	<u>-</u>	<u>8,688,261</u>
<b>Investments held with bond trustee:</b>				
U.S. Government bonds	529,842	-	-	529,842
	<u>\$ 8,343,614</u>	<u>\$ 874,489</u>	<u>\$ -</u>	<u>\$ 9,218,103</u>

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

**THE NORTH CAROLINA AQUARIUM SOCIETY**

**NOTES TO FINANCIAL STATEMENTS**

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**PAYCHECK PROTECTION PROGRAM LOAN**

In May 2020, the Society was granted a loan (the “Loan”) from First Citizens Bank in the amount of \$494,600, 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 in March 2020. The Society used the entire Loan amount for qualifying expenses and was notified the loan was forgiven in its entirety in June 2021. The full amount of the loan was recognized in revenue during year ended December 31, 2021.

In February 2021, the Society was granted a second loan (the “PPP Loan 2”) from First Citizens Bank in the amount of \$385,000. The Society used the entire PPP Loan 2 proceeds for qualifying expenses, but has not yet submitted their application for forgiveness as of December 31, 2021. Management believes the Society has spent all proceeds on qualified expenses, and believes forgiveness of the loan will be granted once the request is submitted.

**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.

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>

**THE NORTH CAROLINA AQUARIUM SOCIETY**

**NOTES TO FINANCIAL STATEMENTS**

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**BOND LOAN PAYABLE (CONTINUED)**

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 \$8,830,000 and \$10,390,000, at December 31, 2021 and 2020, respectively. The future scheduled maturities of the bond loan payable are as follows:

Year Ending December 31,	
2022	\$ 1,625,000
2023	1,695,000
2024	1,765,000
2025	1,835,000
2026	1,910,000
Future scheduled maturities	8,830,000
Bond issuance cost, net amortization	(55,383)
Total bond loan payable	\$ 8,774,617

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 \$55,382 and \$67,923, as of December 31, 2021 and 2020, 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, 2021 and 2020, interest expense totaled \$4,424 and \$70,121, 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, 2021 and 2020, bond loan annual fees totaled \$91,526 and \$102,430, 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.

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

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**BOND LOAN PAYABLE (CONTINUED)****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, 2021 and 2020, in accordance with U.S. GAAP. Accumulated amortization totaled \$224,664 and \$212,125, for the years ended December 31, 2021 and 2020, 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 \$3,959,425 and \$3,897,577, as of December 31, 2021 and 2020, 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. The outstanding letter of credit totaled \$8,931,605 and \$10,509,556, at December 31, 2021 and 2020, 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, 2021 and 2020.

**THE NORTH CAROLINA AQUARIUM SOCIETY**

**NOTES TO FINANCIAL STATEMENTS**

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**BOND LOAN PAYABLE (CONTINUED)**

**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, 2021 and 2020, 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 \$1,624,846 and \$1,577,751, for the years ended December 31, 2021 and 2020. The Society recognized lease revenue totaling \$1,577,751 and \$1,690,284, for the years ended December 31, 2021 and 2020, 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>2021</u>	<u>2020</u>
Operating reserves	\$ 2,500,000	\$ 1,800,000
Capital reserves	521,260	100,000
Park Aquarium Legacy Fund for education and exhibits	661,676	593,953
Board-designated unspent annual commitment to the NC Aquariums	<u>1,850,152</u>	<u>1,416,159</u>
Board Designated, net assets	<u>\$ 5,533,088</u>	<u>\$ 3,910,112</u>

## THE NORTH CAROLINA AQUARIUM SOCIETY

## NOTES TO FINANCIAL STATEMENTS

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**REVENUE FROM CONTRACTS WITH CUSTOMERS***Performance Obligations*

A performance obligation is a promise in a contract to transfer a distinct good or service to the customer and is the unit of account in the revenue standard. The contract transaction price is allocated to each distinct performance obligation and recognized as revenue when, or as, the performance obligation is satisfied. The Society's contracts have obligations that are fulfilled at a single point in time and over a period of time.

*Performance Obligations Satisfied At a Point in Time*

The Society receives revenue for gift shop sales at the time the goods are sold. Gift shop sales revenue totaled \$7,048,582 and \$744,081, at December 31, 2021 and 2020, respectively. There are no contract assets or contract liabilities related to these performance obligations at December 31, 2021 and 2020.

*Performance Obligations Satisfied Over a Period of Time*

The Society receives revenue for memberships which cover multiple accounting periods. Revenue is recognized ratably over the membership term. Membership revenue totaled \$1,550,076 and \$821,073, at December 31, 2021 and 2020, respectively. There are no contract assets related to these performance obligations.

The following table provides information about significant changes in deferred revenue for the years ended December 31, 2021 and 2020:

	2021	2020
Deferred revenue, beginning of year	\$ 31,788	\$ 44,051
Revenue recognized that was included in deferred revenue at the beginning of the year	(27,108)	(42,051)
Increase in deferred revenue due to cash received during the year	<u>52,416</u>	<u>29,788</u>
Deferred revenue, end of year	<u>\$ 57,096</u>	<u>\$ 31,788</u>

*General*

Revenue from gift shop sales and memberships will vary depending on the time of year. The peak months for the Aquariums are the summer months.



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**NET ASSETS WITH DONOR RESTRICTIONS**

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

	2021	2020
Subject to expenditure for specified purpose:		
Aquarium and Pier experience	\$ 966,014	\$ 871,183
Conservation, sustainability, and education programs	797,573	593,323
Promises to give, the proceeds from which have been restricted by donor for:		
Aquarium and Pier experience	211,283	156,162
Conservation, sustainability, and education programs	213,231	255,017
Capital campaign	415,000	415,000
	2,603,101	2,290,685
Subject to the passage of time:		
Promises to give that are not restricted by donors, but which are unavailable for expenditure until due	169,143	114,890
Endowments:		
Subject to Society's endowment spending policy and appropriation:		
Donor-restricted endowment	20,000	20,000
Earnings on endowment	9,766	6,796
	\$ 2,802,010	\$ 2,432,371

**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. As of December 31, 2021 and 2020, the endowment funds were above the required amounts.

The changes in endowment net assets for the year ended December 31, 2021, are as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ -	\$ 26,796	\$ 26,796
Net investment return:	<u>-</u>	<u>3,197</u>	<u>3,197</u>
Contributions	-	-	-
Appropriation of endowment assets for expenditure	<u>-</u>	<u>(227)</u>	<u>(227)</u>
Endowment net assets, end of year	<u><u>\$ -</u></u>	<u><u>\$ 29,766</u></u>	<u><u>\$ 29,766</u></u>

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**ENDOWMENT (CONTINUED)**

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

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

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#### **OPERATING LEASE**

At December 31, 2021 and 2020, 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 \$10,450, are due as of December 31, 2021, with a 3% increase annually. Future minimum lease payments under the lease agreement at December 31, 2021, are as follows:

<u>Year Ending December 31,</u>	
2022	\$ 160,073
2023	<u>22,182</u>
	<u>\$ 182,255</u>

In accordance with U.S. GAAP, lease payments are recognized ratably over the lease agreement. Rent expense under the lease agreement totaled \$116,202 and \$110,779, for the years ended December 31, 2021 and 2020, respectively. Deferred rent recorded totaled \$33,954 and \$16,562, at December 31, 2021 and 2020, respectively.

The State reimburses the Society for office space utilized under the lease agreement. The monthly reimbursement totals \$2,000. Lease payment reimbursements totaled \$24,000 and \$20,000, for the years ended December 31, 2021 and 2020, respectively. Rent expense gifted to the State totaled \$14,138 and \$17,017, for the years ended December 31, 2021 and 2020, 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, and 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 \$122,047 and \$177,983, for the years ended December 31, 2021 and 2020, respectively.

#### **SICK LEAVE PAY**

Employees can accrue up to 2,000 hours of sick leave. Employees who have reached 55 years 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, 2021 and 2020, accrued sick leave totaled \$164,777 and \$153,491, respectively. Accrued sick leave is reflected as part of accrued wages and benefits in the statements of financial position.

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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, 2021, 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, 2021 and 2020, totaled \$21,478 and \$366, respectively.

**CONCENTRATIONS**

The Society received approximately 40% of its revenue for the year ended December 31, 2021, from the operation of the Aquariums’ gift shops.

The Society received approximately 18% and 46% of its revenue for the years ended December 31, 2021 and 2020, 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, 2021 and 2020, were \$1,547 and \$435, 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 \$422,617 and \$137,555, at December 31, 2021 and 2020, respectively. The Society had outstanding related party promises to give of \$190,000 and \$155,000, at December 31, 2021 and 2020, respectively.

**NORTH CAROLINA AQUARIUM AND PIER SUPPORT**

In providing support to the Aquarium/Pier, the Society contributed \$43,968 and \$43,967, for the years ended December 31, 2021 and 2020, 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**

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**NORTH CAROLINA AQUARIUM AND PIER SUPPORT (CONTINUED)**

The Society provided direct and indirect support to the Aquarium/Pier of \$1,371,420 and \$976,284, for the year ended December 31, 2021, respectively. 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.

**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 2020 financial statements in order to conform to the 2021 presentation. Such reclassifications had no effect on net assets.

**SUBSEQUENT EVENTS**

Management has evaluated subsequent events for recognition or disclosure through April 29, 2022, which was the date that the financial statements were available to be issued.

On February 24, 2022, Russia launched a wide-ranging attack (“conflict”) on Ukraine. Disruption of Russian energy exports as a result of the conflict could temporarily contribute to rises in global energy and food prices, which then effects the short-term market volatility seen in U.S. and global financial markets. The full impact of the conflict continues to evolve as of the date of this report. As such, it is uncertain as to the full magnitude that the conflict will have on the valuation of the Society’s investments going forward. The estimates and assumptions underlying these financial statements are based on the information available as of the date of this report, including judgments about the financial market and economic conditions, which may change over time.

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