

**THE NORTH CAROLINA AQUARIUM SOCIETY**  
**Raleigh, North Carolina**  
**AUDITED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021**



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## **INDEPENDENT AUDITOR'S REPORT**

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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, 2022 and 2021, 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, 2022 and 2021, 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.

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***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 27, 2023

## THE NORTH CAROLINA AQUARIUM SOCIETY

## STATEMENTS OF FINANCIAL POSITION

December 31, 2022 and 2021

EXHIBIT A

Page 1 of 2

ASSETS

	<u>2022</u>	<u>2021</u>
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 4,087,824	\$ 5,176,383
Promises to give - current, net	238,125	219,125
Sales tax and other receivables	195,907	251,105
Investments	10,811,145	8,688,261
Inventory	1,079,713	627,905
Other current assets	156,050	120,091
<b>TOTAL CURRENT ASSETS</b>	<u>16,568,764</u>	<u>15,082,870</u>
<b>PROPERTY AND EQUIPMENT:</b>		
Aquarium expansion project	26,001,951	26,001,951
Equipment, furniture, and fixtures	608,904	683,761
Leasehold improvements	211,580	211,580
	<u>26,822,435</u>	<u>26,897,292</u>
Less: accumulated depreciation	<u>(11,632,960)</u>	<u>(10,972,982)</u>
<b>NET PROPERTY AND EQUIPMENT</b>	<u>15,189,475</u>	<u>15,924,310</u>
<b>OTHER ASSETS:</b>		
Cash and investments held with bond trustee	3,993,733	3,959,425
Right of use assets - operating leases	282,551	-
Investment return receivable	12,544	7,153
Promises to give - noncurrent, net	452,509	614,643
<b>TOTAL OTHER ASSETS</b>	<u>4,741,337</u>	<u>4,581,221</u>
<b>TOTAL ASSETS</b>	<u>\$ 36,499,576</u>	<u>\$ 35,588,401</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, 2022 and 2021

EXHIBIT A

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LIABILITIES AND NET ASSETS

	<u>2022</u>	<u>2021</u>
<b>CURRENT LIABILITIES:</b>		
Accounts payable and accrued expenses	\$ 240,201	\$ 428,092
Accrued wages and benefits	331,969	284,782
Bond loan accrued expenses	18,850	8,115
Deferred revenue - current	70,204	51,742
Deferred rent - current	-	995
Operating lease liability - current portion	129,770	-
Bond loan payable - current	1,695,000	1,625,000
<b>TOTAL CURRENT LIABILITIES</b>	<u>2,485,994</u>	<u>2,398,726</u>
<b>NONCURRENT LIABILITIES:</b>		
Deferred revenue - noncurrent	6,482	5,354
Deferred rent - noncurrent	-	32,959
Operating lease liability, net of current portion	161,349	-
NC Aquariums security deposit	1,495,488	1,495,488
Unearned aquarium lease revenue	1,694,725	1,624,846
Bond loan payable - noncurrent	5,467,157	7,149,618
Paycheck Protection Program loan	-	385,000
<b>TOTAL NONCURRENT LIABILITIES</b>	<u>8,825,201</u>	<u>10,693,265</u>
<b>TOTAL LIABILITIES</b>	<u>11,311,195</u>	<u>13,091,991</u>
<b>NET ASSETS:</b>		
Without donor restrictions:		
Undesignated	16,639,458	14,161,312
Board-designated	5,565,930	5,533,088
Total without donor restrictions	<u>22,205,388</u>	<u>19,694,400</u>
With donor restrictions	<u>2,982,993</u>	<u>2,802,010</u>
<b>TOTAL NET ASSETS</b>	<u>25,188,381</u>	<u>22,496,410</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 36,499,576</u>	<u>\$ 35,588,401</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, 2022 and 2021

Page 1 of 2

	2022			2021
	Without Donor Restrictions	With Donor Restrictions	Total	Total
<b>SUPPORT AND REVENUE:</b>				
Gift shop sales	\$ 8,560,024	\$ -	\$ 8,560,024	\$ 7,048,582
Less: cost of goods sold	(3,233,231)	-	(3,233,231)	(2,691,478)
Net gift shop sales	5,326,793	-	5,326,793	4,357,104
Concessions	402,187	-	402,187	378,244
Membership	1,888,648	-	1,888,648	1,550,076
Contributed nonfinancial assets	279,789	-	279,789	301,711
Contributions, grants, and sponsorships	722,108	582,448	1,304,556	1,983,436
NC Aquarium lease revenue and contributions	1,701,834	-	1,701,834	1,669,265
Other income	10,563	-	10,563	6,433
Investment return, net	(1,094,491)	(4,855)	(1,099,346)	544,194
	9,237,431	577,593	9,815,024	10,790,463
Net assets released from restrictions	391,609	(391,609)	-	-
<b>TOTAL SUPPORT AND REVENUE</b>	<b>9,629,040</b>	<b>185,984</b>	<b>9,815,024</b>	<b>10,790,463</b>
<b>EXPENSES:</b>				
Program services:				
Aquarium/Pier support	2,797,671	-	2,797,671	2,347,704
Gift shop	2,565,546	-	2,565,546	1,871,948
Membership development	444,629	-	444,629	354,392
Total program services	5,807,846	-	5,807,846	4,574,044
Supporting services:				
Management and general	888,966	-	888,966	725,142
Fundraising	419,954	-	419,954	207,202
Total supporting services	1,308,920	-	1,308,920	932,344
<b>TOTAL FUNCTIONAL EXPENSES</b>	<b>7,116,766</b>	<b>-</b>	<b>7,116,766</b>	<b>5,506,388</b>
Bad debt expense	1,286	5,001	6,287	-
<b>TOTAL EXPENSES</b>	<b>7,118,052</b>	<b>5,001</b>	<b>7,123,053</b>	<b>5,506,388</b>
<b>CHANGES IN NET ASSETS</b>	<b>2,510,988</b>	<b>180,983</b>	<b>2,691,971</b>	<b>5,284,075</b>
<b>NET ASSETS - BEGINNING OF YEAR</b>	<b>19,694,400</b>	<b>2,802,010</b>	<b>22,496,410</b>	<b>17,212,335</b>
<b>NET ASSETS - END OF YEAR</b>	<b>\$ 22,205,388</b>	<b>\$ 2,982,993</b>	<b>\$ 25,188,381</b>	<b>\$ 22,496,410</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, 2022 and 2021

Page 2 of 2

	2021		Total
	Without Donor Restrictions	With Donor Restrictions	
<b>SUPPORT AND REVENUE:</b>			
Gift shop sales	\$ 7,048,582	\$ -	\$ 7,048,582
Less: cost of goods sold	(2,691,478)		(2,691,478)
Net gift shop sales	4,357,104	-	4,357,104
Concessions	378,244	-	378,244
Membership	1,550,076	-	1,550,076
Contributed nonfinancial assets	301,711	-	301,711
Contributions, grants, and sponsorships	966,250	1,017,186	1,983,436
NC Aquarium lease revenue and contributions	1,669,265	-	1,669,265
Other income	3,633	2,800	6,433
Investment return, net	541,225	2,969	544,194
	<u>9,767,508</u>	<u>1,022,955</u>	<u>10,790,463</u>
Net assets released from restrictions	653,316	(653,316)	-
<b>TOTAL SUPPORT AND REVENUE</b>	<u>10,420,824</u>	<u>369,639</u>	<u>10,790,463</u>
<b>EXPENSES:</b>			
Program services:			
Aquarium/Pier support	2,347,704	-	2,347,704
Gift shop	1,871,948	-	1,871,948
Membership development	354,392	-	354,392
Total program services	<u>4,574,044</u>	<u>-</u>	<u>4,574,044</u>
Supporting services:			
Management and general	725,142	-	725,142
Fundraising	207,202	-	207,202
Total supporting services	<u>932,344</u>	<u>-</u>	<u>932,344</u>
<b>TOTAL FUNCTIONAL EXPENSES</b>	<u>5,506,388</u>	<u>-</u>	<u>5,506,388</u>
Bad debt expense	-	-	-
<b>TOTAL EXPENSES</b>	<u>5,506,388</u>	<u>-</u>	<u>5,506,388</u>
<b>CHANGES IN NET ASSETS</b>	4,914,436	369,639	5,284,075
<b>NET ASSETS - BEGINNING OF YEAR</b>	<u>14,779,964</u>	<u>2,432,371</u>	<u>17,212,335</u>
<b>NET ASSETS - END OF YEAR</b>	<u>\$ 19,694,400</u>	<u>\$ 2,802,010</u>	<u>\$ 22,496,410</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, 2022 and 2021

	<u>2022</u>	<u>2021</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Changes in net assets	\$ 2,691,971	\$ 5,284,075
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	739,800	745,642
Amortization of bond issuance costs	12,539	12,539
Realized loss (gain) on sale of investments	171,856	(326,559)
Unrealized loss (gain) on investments	1,137,805	(123,216)
Forgiveness of Paycheck Protection Program loan	(385,000)	(494,600)
Donated stock	(2,995)	(39,162)
Increase in cash arising from changes in assets and liabilities:		
Promises to give	143,134	12,647
Sales tax and other receivables	55,198	(114,079)
Inventory	(451,808)	309,498
Other current assets	(35,959)	(28,110)
Accounts payable and accrued expenses	(187,891)	300,500
Accrued wages and benefits	47,187	55,756
Right of use assets	8,569	-
Bond loan accrued expenses	10,735	(21,915)
Deferred revenue	19,590	25,308
Deferred rent	(33,954)	17,392
Unearned aquarium lease revenue	69,879	47,095
<b>NET CASH FLOWS PROVIDED BY OPERATING ACTIVITIES</b>	<u>4,010,656</u>	<u>5,662,811</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchase of property and equipment	(4,965)	(11,003)
Purchase of investments	(6,601,820)	(7,978,139)
Proceeds from sale of investments	3,172,270	2,310,710
Change in investment return receivable	(5,391)	(734)
Change in investments held with bond trustee	18,348	13,025
<b>NET CASH FLOWS USED IN INVESTING ACTIVITIES</b>	<u>(3,421,558)</u>	<u>(5,666,141)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from Paycheck Protection Program Loan	-	385,000
Principal payment on bond loan	(1,625,000)	(1,560,000)
<b>NET CASH FLOWS USED IN INVESTING ACTIVITIES</b>	<u>(1,625,000)</u>	<u>(1,175,000)</u>
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	(1,035,902)	(1,178,330)
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<u>8,605,966</u>	<u>9,784,296</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<u>\$ 7,570,064</u>	<u>\$ 8,605,966</u>
<b>RECONCILIATION OF CASH AND CASH EQUIVALENTS:</b>		
Cash and cash equivalents	\$ 4,087,824	\$ 5,176,383
Cash held with bond trustee	3,482,240	3,429,583
Total cash and cash equivalents	<u>\$ 7,570,064</u>	<u>\$ 8,605,966</u>
<b>SUPPLEMENTAL INFORMATION:</b>		
Cash paid during the year for interest	<u>\$ 70,411</u>	<u>\$ 4,688</u>
Cash paid during the year for unrelated business income taxes	<u>\$ 18,127</u>	<u>\$ -</u>
Contributed nonfinancial assets	<u>\$ 279,789</u>	<u>\$ 301,711</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, 2022 and 2021

Exhibit D

Page 1 of 2

	Program Services				Supporting Services			2022 Grand Total	2021 Total
	Aquarium/Pier Support	Gift Shop	Membership Development	Total	Management and General	Fundraising	Total		
Salaries	\$ 83,210	\$ 1,156,384	\$ 176,782	\$ 1,416,376	\$ 385,621	\$ 160,788	\$ 546,409	\$ 1,962,785	\$ 1,528,343
Payroll taxes	6,172	92,652	13,857	112,681	36,990	10,132	47,122	159,803	114,063
Employee benefits	17,383	225,839	51,768	294,990	80,882	30,889	111,771	406,761	337,671
Total salaries and related expenses	106,765	1,474,875	242,407	1,824,047	503,493	201,809	705,302	2,529,349	1,980,077
Aquarium personnel and supplements	66,902	-	-	66,902	-	-	-	66,902	51,455
Conservation and education grants	304,223	-	-	304,223	-	-	-	304,223	113,932
Aquarium capital support	2,954	-	-	2,954	-	-	-	2,954	10,000
Jennette's Pier operational support	-	-	-	-	-	-	-	-	250,000
Bank and credit card service fees	13,855	131,498	24,171	169,524	10,530	-	10,530	180,054	151,082
Board engagement and events	53,449	-	-	53,449	9,960	2,275	12,235	65,684	14,109
Dues and subscriptions	54,056	801	95	54,952	7,498	10,576	18,074	73,026	58,809
Repairs and maintenance	39,382	7,941	2,127	49,450	4,785	152	4,937	54,387	107,858
Freight and shipping	2,106	255,593	31,817	289,516	687	4,893	5,580	295,096	179,441
Information technology and communication	59,250	119,181	21,952	200,383	79,282	7,802	87,084	287,467	172,033
Marketing	354,274	341	7,227	361,842	1,813	810	2,623	364,465	175,188
Professional Fees	199,670	4,810	2,383	206,863	108,103	136,108	244,211	451,074	387,313
Occupancy	33,817	33,817	12,883	80,517	77,296	3,221	80,517	161,034	124,062
Supplies, equipment, and exhibits	427,168	62,283	90,131	579,582	16,140	41,777	57,917	637,499	360,982
Travel and staff development	204,424	37,029	8,936	250,389	16,324	10,355	26,679	277,068	111,133
Insurance - non-employee related	5,414	11,799	-	17,213	46,697	-	46,697	63,910	31,533
Loss on damaged inventory	-	44,841	-	44,841	-	-	-	44,841	29,531
Taxes	-	-	-	-	1,089	-	1,089	1,089	21,475
Bad debt expense	-	-	-	-	6,287	-	6,287	6,287	-
Other expense	7,391	56,110	500	64,001	1,801	176	1,977	65,978	20,533
Total other expenses	1,828,335	766,044	202,222	2,796,601	388,292	218,145	606,437	3,403,038	2,370,469
Total expenses before depreciation, gifts in kind expense, and bad debt service	1,935,100	2,240,919	444,629	4,620,648	891,785	419,954	1,311,739	5,932,387	4,350,546
Pine Knoll Shores Aquarium debt service	171,077	-	-	171,077	-	-	-	171,077	108,489
Depreciation	666,717	69,615	-	736,332	3,468	-	3,468	739,800	745,642
Gifts in kind expense	24,777	255,012	-	279,789	-	-	-	279,789	301,711
Total expenses	2,797,671	2,565,546	444,629	5,807,846	895,253	419,954	1,315,207	7,123,053	5,506,388
Less: Bad debt expense	-	-	-	-	(6,287)	-	(6,287)	(6,287)	-
Total functional expenses	\$ 2,797,671	\$ 2,565,546	\$ 444,629	\$ 5,807,846	\$ 888,966	\$ 419,954	\$ 1,308,920	\$ 7,116,766	\$ 5,506,388

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, 2022 and 2021

Exhibit D

Page 2 of 2

	Program Services				Supporting Services			2021 Total
	Aquarium/Pier Support	Gift Shop	Membership Development	Total	Management and General	Fundraising	Total	
Salaries	\$ 66,836	\$ 870,884	\$ 165,396	\$ 1,103,116	\$ 310,057	\$ 115,170	\$ 425,227	\$ 1,528,343
Payroll taxes	5,031	65,922	12,225	83,178	22,754	8,131	30,885	114,063
Employee benefits	11,372	168,143	50,868	230,383	86,216	21,072	107,288	337,671
Total salaries and related expenses	83,239	1,104,949	228,489	1,416,677	419,027	144,373	563,400	1,980,077
Aquarium personnel and supplements	51,455	-	-	51,455	-	-	-	51,455
Conservation and education grants	113,932	-	-	113,932	-	-	-	113,932
Aquarium capital support	5,000	-	-	5,000	5,000	-	5,000	10,000
Jennette's Pier operational support	250,000	-	-	250,000	-	-	-	250,000
Bank and credit card service fees	7,877	104,564	23,469	135,910	15,172	-	15,172	151,082
Board Engagement and events	13,899	210	-	14,109	-	-	-	14,109
Dues and subscriptions	43,625	226	25	43,876	6,832	8,101	14,933	58,809
Repairs and maintenance	96,775	6,915	1,729	105,419	2,439	-	2,439	107,858
Freight and shipping	3,147	146,573	26,158	175,878	242	3,321	3,563	179,441
Information technology and communication	43,051	67,889	14,604	125,544	42,519	3,971	46,490	172,034
Marketing	133,886	1,484	36,184	171,554	75	3,559	3,634	175,188
Professional Fees	270,042	4,329	4,082	278,453	90,021	18,838	108,859	387,312
Occupancy	14,138	15,965	11,071	41,174	80,012	2,876	82,888	124,062
Supplies, equipment and exhibits	302,445	28,506	7,289	338,240	2,285	20,457	22,742	360,982
Taxes	-	-	-	-	21,475	-	21,475	21,475
Travel and staff development	83,879	16,007	1,257	101,143	8,284	1,706	9,990	111,133
Insurance - non-employee related	-	10,120	-	10,120	21,413	-	21,413	31,533
Loss on damaged inventory	-	29,531	-	29,531	-	-	-	29,531
Other expense	4,789	12,919	35	17,743	2,790	-	2,790	20,533
Total other expenses	1,437,940	445,238	125,903	2,009,081	298,559	62,829	361,388	2,370,469
Total expenses before depreciation, gifts in kind expense, and bad debt service	1,521,179	1,550,187	354,392	3,425,758	717,586	207,202	924,788	4,350,546
Pine Knoll Shores Aquarium debt service	108,489	-	-	108,489	-	-	-	108,489
Depreciation	666,717	71,369	-	738,086	7,556	-	7,556	745,642
Gifts in kind expense	51,319	250,392	-	301,711	-	-	-	301,711
Total expenses	2,347,704	1,871,948	354,392	4,574,044	725,142	207,202	932,344	5,506,388
Less: Bad debt expense	-	-	-	-	-	-	-	-
Total functional expenses	\$ 2,347,704	\$ 1,871,948	\$ 354,392	\$ 4,574,044	\$ 725,142	\$ 207,202	\$ 932,344	\$ 5,506,388

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, 2022 and 2021, 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, 2022 and 2021.

## 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. Contributed Nonfinancial Assets.

Contributed nonfinancial assets include donated facilities, donated professional services, and donated goods which are recorded at either the net present value or fair value of the rental and at fair value for the goods or services received. In addition to contributed nonfinancial assets, volunteers contribute significant amounts of time to program services, management and general, and fundraising activities; however, the financial statements do not reflect the value of these contributed services because they do not meet recognition criteria prescribed by US GAAP.

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

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**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****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 \$364,465 and \$175,188, for the years ended December 31, 2022 and 2021, 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.

## O. Leases.

The Society determines if an arrangement is a lease at inception and reassesses if there are changes in terms and conditions of the contract. Operating leases are included in right-of-use assets - operating leases, and operating lease liabilities on the statements of financial position. Lease assets and liabilities are recognized based on the present value of the future minimum lease payments over the lease term at commencement date. As most of the Society's leases do not provide an implicit rate, the Society uses its incremental borrowing rate based on the information available at commencement date in determining the present value of future payments. Lease assets also include any lease payments made before lease commencement and initial direct costs and reduced for any lease incentives. In determining the lease term at lease commencement, the Society includes the noncancellable term and the periods which the Society deems it is reasonably certain to exercise or not to exercise a renewal or cancellation option. Operating lease expense for minimum lease payments is recognized on a straight-line basis over the lease term.

## P. New Accounting Pronouncements.

In February 2016, the Financial Standards Accounting Board ("FASB") issued Accounting Standards Update ("ASU") 2016-02, *Leases* (Topic 842). The guidance in this ASU supersedes the leasing guidance in Topic 840, *Leases*. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the statement of financial position for all leases with terms longer than twelve months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the statement of operations. The new standard was effective January 1, 2022. The Society adopted this ASU using the effective date transition method. The Society elected the following practical expedients upon transition: 1) no need to reassess whether any expired or existing contracts are or contain leases, 2) no need to reassess the lease classification for any expired or existing leases and 3) no need to reassess initial direct costs for any existing leases.

In September 2020, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2020-07, *Presentation and Disclosure by Not-for-Profit Entities for Contributed Nonfinancial Assets*. The main provision of ASU 2020-07 is to increase transparency of contributed nonfinancial assets through enhancements to presentation and disclosures. The Society adopted ASU 2020-07 effective January 1, 2022, on a retrospective basis. There were no changes to previously issued financial statements due to the adoption of this standard.

**THE NORTH CAROLINA AQUARIUM SOCIETY**

**NOTES TO FINANCIAL STATEMENTS**

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**LIQUIDITY AND AVAILABILITY**

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

	<u>2022</u>	<u>2021</u>
Liquid current financial assets:		
Cash and cash equivalents	\$ 4,087,824	\$ 5,176,383
Promises to give - current, net	238,125	219,125
Sales tax and other receivables	195,907	251,105
Investments	<u>10,811,145</u>	<u>8,688,261</u>
	<u>15,333,001</u>	<u>14,334,874</u>
Less amounts unavailable for general expenditures within one year, due to:		
Restrictions by donors	(2,468,484)	(2,117,367)
Restrictions by board designations	<u>(5,565,930)</u>	<u>(5,533,088)</u>
	<u>(8,034,414)</u>	<u>(7,650,455)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 7,298,587</u>	<u>\$ 6,684,419</u>

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

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

**THE NORTH CAROLINA AQUARIUM SOCIETY**

**NOTES TO FINANCIAL STATEMENTS**

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**LIQUIDITY AND AVAILABILITY (CONTINUED)**

Additionally, the Society had a contractual commitment to the NC Aquariums for \$1.4 million for operational support in 2022, 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, 2022, the Society has a board-designated commitment of \$2,079,299 to the NC Aquariums. The designated support is not reflected in the accompanying liquidity and availability schedule above. Although the Society, does not intend to spend from its board-designated support commitment, amounts could be made available if necessary in the event of financial distress.

**FINANCIAL INSTRUMENTS AND CREDIT RISK**

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

**PROMISES TO GIVE**

Promises to give consist of the following at December 31:

	<u>2022</u>	<u>2021</u>
Receivable in less than one year	\$ 238,125	\$ 219,125
Receivable in one to five years	372,875	479,000
Receivable beyond five years	<u>100,000</u>	<u>162,500</u>
Total gross promises to give	711,000	860,625
Discount at a rate of 5.2% and 1.2%, respectively	<u>(20,366)</u>	<u>(26,857)</u>
Net present value of promises to give	<u>\$ 690,634</u>	<u>\$ 833,768</u>

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

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**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, 2022 and 2021, 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, 2022. 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 \$3,482,240 at December 31, 2022.

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<b>Investments:</b>				
Equity securities	\$ 5,103,655	\$ -	\$ -	\$ 5,103,655
Mutual funds	2,300,178	-	-	2,300,178
Bonds	-	3,407,312	-	3,407,312
<b>Total investments</b>	<u>7,403,833</u>	<u>3,407,312</u>	<u>-</u>	<u>10,811,145</u>
<b>Investments held with bond trustee:</b>				
U.S. Government bonds	511,493	-	-	511,493
	<u>\$ 7,915,326</u>	<u>\$ 3,407,312</u>	<u>\$ -</u>	<u>\$ 11,322,638</u>

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 NORTH CAROLINA AQUARIUM SOCIETY**

**NOTES TO FINANCIAL STATEMENTS**

**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 loan (the “Loan”) from First Citizens Bank in the amount of \$385,000, 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. At December 31, 2021, the outstanding loan balance was \$385,000. The Society was notified the loan was forgiven in its entirety in August 2022. The full amount of the loan was recognized in revenue during year ended December 31, 2022.

**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 \$7,205,000 and \$8,830,000, at December 31, 2022 and 2021, respectively. The future scheduled maturities of the bond loan payable are as follows:

Year Ending December 31,	
2023	\$ 1,695,000
2024	1,765,000
2025	1,835,000
2026	1,910,000
Future scheduled maturities	7,205,000
Bond issuance cost, net amortization	(42,843)
Total bond loan payable	\$ 7,162,157

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 total \$42,843 and \$55,382, as of December 31, 2022 and 2021, 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, 2022 and 2021, interest expense totaled \$82,466 and \$4,424, 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, 2022 and 2021, bond loan annual fees totaled \$76,071 and \$91,526, 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, 2022 and 2021, in accordance with U.S. GAAP. Accumulated amortization totaled \$237,205 and \$224,664, for the years ended December 31, 2022 and 2021, 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 \$3,993,733 and \$3,959,425, as of December 31, 2022 and 2021, 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 \$7,287,907 and \$8,931,605, at December 31, 2022 and 2021, 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, 2022 and 2021.

THE NORTH CAROLINA AQUARIUM SOCIETY

NOTES TO FINANCIAL STATEMENTS

**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, 2022 and 2021, 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 \$1,694,725 and \$1,624,846, for the years ended December 31, 2022 and 2021. The Society recognized lease revenue totaling \$1,624,846 and \$1,577,751, for the years ended December 31, 2022 and 2021, 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>2022</u>	<u>2021</u>
Operating reserves	\$ 2,500,000	\$ 2,500,000
Capital reserves	295,171	521,260
Park Aquarium Legacy Fund for education and exhibits	691,460	661,676
Board-designated unspent annual commitment to the NC Aquariums	<u>2,079,299</u>	<u>1,850,152</u>
Board Designated, net assets	<u>\$ 5,565,930</u>	<u>\$ 5,533,088</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. 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 \$8,560,024 and \$7,048,582, at December 31, 2022 and 2021, respectively. There are no contract assets or contract liabilities related to these performance obligations at December 31, 2022 and 2021.

*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 \$1,888,648 and \$1,550,076, at December 31, 2022 and 2021, 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, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Deferred revenue, beginning of year	\$ 57,096	\$ 31,788
Revenue recognized that was included in deferred revenue at the beginning of the year	(49,742)	(27,108)
Increase in deferred revenue due to cash received during the year	<u>69,332</u>	<u>52,416</u>
Deferred revenue, end of year	<u>\$ 76,686</u>	<u>\$ 57,096</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.

**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:

	2022	2021
Subject to expenditure for specified purpose:		
Aquarium and Pier experience	\$ 987,866	\$ 966,014
Conservation, sustainability, and education programs	1,028,805	797,573
Capital campaign	25,500	-
Promises to give, the proceeds from which have been restricted by donor for:		
Aquarium and Pier experience	181,818	211,283
Conservation, sustainability, and education programs	196,810	213,231
Capital campaign	395,650	415,000
	2,816,449	2,603,101
Subject to the passage of time:		
Promises to give that are not restricted by donors, but which are unavailable for expenditure until due	141,634	169,143
Endowments:		
Subject to Society's endowment spending policy and appropriation:		
Donor-restricted endowment	20,000	20,000
Earnings on endowment	4,910	9,766
	\$ 2,982,993	\$ 2,802,010

**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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## 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, 2022 and 2021, the endowment funds were above the required amounts.

The changes in endowment net assets for the year ended December 31, 2022, are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ -	\$ 29,766	\$ 29,766
Net investment return:	<u>-</u>	<u>(4,644)</u>	<u>(4,644)</u>
Contributions	-	-	-
Appropriation of endowment assets for expenditure	-	(211)	(211)
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ 24,911</u>	<u>\$ 24,911</u>

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**NOTES TO FINANCIAL STATEMENTS**

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**ENDOWMENT (CONTINUED)**

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:	-	3,197	3,197
Contributions	-	-	-
Appropriation of endowment assets for expenditure	-	(227)	(227)
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ 29,766</u>	<u>\$ 29,766</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.

**CONTRIBUTED NONFINANCIAL ASSETS**

The Society recognizes contributed services that create or enhance non-financial assets or that require specialized skills, and would typically need to be purchased if not provided by donation. Donated services and supplies recorded in the accompanying financial statements totaled \$24,777 and \$51,319, for the years ended December 31, 2022 and 2021, respectively. In addition, a number of persons have donated a significant amount of time and services to the Society's operations, and the Society's board of directors serve without compensation. The financial statements also do not reflect the value of these contributed services as they do not meet recognition criteria prescribed by the U.S. GAAP. During the years ended December 31, 2022 and 2021, the value of donated space totaled \$255,012 and \$250,392, respectively.

THE NORTH CAROLINA AQUARIUM SOCIETY

NOTES TO FINANCIAL STATEMENTS

**LEASES**

The Society is leasing office space under an agreement accounted for as an operating lease, which will expire in February 2025. Lease cost of \$6,114 is included in miscellaneous expense under general and administrative expenses. Other information related to the leases is as follows at December 31, 2022:

Cash paid for amounts included in the measurement of lease liabilities:	
Operating cash flows from operating leases	\$ 160,073
Right-of-use assets obtained in exchange for lease obligations:	
Operating leases	440,421
Remaining lease term (in years):	
Operating leases:	2.17
Weighted-average discount rate:	
Operating leases:	3.00%

Future minimum lease payments under non-cancellable leases as of December 31, 2022, were as follows:

<u>Year ending December 31,</u>	
2023	\$ 136,396
2024	140,466
2025	<u>23,525</u>
Total future minimum lease payments	300,387
Less present value discount	<u>(9,268)</u>
Total lease liability	<u>\$ 291,119</u>
Reported as of December 31, 2022:	
Current lease liability	\$ 129,770
Other lease liability	161,349
Total lease liability	<u>\$ 291,119</u>

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 for the years ended December 31, 2022 and 2021.

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

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**EMPLOYEE BENEFIT PLANS**

The Society has a defined contribution retirement plan covering employees who have completed one month of service. The Society makes an annual contribution of ten percent of each qualified employees' salary. The Society also has a 401(k) plan which allows employees to make contributions and the Society matches up to 3% of the employee's contribution. Employee benefit plan expenses totaled \$170,043 and \$122,047, for the years ended December 31, 2022 and 2021, 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 is entitled to receive all unpaid sick leave upon retirement. As of December 31, 2022 and 2021, accrued sick leave totaled \$192,002 and \$164,777, respectively. Accrued sick leave is reflected as part of accrued expenses in the statements of financial position.

**INCOME TAXES**

The Society records revenue for gift shop sales. Various merchandise sold in the gift shops is considered unrelated business income. The Society files federal and state corporate income tax returns and records in the financial statements the corresponding income tax expense for tax owed on the unrelated business income. Unrelated business income tax expense recorded for the years ended December 31, 2022 and 2021, totaled \$1,089 and \$21,475, respectively.

**CONCENTRATIONS**

The Society received approximately 54% and 40% of its revenue for the years ended December 31, 2022 and 2021, respectively, from the operation of the Aquariums' gift shops.

The Society received approximately 17% and 18% of its revenue for the years ended December 31, 2022 and 2021, 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, 2022 and 2021, were \$3,550 and \$1,547, 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 \$143,260 and \$422,617, at December 31, 2022 and 2021, respectively. The Society had outstanding related party promises to give of \$190,000, at December 31, 2022 and 2021, respectively.

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

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**NORTH CAROLINA AQUARIUM AND PIER SUPPORT**

In providing support to the Aquarium/Pier, the Society contributed \$46,644 and \$43,968, for the years ended December 31, 2022 and 2021, respectively, to go toward supplementing the salaries of the four Aquarium/Pier directors and the division director.

The Society provided direct and indirect support to the Aquarium/Pier of \$1,626,593 and \$1,147,780, for the year ended December 31, 2022, respectively. 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.

**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 2021 financial statements in order to conform to the 2022 presentation. Such reclassifications had no effect on net assets.

**SUBSEQUENT EVENTS**

Management has evaluated subsequent events for recognition or disclosure through April 27, 2022, which was the date that the financial statements were available to be issued.

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