

THE NORTH CAROLINA AQUARIUM SOCIETY

Raleigh, North Carolina

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2015
(WITH COMPARATIVE TOTALS FOR THE
YEAR ENDED DECEMBER 31, 2014)



BLACKMAN
 **& SLOOP**
CERTIFIED PUBLIC ACCOUNTANTS

CONTENTS

	<u>PAGES</u>
Independent Auditor's Report	2-3
Exhibits:	
"A" Statements of Financial Position	4-5
"B" Statement of Activities and Changes in Net Assets	6
"C" Statements of Cash Flows	7
Notes to Financial Statements	8-26
Additional Financial Information	27
Schedule:	
"1" Schedule of Functional Expenses	28

Carla G. Daniel, EA
Andrea Woodell Eason, CPA
Robin H. McDuffie, CPA
M. Neely McLaughlin, CPA, MBA
Joan C. Pharr, CPA



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

We have audited the accompanying financial statements of The North Carolina Aquarium Society (a nonprofit organization), which comprise the statement of financial position as of December 31, 2015, and the related statements of activities and changes in net assets, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

BLACKMAN & SLOOP, CPAS, P.A.

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.blackmansloop.com • email: cpa@blackmansloop.com

Opinion

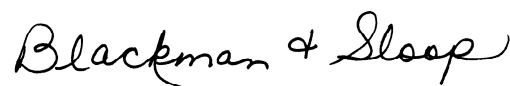
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The North Carolina Aquarium Society as of December 31, 2015, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited The North Carolina Aquarium Society's 2014 financial statements, and our report dated April 13, 2015, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2014, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Report on Additional Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of functional expenses is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.



Chapel Hill, North Carolina
April 8, 2016

THE NORTH CAROLINA AQUARIUM SOCIETY

STATEMENTS OF FINANCIAL POSITION

December 31, 2015 and 2014

EXHIBIT A

Page 1 of 2

ASSETS

	<u>2015</u>	<u>2014</u>
CURRENT ASSETS:		
Cash and equivalents	\$ 2,909,903	\$ 1,118,804
Promises to give - current, net	101,562	158,000
Sales tax and other receivables	290,573	234,294
Investments	2,858,769	5,402,913
Inventory	568,678	550,517
Other current assets	125,613	130,173
	<u>6,855,098</u>	<u>7,594,701</u>
TOTAL CURRENT ASSETS		
PROPERTY AND EQUIPMENT:		
Aquarium expansion project	26,001,951	26,001,951
Equipment	536,802	522,820
Leasehold improvements	35,600	30,875
	<u>26,574,353</u>	<u>26,555,646</u>
Less: accumulated depreciation	<u>(6,816,405)</u>	<u>(6,102,785)</u>
NET PROPERTY AND EQUIPMENT	<u>19,757,948</u>	<u>20,452,861</u>
OTHER ASSETS:		
Cash and investments held with bond trustee	3,407,332	3,362,635
Investment return receivable	1,476	3,791
Bond issuance costs, net of amortization	130,618	143,158
Promises to give - noncurrent, net	241,890	203,786
Cash and investments held under deferred compensation plan	-	138,638
	<u>3,781,316</u>	<u>3,852,008</u>
TOTAL OTHER ASSETS		
TOTAL ASSETS	<u>\$ 30,394,362</u>	<u>\$ 31,899,570</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, 2015 and 2014

EXHIBIT A

Page 2 of 2

LIABILITIES AND NET ASSETS

	2015	2014
CURRENT LIABILITIES:		
Accounts payable	\$ 76,799	\$ 146,474
Accrued expenses	533,543	513,804
Bond loan accrued expenses	15,795	17,253
Deferred rent	1,782	-
Deferred revenue - current	675,834	628,883
Bond loan payable - current	1,275,000	1,225,000
TOTAL CURRENT LIABILITIES	2,578,753	2,531,414
NONCURRENT LIABILITIES:		
Deferred revenue - noncurrent	83,687	53,644
NCA security deposit	1,495,488	1,495,488
Unearned aquarium lease revenue	1,271,176	1,216,838
Bond loan payable - noncurrent	16,045,000	17,320,000
TOTAL NONCURRENT LIABILITIES	18,895,351	20,085,970
TOTAL LIABILITIES	21,474,104	22,617,384
NET ASSETS:		
Unrestricted:		
Board designated	1,242,668	2,146,434
Undesignated	7,123,212	6,676,335
Total unrestricted	8,365,880	8,822,769
Temporarily restricted	534,378	439,417
Permanently restricted	20,000	20,000
TOTAL NET ASSETS	8,920,258	9,282,186
TOTAL LIABILITIES AND NET ASSETS	\$ 30,394,362	\$ 31,899,570

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

THE NORTH CAROLINA AQUARIUM SOCIETY

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

EXHIBIT B

For the Year Ended December 31, 2015

(With Comparative Totals for the Year Ended December 31, 2014)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2015 Total	2014 Total
SUPPORT AND REVENUE:					
Gift shop sales	\$ 4,342,090	\$ -	\$ -	\$ 4,342,090	\$ 4,142,027
Less: cost of goods sold	(1,703,128)			(1,703,128)	(1,689,693)
Net gift shop sales	2,638,962	-	-	2,638,962	2,452,334
Concessions	383,421	-	-	383,421	433,248
Membership	1,228,880	-	-	1,228,880	1,090,718
In-kind contributions	478,403	-	-	478,403	622,513
Contributions, grants, and special projects	304,833	717,560	-	1,022,393	1,131,091
NCA lease revenue	1,216,838	-	-	1,216,838	1,204,574
Sponsorship revenue	-	-	-	-	33,333
Investment return	(204,778)	-	-	(204,778)	486,192
	<u>6,046,559</u>	<u>717,560</u>	<u>-</u>	<u>6,764,119</u>	<u>7,454,003</u>
Net assets released from restrictions	614,599	(614,599)	-	-	-
TOTAL SUPPORT AND REVENUE	<u>6,661,158</u>	<u>102,961</u>	<u>-</u>	<u>6,764,119</u>	<u>7,454,003</u>
EXPENSES:					
Program services:					
Aquarium/Pier support	3,901,427	-	-	3,901,427	7,820,651
Gift shop	1,816,991	-	-	1,816,991	1,867,316
Total program services	<u>5,718,418</u>	<u>-</u>	<u>-</u>	<u>5,718,418</u>	<u>9,687,967</u>
Supporting services:					
Management and general	631,063	-	-	631,063	745,873
Fundraising	366,945	-	-	366,945	274,062
Membership development	401,621	-	-	401,621	349,602
Total Supporting Services	<u>1,399,629</u>	<u>-</u>	<u>-</u>	<u>1,399,629</u>	<u>1,369,537</u>
TOTAL FUNCTIONAL EXPENSES	<u>7,118,047</u>	<u>-</u>	<u>-</u>	<u>7,118,047</u>	<u>11,057,504</u>
Loss on disposal of property and equipment	-	-	-	-	1,434
Bad debt expense	-	8,000	-	8,000	11,600
TOTAL OTHER EXPENSES	<u>-</u>	<u>8,000</u>	<u>-</u>	<u>8,000</u>	<u>13,034</u>
TOTAL EXPENSES	<u>7,118,047</u>	<u>8,000</u>	<u>-</u>	<u>7,126,047</u>	<u>11,070,538</u>
CHANGES IN NET ASSETS	(456,889)	94,961	-	(361,928)	(3,616,535)
NET ASSETS - BEGINNING OF YEAR	<u>8,822,769</u>	<u>439,417</u>	<u>20,000</u>	<u>9,282,186</u>	<u>12,898,721</u>
NET ASSETS - END OF YEAR	<u>\$ 8,365,880</u>	<u>\$ 534,378</u>	<u>\$ 20,000</u>	<u>\$ 8,920,258</u>	<u>\$ 9,282,186</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, 2015 and 2014

	<u>2015</u>	<u>2014</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	\$ (361,928)	\$ (3,616,535)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	720,868	703,374
Amortization of bond issuance cost	12,540	12,540
Loss on disposal of property and equipment	-	1,434
Realized loss (gain) on sale of investments	65,300	(1,159,721)
Unrealized loss on investments	288,187	1,040,951
Increase (decrease) in cash arising from changes in assets and liabilities:		
Promises to give	18,334	(287,222)
Sales tax and other receivables	(56,279)	(171,163)
Inventory	(18,161)	227,808
Other current assets	4,560	(2,163)
Cash and investments held under deferred compensation plan	136,021	(8,038)
Accounts payable	(69,675)	81,053
Accrued expenses	19,739	25,624
Bond loan accrued expenses	(1,458)	(1,498)
Deferred rent	1,782	(3,325)
Deferred revenue	76,994	(38,361)
Unearned aquarium lease revenue	54,338	12,264
NET CASH FLOWS PROVIDED BY (USED IN) OPERATING ACTIVITIES	<u>891,162</u>	<u>(3,182,978)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(25,955)	(35,097)
Purchase of investments	(6,778,479)	(5,470,211)
Proceeds from sale of investments	8,997,690	9,512,687
Investment return receivable	2,315	3,930
Change in cash and investments held with bond trustee	(70,634)	(73,152)
NET CASH FLOWS PROVIDED BY INVESTING ACTIVITIES	<u>2,124,937</u>	<u>3,938,157</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal payment on bond loan	(1,225,000)	(1,175,000)
NET INCREASE (DECREASE) IN CASH AND EQUIVALENTS	1,791,099	(419,821)
CASH AND EQUIVALENTS AT BEGINNING OF YEAR	<u>1,118,804</u>	<u>1,538,625</u>
CASH AND EQUIVALENTS AT END OF YEAR	<u>\$ 2,909,903</u>	<u>\$ 1,118,804</u>
Supplemental Information:		
Cash paid during the year for interest	<u>\$ 12,924</u>	<u>\$ 18,470</u>
Cash paid during the year for income taxes	<u>\$ 8,120</u>	<u>\$ 17,062</u>
In-kind contributions	<u>\$ 478,403</u>	<u>\$ 622,513</u>

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

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

Page 1 of 19

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 and scientific 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 State is responsible for opening gift shops. The Society is responsible for providing the merchandise for the gift shops, concession stands, and bait shop, 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, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

B. Cash and Equivalents.

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

C. Promises to Give.

Unconditional promises to give are recognized as support and assets in the period received. Conditional promises to give are recognized when the conditions on which they depend are substantially met. 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 NORTH CAROLINA AQUARIUM SOCIETY**NOTES TO FINANCIAL STATEMENTS**

Page 2 of 19

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Promises to Give (Continued).

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. Sales Tax and Other Receivables.

Sales tax 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, 2015 and 2014, all receivables were deemed collectible by management.

E. Investments.

Investments in marketable securities are stated at fair market value based on readily available published fair market values. The resulting unrealized gain or loss is reflected in the statement of activities.

F. Inventory.

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

G. Property and Equipment.

Property and equipment are stated at cost for purchased assets and at market 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.

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 statement of activities.

H. Deferred Revenue.

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

THE NORTH CAROLINA AQUARIUM SOCIETY

NOTES TO FINANCIAL STATEMENTS

Page 3 of 19

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

I. Net Assets.

U.S. GAAP requires the Society to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Unrestricted net assets are resources of the Society that are not restricted by donors or grantors as to use or purpose. These resources include amounts generated from operations, undesignated gifts, and investments in property and equipment.

Temporarily restricted net assets are resources that carry a donor-imposed restriction that permits the Society to use or expend the donated assets as specified. The restrictions are satisfied by the passage of time or by actions of the Society.

Permanently restricted net assets are resources that carry a donor-imposed restriction that stipulates that donated assets be maintained in perpetuity, but may permit the Society to use or expend part or all of the income derived from the donated assets.

J. Donated Assets, Materials, and Services.

The Society reports gifts of land, buildings, and equipment as unrestricted support 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 restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Society reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service. During the years ended December 31, 2015 and 2014, the value of donated space totaled \$264,528.

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, 2015 and 2014, donated marketing services totaled \$213,875 and \$357,985, respectively.

THE NORTH CAROLINA AQUARIUM SOCIETY

NOTES TO FINANCIAL STATEMENTS

Page 4 of 19

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

K. Advertising and Marketing.

Advertising and marketing costs are expensed as incurred and totaled \$559,235 and \$614,994, for the years ended December 31, 2015 and 2014, respectively.

L. 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. If applicable, penalties and interest assessed by income taxing authorities related to uncertain tax positions are included as interest expense in the statement of activities.

M. 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.

PROMISES TO GIVE

Promises to give consist of the following at December 31:

	2015	2014
Receivable in less than one year	\$ 105,562	\$ 158,000
Receivable in one to five years	246,832	173,394
Receivable in more than five years	20,000	50,000
Total gross promises to give	<u>372,394</u>	<u>381,394</u>
Discount at a rate of 2.2% and 2.2%, respectively	(20,942)	(19,608)
Allowance for uncollectible promises to give	<u>(8,000)</u>	<u>-</u>
Net present value of promises to give	<u>\$ 343,452</u>	<u>\$ 361,786</u>

THE NORTH CAROLINA AQUARIUM SOCIETY

NOTES TO FINANCIAL STATEMENTS

Page 5 of 19

INVESTMENTS

Investments consist of the following at December 31, 2015:

	<u>Cost</u>	<u>Market</u>
Investments:		
Equity securities	\$ 2,855,392	\$ 2,750,554
Mutual funds	118,480	108,215
Government securities held with bond loan trustee	<u>1,982,135</u>	<u>1,917,326</u>
	<u><u>\$ 4,956,007</u></u>	<u><u>\$ 4,776,095</u></u>

Investments consist of the following at December 31, 2014:

	<u>Cost</u>	<u>Market</u>
Investments:		
Equity securities	\$ 2,022,016	\$ 2,094,422
Mutual funds	3,227,628	3,308,491
Government securities held with bond loan trustee	1,965,097	1,917,976
Mutual funds held under deferred compensation plan	<u>60,314</u>	<u>62,441</u>
	<u><u>\$ 7,275,055</u></u>	<u><u>\$ 7,383,330</u></u>

The cost value of investments exceeded market by \$179,912, at December 31, 2015, and the market value of investments exceeded cost by \$108,275 at December 31, 2014. Realized losses of (\$65,300) and realized gains of \$1,159,721, were recorded for the years ended December 31, 2015 and 2014, respectively. Net unrealized losses of (\$288,187) and (\$1,040,951), were recorded during the years ended December 31, 2015 and 2014, respectively, to properly state investments at market value. Investment fees of 43,790 and \$79,521, were recorded for the years ended December 31, 2015 and 2014, respectively.

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

Page 6 of 19

INVESTMENT RETURN

The components of investment return as presented in the statements of activities for the year ended December 31, 2015, are as follows:

	Investments	Investments held under deferred compensation plan	Investments held with bond trustee	Total investment returns
Interest and dividends	\$ 113,615	\$ 27	\$ 35,067	\$ 148,709
Realized gains/(losses)	(56,055)	(2,044)	(7,201)	(65,300)
Unrealized gains/(losses)	(268,878)	(573)	(18,736)	(288,187)
	<u>\$ (211,318)</u>	<u>\$ (2,590)</u>	<u>\$ 9,130</u>	<u>\$ (204,778)</u>

The components of investment return as presented in the statements of activities for the year ended December 31, 2014, are as follows:

	Investments	Investments held under deferred compensation plan	Investments held with bond trustee	Total investment returns
Interest and dividends	\$ 308,394	\$ 8,050	\$ 50,978	\$ 367,422
Realized gains/(losses)	1,146,030	-	13,691	1,159,721
Unrealized gains/(losses)	(1,094,023)	(9,625)	62,697	(1,040,951)
	<u>\$ 360,401</u>	<u>\$ (1,575)</u>	<u>\$ 127,366</u>	<u>\$ 486,192</u>

FAIR VALUE OF ASSETS

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

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

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

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

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

Page 7 of 19

FAIR VALUE OF ASSETS (CONTINUED)

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. No assets or liabilities are classified as Level 2 or Level 3.

There were no changes during the years ending December 31, 2015 and 2014, to the Society's valuation techniques used to measure asset values on a recurring basis.

THE NORTH CAROLINA AQUARIUM SOCIETY

NOTES TO FINANCIAL STATEMENTS

Page 8 of 19

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, 2015. 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 equivalents totaling \$1,490,006 at December 31, 2015.

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments:				
<i>Equity securities:</i>				
Basic materials	\$ 128,693	\$ -	\$ -	\$ 128,693
Consumer goods	697,397	-	-	697,397
Energy	214,283	-	-	214,283
Financial	550,699	-	-	550,699
Healthcare	377,957	-	-	377,957
Industrial goods	237,849	-	-	237,849
Technology	352,193	-	-	352,193
Telecommunication services	104,057	-	-	104,057
Utilities	87,426	-	-	87,426
<i>Total equity securities</i>	<u>2,750,554</u>	<u>-</u>	<u>-</u>	<u>2,750,554</u>
<i>Mutual funds:</i>				
Fixed income	50,646	-	-	50,646
Equity	44,822	-	-	44,822
Alternative	12,747	-	-	12,747
<i>Total mutual funds</i>	<u>108,215</u>	<u>-</u>	<u>-</u>	<u>108,215</u>
Total investments	<u>2,858,769</u>	<u>-</u>	<u>-</u>	<u>2,858,769</u>
Investments held with bond trustee:				
U.S. Government bonds	1,917,326	-	-	1,917,326
	<u>\$ 4,776,095</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,776,095</u>

THE NORTH CAROLINA AQUARIUM SOCIETY

NOTES TO FINANCIAL STATEMENTS

Page 9 of 19

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, 2014. 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.

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments:				
<i>Equity securities:</i>				
Basic materials	\$ 168,687	\$ -	\$ -	\$ 168,687
Consumer goods	418,906	-	-	418,906
Energy	244,710	-	-	244,710
Financial	328,515	-	-	328,515
Healthcare	380,055	-	-	380,055
Industrial goods	136,130	-	-	136,130
Services	202,644	-	-	202,644
Technology	158,200	-	-	158,200
Utilities	56,575	-	-	56,575
<i>Total equity securities</i>	<u>2,094,422</u>	<u>-</u>	<u>-</u>	<u>2,094,422</u>
<i>Mutual funds:</i>				
Fixed income	1,095,577	-	-	1,095,577
Equity	1,541,576	-	-	1,541,576
Alternative	671,338	-	-	671,338
<i>Total mutual funds</i>	<u>3,308,491</u>	<u>-</u>	<u>-</u>	<u>3,308,491</u>
Total investments	<u>5,402,913</u>	<u>-</u>	<u>-</u>	<u>5,402,913</u>
Investments held with bond trustee:				
U.S. Government bonds	1,917,976	-	-	1,917,976
Investments held under deferred compensation plan:				
<i>Mutual funds:</i>				
Fixed income	12,251	-	-	12,251
Equity	18,376	-	-	18,376
Alternative	31,814	-	-	31,814
Total investments held under deferred compensation plan	<u>62,441</u>	<u>-</u>	<u>-</u>	<u>62,441</u>
	<u>\$ 7,383,330</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7,383,330</u>

Investments held with bond trustee and held under deferred compensation plan do not include cash and equivalents totaling \$1,444,659 and \$76,197, respectively, maintained in each account at December 31, 2014.

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

Page 10 of 19

DEFERRED REVENUE**Soft Drink Sponsorship**

On February 10, 2000, the Society entered into an agreement with a soft drink bottling company (the "Company") to receive a corporate sponsorship in exchange for the granting of exclusive marketing rights for its packaged beverages, related snack products, and certain other benefits.

The Company advanced a total of \$500,000 to the Society in \$100,000 increments from the years 2000 to 2003. These sponsorship funds were deemed to be earned over a fifteen year period, at a rate of \$33,333 each year. Monies received in advance of earnings are shown as deferred revenue in the statements of financial position at December 31, 2014. The cumulative amount of sponsorship revenue earned totaled \$500,000 at December 31, 2014.

Deferred Membership Revenue

Membership revenue is recognized monthly over the membership term. Deferred membership dues represent monies received for memberships as of December 31, 2015 and 2014, for membership terms that extend beyond the fiscal year. Deferred membership revenue as of December 31, 2015 and 2014, totaled \$759,521 and \$681,027, respectively.

BOND LOAN PAYABLE

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

THE NORTH CAROLINA AQUARIUM SOCIETY

NOTES TO FINANCIAL STATEMENTS

Page 11 of 19

BOND LOAN PAYABLE (CONTINUED)

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

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

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

The outstanding bond loan payable totaled \$17,320,000 and \$18,545,000, at December 31, 2015 and 2014, respectively. The future scheduled maturities of the bond loan payable are as follows:

<u>Year Ending December 31,</u>	
2016	\$ 1,275,000
2017	1,330,000
2018	1,385,000
2019	1,440,000
2020	1,500,000
Thereafter	10,390,000
	<u>\$ 17,320,000</u>

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

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

Page 12 of 19

BOND LOAN PAYABLE (CONTINUED)

Interest payable on the bond will follow that of the original bonds. The bonds will initially bear interest at a weekly interest rate, and interest is payable on the first business day of each month. The method of determining the interest rate may be changed from time to time to bond interest term rates or long-term interest rates as prescribed in the bond documents. Under the bond interest term rates, interest is payable in arrears on the day next succeeding the last day thereof. Under the long-term interest rate, interest is payable semiannually in arrears, on each May 1 and November 1. At no time shall the bonds bear interest of more than 12% per year. For the years ended December 31, 2015 and 2014, interest expense totaled \$12,392 and \$17,999, 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, 2015 and 2014, bond loan annual fees totaled \$159,276 and \$161,847, respectively. The State either reimbursed the Society for fees paid or has directly paid the fees on behalf of the Society. The Society considers these payments to be annual contributions made to the Society.

Bond Loan Issuance Costs

Bond loan issuance costs of \$280,048 relate to the registration and issuance of the revenue bonds and are recorded at cost. These costs are amortized over the life of the bonds using the straight-line method. Accumulated amortization totaled \$149,430 and \$136,890, for the years ended December 31, 2015 and 2014, respectively. Bond issuance costs are presented net of accumulated amortization in the statements of financial position.

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 \$3,407,332 and \$3,362,635, as of December 31, 2015 and 2014, 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 (the "Credit Facility") with Bank of America, N.A., 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 Shore Aquarium land, building, and improvements. The outstanding letter of credit totaled \$17,519,299 and \$18,758,395, at December 31, 2015 and 2014, respectively.

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

Page 13 of 19

BOND LOAN PAYABLE (CONTINUED)

The Trustee will draw on the Credit Facility to make the required payments of principal and interest on the bond and to pay the purchase price of the bonds upon optional or mandatory tender. The Credit Facility carries certain affirmative and negative covenants. The Society is in compliance with the required covenants at December 31, 2015 and 2014.

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, 2015 and 2014, 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 \$1,271,176 and \$1,216,838, for the years ended December 31, 2015 and 2014. The Society recognized lease revenue totaling \$1,216,838 and \$1,204,574, for the years ended December 31, 2015 and 2014, respectively.

BOARD DESIGNATED NET ASSETS

At the November 14, 2015, business meeting, the Society's Board of Directors approved \$500,000 funding to be used by the Aquariums and Jeanette's Pier through June 30, 2016, for operational support until further evaluated at the April 2016 business meeting. The operational support is not reflected in the accompanying financial statements. In accordance with U.S. GAAP, the Society will recognize the expense for the support of the Aquariums when the transfer of assets occurs. The \$500,000 in operational support for the Aquariums and Jeanette's Pier is recorded as board designated net assets at December 31, 2015.

On September 11, 2014, the Society's Board of Directors Executive Committee approved the establishment of the Tetlow and Roy Park Aquarium Legacy Fund for innovative educational programs and exhibits at the Aquariums and Jeanette's Pier. The contributions to the Legacy Fund are matched by an equal amount from the Society.

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

Page 14 of 19

BOARD DESIGNATED NET ASSETS (CONTINUED)

The Society's Board of Directors is responsible for managing the Legacy Fund and making decisions regarding allocation of resources. The Legacy Fund at December 31, 2015 and 2014, totaled \$139,090 and \$150,797, respectively, and is recorded as board designated net assets.

At the November 15, 2014, business meeting, the Society's Board of Directors approved \$1.85 million funding to be used by the Aquariums and Jeanette's Pier in 2015 for operational support. The Board also approved a letter of guarantee of up to \$1 million for additional funding for the major renovations at the Roanoke Island Aquarium. The operational support and letter of guarantee commitments are not reflected in the accompanying financial statements. In accordance with U.S. GAAP, the Society will recognize the expense for the support of the Aquariums when the transfer of assets occurs. The \$1.85 million in operation support for the Aquariums and Jeanette's Pier is recorded as board designated net assets at December 31, 2014. Unspent funding of \$603,578 approved for 2015 is carryforward to be utilized as operational support in 2016.

Board designated net assets also include any approved unspent operational support from the previous year. Carryforward amounts are \$603,578 and \$145,637 at December 31, 2015 and 2014, respectively.

RESTRICTED NET ASSETS

Temporarily restricted net assets for Aquarium support and expansion totaled \$534,378 and \$439,417, at December 31, 2015 and 2014, respectively. Permanently restricted net assets for endowment totaled \$20,000 at December 31, 2015 and 2014.

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 Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA) and requires additional disclosures about an organization's endowment funds.

Interpretation of Relevant Law

The Board of Directors of the The North Carolina Aquarium Society has interpreted UPMIFA 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 classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument.

The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard of prudence prescribed by UPMIFA.

THE NORTH CAROLINA AQUARIUM SOCIETY

NOTES TO FINANCIAL STATEMENTS

Page 15 of 19

ENDOWMENT(CONTINUED)

In accordance with UPMIFA, the Society considers the following factors in making a determination to appropriate or accumulate donor-restricted 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 a noninterest bearing cash account.

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that UPMIFA requires to retain as a fund of perpetual duration. As of December 31, 2015 and 2014, the endowment funds were above the required amounts.

The changes in endowment net assets for the year ended December 31, 2015, are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ -	\$ -	\$ 20,000	\$ 20,000
Investment return:				
Income	-	-	-	-
Net appreciation	-	-	-	-
Total investment return	-	-	-	-
Contributions	-	-	-	-
Appropriation of endowment assets for expenditure	-	-	-	-
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 20,000</u>	<u>\$ 20,000</u>

THE NORTH CAROLINA AQUARIUM SOCIETY

NOTES TO FINANCIAL STATEMENTS

Page 16 of 19

ENDOWMENT(CONTINUED)

The changes in endowment net assets for the year ended December 31, 2014, are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ -	\$ -	\$ 20,000	\$ 20,000
Investment return:				
Income	-	-	-	-
Net appreciation	-	-	-	-
Total investment return	-	-	-	-
Contributions	-	-	-	-
Appropriation of endowment assets for expenditure	-	-	-	-
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 20,000</u>	<u>\$ 20,000</u>

OPERATING LEASE

At December 31, 2015 and 2014, the Society is obligated under an office space lease agreement in Raleigh, North Carolina. In 2011, the Society entered into their office lease agreement which terminated December 31, 2014. In 2014, the Society renegotiated the lease in order to extend the lease for twenty-four months effective January 1, 2015. Payments of \$9,895 are due with a 3% increase in the second year. Future minimum lease payments to be paid in 2016 total \$122,309.

In accordance with U.S. GAAP, lease payments are recognized ratably over the lease agreement. Rent expense under the lease agreement totaled \$120,527 and \$111,962, for the years ended December 31, 2015 and 2014. Deferred rent recorded totaled \$1,782 and \$0, at December 31, 2015 and 2014, respectively.

The State reimburses the Society for office space utilized under the lease agreement. The monthly reimbursement totals \$1,551. Lease payment reimbursements totaled \$18,612 for the years ended December 31, 2015 and 2014. Rent expense gifted to the State totaled \$28,996 and \$36,138, for the years ended December 31, 2015 and 2014, respectively.

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

Page 17 of 19

EMPLOYEE BENEFIT PLANS

The Society has a defined contribution retirement plan covering employees who have completed one year 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.

In addition, a 457(f) nonqualified deferred compensation plan covering the president and the executive vice-president was established in December 2007. Participants 100% vest in the plan when they reach retirement age, upon the participant's death, or upon the participant becoming disabled. The Society will retain all funds as a result of plan forfeitures. All participants were 100% vested and the plan amounts were paid out at December 31, 2015. The amounts in the plan totaled \$0 and \$138,638, as of December 31, 2015 and 2014, respectively.

Employee benefit plan expenses for all of the plans totaled \$159,926 and \$127,545, for the years ended December 31, 2015 and 2014, respectively.

SICK LEAVE PAY

Employees can accrue up to 2,000 hours of sick leave. Prior to December 1, 2014, any employee who had reached 62 years of age and had worked with the Society for three years was entitled to receive all unpaid sick leave upon retirement. On December 1, 2014, the Society revised the policy reducing the years of age from 62 to 55. As of December 31, 2015 and 2014, accrued sick leave totaled \$381,558 and \$372,772, 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 are 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, 2015 and 2014, totaled \$11,964 and \$8,251, respectively.

The Society recognizes the tax benefit from a tax position only if it is more likely than not the tax position will be sustained on examination by taxing authorities based on the technical merits of the position. The Society has analyzed its tax positions taken for filings with the Internal Revenue Service. The Society believes that its income tax filing positions will be sustained upon examination and does not anticipate any adjustments that would result in a material adverse affect on the Society's financial condition, results of operations, or cash flows. Accordingly, the Society has not recorded any tax assets or liabilities, or related accruals for interest and penalties, for uncertain income tax positions for the years ended December 31, 2015 and 2014.

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

Page 18 of 19

CONCENTRATIONS

The Society received approximately 39% and 33% of its revenues for the years ended December 31, 2015 and 2014, respectively, from the operation of the Aquariums' gift shops. If the Society was to no longer be responsible for the Aquariums' gift shops and the relationship terminates, the impact could be financially significant to the Society.

The Society received approximately 20% and 22% of its revenues for the years ended December 31, 2015 and 2014, 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. A decline in this revenue could have a significant financial impact on the Society.

COMMITMENTS

The Society entered into an agreement with PepsiCo, Inc., on January 1, 2000, to exclusively distribute Pepsi-Cola corporate trademark packaged beverage products at all Aquarium locations. The agreement expired on December 31, 2014. During 2014, the Society renegotiated the beverage agreement in order to extend the agreement to December 31, 2024. The renegotiated agreement provides \$500,000 of total support over the ten year period. Included within the total support is \$165,000 in sales commission, \$135,000 of marketing support, and \$200,000 of cash support. The sales commission and marketing support will be recognized as earned over the term of the agreement. The cash support is reflected as part of promises to give in the accompanying financial statements.

RELATED PARTY TRANSACTIONS

The Society purchases and resells several books written by the Executive Director and Director of Development, and several puzzles illustrated by the Director of Retail Operations. The total cost of books and puzzles purchased for the years ended December 31, 2015 and 2014, were \$4,043 and \$1,455, respectively.

NORTH CAROLINA AQUARIUM SUPPORT

In providing support to the North Carolina Aquariums, the Society contributed \$32,420 for the year ended December 31, 2014, to go toward supplementing the salaries of the three Aquarium/Pier directors and the division director. The Society also contributed \$107,820 for Aquarium/Pier employee stipends for the year ended December 31, 2014.

The Society provided direct and indirect support to the Aquarium/Pier of \$2,160,559 and \$1,740,868, for the year ended December 31, 2015, respectively. Included within the \$2,160,559 of direct support is \$737,397 for major renovations at the Roanoke Island Aquarium and \$1,423,162 in specific operational support. The Society provided direct and indirect support to the Aquariums/Pier of \$6,209,678 and \$1,610,973, for the year ended December 31, 2014, respectively. Included within the \$6,209,678 of direct support is \$4,175,390 for major renovations at the Roanoke Island Aquarium and \$2,034,288 in specific operational support.

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

Page 19 of 19

FUNCTIONAL ALLOCATION OF EXPENSES

The costs of providing the various program services have been summarized on a functional basis. Accordingly, certain costs have been allocated between program and supporting services benefitted based on management's estimates. Program activities are those direct costs that specifically meet and carry out the exempt objectives for which the Society was established. Supporting activities are indirect costs to the Society that cannot be specifically identified with a particular program objective.

RECLASSIFICATIONS

Certain reclassifications have been made to the 2014 financial statements in order to conform to the 2015 presentation. Such reclassifications had no effect on net assets.

PRIOR YEAR INFORMATION

The statement of activities and changes in net assets and schedule of functional expenses includes certain prior-year summarized comparative information in total but not by net asset class and functional category. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. GAAP. Accordingly, such information should be read in conjunction with the Society's financial statements for the year ended December 31, 2014, from which the summarized information was derived.

SUBSEQUENT EVENTS

Subsequent to year end, the Board of Directors of the Society approved an additional \$302,000 in funding to be used by the Aquariums and Jeanette's Pier. The operational support is not reflected in the accompanying financial statements. In accordance with U.S. GAAP, the Society will recognize the expense for the support of the Aquariums when the transfer of assets occurs.

Management has evaluated subsequent events for recognition or disclosure through April 8, 2016, 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 the financial statements.

ADDITIONAL FINANCIAL INFORMATION

THE NORTH CAROLINA AQUARIUM SOCIETY

SCHEDULE OF FUNCTIONAL EXPENSES

SCHEDULE 1

For the Year Ended December 31, 2015
(With Comparative Totals for the Year Ended December 31, 2014)

	Program Services			Supporting Services				2015 Total	2014 Total
	Aquarium/Pier Support	Gift Shop	Total	Management and General	Fundraising	Membership Development	Total		
Salaries	\$ 258,887	\$ 862,106	\$ 1,120,993	\$ 186,877	\$ 164,461	\$ 187,647	\$ 538,985	\$ 1,659,978	\$ 1,575,974
Employee benefits	67,823	205,858	273,681	48,918	35,502	51,069	135,489	409,170	360,242
Payroll taxes	17,803	74,461	92,264	12,048	9,937	14,484	36,469	128,733	128,478
Total salaries and related expenses	344,513	1,142,425	1,486,938	247,843	209,900	253,200	710,943	2,197,881	2,064,694
Advertising	331,252	501	331,753	-	11,880	1,727	13,607	345,360	257,009
Amortization of bond issuance costs	12,540	-	12,540	-	-	-	-	12,540	12,540
Awards and grants	115,223	-	115,223	-	-	-	-	115,223	38,062
Bank fees	4,801	72,102	76,903	54,804	-	15,254	70,058	146,961	178,598
Board expenses	22,302	-	22,302	197	-	-	197	22,499	31,330
Bond interest and fees expense	171,668	-	171,668	-	-	-	-	171,668	179,846
Displays	181,300	1,712	183,012	-	-	-	-	183,012	30,976
Dues and subscriptions	-	2,378	2,378	1,582	1,739	2,328	5,649	8,027	-
Facility rent	31,037	12,634	43,671	74,486	-	-	74,486	118,157	104,313
Freight	166	104,479	104,645	3,904	519	1,553	5,976	110,621	94,382
Insurance	-	13,987	13,987	37,228	-	406	37,634	51,621	28,630
Loss on damaged goods	-	20,790	20,790	-	-	-	-	20,790	13,041
Licenses and fees	554	812	1,366	3,270	-	200	3,470	4,836	4,119
Miscellaneous	7,244	7,863	15,107	6,136	2,617	13,935	22,688	37,795	85,017
Personnel and supplements	56,166	-	56,166	-	-	-	-	56,166	108,259
Postage and printing	9,543	299	9,842	8,243	5,873	52,681	66,797	76,639	85,476
Professional fees	123,505	52,267	175,772	114,402	106,759	31,145	252,306	428,078	543,815
Projects and exhibits	529,750	-	529,750	-	-	-	-	529,750	1,102,807
Renovation of Roanoke Island Aquarium	737,397	-	737,397	-	-	-	-	737,397	4,175,390
Repairs and maintenance	108,460	17,074	125,534	2,577	-	6,316	8,893	134,427	181,859
Special events	20,904	56	20,960	-	11,584	502	12,086	33,046	-
Staff development and training	61,823	-	61,823	2,034	-	1,688	3,722	65,545	165,108
Supplies	2,319	38,317	40,636	15,173	6,264	5,726	27,163	67,799	110,310
Telephone	663	16,678	17,341	13,848	1,170	1,867	16,885	34,226	29,682
Travel and subsistence	147,332	24,853	172,185	9,577	8,640	6,346	24,563	196,748	98,103
Income taxes	-	-	-	11,964	-	-	11,964	11,964	8,251
Total other expenses	2,675,949	386,802	3,062,751	359,425	157,045	141,674	658,144	3,720,895	7,666,923
Total expenses before depreciation and in-kind expenses	3,020,462	1,529,227	4,549,689	607,268	366,945	394,874	1,369,087	5,918,776	9,731,617
Depreciation	667,090	23,236	690,326	23,795	-	6,747	30,542	720,868	703,374
In-kind marketing	213,875	-	213,875	-	-	-	-	213,875	357,985
In-kind facility rent	-	264,528	264,528	-	-	-	-	264,528	264,528
Total functional expenses	\$ 3,901,427	\$ 1,816,991	\$ 5,718,418	\$ 631,063	\$ 366,945	\$ 401,621	\$ 1,399,629	\$ 7,118,047	\$ 11,057,504

See Independent Auditor's Report on additional information.