

**THE NORTH CAROLINA AQUARIUM SOCIETY**

**Raleigh, North Carolina**

**AUDITED FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017**



## CONTENTS

	<b><u>PAGES</u></b>
Independent Auditor's Report	2-3
Exhibits:	
"A"     Statements of Financial Position	4-5
"B"     Statements of Activities and Changes in Net Assets	6-7
"C"     Statements of Cash Flows	8
"D"     Statements of Functional Expenses	9-10
Notes to Financial Statements	11-28

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



MEMBERS:  
American Institute of  
Certified Public Accountants

North Carolina Association of  
Certified Public Accountants

## **INDEPENDENT AUDITOR'S REPORT**

Page 1 of 2

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

### ***Report on the Financial Statements***

We have audited the accompanying financial statements of The North Carolina Aquarium Society (a nonprofit organization), which comprise the statements of financial position as of December 31, 2018 and 2017, and the related statements of activities and changes in net assets, cash flows, and functional expenses for the years then ended, and the related notes to the financial statements.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

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

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

**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.b-scpa.com • email:cpa@b-scpa.com

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.

***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, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*Blackman & Sloop*

Chapel Hill, North Carolina  
April 22, 2019

## THE NORTH CAROLINA AQUARIUM SOCIETY

## STATEMENTS OF FINANCIAL POSITION

December 31, 2018 and 2017

EXHIBIT A

Page 1 of 2

ASSETS

	<u>2018</u>	<u>2017</u>
<b>CURRENT ASSETS:</b>		
Cash and equivalents	\$ 1,695,743	\$ 2,275,814
Certificates of deposit	654,849	-
Promises to give - current, net	130,027	133,023
Sales tax and other receivables	147,869	248,049
Investments	5,007,094	5,375,413
Inventory	605,127	451,010
Other current assets	76,823	116,935
<b>TOTAL CURRENT ASSETS</b>	<u>8,317,532</u>	<u>8,600,244</u>
<b>PROPERTY AND EQUIPMENT:</b>		
Aquarium expansion project	26,001,951	26,001,951
Equipment, furniture, and fixtures	607,595	567,109
Leasehold improvements	160,316	136,639
	<u>26,769,862</u>	<u>26,705,699</u>
Less: accumulated depreciation	<u>(8,730,062)</u>	<u>(8,041,096)</u>
<b>NET PROPERTY AND EQUIPMENT</b>	<u>18,039,800</u>	<u>18,664,603</u>
<b>OTHER ASSETS:</b>		
Cash and investments held with bond trustee	3,676,681	3,576,330
Investment return receivable	22,959	16,902
Promises to give - noncurrent, net	101,825	197,768
<b>TOTAL OTHER ASSETS</b>	<u>3,801,465</u>	<u>3,791,000</u>
<b>TOTAL ASSETS</b>	<u><u>\$ 30,158,797</u></u>	<u><u>\$ 31,055,847</u></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, 2018 and 2017

EXHIBIT A

Page 2 of 2

LIABILITIES AND NET ASSETS

	<u>2018</u>	<u>2017</u>
<b>CURRENT LIABILITIES:</b>		
Accounts payable	\$ 121,932	\$ 211,303
Accrued expenses	634,071	583,311
Bond loan accrued expenses	31,215	42,141
Deferred revenue - current	28,750	25,120
Bond loan payable - current	<u>1,440,000</u>	<u>1,385,000</u>
<b>TOTAL CURRENT LIABILITIES</b>	<u>2,255,968</u>	<u>2,246,875</u>
<b>NONCURRENT LIABILITIES:</b>		
Deferred revenue - noncurrent	2,785	3,148
Deferred rent	11,829	1,312
NC Aquariums security deposit	1,495,488	1,495,488
Unearned aquarium lease revenue	1,596,303	1,558,454
Bond loan payable - noncurrent	<u>11,796,999</u>	<u>13,224,460</u>
<b>TOTAL NONCURRENT LIABILITIES</b>	<u>14,903,404</u>	<u>16,282,862</u>
<b>TOTAL LIABILITIES</b>	<u>17,159,372</u>	<u>18,529,737</u>
<b>NET ASSETS:</b>		
Without donor restrictions:		
Undesignated	\$ 7,563,040	\$ 7,586,728
Designated by the Board for operating reserve	2,500,000	2,500,000
Designated by the Board for Aquarium Legacy Fund	374,046	302,329
Designated by the Board for NC Aquarium commitments	<u>1,810,195</u>	<u>1,132,182</u>
Total without donor restrictions	12,247,281	11,521,239
With donor restrictions:		
Purpose restrictions	562,761	754,137
Donor-restricted endowment	20,000	20,000
Time-restricted for future periods	169,795	230,734
Underwater endowments	<u>(412)</u>	<u>-</u>
Total with donor restrictions	752,144	1,004,871
<b>TOTAL NET ASSETS</b>	<u>12,999,425</u>	<u>12,526,110</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u><u>\$ 30,158,797</u></u>	<u><u>\$ 31,055,847</u></u>

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

**THE NORTH CAROLINA AQUARIUM SOCIETY**  
**STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS**

**For the Years Ended December 31, 2018 and 2017**

**EXHIBIT B**

**Page 1 of 2**

	<b>2018</b>			<b>2017</b>
	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total</b>	<b>Total</b>
<b>SUPPORT AND REVENUE:</b>				
Gift shop sales	\$ 5,049,002	\$ -	\$ 5,049,002	\$ 4,949,998
Less: cost of goods sold	(1,966,689)	-	(1,966,689)	(1,920,384)
Net gift shop sales	3,082,313	-	3,082,313	3,029,614
Concessions	397,291	-	397,291	399,739
Membership	1,753,728	-	1,753,728	1,753,280
In-kind contributions	237,942	-	237,942	274,885
Contributions, grants, and sponsorships	206,355	543,142	749,497	929,566
NC Aquarium lease revenue and contributions	1,703,591	-	1,703,591	1,498,258
Other income	5,634	-	5,634	9,453
Investment return, net	(165,670)	(412)	(166,082)	671,701
	7,221,184	542,730	7,763,914	8,566,496
Net assets released from restrictions	790,426	(790,426)	-	-
<b>TOTAL SUPPORT AND REVENUE</b>	<b>8,011,610</b>	<b>(247,696)</b>	<b>7,763,914</b>	<b>8,566,496</b>
<b>EXPENSES:</b>				
Program services:				
Aquarium/Pier support	3,632,554	-	3,632,554	3,110,195
Gift shop	2,030,252	-	2,030,252	1,888,132
Membership development	459,810	-	459,810	474,645
Total program services	6,122,616	-	6,122,616	5,472,972
Supporting services:				
Management and general	832,022	-	832,022	801,120
Fundraising	311,029	-	311,029	300,001
Total Supporting Services	1,143,051	-	1,143,051	1,101,121
<b>TOTAL FUNCTIONAL EXPENSES</b>	<b>7,265,667</b>	<b>-</b>	<b>7,265,667</b>	<b>6,574,093</b>
Loss (gain) on disposal of property and equipment	785	-	785	(33,000)
Bad debt expense	20,147	4,000	24,147	1,598
<b>TOTAL OTHER (INCOME) EXPENSES</b>	<b>20,932</b>	<b>4,000</b>	<b>24,932</b>	<b>(31,402)</b>
<b>TOTAL EXPENSES</b>	<b>7,286,599</b>	<b>4,000</b>	<b>7,290,599</b>	<b>6,542,691</b>
<b>CHANGES IN NET ASSETS</b>	<b>725,011</b>	<b>(251,696)</b>	<b>473,315</b>	<b>2,023,805</b>
<b>NET ASSETS - BEGINNING OF YEAR</b>	<b>11,521,239</b>	<b>1,004,871</b>	<b>12,526,110</b>	<b>10,502,305</b>
<b>NET ASSETS - END OF YEAR</b>	<b>\$ 12,246,250</b>	<b>\$ 753,175</b>	<b>\$ 12,999,425</b>	<b>\$ 12,526,110</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

For the Years Ended December 31, 2018 and 2017

EXHIBIT B

Page 2 of 2

	2017		
	Without Donor Restrictions	With Donor Restrictions	Total
<b>SUPPORT AND REVENUE:</b>			
Gift shop sales	\$ 4,949,998	\$ -	\$ 4,949,998
Less: cost of goods sold	(1,920,384)		(1,920,384)
Net gift shop sales	3,029,614	-	3,029,614
Concessions	399,739	-	399,739
Membership	1,753,280	-	1,753,280
In-kind contributions	274,885	-	274,885
Contributions, grants, and sponsorships	41,706	887,860	929,566
NC Aquarium lease revenue and contributions	1,498,258	-	1,498,258
Other income	9,453	-	9,453
Investment return, net	670,646	1,055	671,701
	7,677,581	888,915	8,566,496
Net assets released from restrictions	447,896	(447,896)	-
<b>TOTAL SUPPORT AND REVENUE</b>	<b>8,125,477</b>	<b>441,019</b>	<b>8,566,496</b>
<b>EXPENSES:</b>			
Program services:			
Aquarium/Pier support	3,110,195	-	3,110,195
Gift shop	1,888,132	-	1,888,132
Membership development	474,645	-	474,645
Total program services	5,472,972	-	5,472,972
Supporting services:			
Management and general	801,120	-	801,120
Fundraising	300,001	-	300,001
Total Supporting Services	1,101,121	-	1,101,121
<b>TOTAL FUNCTIONAL EXPENSES</b>	<b>6,574,093</b>	<b>-</b>	<b>6,574,093</b>
Gain on disposal of property and equipment	(33,000)	-	(33,000)
Bad debt expense	1,574	24	1,598
<b>TOTAL OTHER (INCOME) EXPENSES</b>	<b>(31,426)</b>	<b>24</b>	<b>(31,402)</b>
<b>TOTAL EXPENSES</b>	<b>6,542,667</b>	<b>24</b>	<b>6,542,691</b>
<b>CHANGES IN NET ASSETS</b>	<b>1,582,810</b>	<b>440,995</b>	<b>2,023,805</b>
<b>NET ASSETS - BEGINNING OF YEAR (AS RESTATED)</b>	<b>9,938,429</b>	<b>563,876</b>	<b>10,502,305</b>
<b>NET ASSETS - END OF YEAR</b>	<b>\$ 11,521,239</b>	<b>\$ 1,004,871</b>	<b>\$ 12,526,110</b>

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, 2018 and 2017

	2018	2017
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Changes in net assets	\$ 473,315	\$ 2,023,805
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	742,706	732,824
Amortization of bond issuance costs	12,539	12,540
Loss (gain) on disposal of property and equipment	785	(33,000)
Realized gain loss on sale of investments	(201,658)	(425,615)
Unrealized loss (gain) on investments	571,958	(119,090)
Increase (decrease) in cash arising from changes in assets and liabilities:		
Promises to give	98,939	(13,108)
Sales tax and other receivables	100,180	(66,051)
Inventory	(154,117)	78,757
Other current assets	40,112	10,038
Accounts payable	(89,371)	93,398
Accrued expenses	50,760	13,270
Bond loan accrued expenses	(10,926)	19,288
Deferred rent	10,517	1,312
Deferred revenue	3,267	12,033
Unearned aquarium lease revenue	37,849	208,407
<b>NET CASH FLOWS PROVIDED BY OPERATING ACTIVITIES</b>	<b>1,686,855</b>	<b>2,548,808</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchase of property and equipment	(119,888)	(73,523)
Proceeds from sale of property and equipment	1,200	33,000
Purchase of certificates of deposit	(650,000)	-
Redemption of certificates of deposit	-	1,700,355
Purchase of investments	(3,439,911)	(7,501,397)
Proceeds from sale of investments	3,433,081	5,908,178
Change in investment return receivable	(6,057)	726
Change in cash and investments held with bond trustee	(100,351)	(171,886)
<b>NET CASH FLOWS USED IN INVESTING ACTIVITIES</b>	<b>(881,926)</b>	<b>(104,547)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Principal payment on bond loan	(1,385,000)	(1,330,000)
<b>NET (DECREASE) INCREASE IN CASH AND EQUIVALENTS</b>	<b>(580,071)</b>	<b>1,114,261</b>
<b>CASH AND EQUIVALENTS AT BEGINNING OF YEAR</b>	<b>2,275,814</b>	<b>1,161,553</b>
<b>CASH AND EQUIVALENTS AT END OF YEAR</b>	<b>\$ 1,695,743</b>	<b>\$ 2,275,814</b>
<b>Supplemental Information:</b>		
Cash paid during the year for interest	\$ 197,629	\$ 128,420
Cash paid during the year for unrelated business income taxes	\$ 31,400	\$ 15,480
In-kind contributions	\$ 237,942	\$ 274,885

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, 2018 and 2017

Exhibit D

Page 1 of 2

	Program Services				Supporting Services			2018	2017
	Aquarium/Pier Support	Gift Shop	Membership Development	Total	Management and General	Fundraising	Total	Grand Total	Total
Salaries	\$ 136,155	\$ 961,976	\$ 177,399	\$ 1,275,530	\$ 361,793	\$ 137,131	\$ 498,924	\$ 1,774,454	\$ 1,685,578
Employee benefits	35,217	254,678	44,911	334,806	94,113	33,976	128,089	462,895	452,038
Payroll taxes	8,622	72,883	13,060	94,565	35,584	8,753	44,337	138,902	127,131
Total salaries and related expenses	179,994	1,289,537	235,370	1,704,901	491,490	179,860		2,376,251	2,264,747
Advertising and promotion	186,020	734	-	186,754	710	6,470	7,180	193,934	226,225
Aquarium and pier personnel and supplements	51,617	-	-	51,617	-	-	-	51,617	359,194
Aquarium Scholars and education grants	147,247	-	-	147,247	-	-	-	147,247	6,392
Bank and merchant service fees	13,698	88,139	16,213	118,050	11,105	-	11,105	129,155	136,723
Board expenses	31,306	-	-	31,306	-	-	-	31,306	26,808
Bond interest and fees expense	344,381	-	-	344,381	-	-	-	344,381	308,458
Conservation and sustainability grants	309,730	-	-	309,730	-	-	-	309,730	82,602
Displays and fixtures	280,662	6,445	2,842	289,949	-	1,473	1,473	291,422	128,013
Dues and subscriptions	26,465	171	-	26,636	3,714	1,856	5,570	32,206	23,896
Facility and equipment rent	35,105	30,991	13,108	79,204	68,085	3,018	71,103	150,307	126,358
Freight	8,971	130,302	6,291	145,564	535	3,585	4,120	149,684	123,567
Insurance	-	13,463	-	13,463	29,410	-	29,410	42,873	63,657
Jennette's Pier operational support	552,091	-	-	552,091	-	-	-	552,091	246,895
Licenses and fees	11,121	4,071	659	15,851	7,142	50	7,192	23,043	14,522
Loss on damaged goods	-	29,061	-	29,061	-	-	-	29,061	31,691
Member benefit	-	-	14,583	14,583	-	-	-	14,583	18,154
Miscellaneous	16,516	7,757	210	24,483	8,170	25	8,195	32,678	17,765
Postage and printing	24,935	1,049	102,986	128,970	97	4,799	4,896	133,866	145,499
Professional fees	38,206	11,171	17,586	66,963	125,172	57,190	182,362	249,325	397,237
Renovation of Soundside Hall Pine Knoll Shores	125,000	-	-	125,000	-	-	-	125,000	-
Repairs and maintenance	102,459	7,991	3,652	114,102	2,867	16,596	19,463	133,565	96,563
Society vehicles	-	-	-	-	-	-	-	-	4,073
Special events	26,712	-	200	26,912	-	10,651	10,651	37,563	32,752
Staff development and training	60,669	4,429	669	65,767	16,731	-	16,731	82,498	74,486
Supplies and equipment	191,008	48,568	32,661	272,237	13,435	5,381	18,816	291,053	302,666
Telephone and internet	43,357	27,732	1,448	72,537	12,501	1,000	13,501	86,038	97,483
Travel, subsistence, and meetings	154,961	30,542	7,389	192,892	8,087	19,075	27,162	220,054	178,286
Bad debt expense	-	-	-	-	24,147	-	24,147	24,147	1,598
Loss (gain) on disposal of property and equipment	-	-	-	-	785	-	785	785	(33,000)
Income taxes	-	-	-	-	24,488	-	24,488	24,488	31,672
Total other expenses	2,782,237	442,616	220,497	3,445,350	357,181	131,169	488,350	3,933,700	3,270,235
Total expenses before depreciation and in-kind expenses	2,962,231	1,732,153	455,867	5,150,251	848,671	311,029	1,159,700	6,309,951	5,534,982
Depreciation	666,717	63,763	3,943	734,423	8,283	-	8,283	742,706	732,824
In-kind marketing, services, supplies	3,606	-	-	3,606	-	-	-	3,606	10,357
In-kind facility rent	-	234,336	-	234,336	-	-	-	234,336	264,528
Total expenses	3,632,554	2,030,252	459,810	6,122,616	856,954	311,029	1,167,983	7,290,599	6,542,691
Less: Bad debt expense	-	-	-	-	(24,147)	-	(24,147)	(24,147)	(1,598)
Less: Loss (gain) on disposal of property and equipment	-	-	-	-	(785)	-	(785)	(785)	33,000
Total functional expenses	\$ 3,632,554	\$ 2,030,252	\$ 459,810	\$ 6,122,616	\$ 832,022	\$ 311,029	\$ 1,143,051	\$ 7,265,667	\$ 6,574,093

## THE NORTH CAROLINA AQUARIUM SOCIETY

## STATEMENTS OF FUNCTIONAL EXPENSES

For the Years Ended December 31, 2018 and 2017

Exhibit D

Page 2 of 2

	Program Services				Supporting Services			2017
	Aquarium/Pier Support	Gift Shop	Membership Development	Total	Management and General	Fundraising	Total	Total
Salaries	\$ 201,718	\$ 848,873	\$ 174,056	\$ 1,224,647	\$ 344,616	\$ 116,315	\$ 460,931	\$ 1,685,578
Employee benefits	67,904	217,110	56,465	341,479	79,590	30,969	110,559	452,038
Payroll taxes	14,384	66,886	13,539	94,809	24,437	7,885	32,322	127,131
Total salaries and related expenses	284,006	1,132,869	244,060	1,660,935	448,643	155,169	603,812	2,264,747
Advertising and promotion	208,003	962	3,971	212,936	66	13,223	13,289	226,225
Aquarium and pier personnel and supplements	359,194	-	-	359,194	-	-	-	359,194
Aquarium Scholars and education grants	6,392	-	-	6,392	-	-	-	6,392
Bank and investment fees	13,840	88,826	18,737	121,403	15,320	-	15,320	136,723
Board expenses	26,808	-	-	26,808	-	-	-	26,808
Bond interest and fees expense	308,458	-	-	308,458	-	-	-	308,458
Conservation and sustainability grants	82,602	-	-	82,602	-	-	-	82,602
Displays and fixtures	109,078	9,216	1,006	119,300	2,279	6,434	8,713	128,013
Dues and subscriptions	18,536	637	481	19,654	3,134	1,108	4,242	23,896
Facility and equipment rent	33,810	26,255	-	60,065	66,293	-	66,293	126,358
Freight	85	114,855	3,052	117,992	2,409	3,166	5,575	123,567
Insurance	-	25,581	11,472	37,053	26,604	-	26,604	63,657
Jennette's Pier operational support	246,895	-	-	246,895	-	-	-	246,895
Licenses and fees	6,485	120	-	6,605	7,917	-	7,917	14,522
Loss on damaged goods	-	31,691	-	31,691	-	-	-	31,691
Member benefit	-	-	18,154	18,154	-	-	-	18,154
Miscellaneous	9,973	7,198	14	17,185	440	140	580	17,765
Postage and printing	10,766	995	116,406	128,167	760	16,572	17,332	145,499
Professional fees	134,962	19,707	29,782	184,451	153,023	59,763	212,786	397,237
Repairs and maintenance	83,714	7,067	3,977	94,758	1,413	392	1,805	96,563
Society vehicles	4,073	-	-	4,073	-	-	-	4,073
Special events	19,339	16	286	19,641	-	13,111	13,111	32,752
Staff development and training	60,314	3,558	981	64,853	9,633	-	9,633	74,486
Supplies and equipment	226,083	40,207	11,064	277,354	11,873	13,439	25,312	302,666
Telephone and internet	54,384	33,687	1,868	89,939	6,344	1,200	7,544	97,483
Travel, subsistence, and meetings	125,217	25,917	5,391	156,525	5,477	16,284	21,761	178,286
Bad debt expense	-	-	-	-	1,598	-	1,598	1,598
Gain on disposal of property and equipment	-	-	-	-	(33,000)	-	(33,000)	(33,000)
Income taxes	-	-	-	-	31,672	-	31,672	31,672
Total other expenses	2,149,011	436,495	226,642	2,812,148	313,255	144,832	458,087	3,270,235
Total expenses before depreciation and in-kind expenses	2,433,017	1,569,364	470,702	4,473,083	761,898	300,001	1,061,899	5,534,982
Depreciation	666,821	54,240	3,943	725,004	7,820	-	7,820	732,824
In-kind marketing, services, supplies	10,357	-	-	10,357	-	-	-	10,357
In-kind facility rent	-	264,528	-	264,528	-	-	-	264,528
Total expenses	3,110,195	1,888,132	474,645	5,472,972	769,718	300,001	1,069,719	6,542,691
Less: Bad debt expense	-	-	-	-	(1,598)	-	(1,598)	(1,598)
Less: Gain on disposal of property and equipment	-	-	-	-	33,000	-	33,000	33,000
Total functional expenses	\$ 3,110,195	\$ 1,888,132	\$ 474,645	\$ 5,472,972	\$ 801,120	\$ 300,001	\$ 1,101,121	\$ 6,574,093

# THE NORTH CAROLINA AQUARIUM SOCIETY

## NOTES TO FINANCIAL STATEMENTS

Page 1 of 18

### **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 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 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.

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

Page 2 of 18

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

Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows.

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

**D. Accounts Receivable and Other Receivables.**

Accounts receivable and other receivables are recorded at their net realizable value. The Society provides an allowance for doubtful accounts equal to the estimated losses that are expected to be incurred in their collection. The allowance is based on historical collection experience and a review by management of the current status of existing receivables. As of December 31, 2018 and 2017, all receivables were deemed collectible by management.

**E. Investments.**

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

**F. Inventory.**

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

**G. Property and Equipment.**

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

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

## THE NORTH CAROLINA AQUARIUM SOCIETY

## NOTES TO FINANCIAL STATEMENTS

Page 3 of 18

**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, 2018 and 2017.

## I. Deferred Revenue.

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

## J. Net Assets.

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

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

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

## K. Donated Assets, Materials, and Services.

The Society reports gifts of land, buildings, and equipment as support without donor restrictions unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as support with donor restrictions when the assets are placed in service. During the years ended December 31, 2018 and 2017, the value of donated space totaled \$234,336 and \$264,528, respectively.

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

Page 4 of 18

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

The Society recognizes donated services which create or enhance non-financial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. During the years ended December 31, 2018 and 2017, donated marketing services and supplies totaled \$3,606 and \$10,357, respectively.

**L. Advertising and Marketing.**

Advertising and marketing costs are expensed as incurred and totaled \$193,934 and \$226,225, for the years ended December 31, 2018 and 2017, 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. 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.

**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. Change in Accounting Principle.**

On August 18, 2016, FASB issued Accounting Standards Update (ASU 2016-14), Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability about resources, and the lack of consistency in the type of information provided about expenses and investment return. We have implemented ASU 2016-14 and have adjusted the presentation in these financial statements accordingly. The ASU has been applied retrospectively to all periods presented which increased net assets without donor restrictions by \$412 and decreased net assets with donor restrictions by \$412 resulting from the reclassification of underwater endowment funds as required under ASU 2016-14.

# THE NORTH CAROLINA AQUARIUM SOCIETY

## NOTES TO FINANCIAL STATEMENTS

Page 5 of 18

### LIQUIDITY AND AVAILABILITY

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

Cash and equivalents	\$ 1,695,743
Promises to give	41,970
Sales tax receivable and other receivables	147,869
Operating investments	<u>526,133</u>
	<u>\$ 2,411,715</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.

Additionally, the Society has a contractual commitment to the NC Aquariums for \$1.2 million annually for operational support, in addition to any specifically requested capital support. Board-designated commitments to the NC Aquariums include any approved unspent support from the previous year. As of December 31, 2018, the Society has a board-designated commitment of \$1,810,195 to the NC Aquariums. The designated support is not reflected in the accompanying liquidity and availability schedule above. Although the Society does not intend to spend from its board-designated support commitment, amounts could be made available if necessary in the event of financial distress.

### FINANCIAL INSTRUMENTS AND CREDIT RISK

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

# THE NORTH CAROLINA AQUARIUM SOCIETY

## NOTES TO FINANCIAL STATEMENTS

Page 6 of 18

### **PROMISES TO GIVE**

Promises to give consist of the following at December 31:

	2018	2017
Receivable in less than one year	\$ 130,027	\$ 133,023
Receivable in one to five years	107,918	210,565
Total gross promises to give	237,945	343,588
Discount at a rate of 2.6% and 2.4%, respectively	(6,093)	(12,797)
Net present value of promises to give	<u>\$ 231,852</u>	<u>\$ 330,791</u>

### **FAIR VALUE OF ASSETS**

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

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

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

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

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

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

## THE NORTH CAROLINA AQUARIUM SOCIETY

## NOTES TO FINANCIAL STATEMENTS

Page 7 of 18

**FAIR VALUE OF ASSETS (CONTINUED)**

There were no changes during the years ending December 31, 2018 and 2017, to the Society's valuation techniques used to measure asset values on a recurring basis.

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

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

	Level 1	Level 2	Level 3	Total
<b>Investments:</b>				
<i>Equity securities:</i>				
Consumer goods	\$ 379,661	\$ -	\$ -	\$ 379,661
Energy	30,351	-	-	30,351
Financial	100,499	-	-	100,499
Healthcare	133,126	-	-	133,126
Industrial goods	288,421	-	-	288,421
Information tech	168,731	-	-	168,731
Materials	33,272	-	-	33,272
Real estate	37,610	-	-	37,610
Utilities	45,541	-	-	45,541
<i>Total equity securities</i>	<u>1,217,212</u>	<u>-</u>	<u>-</u>	<u>1,217,212</u>
<i>Mutual funds:</i>				
Fixed income	473,037	-	-	473,037
Equity	1,462,258	-	-	1,462,258
<i>Total mutual funds</i>	<u>1,935,295</u>	<u>-</u>	<u>-</u>	<u>1,935,295</u>
<i>Bonds:</i>				
Corporate	-	1,282,064	-	1,282,064
U.S. Government	498,600	-	-	498,600
Other	-	73,923	-	73,923
<i>Total bonds</i>	<u>498,600</u>	<u>1,355,987</u>	<u>-</u>	<u>1,854,587</u>
<b>Total investments</b>	<u>3,651,107</u>	<u>1,355,987</u>	<u>-</u>	<u>5,007,094</u>
<b>Investments held with bond trustee:</b>				
U.S. Government bonds	1,946,192	-	-	1,946,192
	<u>\$ 5,597,299</u>	<u>\$ 1,355,987</u>	<u>\$ -</u>	<u>\$ 6,953,286</u>

## THE NORTH CAROLINA AQUARIUM SOCIETY

## NOTES TO FINANCIAL STATEMENTS

Page 8 of 18

**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, 2017. 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 \$1,635,187 at December 31, 2017.

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<b>Investments:</b>				
<i>Equity securities:</i>				
Basic materials	\$ 52,863	\$ -	\$ -	\$ 52,863
Consumer goods	339,885	-	-	339,885
Energy	51,463	-	-	51,463
Financial	170,146	-	-	170,146
Healthcare	204,653	-	-	204,653
Industrial goods	366,285	-	-	366,285
Real estate	59,855	-	-	59,855
Utilities	47,570	-	-	47,570
Information tech	379,567	-	-	379,567
<i>Total equity securities</i>	<u>1,672,287</u>	<u>-</u>	<u>-</u>	<u>1,672,287</u>
<i>Mutual funds:</i>				
Fixed income	531,831	-	-	531,831
Equity	1,890,678	-	-	1,890,678
<i>Total mutual funds</i>	<u>2,422,509</u>	<u>-</u>	<u>-</u>	<u>2,422,509</u>
<i>Bonds:</i>				
Corporate	-	1,191,201	-	1,191,201
Other	-	89,416	-	89,416
<i>Total bonds</i>	<u>-</u>	<u>1,280,617</u>	<u>-</u>	<u>1,280,617</u>
<b>Total investments</b>	<u>4,094,796</u>	<u>1,280,617</u>	<u>-</u>	<u>5,375,413</u>
<b>Investments held with bond trustee:</b>				
U.S. Government bonds	1,941,143	-	-	1,941,143
	<u>\$ 6,035,939</u>	<u>\$ 1,280,617</u>	<u>\$ -</u>	<u>\$ 7,316,556</u>

# THE NORTH CAROLINA AQUARIUM SOCIETY

## NOTES TO FINANCIAL STATEMENTS

Page 9 of 18

### **DEFERRED REVENUE**

Membership revenue is recognized monthly over the membership term. Deferred membership dues represent the fair value of membership dues received as of December 31, 2018 and 2017, for membership terms that extend beyond the fiscal year. Deferred membership revenue as of December 31, 2018 and 2017, totaled \$31,535 and \$28,268, 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.

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 NORTH CAROLINA AQUARIUM SOCIETY

## NOTES TO FINANCIAL STATEMENTS

Page 10 of 18

### **BOND LOAN PAYABLE (CONTINUED)**

The outstanding bond loan payable totaled \$13,330,000 and \$14,715,000, at December 31, 2018 and 2017, respectively. The future scheduled maturities of the bond loan payable are as follows:

<u>Year Ending December 31,</u>	
2019	\$ 1,440,000
2020	1,500,000
2021	1,560,000
2022	1,625,000
2023	1,695,000
Thereafter	<u>5,510,000</u>
Future scheduled maturities	13,330,000
Bond issuance cost, net amortization	<u>(93,001)</u>
Total bond loan payable	<u><u>\$ 13,236,999</u></u>

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

In accordance with U.S. GAAP, bond issuance costs are presented in the statements of financial position as a reduction of the carrying amount of the long-term bond. The bond issuance costs are then amortized and reported as interest expense. Unamortized bond issuance costs included in bond loan payable on the statements of financial position totals \$93,001 and \$105,540 as of December 31, 2018 and 2017, 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, 2018 and 2017, interest expense totaled \$205,542 and \$132,163, 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, 2018 and 2017, bond loan annual fees totaled \$126,299 and \$163,755, 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**

Page 11 of 18

**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 \$12,540 is recorded as interest expense for the years ended December 31, 2018 and 2017, in accordance with U.S. GAAP. Accumulated amortization totaled \$187,047 and \$174,508, for the years ended December 31, 2018 and 2017, 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 \$3,676,681 and \$3,576,330, as of December 31, 2018 and 2017, respectively.

**Letter of Credit and Reimbursement Agreement**

Simultaneous with the issuance of the bonds, the Society entered into a letter of credit and reimbursement agreement with Bank of America, N.A. (the “Credit Facility”), for a direct-pay letter of credit in an amount of up to \$27,052,751, of which \$26,745,000 will support the principal of the bonds, and \$307,751 will support up to 35 days’ interest at an assumed rate of 12% per annum. The letter of credit is secured by the Pine Knoll Shores Aquarium land, building, and improvements and expires March 31, 2021 with the same terms. The outstanding letter of credit totaled \$13,483,386 and \$14,884,323, at December 31, 2018 and 2017, 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, 2018 and 2017.

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

Page 12 of 18

**BOND LOAN PAYABLE (CONTINUED)**

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, 2018 and 2017, 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 \$1,596,303 and \$1,558,454, for the years ended December 31, 2018 and 2017. The Society recognized lease revenue totaling \$1,558,454 and \$1,350,047, for the years ended December 31, 2018 and 2017, respectively.

**NET ASSETS WITHOUT DONOR RESTRICTIONS: BOARD DESIGNATED**

The Society’s Board of Directors has established a board-designated operating reserve of \$2.5 million. With approval from the Board of Directors, the board-designated operating reserve may be drawn upon, in the event of financial distress or an immediate liquidity need resulting from events outside the typical life cycle of converting financial assets to cash or settling financial liabilities. No funds were drawn from the operating reserve during 2018 or 2017.

On September 11, 2014, the Society’s Board of Directors Executive Committee approved the establishment of the Tetlow and Roy Park Aquarium Legacy Fund for innovative educational programs and exhibits at the Aquariums and Pier. The contributions to the Legacy Fund are matched by an equal amount from the Society. The Society’s Board of Directors is responsible for managing the Legacy Fund and making decisions regarding allocation of resources. The Legacy Fund at December 31, 2018 and 2017 totaled \$374,046 and \$302,329, respectively, and is recorded as net assets without donor restrictions.

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

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

Page 13 of 18

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

During 2017, the Society's Board of Directors approved \$1,541,448 funding to be used by the Aquariums and Pier through June 30, 2018 for operational support. The operational support is not reflected in the accompanying financial statements. In accordance with U.S. GAAP, the Society will recognize the expense for the support of the Aquariums and Pier when the transfer of assets occurs. Board designated net assets include any approved unspent operational support from the previous year. The Carryforward amount is \$1,132,182 at December 31, 2017.

**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. 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.

## THE NORTH CAROLINA AQUARIUM SOCIETY

## NOTES TO FINANCIAL STATEMENTS

Page 14 of 18

**ENDOWMENT (CONTINUED)****Funds with Deficiencies**

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

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

	<u>Donor</u>	<u>Restrictions</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ -	\$ 21,055	\$ 21,055
Net investment return:	<u>-</u>	<u>(1,297)</u>	<u>(1,297)</u>
Contributions	-	-	-
Appropriation of endowment assets for expenditure	<u>-</u>	<u>(170)</u>	<u>(170)</u>
Endowment net assets, end of year	<u><u>\$ -</u></u>	<u><u>\$ 19,588</u></u>	<u><u>\$ 19,588</u></u>

The changes in endowment net assets for the year ended December 31, 2017, are as follows:

	<u>Donor</u>	<u>Restrictions</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ -	\$ 20,000	\$ 20,000
Net investment return:	<u>-</u>	<u>1,129</u>	<u>1,129</u>
Contributions	-	-	-
Appropriation of endowment assets for expenditure	<u>-</u>	<u>(74)</u>	<u>(74)</u>
Endowment net assets, end of year	<u><u>\$ -</u></u>	<u><u>\$ 21,055</u></u>	<u><u>\$ 21,055</u></u>

# THE NORTH CAROLINA AQUARIUM SOCIETY

## NOTES TO FINANCIAL STATEMENTS

Page 15 of 18

### ENDOWMENT (CONTINUED)

#### 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.

### NETS ASSETS WITH DONOR RESTRICTIONS

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

	2018	2017
Subject to expenditure for specified purpose:		
Aquarium and Pier experience	\$ 92,247	\$ 64,157
Conservation, sustainability, and education programs	331,574	530,404
Capital projects	7,750	-
Promises to give, the proceeds from which have been restricted by donor for		
Aquarium and Pier experience	77,635	3,000
Conservation, sustainability, and education programs	53,555	155,521
	<u>562,761</u>	<u>753,082</u>
Subject to the passage of time:		
Promises to give that are not restricted by donors, but which are unavailable for expenditure until due	169,795	230,734
Endowments:		
Subject to Society's endowment spending policy and appropriation:		
Donor-restricted endowment	20,000	20,000
Earnings on endowment	-	1,055
Underwater Endowment	<u>(412)</u>	<u>-</u>
With Donor Restrictions, net assets	<u>\$ 752,144</u>	<u>\$ 1,004,871</u>

# THE NORTH CAROLINA AQUARIUM SOCIETY

## NOTES TO FINANCIAL STATEMENTS

Page 16 of 18

### **OPERATING LEASE**

At December 31, 2018 and 2017, the Society is obligated under an office space lease agreement in Raleigh, North Carolina through February 2022. The agreement requires monthly payments of \$10,011 as of December 31, 2018 with a 3% increase annually. Future minimum lease payments under the lease agreement at December 31, 2018 are as follows:

<u>Year Ending December 31,</u>	
2019	123,710
2020	127,417
2021	131,251
2022	22,535
	<u>\$ 404,913</u>

In accordance with U.S. GAAP, lease payments are recognized ratably over the lease agreement. Rent expense under the lease agreement totaled \$124,546 and \$112,283, for the years ended December 31, 2018 and 2017, respectively. Deferred rent recorded totaled \$11,829 and \$1,312, at December 31, 2018 and 2017, respectively.

The State reimburses the Society for office space utilized under the lease agreement. In March 2018, the lease agreement was renegotiated to extend the term through February 2021 and increase the monthly reimbursement payment from \$1,551 to \$2,000. Lease payment reimbursements totaled \$23,102 and \$18,612 for the years ended December 31, 2018 and 2017, respectively. Minimum lease rentals through 2021 under the lease agreement total \$48,000. Rent expense gifted to the State totaled \$16,912 and \$22,335, for the years ended December 31, 2018 and 2017, respectively.

### **EMPLOYEE BENEFIT PLANS**

The Society has a defined contribution retirement plan covering employees who have completed one month of service. The Society makes an annual contribution of ten percent of each qualified employees' salary. The Society also has a 401(k) plan which allows employees to make contributions and the Society matches up to 3% of the employee's contribution. Employee benefit plan expenses totaled \$173,537 and \$162,972, for the years ended December 31, 2018 and 2017, respectively.

### **SICK LEAVE PAY**

Employees can accrue up to 2,000 hours of sick leave. Effective December 1, 2014, any employee who has reached 55 years of age and has worked with the Society for three years is entitled to receive all unpaid sick leave upon retirement. As of December 31, 2018 and 2017, accrued sick leave totaled \$233,211 and \$403,752, respectively. Accrued sick leave is reflected as part of accrued expenses in the statements of financial position.

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

Page 17 of 18

**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, 2018 and 2017, totaled \$24,488 and \$31,672, respectively.

**CONCENTRATIONS**

The Society received approximately 40% and 36% of its revenue for the years ended December 31, 2018 and 2017, 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 25% and 21% of its revenue for the years ended December 31, 2018 and 2017, 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 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, 2018 and 2017, were \$5,253 and \$7,465, 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 \$168,136 and \$162,305, at December 31, 2018 and 2017, respectively. The Society had outstanding related party promises to give of \$37,500 and \$47,681, at December 31, 2018 and 2017, respectively.

**NORTH CAROLINA AQUARIUM AND PIER SUPPORT**

In providing support to the Aquarium/Pier, the Society contributed \$42,278 and \$41,448 for the year ended December 31, 2018 and 2017, respectively, to go toward supplementing the salaries of the four Aquarium/Pier directors and the division director.

The Society provided direct and indirect support to the Aquarium/Pier of \$2,247,513 and \$1,385,027 for the year ended December 31, 2018, respectively. Included within the \$2,247,513 of direct support is \$125,000 for major renovations of Soundside Hall at the Pine Knoll Shores Aquarium and \$2,122,513 in specific operational support. The Society provided direct and indirect support to the Aquarium/Pier of \$1,708,270 and \$1,489,048 for the year ended December 31, 2017, respectively.

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

Page 18 of 18

**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 2017 financial statements in order to conform to the 2018 presentation. Such reclassifications had no effect on net assets.

**SUBSEQUENT EVENTS**

The Society amended their agreements with Pepsi Bottling Ventures, dated December 8, 2014 and September 7, 2010, to reduce or eliminate the sales of beverages in plastic bottles and transition to aluminum cans. Due to aluminum cans being generally less profitable than the sale of similar beverages in plastic bottles, Pepsi Bottling Ventures advised the Society that the loss of expected revenue would make it commercially impracticable for Pepsi Bottling Ventures to meet its obligations under the agreement. Therefore, the agreement was amended, effective January 1, 2019, whereas Pepsi Bottling Ventures would not be required to make any payments under the agreement that would otherwise be due on or after January 1, 2019. At December 31, 2018, \$94,918 of outstanding promises to give from Pepsi Bottling Ventures was reported in the statements of financial position. The Society deemed the balance to be uncollectible in 2019 and will write off the balance in 2019.

Management has evaluated subsequent events for recognition or disclosure through April 22, 2019, 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.