



CONSOLIDATED FINANCIAL STATEMENTS

Tennessee Aquarium
Years Ended December 31, 2011 and 2010
With Report of Independent Auditors

Ernst & Young LLP



Tennessee Aquarium

Consolidated Financial Statements

Years Ended December 31, 2011 and 2010

Contents

Report of Independent Auditors.....	1
Consolidated Financial Statements	
Consolidated Statements of Financial Position.....	2
Consolidated Statements of Activities and Changes in Net Assets	4
Consolidated Statements of Cash Flows.....	5
Notes to Consolidated Financial Statements.....	6

Report of Independent Auditors

The Board of Trustees
Tennessee Aquarium

We have audited the accompanying consolidated statements of financial position of the Tennessee Aquarium (the Aquarium) as of December 31, 2011 and 2010, and the related consolidated statements of activities and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Aquarium's management. 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Aquarium's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Aquarium's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Tennessee Aquarium as of December 31, 2011 and 2010, and the consolidated changes in their net assets and their cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

Ernst & Young LLP

June 18, 2012

Tennessee Aquarium

Consolidated Statements of Financial Position

	December 31	
	2011	2010
Assets		
Current assets:		
Cash and cash equivalents	\$ 1,845,008	\$ 2,755,320
Cash restricted for debt payoff	–	34,720,907
Contributions receivable	132,363	87,287
Inventories	184,869	227,404
Accounts receivable	811,360	480,926
Prepaid expenses	280,521	309,731
Total current assets	3,254,121	38,581,575
Property and equipment:		
Land	4,484,445	4,484,445
Buildings	82,568,795	82,568,795
Equipment, furniture, and fixtures	25,946,384	24,971,775
Construction in progress	292,197	423,042
	113,291,821	112,448,057
Less accumulated depreciation	51,555,450	48,088,272
Total property and equipment	61,736,371	64,359,785
Other assets:		
Contributions receivable, less current portion	–	93,328
Accrued investment income	3	489
Investments at fair value	5,810,155	4,878,546
Other assets	86,440	542,312
Total other assets	5,896,598	5,514,675
Total assets	\$ 70,887,090	\$ 108,456,035

	December 31	
	2011	2010
Liabilities and net assets		
Current liabilities:		
Accounts payable	\$ 532,521	\$ 532,965
Accrued expenses	586,548	967,717
Current portion of long-term debt	465,621	34,937,851
Deferred membership revenue	771,764	723,625
Other deferred revenue	43,201	56,746
Other liabilities	1,058,696	43,865
Total current liabilities	<u>3,458,351</u>	37,262,769
Long-term portion of notes payable	2,484,207	2,594,128
Long-term debt	20,567,307	21,062,149
Total liabilities	<u>26,509,865</u>	60,919,046
Net assets:		
Unrestricted	44,377,225	47,536,989
Total net assets	<u>44,377,225</u>	47,536,989
Total liabilities and net assets	<u><u>\$ 70,887,090</u></u>	<u><u>\$ 108,456,035</u></u>

See accompanying notes.

Tennessee Aquarium

Consolidated Statements of Activities and Changes in Net Assets

	Year Ended December 31	
	2011	2010
Changes in unrestricted net assets:		
Revenues and gains:		
Admissions	\$ 11,200,544	\$ 11,601,087
Ancillary sales	3,783,375	3,802,356
Membership dues	1,453,734	1,578,760
Investment income	34,299	1,284,244
Contributions	1,295,509	1,033,201
Fundraising event	82,899	-
Other income	1,173,517	1,052,843
	19,023,877	20,352,491
Expenses and losses:		
Programming	8,698,907	8,674,270
Guest services	2,042,354	2,092,481
Management and general	2,564,428	2,527,022
Marketing costs	1,719,211	2,111,677
Fundraising costs	192,545	159,989
Cost of ancillary sales	1,137,110	1,102,141
Financing costs	887,701	1,006,001
Depreciation and amortization	3,926,554	3,619,887
Loss on change in fair market value of derivative	1,014,831	43,865
	22,183,641	21,337,333
Decrease in unrestricted net assets	(3,159,764)	(984,842)
Change in net assets	(3,159,764)	(984,842)
Net assets at beginning of year	47,536,989	48,521,831
Net assets at end of year	\$ 44,377,225	\$ 47,536,989

See accompanying notes.

Tennessee Aquarium

Consolidated Statements of Cash Flows

	Year Ended December 31	
	2011	2010
Operating activities		
Change in net assets	\$ (3,159,764)	\$ (984,842)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	3,926,554	3,619,887
Realized and unrealized (gain) loss on investments	97,283	(729,783)
Changes in operating assets and liabilities:		
Decrease in contributions receivable	48,252	587,775
(Increase) decrease in inventories	42,535	(18,167)
(Increase) decrease in accounts receivable	(330,434)	118,550
Decrease in prepaid expenses	29,210	75,159
Increase (decrease) in other noncurrent assets	(3,503)	(86,537)
Increase (decrease) in accounts payable and accrued expenses	(381,613)	322,518
Increase (decrease) in other liabilities	1,049,425	(124,468)
Increase (decrease) in other noncurrent liabilities	-	(25,000)
Net cash provided by operating activities	1,317,945	2,755,092
Investing activities		
Proceeds from sale of investments, net	(1,028,406)	10,839,481
Net purchases of property and equipment	(843,765)	(763,202)
Net cash provided by (used in) investing activities	(1,872,171)	10,076,279
Financing activities		
Proceeds of long-term borrowings	-	21,500,000
Funding of restricted cash for debt payoff	-	(34,720,907)
Use of restricted cash for debt payoff	34,720,907	-
Payments of long-term borrowings	(35,076,993)	-
Net cash used in financing activities	(356,086)	(13,220,907)
Net decrease in cash and cash equivalents	(910,312)	(389,536)
Cash and cash equivalents at beginning of year	2,755,320	3,144,856
Cash and cash equivalents at end of year	\$ 1,845,008	\$ 2,755,320
Supplemental disclosure of cash flow information		
Cash paid during the year for interest, net of capitalized interest	\$ 831,337	\$ 108,853

See accompanying notes.

Tennessee Aquarium

Notes to Consolidated Financial Statements

December 31, 2011

1. Summary of Significant Accounting Policies

Description of Business

Tennessee Aquarium and the Tennessee Aquarium Research Institute (the Aquarium) are nonprofit corporations and are exempt from federal and state income tax under Section 501(a) as organizations described in Section 501(c)(3) of the Internal Revenue Code of 1986, as amended. The Aquarium provides a center for the general public to improve their awareness, understanding, and enjoyment of all forms of aquatic life. Principal Aquarium programs include facility and ancillary operations, animal husbandry and care, membership services, education, an eco-tour boat, and an IMAX theater.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Tennessee Aquarium and the Tennessee Aquarium Research Institute. All intercompany transactions and accounts have been eliminated.

Net Assets

The Aquarium's net assets and its support and revenues are classified based on the existence or absence of donor-imposed restrictions using the following classifications: unrestricted, temporarily restricted, and permanently restricted. These classifications are defined as follows:

1. Unrestricted net assets are not subject to donor restrictions and are utilized to account for public support and program revenues that are unrestricted in nature and may be designated for specific purposes by the Board of Directors. All of the Aquarium's net assets at December 31, 2011, were unrestricted.
2. Temporarily restricted net assets are utilized to account for contributions that are subject to donor imposed restrictions that limit their use either through purpose or time restrictions. When donor restrictions expire, that is, when a time restriction ends or a purpose restriction is fulfilled, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statements of activities and changes in net assets as net assets released from restrictions. It is the Aquarium's policy to record temporarily restricted contributions received and expended in the same accounting period in the unrestricted net asset class category.

Tennessee Aquarium

Notes to Consolidated Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

3. Permanently restricted net assets are subject to donor imposed restrictions that require that they be retained and invested permanently by the Aquarium. The donors may require the Aquarium to use all or part of the investment return on permanently restricted net assets for unrestricted or restricted purposes.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that effect the amounts reported in the financial statements. Actual results could differ from those estimates.

Subsequent Events

Management has reviewed transactions and events occurring between December 31, 2011 and June 18, 2012, for any that would require recognition or disclosure in the accompanying consolidated financial statements.

Revenue Recognition

Revenue is recognized on admission tickets and ancillary sales on a cash basis.

Contributions are recognized as revenue when an unconditional promise to give is made or when cash is received, if an unconditional promise does not exist. All contributions are considered to be available for unrestricted use unless specifically restricted by the donor.

Proceeds from the sale of annual memberships are recognized ratably over the period for which the membership is valid.

The Aquarium has entered into a long-term sponsorship agreement with one sponsor. This agreement is for a term of 20 years, and the unamortized portion of the sponsorship fee is refundable at the request of the donor. The entire sponsorship fee was received upon execution of the agreement. Revenue from the agreement is being recognized over the life of the agreement.

Tennessee Aquarium

Notes to Consolidated Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

Contributions Receivable

Contributions receivable represents unconditional promises to give. In 2007, the Aquarium launched a capital campaign to fund its Penguins' Rock exhibit, which opened in 2007. All unconditional pledges received were recognized as revenue in 2007. The pledges were payable over periods of less than one year, one to five years, or in more than five years. The Aquarium had \$132,363 and \$87,287 of contributions receivable due in less than twelve months and \$0 and \$93,328 due after one year, as of December 31, 2011 and 2010, respectively.

Grants

In September 2009, the Aquarium was awarded a grant expected to total \$1,352,253 from the National Oceanic and Atmospheric Administration (NOAA). The grant is to be used to enhance and expand the Aquarium's environmental education programming over a three year period. The proceeds of the grant will be paid as reimbursements to the Aquarium as expenses are incurred. The Aquarium has incurred \$127,718 and \$97,925 of grant-related expenses that had not been reimbursed but are recognized in accounts receivable as of December 31, 2011 and 2010, respectively.

Cash and Cash Equivalents

The Aquarium considers all highly liquid investments with original maturities of three months or less to be cash equivalents.

Restricted Cash

In 2010, the Aquarium refinanced its long-term bond debt. The Aquarium's existing bondholders were notified on the required dates that the bonds would be called on January 3, 2011. In order to fund the bond repayment, the Aquarium borrowed \$21,500,000 (as described in Note 5). In addition, the Aquarium liquidated \$13,220,907 of its investments. The total of \$34,720,907 was deposited in an account on December 30, 2010, in order to fund the bond repayment made on January 3, 2011.

Tennessee Aquarium

Notes to Consolidated Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

Property and Equipment

Property and equipment is recorded on the cost basis. Property and equipment placed into service is depreciated using the straight-line method over estimated useful lives, ranging from 3 to 40 years.

Inventory

The cost incurred with respect to the purchase or capture of specimens, food, and other supplies not held for sale are expensed as incurred.

The gift shop inventory is valued at the lower of first-in, first-out (FIFO) cost or market.

Advertising Costs

The Aquarium expenses advertising costs as incurred. Advertising expense for the years ended December 31, 2011 and 2010, was approximately \$743,208 and \$1,117,639, respectively.

Investments

Marketable investments in equities and debt securities are carried at fair value based upon market prices, pursuant to Accounting Standards Codification (ASC) 820, *Fair Value Measurements and Disclosures* (ASC 820). This statement defines fair value, establishes a framework for measuring fair value, and expands disclosure about fair value measurement. The adoption of ASC 820 did not have a material effect on the Aquarium's consolidated financial position or related changes in net assets. As required by ASC 820, financial assets and liabilities are categorized based upon the level of judgment associated with the inputs used to measure the fair value into the following hierarchy:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities.

Level 2 – Unadjusted quoted prices in active markets for similar assets or liabilities or unadjusted quoted prices for identical or similar assets or liabilities in markets that are not active or inputs other than quoted prices that are observable for the asset or liability.

Tennessee Aquarium

Notes to Consolidated Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

Level 3 – Unobservable inputs that reflect management’s best estimate of what market participants would use in pricing the asset or liability at the measurement date. Consideration is given to the risk inherent in the valuation technique and the risk inherent in the inputs to the model.

Financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

Realized gains and losses on the sale of investments are computed using the specific-identification method. Investment income is presented net of investment expense. Investment expense for the years ended December 31, 2011 and 2010, was approximately \$11,900 and \$51,400, respectively.

Included in investments in the accompanying consolidated statements of financial position are \$0 and \$35,200 of investments that mature in one year or less, as of December 31, 2011 and 2010, respectively.

Derivatives

Until May 1, 2009, the Aquarium used an interest rate swap to hedge interest rate risks associated with certain of its long-term debt. On December 21, 2010, the Aquarium entered into a new interest rate swap agreement associated with a portion of its new debt structure. The basic type of risk associated with derivatives is market risk (that the value of the derivative will be adversely impacted by changes in the market, primarily the change in interest rates). The market risk of the derivatives should generally offset the market risk associated with the hedged liability. The agreements involve payments of fixed-rate amounts in exchange for the receipt of variable-rate interest payments over the life of the agreements without an exchange of the underlying principal amounts. The Aquarium records the derivative at fair value and changes in fair value are included in the accompanying consolidated statements of activities and changes in net assets. The fair value of the swap comprises the balance of other liabilities in the accompanying consolidated statements of financial position at December 31, 2011 and 2010. Recognition of the value of the 2010 swap agreement resulted in a loss of \$1,014,831 and \$43,865 that is included in the accompanying consolidated statements of activities and changes in net assets in 2011 and 2010, respectively.

Tennessee Aquarium

Notes to Consolidated Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

Classification of Expenses

The Aquarium classifies expenses as programming expenses or support expenses. Programming expenses are the activities that fulfill the Aquarium's mission and include its husbandry, facility operations, education, and research expenses. For the year ended December 31, 2011, programming expenses for the Aquarium include all programming, 94% of financing costs, and 90% of depreciation and amortization in the accompanying consolidated statements of activities and changes in net assets. For the year ended December 31, 2010, programming expenses for the Aquarium include all programming, 94% of financing costs, and 89% of depreciation and amortization in the accompanying consolidated statements of activities and changes in net assets.

Support expenses are all activities other than programming and include guest services, retail, marketing costs, human resources, and management and general expenses. Support expenses for the Aquarium include all guest services, management and general, marketing costs, and cost of ancillary sales included in the accompanying consolidated statements of activities and changes in net assets. All fundraising costs are classified as support expenses. For the year ended December 31, 2011, support expenses also include 6% of financing costs and 10% of depreciation and amortization in the accompanying consolidated statements of activities and changes in net assets. For the year ended December 31, 2010, support expenses also include 6% of financing costs and 11% of depreciation and amortization in the accompanying consolidated statements of activities and changes in net assets.

2. Donated Services

The Aquarium received contributed services valued at approximately \$261,000 and \$248,000 in 2011 and 2010, respectively, from participants in its Volunteer Diver program. Such contributed services have been recognized as unrestricted contributions and as programming expenses as individuals possessing specialized skills are required and would otherwise need to be purchased if not provided by donation.

The Aquarium also received contributed services in its other volunteer programs. These contributed services have not been recorded because no specialized skills are required.

Tennessee Aquarium

Notes to Consolidated Financial Statements (continued)

3. Lease Commitments

The Aquarium leases equipment and office space pursuant to agreements that expire from 2012 to 2016. Future minimum rental payments under the lease agreements are as follows:

2012		\$ 300,676
2013		300,676
2014		237,106
2015		159,401
2016		66,733
		\$ 1,064,592

The Aquarium's total rent expense for the years ended December 31, 2011 and 2010, was \$411,542 and \$270,976, respectively.

4. Investments

Investments at December 31, 2011 and 2010, are composed of the following:

	2011		
	Fair Market Value	Cost	Net Unrealized Loss
Mutual funds	\$ 4,812,555	\$ 4,853,258	\$ (40,703)
Certificates of deposit	997,600	1,000,000	(2,400)
Total	\$ 5,810,155	\$ 5,853,258	\$ (43,103)

	2010		
	Fair Market Value	Cost	Net Unrealized Gain (Loss)
Mutual funds	\$ 3,870,746	\$ 3,671,315	\$ 199,431
Federal agency bonds	35,200	35,982	(782)
Certificates of deposit	972,600	1,000,000	(27,400)
Total	\$ 4,878,546	\$ 4,707,297	\$ 171,249

Tennessee Aquarium

Notes to Consolidated Financial Statements (continued)

4. Investments (continued)

The net change in unrealized gain (loss) on investments is included in investment income in the accompanying consolidated statements of activities and changes in net assets and is included in the realized and unrealized gain on the accompanying consolidated statements of cash flows.

Investments that had been in a continuous unrealized loss position for greater than 12 months at December 31 were as follows:

	2011		
	Fair Market Value	Cost	Net Unrealized Loss
Certificates of deposit	\$ 997,600	\$ 1,000,000	\$ (2,400)
Mutual funds	409,818	424,310	(14,492)
Total	\$ 1,407,418	\$ 1,424,310	\$ (16,892)
	2010		
	Fair Market Value	Cost	Net Unrealized Loss
Certificates of deposit	\$ 972,600	\$ 1,000,000	\$ 27,400
Total	\$ 972,600	\$ 1,000,000	\$ 27,400

Investments that had been in a continuous unrealized loss position for less than 12 months at December 31 were as follows:

	2011		
	Fair Market Value	Cost	Net Unrealized Loss
Mutual funds	\$ 478,313	\$ 500,441	\$ (22,128)
Total	\$ 478,313	\$ 500,441	\$ (22,128)

Tennessee Aquarium

Notes to Consolidated Financial Statements (continued)

4. Investments (continued)

The Aquarium's financial assets and liabilities carried at fair value have been classified based upon the hierarchy defined by ASC 820. The following table provides information as of December 31, 2011 and 2010, respectively, about the Aquarium's financial assets and liabilities measured at fair value:

	December 31, 2011			
	Level 1	Level 2	Level 3	Total
Assets at fair value:				
Mutual funds	\$ 4,812,555	\$ –	\$ –	\$ 4,812,555
Certificates of deposit	–	997,600	–	997,600
Total assets at fair value	\$ 4,812,555	\$ 997,600	\$ –	\$ 5,810,155

Liabilities at fair value:				
Interest rate swap	\$ –	\$ 1,058,696	\$ –	\$ 1,058,696
Total liabilities at fair value	\$ –	\$ 1,058,696	\$ –	\$ 1,058,696

	December 31, 2010			
	Level 1	Level 2	Level 3	Total
Assets at fair value:				
Mutual funds	\$ 3,870,746	\$ –	\$ –	\$ 3,870,746
Federal agency bonds	–	35,200	–	35,200
Certificates of deposit	–	997,600	–	997,600
Total assets at fair value	\$ 3,870,746	\$ 1,032,800	\$ –	\$ 4,903,546

Liabilities at fair value:				
Interest rate swap	\$ –	\$ 43,865	\$ –	\$ 43,865
Total liabilities at fair value	\$ –	\$ 43,865	\$ –	\$ 43,865

Tennessee Aquarium

Notes to Consolidated Financial Statements (continued)

5. Long-Term Debt

The Industrial Development Board of the County of Hamilton, Tennessee, issued \$30,000,000 of Industrial Development Revenue Bonds Series 1991 (the Series 1991 Bonds) on July 11, 1991. The entire proceeds of the Series 1991 Bonds were loaned to the Aquarium pursuant to a loan agreement dated July 1, 1991, which had terms substantially identical to terms of the Series 1991 Bonds. During June of 1993, the Aquarium repaid \$24,500,000 of the Series 1991 Bonds and refinanced the remaining \$5,500,000 of bonds with a new lender. The refinanced \$5,500,000 Series 1991 Bonds were to mature in their entirety on July 1, 2021, but were paid off on January 3, 2011.

During 1996, the Aquarium completed construction of the Tennessee Aquarium Imax Center, including an IMAX® 3D theater, an environmental learning lab and office space for Aquarium personnel. The total cost of the project was approximately \$14,000,000 and the project was completed in July of 1996. On January 26, 1995, the Board of Trustees approved the decision to finance the project with tax-exempt bonds. The Industrial Development Board of the County of Hamilton, Tennessee, issued \$14,000,000 of Industrial Development Revenue Bonds Series 1995 (the Series 1995 Bonds) on March 24, 1995. The entire proceeds of the Series 1995 Bonds were loaned to the Aquarium pursuant to a loan agreement dated March 1, 1995, which had terms substantially identical to terms of the Series 1995 Bonds. The Series 1995 Bonds were to mature on March 1, 2015, but were paid off on January 3, 2011.

During 2005, the Aquarium completed construction of the Tennessee Aquarium Ocean Journey building. The total cost of the project was approximately \$33,200,000 and the project was completed in April of 2005. On January 22, 2004, the Board of Trustees approved the decision to partially finance the project with tax-exempt bonds. On April 29, 2004, the Industrial Development Board of the City of Chattanooga, Tennessee, issued \$15,000,000 of Industrial Development Revenue Bonds Series 2004 (the Series 2004 Bonds). The entire proceeds of the Series 2004 Bonds were loaned to the Aquarium pursuant to a loan agreement dated April 1, 2004, which had terms substantially identical to the terms of the Series 2004 Bonds. The 2004 Series Bonds were to mature in their entirety on April 1, 2024, but were paid off on January 3, 2011.

Interest on all of the aforementioned bond series was at a variable rate determined weekly and payable monthly. During 2010, interest rates ranged from 0.14% to 0.90%. All three bond series were secured by a mortgage on the Aquarium's property and direct pay letters of credit expiring on April 29, 2011. All letters of credit may terminate sooner than their expressed expiration dates upon the occurrence of certain conditions.

Tennessee Aquarium

Notes to Consolidated Financial Statements (continued)

5. Long-Term Debt (continued)

In October, 2010 the Board of Trustees approved the decision to restructure the Aquarium's bond debt by paying off \$13,000,000 of the series 1991, Series 1995, and Series 2004 bond debt and refinancing the remaining \$21,500,000 bond debt with bank-qualified tax-exempt bonds.

On December 30, 2010, the Industrial Development Board of the County of Hamilton, Tennessee, issued \$21,500,000 of Revenue Refunding Bonds Series 2010 (the Series 2010 Bonds), in order to refinance the \$21,500,000 of the Series 1991, Series 1995, and Series 2004 bond debt. The Series 2010 Bonds mature on December 30, 2035.

The Series 2010 Bonds were purchased in their entirety by the Aquarium's lender and the proceeds were loaned to the Aquarium pursuant to a loan agreement dated December 30, 2010. The proceeds of the December 30, 2010, loan of \$21,500,000 plus \$13,220,907 of proceeds from the sale of Aquarium investments were deposited in an account with the Aquarium's lender to be used to pay off the Series 1991 Bonds, Series 1995 Bonds, and Series 2004 Bonds plus outstanding interest, letter of credit fees, and legal fees on January 3, 2011. The \$34,720,907, was classified as Cash restricted for debt payoff on the December 31, 2010 consolidated statement of financial position.

Under the terms of the December 30, 2010 loan agreement, the Aquarium is to make monthly principal and interest payments based on a 25-year amortization. Interest on \$11,500,000 of the Series 2010 Bonds is at a fixed rate of 4.12%. Interest on the balance of \$10,000,000 of the Series 2010 Bonds is at a variable rate determined weekly and payable monthly. During 2011, the variable interest rate ranged from 1.55% to 1.60%. The Series 2010 Bonds are secured by a springing lien on the Aquarium's property. The loan agreement matures on December 30, 2022.

The Aquarium is required to meet profitability, liquidity, and leverage financial covenants and is limited as to the amount of additional debt that can be incurred, the purchase and disposition of assets, and other business activities under the terms of the various financing documents. At December 31, 2011 and 2010, the Aquarium was in compliance with all of the financial covenants of the loan agreements.

In May of 2007, the Aquarium entered into a vessel building agreement to have a 70-passenger, high-speed catamaran constructed to take visitors on an ecotour into the Tennessee River Gorge. The vessel was put into operation in June 2008. The total purchase price of the vessel was \$2,885,600. In connection with the Company entering into the Vessel Building Agreement, the

Tennessee Aquarium

Notes to Consolidated Financial Statements (continued)

5. Long-Term Debt (continued)

Aquarium also executed promissory notes to the Community Foundation of Greater Chattanooga to fund \$2,860,200 of the purchase price. The notes bear interest at 0% and are nonrecourse, such that repayment is required only to the extent the vessel's operations generate revenues in excess of the related expenses. The Aquarium repaid \$109,921 and \$0 of the loans in 2011 and 2010, respectively. The loans are secured by the value of the vessel and are subordinate to the Aquarium's other debt.

The combined aggregate amount of future principal payments for all long-term borrowings due is as follows:

2012	\$ 465,621
2013	452,036
2014	439,195
2015	425,807
Thereafter	21,734,476
	<u>\$ 23,517,135</u>

The fair value of the Aquarium's debt does not significantly differ from its carrying value.

On December 21, 2010, the Aquarium entered into an interest rate swap agreement to reduce the impact of changes in interest rates on its long-term debt. At December 31, 2011, the swap agreement had a notional amount of \$10,000,000 and resulted in a fixed interest rate of 3.99%. The Aquarium makes payments at the stated fixed rate of interest and receives payment at tax-exempt variable rates, which reset on a weekly basis. The interest rate swap is recorded on the accompanying consolidated statements of financial position at fair value. The fair value of the interest rate swap is a liability of \$1,058,696 and \$43,865 at December 31, 2011 and 2010, respectively.

6. Benefit Plan

The Aquarium adopted a 403(b) defined-contribution retirement plan on January 1, 1996, covering substantially all full-service employees. Employer contributions under the new plan are based upon a defined percentage of eligible participant compensation plus a defined matching percentage of any voluntary employee contributions to the plan. Benefit plan expense for the year ended December 31, 2011 and 2010, was approximately \$368,908 and \$362,353, respectively.

Tennessee Aquarium

Notes to Consolidated Financial Statements (continued)

7. Functional Expenses

Expenses incurred in 2011 were:

	<u>Programming</u>	<u>Guest Services</u>	<u>Management and General</u>	<u>Marketing Costs</u>	<u>Fundraising</u>	<u>Total</u>
Salaries and benefits	\$ 4,230,813	\$ 1,864,134	\$ 1,279,779	\$ 776,223	\$ 106,811	\$ 8,257,759
Printing, publications, and promotion	44,997	-	6,065	784,819	3,543	839,423
Supplies and marine life acquisition	927,186	57,239	103,797	74,024	6,803	1,169,050
Professional and other contract services	704,819	42,211	354,913	23,160	67,104	1,192,207
Film and projection costs	427,579	-	-	-	-	427,579
Utilities	1,530,403	-	-	-	-	1,530,403
Maintenance	396,175	843	98,784	-	-	495,801
Postage and shipping	6,969	42,897	36,001	25,531	172	111,571
Lease and rental	78,360	-	333,182	-	-	411,542
Travel and education	91,459	7,952	19,602	8,641	2,613	130,267
Telecommunications	140,886	-	-	-	-	140,886
Other	119,262	27,078	332,306	26,812	5,499	510,957
Total	<u>\$ 8,698,988</u>	<u>\$ 2,042,354</u>	<u>\$ 2,564,429</u>	<u>\$ 1,719,210</u>	<u>\$ 192,545</u>	<u>15,217,445</u>
Cost of ancillary sales						1,137,110
Financing costs						887,701
Depreciation and amortization						3,926,554
Total costs						<u>\$ 21,168,810</u>

Tennessee Aquarium

Notes to Consolidated Financial Statements (continued)

7. Functional Expenses (continued)

Expenses incurred in 2010 were:

	<u>Programming</u>	<u>Guest Services</u>	<u>Management and General</u>	<u>Marketing Costs</u>	<u>Fundraising</u>	<u>Total</u>
Salaries and benefits	\$ 4,151,942	\$ 1,925,548	\$ 1,253,883	\$ 747,740	\$ 128,843	\$ 8,207,956
Printing, publications, and promotion	70,471	-	2,248	1,140,790	2,640	1,216,149
Supplies and marine life acquisition	912,159	50,087	81,726	67,779	946	1,112,697
Professional and other contract services	702,499	39,215	363,352	60,751	21,308	1,187,125
Film and projection costs	486,993	-	-	-	-	486,993
Utilities	1,666,154	-	-	-	-	1,666,154
Maintenance	340,086	1,260	84,171	-	-	425,517
Postage and shipping	10,038	44,978	32,732	27,445	119	115,312
Lease and rental	(23,744)	-	294,720	-	-	270,976
Travel and education	84,352	6,784	29,124	15,320	2,014	137,594
Telecommunications	136,806	-	-	-	-	136,806
Other	136,514	24,609	385,066	51,852	4,119	602,160
Total	<u>\$ 8,674,270</u>	<u>\$ 2,092,481</u>	<u>\$ 2,527,022</u>	<u>\$ 2,111,677</u>	<u>\$ 159,989</u>	<u>15,565,439</u>
Cost of ancillary sales						1,102,141
Financing costs						1,006,001
Depreciation and amortization						3,619,887
Total costs						<u>\$ 21,293,468</u>

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