

# **Tennessee Aquarium**

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

***For the years ended December 31, 2019 and 2018***

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# Tennessee Aquarium

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## **Independent Auditor's Report**

Board of Trustees  
Tennessee Aquarium  
Chattanooga, Tennessee

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

We have audited the accompanying financial statements of Tennessee Aquarium, which comprise the statements of financial position as of December 31, 2019 and 2018, and the related statements of activities and changes in net assets, functional expenses and cash flows 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 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 Tennessee Aquarium as of December 31, 2019 and 2018, 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.

## **Uncertainties**

As discussed in Note 15 to the financial statements, the Company has been adversely impacted and may continue to be adversely impacted by the COVID-19 global pandemic. Our opinion is not modified with respect to that matter.

A handwritten signature in black ink that reads "Elliott Davis, LLC". The signature is written in a cursive, flowing style.

Chattanooga, Tennessee  
May 28, 2020

**Tennessee Aquarium**  
**Statements of Financial Position**  
**As of December 31, 2019 and 2018**

|   | <b>2019</b>          | <b>2018</b>          |
|---|----------------------|----------------------|
| <b>Assets</b>                                       |                      |                      |
| <b>Current assets</b>                               |                      |                      |
| Cash and cash equivalents                           | \$ 2,288,212         | \$ 2,571,884         |
| Contributions receivable                            | 200,250              | 461,000              |
| Inventories   | 302,640              | 352,196              |
| Accounts receivable                                 | 444,452              | 412,355              |
| Prepaid expenses                                    | 796,032              | 569,924              |
| Total current assets                                | <u>4,031,586</u>     | <u>4,367,359</u>     |
| <b>Property and equipment, net</b>                  | <u>52,695,283</u>    | <u>54,377,059</u>    |
| <b>Other assets</b>                                 |                      |                      |
| Contributions receivable, less current portion, net | 84,421               | -                    |
| Investments, at fair value                          | 14,832,639           | 12,735,337           |
| Total other assets                                  | <u>14,917,060</u>    | <u>12,735,337</u>    |
| Total assets  | <u>\$ 71,643,929</u> | <u>\$ 71,479,755</u> |
| <b>Liabilities and Net Assets</b>                   |                      |                      |
| <b>Current liabilities</b>                          |                      |                      |
| Accounts payable                                    | \$ 1,134,123         | \$ 698,981           |
| Accrued expenses                                    | 1,094,566            | 974,931              |
| Current portion of long-term debt                   | 800,411              | 810,997              |
| Current portion of capital lease obligation         | 31,113               | 102,769              |
| Deferred membership revenue                         | 1,150,248            | 1,021,885            |
| Other deferred revenue                              | 76,327               | 104,003              |
| Total current liabilities                           | <u>4,286,788</u>     | <u>3,713,566</u>     |
| <b>Long-term liabilities</b>                        |                      |                      |
| Long-term debt, less current portion                | 15,602,715           | 16,439,280           |
| Capital lease obligation, less current portion      | 59,013               | 46,538               |
| Interest rate swap obligation                       | 324,896              | 262,897              |
| Total long-term liabilities                         | <u>15,986,624</u>    | <u>16,748,715</u>    |
| Total liabilities                                   | <u>20,273,412</u>    | <u>20,462,281</u>    |
| <b>Net assets</b>                                   |                      |                      |
| Without donor restrictions                          |                      |                      |
| Undesignated  | 44,159,762           | 45,030,785           |
| Board designated endowment                          | 6,612,629            | 5,586,956            |
| Total without donor restrictions                    | <u>50,772,391</u>    | <u>50,617,741</u>    |
| With donor restrictions                             | 598,126              | 399,733              |
| Total net assets                                    | <u>51,370,517</u>    | <u>51,017,474</u>    |
| Total liabilities and net assets                    | <u>\$ 71,643,929</u> | <u>\$ 71,479,755</u> |

**See Notes to Financial Statements**

**Tennessee Aquarium****Statements of Activities and Changes in Net Assets****For the year ended December 31, 2019**

|   | <u>Without donor<br/>restrictions</u> | <u>With donor<br/>restrictions</u> | <u>Total</u>         |
|---|---------------------------------------|------------------------------------|----------------------|
| <b>Operating revenues and other support</b>           |                                       |                                    |                      |
| Admissions  | \$ 15,999,105                         | \$ -                               | \$ 15,999,105        |
| Ancillary sales                                       | 5,591,652                             | -                                  | 5,591,652            |
| Membership dues                                       | 2,264,012                             | -                                  | 2,264,012            |
| Contributions   | 1,272,077                             | 496,084                            | 1,768,161            |
| Fundraising events                                    | 204,295                               | -                                  | 204,295              |
| Facility rental, sponsorship and other program income | 1,564,135                             | -                                  | 1,564,135            |
| Net assets released from donor restrictions           | 297,691                               | (297,691)                          | -                    |
| Total operating revenues and other support            | <u>27,192,967</u>                     | <u>198,393</u>                     | <u>27,391,360</u>    |
| <b>Operating expenses</b>                             |                                       |                                    |                      |
| Program services                                      | 15,191,906                            | -                                  | 15,191,906           |
| Guest services  | 2,534,658                             | -                                  | 2,534,658            |
| Management and general                                | 5,304,384                             | -                                  | 5,304,384            |
| Marketing costs                                       | 3,268,532                             | -                                  | 3,268,532            |
| Fundraising costs                                     | 457,549                               | -                                  | 457,549              |
| Cost of ancillary sales                               | 1,644,595                             | -                                  | 1,644,595            |
| Total operating expenses                              | <u>28,401,624</u>                     | <u>-</u>                           | <u>28,401,624</u>    |
| Change in net assets from operations                  | <u>(1,208,657)</u>                    | <u>198,393</u>                     | <u>(1,010,264)</u>   |
| <b>Nonoperating change in net assets</b>              |                                       |                                    |                      |
| Change in fair value of interest rate swap obligation | (61,999)                              | -                                  | (61,999)             |
| Net investment income                                 | 1,425,306                             | -                                  | 1,425,306            |
| Change in net assets from nonoperating activities     | <u>1,363,307</u>                      | <u>-</u>                           | <u>1,363,307</u>     |
| Change in net assets                                  | 154,650                               | 198,393                            | 353,043              |
| <b>Net assets, beginning of year</b>                  | <u>50,617,741</u>                     | <u>399,733</u>                     | <u>51,017,474</u>    |
| <b>Net assets, end of year</b>                        | <u>\$ 50,772,391</u>                  | <u>\$ 598,126</u>                  | <u>\$ 51,370,517</u> |

**See Notes to Financial Statements**

**Tennessee Aquarium****Statement of Activities and Changes in Net Assets****For the year ended December 31, 2018**

|   | <u>Without donor<br/>restrictions</u> | <u>With donor<br/>restrictions</u> | <u>Total</u>         |
|---|---------------------------------------|------------------------------------|----------------------|
| <b>Operating revenues and other support</b>           |                                       |                                    |                      |
| Admissions  | \$ 14,497,394                         | \$ -                               | \$ 14,497,394        |
| Ancillary sales                                       | 5,536,814                             | -                                  | 5,536,814            |
| Membership dues                                       | 2,049,048                             | -                                  | 2,049,048            |
| Contributions   | 4,581,000                             | 238,681                            | 4,819,681            |
| Fundraising events                                    | 231,719                               | -                                  | 231,719              |
| Facility rental, sponsorship and other program income | 1,552,922                             | -                                  | 1,552,922            |
| Net assets released from donor restrictions           | 48,228                                | (48,228)                           | -                    |
| Total operating revenues and other support            | <u>28,497,125</u>                     | <u>190,453</u>                     | <u>28,687,578</u>    |
| <b>Operating expenses</b>                             |                                       |                                    |                      |
| Program services                                      | 14,747,846                            | -                                  | 14,747,846           |
| Guest services  | 2,523,985                             | -                                  | 2,523,985            |
| Management and general                                | 4,892,463                             | -                                  | 4,892,463            |
| Marketing costs                                       | 2,886,446                             | -                                  | 2,886,446            |
| Fundraising costs                                     | 357,074                               | -                                  | 357,074              |
| Cost of ancillary sales                               | 1,477,364                             | -                                  | 1,477,364            |
| Total operating expenses                              | <u>26,885,178</u>                     | <u>-</u>                           | <u>26,885,178</u>    |
| Change in net assets from operations                  | <u>1,611,947</u>                      | <u>190,453</u>                     | <u>1,802,400</u>     |
| <b>Nonoperating change in net assets</b>              |                                       |                                    |                      |
| Change in fair value of interest rate swap obligation | 150,355                               | -                                  | 150,355              |
| Gain from forgiveness of debt                         | 834,102                               | -                                  | 834,102              |
| Net investment loss                                   | (389,841)                             | -                                  | (389,841)            |
| Loss on sale of property and equipment                | (157,514)                             | -                                  | (157,514)            |
| Change in net assets from nonoperating activities     | <u>437,102</u>                        | <u>-</u>                           | <u>437,102</u>       |
| Change in net assets                                  | 2,049,049                             | 190,453                            | 2,239,502            |
| <b>Net assets, beginning of year</b>                  | 48,568,692                            | 209,280                            | 48,777,972           |
| <b>Net assets, end of year</b>                        | <u>\$ 50,617,741</u>                  | <u>\$ 399,733</u>                  | <u>\$ 51,017,474</u> |

**See Notes to Financial Statements**

**Tennessee Aquarium**  
**Statement of Functional Expenses**  
**For the year ended December 31, 2019**

|  | <b>Program<br/>services</b> | <b>Guest<br/>services</b> | <b>Management<br/>and general</b> | <b>Marketing<br/>costs</b> | <b>Fundraising<br/>costs</b> | <b>Total</b>         |
|--|-----------------------------|---------------------------|-----------------------------------|----------------------------|------------------------------|----------------------|
| Salaries and benefits                    | \$ 6,072,090                | \$ 1,872,417              | \$ 2,488,090                      | \$ 1,155,675               | \$ 288,091                   | \$ 11,876,363        |
| Printing, publications and promotions    | 11,004                      | -                         | 714                               | 1,676,545                  | -                            | 1,688,263            |
| Supplies and marine life acquisition     | 932,286                     | 46,212                    | 145,796                           | 126,707                    | 10,065                       | 1,261,066            |
| Professional and other contract services | 823,618                     | 258,870                   | 972,281                           | 109,249                    | 52,246                       | 2,216,264            |
| Film and projection costs                | 394,546                     | -                         | -                                 | -                          | -                            | 394,546              |
| Utilities                                | 1,650,495                   | -                         | -                                 | -                          | -                            | 1,650,495            |
| Maintenance                              | 397,883                     | 1,101                     | 330,230                           | 1,007                      | -                            | 730,221              |
| Postage and shipping                     | 4,568                       | 74,514                    | 21,590                            | 7,904                      | 354                          | 108,930              |
| Lease and rental                         | 3,707                       | -                         | 439,936                           | -                          | -                            | 443,643              |
| Travel and education                     | 178,704                     | 16,423                    | 153,954                           | 29,422                     | 32,969                       | 411,472              |
| Telecommunications                       | 130,963                     | -                         | -                                 | -                          | -                            | 130,963              |
| Financing costs                          | 399,357                     | 72,610                    | 145,221                           | 72,610                     | 36,305                       | 726,102              |
| Depreciation                             | 4,049,894                   | 167,589                   | 124,739                           | 47,960                     | 31,262                       | 4,421,444            |
| Other                                    | 142,791                     | 24,922                    | 481,833                           | 41,453                     | 6,257                        | 697,256              |
|  | <u>\$ 15,191,906</u>        | <u>\$ 2,534,658</u>       | <u>\$ 5,304,384</u>               | <u>\$ 3,268,532</u>        | <u>\$ 457,549</u>            | <u>26,757,029</u>    |
| Cost of ancillary sales                  |                             |                           |                                   |                            |                              | 1,644,595            |
|  |                             |                           |                                   |                            |                              | <u>\$ 28,401,624</u> |

**See Notes to Financial Statements**



**Tennessee Aquarium**  
**Statement of Functional Expenses**  
**For the year ended December 31, 2018**

|  | <b>Program<br/>services</b> | <b>Guest<br/>services</b> | <b>Management<br/>and general</b> | <b>Marketing<br/>costs</b> | <b>Fundraising<br/>costs</b> | <b>Total</b>         |
|--|-----------------------------|---------------------------|-----------------------------------|----------------------------|------------------------------|----------------------|
| Salaries and benefits                    | \$ 5,767,860                | \$ 1,820,926              | \$ 2,348,798                      | \$ 1,090,784               | \$ 212,657                   | \$ 11,241,025        |
| Printing, publications and promotions    | 6,095                       | -                         | 3,484                             | 1,361,597                  | 2,781                        | 1,373,957            |
| Supplies and marine life acquisition     | 504,955                     | 44,749                    | 167,720                           | 119,030                    | 11,199                       | 847,653              |
| Professional and other contract services | 990,235                     | 285,911                   | 709,858                           | 84,378                     | 68,920                       | 2,139,302            |
| Film and projection costs                | 362,369                     | -                         | -                                 | -                          | -                            | 362,369              |
| Utilities                                | 1,581,725                   | -                         | -                                 | -                          | -                            | 1,581,725            |
| Maintenance                              | 433,924                     | 3,206                     | 205,368                           | 484                        | -                            | 642,982              |
| Postage and shipping                     | 7,385                       | 73,247                    | 24,914                            | 15,471                     | 375                          | 121,392              |
| Lease and rental                         | 7,735                       | -                         | 461,140                           | -                          | -                            | 468,875              |
| Travel and education                     | 170,972                     | 11,517                    | 135,077                           | 21,238                     | 12,160                       | 350,964              |
| Telecommunications                       | 71,253                      | -                         | 4,801                             | -                          | -                            | 76,054               |
| Financing costs                          | 398,603                     | 87,931                    | 177,424                           | 106,008                    | 12,173                       | 782,139              |
| Depreciation                             | 4,245,416                   | 170,524                   | 143,747                           | 49,171                     | 31,262                       | 4,640,120            |
| Other                                    | 199,319                     | 25,974                    | 510,132                           | 38,285                     | 5,547                        | 779,257              |
|  | <u>\$ 14,747,846</u>        | <u>\$ 2,523,985</u>       | <u>\$ 4,892,463</u>               | <u>\$ 2,886,446</u>        | <u>\$ 357,074</u>            | <u>25,407,814</u>    |
| Cost of ancillary sales                  |                             |                           |                                   |                            |                              | <u>1,477,364</u>     |
|  |                             |                           |                                   |                            |                              | <u>\$ 26,885,178</u> |

**See Notes to Financial Statements**

## Tennessee Aquarium

### Statements of Cash Flows

For the years ended December 31, 2019 and 2018

|  | <u>2019</u>         | <u>2018</u>         |
|--|---------------------|---------------------|
| <b>Operating activities</b>  |                     |                     |
| Change in net assets   | \$ 353,043          | \$ 2,239,502        |
| Adjustments to reconcile change in net assets to net cash flows from operating activities: |                     |                     |
| Depreciation   | 4,421,444           | 4,640,120           |
| Noncash interest expense related to debt issuance costs                                    | 6,447               | 6,447               |
| Noncash contribution of investment securities  | (112,980)           | (5,500)             |
| Realized and unrealized (gain) loss on investments   | (1,056,267)         | 726,429             |
| Contributions restricted for endowments  | (84,421)            | -                   |
| Change in fair value of interest rate swap obligation                                      | 61,999              | (150,355)           |
| Gain from forgiveness of debt  | -                   | (834,102)           |
| Loss on sale of property and equipment   | -                   | 157,514             |
| Changes in operating assets and liabilities:   |                     |                     |
| Contributions receivable   | 176,329             | 185,523             |
| Inventories  | 49,556              | (41,928)            |
| Accounts receivable  | (32,097)            | 149,153             |
| Prepaid expenses   | (226,108)           | (56,938)            |
| Accounts payable   | 435,142             | (215,318)           |
| Accrued expenses   | 119,635             | (191,612)           |
| Deferred revenue   | 100,687             | (13,857)            |
| Net cash flows from operating activities   | <u>4,212,409</u>    | <u>6,595,078</u>    |
| <b>Investing activities</b>  |                     |                     |
| Proceeds from sale of investments  | 5,527,548           | 5,530,566           |
| Purchases of investments   | (6,455,603)         | (9,471,242)         |
| Proceeds from sale of property and equipment   | -                   | 1,500,000           |
| Purchases of property and equipment  | (2,739,668)         | (2,004,958)         |
| Net cash flows from investing activities   | <u>(3,667,723)</u>  | <u>(4,445,634)</u>  |
| <b>Financing activities</b>  |                     |                     |
| Contributions restricted for endowments  | 84,421              | -                   |
| Payments of long-term debt   | (853,598)           | (2,201,648)         |
| Payments of capital lease obligation   | (59,181)            | (93,267)            |
| Net cash flows from financing activities   | <u>(828,358)</u>    | <u>(2,294,915)</u>  |
| Net change in cash and cash equivalents  | (283,672)           | (145,471)           |
| <b>Cash and cash equivalents, beginning of year</b>  | <u>2,571,884</u>    | <u>2,717,355</u>    |
| <b>Cash and cash equivalents, end of year</b>  | <u>\$ 2,288,212</u> | <u>\$ 2,571,884</u> |
| <b>Cash paid for:</b>  |                     |                     |
| Financing costs  | <u>\$ 719,614</u>   | <u>\$ 776,764</u>   |

See Notes to Financial Statements

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## Tennessee Aquarium

*Notes to Financial Statements*  
*December 31, 2019 and 2018*

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### **Note 1. Summary of Significant Accounting Policies**

The significant accounting policies and practices followed by Tennessee Aquarium (the "Aquarium") are as follows:

*Nature of activities and organization:*

The Aquarium is a nonprofit corporation in the State of Tennessee. The Aquarium provides a center to connect people with nature and empower them to make informed decisions about water and wildlife. Principal Aquarium programs include facility and ancillary operations, animal husbandry and care, membership services, education, and an IMAX theater. In addition to these programs, the Aquarium engages in significant conservation efforts and conservation research initiatives.

*Basis of accounting:*

The financial statements of the Aquarium have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP). The Financial Accounting Standards Board (FASB) has established the Accounting Standards Board (ASC) as the sole source of authoritative GAAP.

*Financial statement presentation:*

The Aquarium is required to report information regarding its financial position and activities according to two classes of net assets:

*Net assets without donor restrictions:* Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Aquarium. These net assets may be used at the discretion of the Aquarium's management and the board of trustees.

*Net assets with donor restrictions:* Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Aquarium or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

Donor restricted contributions are reported as increases in net assets with donor restrictions. When a 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. For contributions restricted to the acquisition of property and equipment, the restrictions are released when the asset is placed in service unless the donor has provided more explicit requirements.

## Tennessee Aquarium

### Notes to Financial Statements December 31, 2019 and 2018

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#### Note 1. Summary of Significant Accounting Policies, Continued

##### Adoption of new accounting standards:

In May 2014, the Financial Accounting Standards Board (FASB) issued ASU 2014-9, *Revenue from Contracts with Customers* ("ASC 606"), which amends the guidance for revenue recognition to replace numerous, industry-specific requirements. ASC 606 outlines a five-step process for customer contract revenue recognition that focuses on transfer of control, as opposed to transfer of risk and rewards. The amendment also requires enhanced disclosures regarding the nature, amount, timing and uncertainty of revenues and cash flows from contracts with customers. ASC 606 became effective for annual periods beginning after December 31, 2018. Certain categories of the Aquarium's revenue is included in the scope of ASC 606, and revenue recognized under the standard does not differ materially from revenue recognized under the previous guidance. The Aquarium adopted the standard using the modified retrospective transition method as of January 1, 2019. The Aquarium's adoption of ASC 606 did not result in a cumulative catch-up adjustment or any significant changes to the financial statement line items.

In June 2018, the FASB updated the Not-for-Profit Entities Topic of the ASC. The amendments clarify and improve current guidance about whether a transfer of assets (or the reduction, settlement, or cancelation of liabilities) is a contribution or an exchange transaction. The Aquarium adopted the standard as of January 1, 2019. These amendments did not have a material effect on the Aquarium's financial statements.

##### Measure of operations:

The statement of activities and changes in net assets reports all changes in net assets, including changes in net assets from operating and nonoperating activities. Operating activities consist of those items attributable to the Aquarium's ongoing programmatic services. Nonoperating activities are limited to resources that generate return from investments and other activities considered to be of a more unusual or nonrecurring nature.

##### Revenue recognition:

Admissions revenue is recognized at the time the tickets are sold. Ancillary sales include revenue from the Aquarium's gift shop and café. Revenue is recognized when goods are transferred to the Aquarium's visitors. Memberships purchased include a performance obligation to provide various benefits over the membership period. The primary benefit of memberships is unlimited admission during the term of the membership. Other benefits included are considered immaterial (member events) or tied to admission (gift shop and café discounts). Proceeds from the sale of annual memberships are recorded as deferred revenue and recognized as membership revenue ratably over the membership period. Total contract liabilities recorded as deferred revenue as of December 31, 2019 and 2018 were \$1,150,248 and \$1,021,885, respectively. In addition, rental income, a component of facility rental, sponsorship and other program income on the statement of activities is recognized over the period of rental.

Contributions, grants and state funding are non-exchange transactions outside the scope ASC 606. Revenue for these transactions is recognized when an unconditional promise to give is made or when a cash contribution is received. The Aquarium reports gifts of cash and other assets as support with donor restriction if they are subject to time or donor-imposed restrictions.

## Tennessee Aquarium

### Notes to Financial Statements December 31, 2019 and 2018

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#### Note 1. Summary of Significant Accounting Policies, Continued

##### Revenue recognition, continued:

In the following table, revenue is disaggregated by timing of satisfaction of performance obligations for the years ended December 31:

|  | <u>2019</u>          | <u>2018</u>          |
|--|----------------------|----------------------|
| Performance obligations satisfied at a point in time | \$ 22,755,154        | \$ 21,214,816        |
| Performance obligations satisfied over time          | <u>2,868,045</u>     | <u>2,653,081</u>     |
| Total performance obligations satisfied              | 25,623,199           | 23,867,897           |
| Support not in scope of ASC 606                      | <u>1,768,161</u>     | <u>4,819,681</u>     |
| Total operating revenues and other support           | <u>\$ 27,391,360</u> | <u>\$ 28,687,578</u> |

##### Contributions receivable:

Contributions receivable represents unconditional promises to give. Conditional promises to give are recognized only when the conditions on which they depend are substantially met and the promises become unconditional. Unconditional promises to give that are expected to be collected in less than one year are reported at net realizable value. Unconditional promises to give that are expected to be collected in more than one year are reported at the present value of expected cash flows at the date of the promise. Amortization of the resulting discount is recognized as additional contribution revenue. The Aquarium considers all unconditional promises to give to be fully collectible as of December 31, 2019 and 2018; accordingly, no allowance for doubtful accounts is considered necessary. Accounts are charged to bad debt expense as they are deemed uncollectible. The Aquarium had \$284,671 and \$461,000 in contributions receivable as of December 31, 2019 and 2018, respectively.

##### Cash and cash equivalents:

The Aquarium considers all highly liquid investments with original maturities of three months or less to be cash and cash equivalents. The Aquarium maintains, at various financial institutions, cash accounts which may exceed federally insured amounts and which may at times significantly exceed statement of financial position amounts due to outstanding checks.

##### Property and equipment:

Property and equipment are stated at cost, or at the estimated fair value at the date of the gift if donated, less accumulated depreciation. Significant additions and improvements that have estimated useful lives in excess of one year are capitalized. Expenditures for repairs and maintenance are expensed in the year incurred. Property and equipment placed into service is depreciated using the straight-line method over estimated useful lives, ranging from 3 to 40 years. Depreciation expense totaled \$4,421,444 and \$4,640,120 for the years ended December 31, 2019 and 2018, respectively.

The Aquarium leases server equipment under a capital lease. The assets and liabilities under capital leases are initially recognized at the lower of the present value of the minimum lease payments or the fair value of the leased assets. The assets are depreciated over the shorter of the lease terms or their estimated productive lives. Depreciation of assets under capital leases is included in depreciation expense.

## Tennessee Aquarium

### Notes to Financial Statements December 31, 2019 and 2018

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#### Note 1. Summary of Significant Accounting Policies, Continued

##### Inventories:

The gift shop inventory is stated at the lower of cost or net realizable value. Net realizable value represents the estimated selling price for inventories less all estimated costs to sell. Cost is determined on the first-in, first-out (FIFO) method.

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

##### Investments:

Investments are stated at fair value. Investments in private investment funds are valued based on the Aquarium's proportional share of the net asset valuations reported by the underlying funds under the practical expedient. Investments in entities that calculate net asset value per share or its equivalent are not categorized within the fair value hierarchy. Adjustments, if necessary, are made by the Aquarium if the net asset valuation is not calculated in a manner consistent with the measurement principles used to determine fair value as prescribed by GAAP.

Realized gains and losses on sales of securities are recognized on the trade date using the specific identification method. Market values are determined based on quoted prices. For investments where shares are not involved, realized gains and losses are calculated based upon the weighted average cost of the investments sold. Unrealized gain or loss is the differences between fair value and cost of investments held at the measurement date.

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 changes could materially affect the amounts reported on the statements of financial position and the statements of activities and changes in net assets.

Interest income is recognized as earned and dividends are recognized on the ex-dividend date.

##### Fair value measurements:

Fair value is defined 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. GAAP establishes a fair value hierarchy as described below:

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

Level 2 - Inputs other than quoted prices within Level 1 that are observable for the asset or liability, either directly or indirectly through corroboration with observable market data.

Level 3 - Inputs that are unobservable for the asset or liability and include situations where there is little, if any, market activity for the asset or liability. These inputs into the determination of fair value are based upon the best information in the circumstances and may require significant management judgment or estimation.

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## Tennessee Aquarium

### *Notes to Financial Statements*

*December 31, 2019 and 2018*

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#### **Note 1. Summary of Significant Accounting Policies, Continued**

##### *Fair value measurements, continued:*

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. The Aquarium's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and consideration of factors specific to the asset or liability.

##### *Derivatives:*

The basic type of risk associated with the Aquarium's interest rate swap obligation (derivative) 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 derivative should generally offset the market risk associated with the hedged liability. The interest rate swap agreement involves payments of fixed-rate amounts in exchange for the receipt of variable rate interest payments over the life of the agreement 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 statements of activities and changes in net assets.

##### *Debt issuance costs:*

Debt issuance costs relate to the issuance of long-term debt. Unamortized debt issuance costs are reported as a reduction of long-term debt. These costs are amortized using the straight-line method, which approximates the effective interest method, over the term of the related debt. Amortization of deferred financing costs is reported as interest expense.

##### *Functional allocation of expenses:*

The costs of providing program and other activities have been summarized on a functional basis in the statement of activities and changes in net assets. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Such allocations are determined by management on an equitable basis.

The Aquarium classifies expenses as program services or support expenses. Program services are the activities that fulfill the Aquarium's mission and include its husbandry, facility operations, education and conservation expenses.

Support expenses are all activities other than program services and include guest services, retail, marketing costs, human resources, and management and general expenses. All fundraising costs are classified as support expenses.

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## Tennessee Aquarium

Notes to Financial Statements  
December 31, 2019 and 2018

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### Note 1. Summary of Significant Accounting Policies, Continued

#### Functional allocation of expenses, continued:

The expenses that are allocated include the following:

| <u>Expense</u>                           | <u>Method of Allocation</u>               |
|--|---|
| Salaries and benefits                    | Time and effort                           |
| Printing, publications and promotions    | Nature of expenses                        |
| Supplies and marine life acquisition     | Nature of expenses                        |
| Professional and other contract services | Nature of expenses                        |
| Maintenance                              | Time and effort                           |
| Postage and shipping                     | Nature of expenses                        |
| Lease and rental                         | Nature of expenses                        |
| Travel and education                     | Nature of expenses                        |
| Telecommunications                       | Nature of expenses                        |
| Financing costs                          | In proportion to total expense categories |
| Depreciation                             | Square footage                            |
| Other                                    | Time and effort                           |

#### Advertising costs:

The Aquarium expenses advertising costs as incurred. Advertising expense for the years ended December 31, 2019 and 2018, was \$1,869,904 and \$1,310,404, respectively, and is classified with marketing costs on the statements of activities and changes in net assets.

#### Income tax status:

The Aquarium qualifies as a tax-exempt organization under Internal Revenue Code Section 501(c)(3) and, accordingly, is exempt from federal and state income taxes. The Aquarium's federal exempt income tax returns are subject to examination by the Internal Revenue Service, generally for three years after they are filed.

#### Recently issued accounting pronouncements:

In February 2016, the FASB amended the Leases topic of the ASC to require all leases with lease terms over 12 months to be capitalized as a right-of-use asset and lease liability on the balance sheet at the date of lease commencement. Leases will be classified as either finance leases or operating leases. This distinction will be relevant for the pattern of expense recognition in the income statement. The amendments will be effective for fiscal years beginning after December 15, 2020. Early adoption is permitted. The Aquarium is currently in the process of evaluating the impact of adoption of this guidance on its financial statements.

#### Estimates and uncertainties:

The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the 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. Actual results could differ from those estimates.



## Tennessee Aquarium

Notes to Financial Statements  
December 31, 2019 and 2018

### Note 1. Summary of Significant Accounting Policies, Continued

#### Subsequent events:

The Aquarium has evaluated subsequent events for potential recognition and disclosure through May 28, 2020, the date the financial statements were available to be issued, as disclosed in Note 15.

### Note 2. Donated Services

The Aquarium received contributed services valued at approximately \$299,000 and \$293,000 in 2019 and 2018, respectively, from participants in its Volunteer Diver program. Such contributed services have been recognized as contributions without donor restriction and as program services 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 they did not meet the requirements for recognition in the financial statements.

### Note 3. Availability and Liquidity

The following represents the Aquarium's financial assets as of December 31, 2019 and 2018, reduced by amounts not available within one year:

|  | <u>2019</u>         | <u>2018</u>         |
|--|---------------------|---------------------|
| Financial assets at year end:  |                     |                     |
| Cash and cash equivalents  | \$ 2,288,212        | \$ 2,571,884        |
| Contributions receivable   | 284,671             | 461,000             |
| Accounts receivable  | 444,452             | 412,000             |
| Investments, at fair value   | <u>14,832,639</u>   | <u>12,735,337</u>   |
| Total financial assets   | <u>17,849,974</u>   | <u>16,180,576</u>   |
| Less amounts not available to be used within one year:                                 |                     |                     |
| Net assets with donor restrictions   | 598,126             | 399,733             |
| Board-designated funds   | 6,612,629           | 5,586,956           |
| Internally-designated bond funds   | <u>3,160,940</u>    | <u>2,443,690</u>    |
|  | <u>10,371,695</u>   | <u>8,430,379</u>    |
| Financial assets available to meet general expenditures<br>over the next twelve months | <u>\$ 7,478,279</u> | <u>\$ 7,750,197</u> |

Internally-designated bond funds include amounts designated by management to pay long-term debt. Management does not consider these amounts available for use within one year.

As part of the Aquarium's liquidity management, it has a policy to maintain a level of assets in reserve that is equal to 25% of the Aquarium's annual operating expenses. In addition to its operating reserve, the Aquarium also maintains currently available financial assets less current liabilities at a minimum of 30 days of operating expenses. To achieve this target, the Aquarium forecasts its future cash flows and monitors its liquidity throughout the year.

## Tennessee Aquarium

### Notes to Financial Statements December 31, 2019 and 2018

#### Note 4. Contributions Receivable

Contributions receivable are expected to be collected in the following periods:

|                              | <u>2019</u>       | <u>2018</u>       |
|------------------------------|-------------------|-------------------|
| Less than one year           | \$ 200,250        | \$ 461,000        |
| One to five years            | <u>85,500</u>     | <u>-</u>          |
|                              | 285,750           | 461,000           |
| Unamortized discount (at 4%) | <u>1,079</u>      | <u>-</u>          |
|                              | <u>\$ 284,671</u> | <u>\$ 461,000</u> |

As of December 31, 2019, there were two contributions receivable totaling \$225,750, representing 79% of gross contributions receivable. As of December 31, 2018, there were two contributions receivable totaling \$350,000 representing 76% of gross contributions receivable.

#### Note 5. Property and Equipment

Property and equipment as of December 31, 2019 and 2018, consist of the following major classifications:

|  | <u>2019</u>          | <u>2018</u>          |
|--|----------------------|----------------------|
| Land   | \$ 4,484,445         | \$ 4,484,445         |
| Buildings  | 91,361,738           | 91,208,556           |
| Furniture, fixtures and equipment                | 30,162,883           | 27,599,080           |
| Telecommunications equipment under capital lease | 579,276              | 515,860              |
| Construction in progress                         | <u>820,999</u>       | <u>861,732</u>       |
|  | 127,409,341          | 124,669,673          |
| Accumulated depreciation                         | <u>(74,714,058)</u>  | <u>(70,292,614)</u>  |
|  | <u>\$ 52,695,283</u> | <u>\$ 54,377,059</u> |

#### Note 6. Investments

Investments consist of the following:

|                              | <u>2019</u>          |                      |   |
|------------------------------|----------------------|----------------------|---|
|                              | <u>Fair value</u>    | <u>Cost</u>          | <u>Net<br/>unrealized<br/>gain (loss)</u> |
| Equity securities            | \$ 3,907,696         | \$ 3,591,547         | \$ 316,149                                |
| Corporate bonds              | 9,789,065            | 9,739,809            | 49,256                                    |
| Hedge funds                  | 847,678              | 842,341              | 5,337                                     |
| Real estate & Infrastructure | 134,050              | 139,296              | (5,246)                                   |
| Hard assets funds            | <u>154,150</u>       | <u>132,231</u>       | <u>21,919</u>                             |
|                              | <u>\$ 14,832,639</u> | <u>\$ 14,445,224</u> | <u>\$ 387,415</u>                         |

## Tennessee Aquarium

Notes to Financial Statements  
December 31, 2019 and 2018

### Note 6. Investments, Continued

|                                | 2018                 |                      |                            |
|--------------------------------|----------------------|----------------------|----------------------------|
|                                | Fair value           | Cost                 | Net unrealized gain (loss) |
| Equity securities              | \$ 3,180,333         | \$ 3,527,016         | \$ (346,683)               |
| Corporate bonds                | 8,367,611            | 8,479,187            | (111,576)                  |
| Hedge funds                    | 724,743              | 779,838              | (55,095)                   |
| Real estate and infrastructure | 331,995              | 370,034              | (38,039)                   |
| Hard assets funds              | 130,655              | 132,231              | (1,576)                    |
|                                | <u>\$ 12,735,337</u> | <u>\$ 13,288,306</u> | <u>\$ (52,969)</u>         |

The net change in unrealized gain (loss) on investments is included in net investment income (loss) on the accompanying statements of activities and changes in net assets and is presented with realized and unrealized (gain) loss on investments on the accompanying statements of cash flows. Investment income is presented net of investment expense. Investment expense for the years ended December 31, 2019 and 2018, was \$68,831 and \$57,094, respectively.

The Aquarium's investments in financial assets and liabilities have been classified based upon the fair value hierarchy as follows:

|                                      | Fair value measurement using |                     |             |                   | Investments measured at net asset value | Total                |
|--------------------------------------|------------------------------|---------------------|-------------|-------------------|---|----------------------|
|                                      | Level 1                      | Level 2             | Level 3     | Level 3           |   |                      |
| <b>December 31, 2019:</b>            |                              |                     |             |                   |   |                      |
| <b>Assets</b>                        |                              |                     |             |                   |   |                      |
| Equity securities                    | \$ 3,907,696                 | \$ -                | \$ -        | \$ -              | \$ -                                    | \$ 3,907,696         |
| Corporate bonds                      | -                            | 9,789,065           | -           | -                 | -                                       | 9,789,065            |
| Real estate and infrastructure funds | -                            | 134,050             | -           | -                 | -                                       | 134,050              |
| Hard assets funds                    | 154,150                      | -                   | -           | -                 | -                                       | 154,150              |
| Hedge funds (1)                      | -                            | -                   | -           | 847,678           | 847,678                                 | 847,678              |
|                                      | <u>\$ 4,061,846</u>          | <u>\$ 9,923,115</u> | <u>\$ -</u> | <u>\$ 847,678</u> | <u>\$ -</u>                             | <u>\$ 14,832,639</u> |
| <b>Liabilities</b>                   |                              |                     |             |                   |   |                      |
| Interest rate swap                   | \$ -                         | \$ 324,896          | \$ -        | \$ -              | \$ -                                    | \$ 324,896           |

- (1) Certain investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been categorized in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the statements of financial position.

## Tennessee Aquarium

Notes to Financial Statements  
December 31, 2019 and 2018

### Note 6. Investments, Continued

|                                      | Fair value measurement using |                     |             |   | Total                |
|--------------------------------------|------------------------------|---------------------|-------------|---|----------------------|
|                                      | Level 1                      | Level 2             | Level 3     | Investments measured at net asset value |                      |
| <b>December 31, 2018:</b>            |                              |                     |             |   |                      |
| <b>Assets</b>                        |                              |                     |             |   |                      |
| Equity securities                    | \$ 3,180,333                 | \$ -                | \$ -        | \$ -                                    | \$ 3,180,333         |
| Corporate bonds                      | -                            | 8,367,611           | -           | -                                       | 8,367,611            |
| Real estate and infrastructure funds | -                            | 331,995             | -           | -                                       | 331,995              |
| Hard assets funds                    | 130,655                      | -                   | -           | -                                       | 130,655              |
| Hedge funds (1)                      | -                            | -                   | -           | 724,743                                 | 724,743              |
|                                      | <u>\$ 3,310,988</u>          | <u>\$ 8,699,606</u> | <u>\$ -</u> | <u>\$ 724,743</u>                       | <u>\$ 12,735,337</u> |
| <b>Liabilities</b>                   |                              |                     |             |   |                      |
| Interest rate swap                   | <u>\$ -</u>                  | <u>\$ 262,897</u>   | <u>\$ -</u> | <u>\$ -</u>                             | <u>\$ 262,897</u>    |

Net investment income (loss) consists of the following:

|                                     | 2019                | 2018                |
|-------------------------------------|---------------------|---------------------|
| Interest and dividend income        | \$ 437,870          | \$ 393,682          |
| Investment expense                  | (68,831)            | (57,094)            |
| Realized and unrealized gain (loss) | <u>1,056,267</u>    | <u>(726,429)</u>    |
|                                     | <u>\$ 1,425,306</u> | <u>\$ (389,841)</u> |

### Note 7. Long-Term Debt

In October 2010, the Board of Trustees approved the decision to restructure the Aquarium's bond debt by paying off prior bond debt and refinancing 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). 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.

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 2019, the variable interest rate ranged from 3.13% to 3.94%. As of December 31, 2019 and 2018, the balance of the Series 2010 Bonds was \$16,084,319 and \$16,799,207, respectively. The variable rate portion of the Series 2010 Bond is subject to an interest rate swap agreement disclosed below. The Series 2010 Bonds are secured by a springing lien on the Aquarium's property. The loan agreement matures on December 30, 2022.

## Tennessee Aquarium

### Notes to Financial Statements December 31, 2019 and 2018

#### Note 7. Long-Term Debt, Continued

In May 2007, the Aquarium entered into a vessel building agreement to have a 70-passenger, high-speed catamaran constructed to take visitors on eco-tours into the Tennessee River Gorge. The vessel was called the River Gorge Explorer and was put into operation in June 2008. The total purchase price of the vessel was \$2,885,600. In connection with the Aquarium entering into the vessel building agreement, the Aquarium also executed a nonrecourse promissory note to the Community Foundation of Greater Chattanooga to fund \$2,860,200 of the purchase price. On March 30, 2018, the Aquarium sold the River Gorge Explorer for \$1,500,000, and the promissory note was partially repaid with the proceeds from the sale of the vessel. The balance of the note was forgiven in accordance with the nonrecourse provision in the note agreement.

In October 2012, the Aquarium entered into a purchase and sale agreement to acquire the office space which it had formerly leased. The total purchase price of the space was \$1,250,000. In order to purchase the space, the Aquarium executed a promissory note to First Tennessee Bank to fund the entire purchase price. Under the terms of the loan agreement, the Aquarium is to make monthly principal and interest payments of \$12,709 based on a 10-year amortization. Interest was originally at a fixed rate of 4.05% but was reduced to 3.05% as of December 8, 2017. As of December 31, 2019 and 2018, the balance of the promissory note was \$387,948 and \$526,657, respectively. This note is cross-collateralized with the Aquarium's Series 2010 Bonds. The loan agreement matures on October 1, 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. As of December 31, 2019 and 2018, the Aquarium determined it was in compliance with all of the financial covenants of the loan agreements.

Long-term debt is reported net of unamortized debt issuance costs, as follows:

|  | <u>2019</u>          | <u>2018</u>          |
|--|----------------------|----------------------|
| Principal amount                                     | \$ 16,472,267        | \$ 17,325,864        |
| Less unamortized debt issuance costs                 | <u>69,141</u>        | <u>75,587</u>        |
| Long-term debt, less unamortized debt issuance costs | 16,403,126           | 17,250,277           |
| Less current portion                                 | <u>800,411</u>       | <u>810,997</u>       |
| Long-term debt, less current portion                 | <u>\$ 15,602,715</u> | <u>\$ 16,439,280</u> |

Aggregate maturities of long-term debt, excluding unamortized debt issuance costs, for the years subsequent to December 31, 2019, are as follows:

| <i>Year ending</i> |                      |
|--------------------|----------------------|
| December 31, 2020  | \$ 800,411           |
| December 31, 2021  | 822,117              |
| December 31, 2022  | <u>14,849,739</u>    |
|                    | <u>\$ 16,472,267</u> |

## Tennessee Aquarium

### Notes to Financial Statements December 31, 2019 and 2018

#### Note 7. Long-Term Debt, Continued

The Aquarium entered into an interest rate swap agreement on December 21, 2010, with a financial institution, whereby, at specified intervals, the difference between fixed and variable rate interest amounts are calculated in reference to agreed-upon notional amounts, which are amortized with the variable rate portion of the Series 2010 Bonds disclosed above. Under the agreement, the Aquarium receives interest payments at rates equal to 68% of 1-month LIBOR plus 1.42% (3.12% as of December 31, 2019) and pays interest at a fixed rate of 3.99%. As of December 31, 2019 and 2018, the fair value of the interest rate swap agreement resulted in a liability of \$324,896 and \$262,897, respectively. For the year ended December 31, 2019, the unrealized loss incurred from the change in fair value of the interest rate swap agreement is included in the statements of activities and changes in net assets in the amount of \$61,999. For the year ended December 31, 2018, the unrealized gain incurred from the change in fair value of the interest rate swap agreement is \$150,355.

On December 8, 2016, the Aquarium entered into a revolving loan credit agreement with First Tennessee Bank for a line of credit to fund its working capital needs. The line of credit allows the Aquarium to borrow up to \$2.5 million and bears a variable interest rate of 30-day LIBOR plus 1.25% (2.95% as of December 31, 2019). The line of credit expires on November 5, 2021. The Aquarium has not yet drawn down any funds under the line of credit. Concurrent with the execution of the revolving loan credit agreement, the fixed interest rate on the 2012 promissory note with First Tennessee Bank was reduced from 4.05% to 3.05%.

#### Note 8. Net Assets with Donor Restrictions

Net assets with donor restrictions as of December 31, 2019 and 2018, consist of the following:

|  | <u>2019</u>       | <u>2018</u>       |
|--|-------------------|-------------------|
| Subject to expenditure for specified purpose |                   |                   |
| Grant agreements                             | \$ 457,199        | \$ 258,806        |
| Subject to permanent restriction of corpus   | <u>140,927</u>    | <u>140,927</u>    |
|  | <u>\$ 598,126</u> | <u>\$ 399,733</u> |

During 2019 and 2018, net assets released from restrictions consisted of:

|                                      | <u>2019</u>       | <u>2018</u>      |
|--------------------------------------|-------------------|------------------|
| Satisfaction of purpose restrictions |                   |                  |
| Internship program                   | \$ 5,022          | \$ 17,853        |
| Other purpose fulfilled              | <u>292,669</u>    | <u>30,375</u>    |
|                                      | <u>\$ 297,691</u> | <u>\$ 48,228</u> |

## Tennessee Aquarium

### Notes to Financial Statements December 31, 2019 and 2018

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#### Note 9. Board Designated Endowment

As of December 31, 2019 and 2018, the Board of Trustees had designated \$6,612,629 and \$5,586,956, respectively, of net assets without donor restrictions as a general endowment fund to support the mission of the Aquarium. Since that amount resulted from an internal designation and is not donor-restricted, it is classified and reported as net assets without donor restrictions.

As part of the spending policy for the board designated endowment, no spending from the endowment will be allowed until the endowment reaches \$5,000,000, plus any approved spending allocation. When the endowment exceeds \$5,000,000 plus any approved spending allocation, the board has discretion to approve spending up to 6% of the endowment's total asset value based upon the average of the trailing twelve quarters ending each December 31 from the endowment. In establishing this policy, the Aquarium considered the long-term expected investment return on its endowment. Accordingly, over the long term, the Aquarium expects the current spending policy to allow its general endowment fund to grow at an average of 7% annually. This is consistent with the Aquarium's objective to maintain the purchasing power of the endowment assets as well as to provide additional real growth through investment return.

To achieve that objective, the Aquarium has adopted an investment policy that attempts to maximize total return consistent with an acceptable level of risk. Endowment assets are invested in a well-diversified asset mix, which includes equity and debt securities, that is intended to result in a consistent inflation-protected rate of return that has sufficient liquidity to make annual distributions as stated in the spending policy, while growing the fund. Actual returns in any given year may vary from this amount. Investment risk is measured in terms of the total endowment fund; investment assets and allocation between asset classes and strategies are managed to avoid exposing the fund to unacceptable levels of risk.

Composition of, and changes in, board designated endowment net assets for the years ended December 31, 2019 and 2018, were as follows:

|  | <u>2019</u>         | <u>2018</u>         |
|--|---------------------|---------------------|
| <b>Endowment net assets, beginning of year</b> | \$ 5,586,956        | \$ 2,685,490        |
| Investment income                              | 100,439             | 235,055             |
| Additional board designations                  | -                   | 3,396,576           |
| Realized and unrealized gain (loss)            | <u>925,234</u>      | <u>(730,165)</u>    |
| <b>Endowment net assets, end of year</b>       | <u>\$ 6,612,629</u> | <u>\$ 5,586,956</u> |

## Tennessee Aquarium

### Notes to Financial Statements December 31, 2019 and 2018

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#### Note 10. Capital Leases

The Aquarium leases server equipment under a capital lease agreement expiring in 2024. Future minimum lease payments under the agreement as of December 31, 2019, are as follows:

| <i>Year ending</i>                             |                  |
|--|------------------|
| December 31, 2020                              | \$ 45,370        |
| December 31, 2021                              | 18,595           |
| December 31, 2022                              | 18,595           |
| December 31, 2023                              | 18,595           |
| December 31, 2024                              | <u>13,944</u>    |
| Total minimum lease payments                   | 115,099          |
| Less amounts representing interest and fees    | <u>24,973</u>    |
| Present value of future minimum lease payments | 90,126           |
| Less current portion                           | <u>31,113</u>    |
|  | <u>\$ 59,013</u> |

#### Note 11. Operating Lease Commitments

The Aquarium leases equipment and office space pursuant to noncancelable operating lease agreements that expire through 2025. Future minimum rental payments under the lease agreements as of December 31, 2019, are as follows:

| <i>Year ending</i> |                   |
|--------------------|-------------------|
| December 31, 2020  | \$ 231,117        |
| December 31, 2021  | 108,571           |
| December 31, 2022  | 77,490            |
| December 31, 2023  | 77,490            |
| December 31, 2024  | 77,490            |
| Thereafter         | <u>19,373</u>     |
|                    | <u>\$ 591,531</u> |

The Aquarium's total rent expense for the years ended December 31, 2019 and 2018, was \$443,643 and \$461,140, respectively.

#### Note 12. 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 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 years ended December 31, 2019 and 2018, was \$538,193 and \$480,725, respectively.



## Tennessee Aquarium

### *Notes to Financial Statements* *December 31, 2019 and 2018*

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#### **Note 13. Litigation**

The Aquarium, in the course of its normal operations, is subject to investigations, claims, disputes and lawsuits. In management's opinion, any such outstanding matters of which the Aquarium has knowledge have been reflected in the financial statements or would not have a material adverse effect on the Aquarium's financial position and changes in net assets.

#### **Note 14. Related Party Transactions**

A board member of the Aquarium is the chief operating officer for the company that provides the Aquarium's employee healthcare insurance. Premiums paid were \$815,707 and \$717,029 for the years ended December 31, 2019 and 2018, respectively.

#### **Note 15. Uncertainties and Subsequent Events**

The 2019 novel coronavirus (or COVID-19) has adversely affected, and may continue to adversely affect economic activity globally, nationally and locally. It is unknown the extent to which COVID-19 may spread, may have a destabilizing effect on financial and economic activity and may increasingly have the potential to negatively impact the Aquarium's and its customers' costs, demand for the Aquarium's experience and programs, and the U.S. economy. These conditions could continue to adversely affect the Aquarium's business, financial condition, and results of operations. Further, COVID-19 has resulted in health and other government authorities requiring the closure of the Aquarium's operations and other businesses of the Aquarium's suppliers, which has significantly disrupted the Aquarium's operations and the Aquarium's customers. The extent of the adverse impact of the COVID-19 outbreak on the Aquarium cannot be predicted at this time.

The Aquarium closed on March 13, 2020 and, as of the financial statement issuance date, has not yet announced a reopening date. In response to this closure, the Aquarium applied for a Small Business Administration loan under the federal Paycheck Protection Program. A loan of \$2,238,700 was approved with proceeds deposited into the Aquarium's bank account on April 17, 2020.

On April 16, 2020, the Board of Trustees approved the decision to refinance the Aquarium's bond debt by paying off the prior bond debt and refinancing with new bank-qualified tax-exempt bonds. On May 7, 2020, the Industrial Development Board of Hamilton County, TN issued \$7,500,000 of Revenue Refunding Bonds Series 2020A (the Series 2020A Bonds) and on May 26, 2020, the Industrial Development Board of Hamilton County, TN issued \$8,500,000 of Revenue Refunding Bonds Series 2020B (the Series 2020B Bonds). Both the Series 2020A Bonds and Series 2020B Bonds mature on December 30, 2035. Both Bond Series were purchased in their entirety by the Aquarium's lender and the proceeds were loaned to the Aquarium pursuant to a loan agreement dated May 7, 2020. Under the terms of the May 7, 2020 loan agreement, the Aquarium is to make monthly principal and interest payments based on amortization to the maturity date. Interest on both the SeriesA and SeriesB bonds is at a fixed rate of 2.25%.

In conjunction with the bond debt refinancing the Aquarium terminated its previous interest rate swap agreement. The Aquarium paid off the swap agreement for a price of \$465,400. This amount was added to the outstanding balance of the Aquarium's 2012 promissory note to First Horizon Bank mentioned above. The new balance was refinanced with a new note that matures on May 1, 2025. Under the terms of the new note, the Aquarium is to make monthly principal and interest payments of \$14,110 based on a five-year amortization. Interest on the new note is at a fixed rate of 2.50%.