

# **Tennessee Aquarium**

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

***For the years ended December 31, 2020 and 2019***

# Tennessee Aquarium

## Contents

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	<u>Page</u>
<b>Independent Auditor's Report</b> .....	1-2
<b>Financial Statements</b>	
Statements of Financial Position .....	3
Statements of Activities and Changes in Net Assets .....	4-5
Statements of Functional Expenses .....	6-7
Statements of Cash Flows .....	8
Notes to Financial Statements .....	9-24
<b>Internal Control and Compliance</b>	
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> ... ..	25-26
Independent Auditor's Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by the Uniform Guidance ..	27-28
Schedule of Expenditures of Federal Awards .....	29
Schedule of Findings and Questioned Costs .....	30
Summary Schedule of Prior Audit Findings .....	31



## 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 (the "Aquarium"), which comprise the statements of financial position as of December 31, 2020 and 2019, 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 audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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, 2020 and 2019, 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.

## Other Matters

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Aquarium's basic financial statements. The schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements of Federal Awards*, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

## Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 27, 2021, on our consideration of the Aquarium's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Aquarium's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Aquarium's internal control over financial reporting and compliance.

## COVID-19

As discussed in Note 15 to the financial statements, the Aquarium 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.



Chattanooga, Tennessee  
May 27, 2021

**Tennessee Aquarium**  
**Statements of Financial Position**  
**As of December 31, 2020 and 2019**

	<u>2020</u>	<u>2019</u>
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 471,994	\$ 2,288,212
Contributions and grants receivable	523,903	200,250
Inventories	-	302,640
Accounts receivable	765,282	444,452
Prepaid expenses	634,998	796,032
Total current assets	<u>2,396,177</u>	<u>4,031,586</u>
<b>Property and equipment, net</b>	<u>49,337,497</u>	<u>52,695,283</u>
<b>Other assets</b>		
Contributions receivable, less current portion, net	18,861	84,421
Investments, at fair value	16,247,578	14,832,639
Total other assets	<u>16,266,439</u>	<u>14,917,060</u>
Total assets	<u>\$ 68,000,113</u>	<u>\$ 71,643,929</u>
<b>Liabilities and Net Assets</b>		
<b>Current liabilities</b>		
Accounts payable	\$ 450,963	\$ 1,134,123
Accrued expenses	1,087,711	1,094,566
Line of credit	1,241,050	-
Current portion of long-term debt	1,027,067	800,411
Current portion of capital lease obligation	16,127	31,113
Deferred membership revenue	851,959	1,150,248
Other deferred revenue	91,250	76,327
Total current liabilities	<u>4,766,127</u>	<u>4,286,788</u>
<b>Long-term liabilities</b>		
Long-term debt, less current portion	15,115,399	15,602,715
Capital lease obligation, less current portion	27,267	59,013
Interest rate swap obligation	-	324,896
Total long-term liabilities	<u>15,142,666</u>	<u>15,986,624</u>
Total liabilities	<u>19,908,793</u>	<u>20,273,412</u>
<b>Net assets</b>		
Without donor restrictions		
Undesignated	40,676,316	44,159,762
Board designated endowment	7,026,285	6,612,629
Total without donor restrictions	<u>47,702,601</u>	<u>50,772,391</u>
With donor restrictions	388,719	598,126
Total net assets	<u>48,091,320</u>	<u>51,370,517</u>
Total liabilities and net assets	<u>\$ 68,000,113</u>	<u>\$ 71,643,929</u>

**See Notes to Financial Statements**

**Tennessee Aquarium****Statements of Activities and Changes in Net Assets****For the year ended December 31, 2020**

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>
<b>Operating revenues and other support</b>			
Admissions	\$ 8,868,241	\$ -	\$ 8,868,241
Ancillary sales	1,830,919	-	1,830,919
Membership dues	1,595,671	-	1,595,671
Contributions	2,077,144	1,036,071	3,113,215
Fundraising events	182,147	-	182,147
Facility rental, sponsorship and other program income	1,152,229	-	1,152,229
Net assets released from donor restrictions	1,245,478	(1,245,478)	-
Total operating revenues and other support	<u>16,951,829</u>	<u>(209,407)</u>	<u>16,742,422</u>
<b>Operating expenses</b>			
Program services	13,804,472	-	13,804,472
Guest services	1,447,374	-	1,447,374
Management and general	5,088,389	-	5,088,389
Marketing costs	2,291,346	-	2,291,346
Fundraising costs	376,061	-	376,061
Cost of ancillary sales	44,461	-	44,461
Total operating expenses	<u>23,052,103</u>	<u>-</u>	<u>23,052,103</u>
Change in net assets from operations	<u>(6,100,274)</u>	<u>(209,407)</u>	<u>(6,309,681)</u>
<b>Nonoperating change in net assets</b>			
Paycheck Protection Program loan forgiveness	2,238,700	-	2,238,700
Change in fair value of interest rate swap obligation	(140,504)	-	(140,504)
Net investment income	932,288	-	932,288
Change in net assets from nonoperating activities	<u>3,030,484</u>	<u>-</u>	<u>3,030,484</u>
Change in net assets	<u>(3,069,790)</u>	<u>(209,407)</u>	<u>(3,279,197)</u>
<b>Net assets, beginning of year</b>	50,772,391	598,126	51,370,517
<b>Net assets, end of year</b>	<u>\$ 47,702,601</u>	<u>\$ 388,719</u>	<u>\$ 48,091,320</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 restrictions</u>	<u>With donor 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>	50,617,741	399,733	51,017,474
<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 Functional Expenses****For the year ended December 31, 2020**

	<u>Program services</u>	<u>Guest services</u>	<u>Management and general</u>	<u>Marketing costs</u>	<u>Fundraising costs</u>	<u>Total</u>
Salaries and benefits	\$ 5,736,611	\$ 982,062	\$ 2,326,527	\$ 1,242,337	\$ 262,695	\$ 10,550,232
Printing, publications and promotions	1,543	-	79	782,482	579	784,683
Supplies and marine life acquisition	869,364	16,938	165,174	41,512	810	1,093,798
Professional and other contract services	983,765	159,970	1,049,698	84,618	20,011	2,298,062
Film and projection costs	70,032	-	-	-	-	70,032
Utilities	1,361,581	59,850	44,887	14,962	14,962	1,496,242
Maintenance	281,997	443	268,025	403	-	550,868
Postage and shipping	1,692	3,227	12,484	8,914	553	26,870
Lease and rental	3,793	-	341,600	-	-	345,393
Travel and education	33,262	1,197	22,462	1,726	10,866	69,513
Telecommunications	97,160	-	-	-	-	97,160
Financing costs	268,478	48,814	97,628	48,814	24,407	488,141
Depreciation	4,016,571	167,784	134,431	48,686	30,270	4,397,742
Other	78,623	7,089	625,394	16,892	10,908	738,906
	<u>\$ 13,804,472</u>	<u>\$ 1,447,374</u>	<u>\$ 5,088,389</u>	<u>\$ 2,291,346</u>	<u>\$ 376,061</u>	<u>23,007,642</u>
Cost of ancillary sales						44,461
						<u>\$ 23,052,103</u>

**See Notes to Financial Statements**



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

	<u>Program services</u>	<u>Guest services</u>	<u>Management and general</u>	<u>Marketing costs</u>	<u>Fundraising costs</u>	<u>Total</u>
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	726,103
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						<u>1,644,595</u>
						<u>\$ 28,401,624</u>

**See Notes to Financial Statements**

**Tennessee Aquarium****Statements of Cash Flows****For the years ended December 31, 2020 and 2019**

	<u>2020</u>	<u>2019</u>
<b>Operating activities</b>		
Change in net assets	\$ (3,279,197)	\$ 353,043
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Depreciation	4,397,742	4,421,444
Noncash interest expense related to debt issuance costs	70,636	6,447
Noncash contribution of investment securities	(61,470)	(112,980)
Realized and unrealized gain on investments	(591,018)	(1,056,267)
Contributions restricted for endowments	-	(84,421)
Change in fair value of interest rate swap obligation	140,504	61,999
Changes in operating assets and liabilities:		
Contributions and grants receivable	(258,093)	176,329
Inventories	302,640	49,556
Accounts receivable	(320,830)	(32,097)
Prepaid expenses	161,034	(226,108)
Accounts payable	(683,160)	435,142
Accrued expenses	(6,855)	119,635
Deferred revenue	(283,366)	100,687
Net cash flows from operating activities	<u>(411,433)</u>	<u>4,212,409</u>
<b>Investing activities</b>		
Proceeds from sale of investments	15,114,945	5,527,548
Purchases of investments	(15,877,396)	(6,455,603)
Purchases of property and equipment	(1,039,956)	(2,739,668)
Net cash flows from investing activities	<u>(1,802,407)</u>	<u>(3,667,723)</u>
<b>Financing activities</b>		
Contributions restricted for endowments	-	84,421
Net borrowings on line of credit	1,241,050	-
Proceeds of long-term debt	16,635,639	-
Payments of long-term debt	(16,931,800)	(853,598)
Payments of capital lease obligation	(46,732)	(59,181)
Payment of bond issuance costs	(35,135)	-
Settlement of interest rate swap obligation	(465,400)	-
Net cash flows from financing activities	<u>397,622</u>	<u>(828,358)</u>
Net change in cash and cash equivalents	(1,816,218)	(283,672)
<b>Cash and cash equivalents, beginning of year</b>	<u>2,288,212</u>	<u>2,571,884</u>
<b>Cash and cash equivalents, end of year</b>	<u>\$ 471,994</u>	<u>\$ 2,288,212</u>
<b>Cash paid for:</b>		
Financing costs	<u>\$ 551,301</u>	<u>\$ 719,614</u>

**See Notes to Financial Statements**

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## Tennessee Aquarium

*Notes to Financial Statements*  
*December 31, 2020 and 2019*

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

The significant accounting policies and practices followed by Tennessee 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 Codification (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.

*Measure of operations:*

The statements 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.

## Tennessee Aquarium

### Notes to Financial Statements December 31, 2020 and 2019

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

##### Revenue recognition:

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.

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 membership revenue as of December 31, 2020, 2019 and 2018, were \$851,959, \$1,150,248 and \$1,021,885, respectively. In addition, rental income, a component of facility rental, sponsorship and other program income on the statements of activities and changes in net assets 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.

Revenue from grants is recognized according to the specific agreement. Generally, revenues from restricted grants are recognized in the period of the grant award while revenues from cost reimbursement contracts are recognized to the extent of project expenses incurred. Grants and contracts are subject to audit by the awarding agency. Based on prior experience, the Aquarium's management believes that costs ultimately disallowed, if any, would not materially affect the financial position of the Aquarium.

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

	<u>2020</u>	<u>2019</u>
Performance obligations satisfied at a point in time	\$ 11,909,714	\$ 22,755,154
Performance obligations satisfied over time	<u>1,719,493</u>	<u>2,868,045</u>
Total performance obligations satisfied	13,629,207	25,623,199
Not in scope of ASC 606	<u>3,113,215</u>	<u>1,768,161</u>
Total operating revenues and other support	<u>\$ 16,742,422</u>	<u>\$ 27,391,360</u>

## Tennessee Aquarium

### Notes to Financial Statements December 31, 2020 and 2019

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

##### 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, 2020 and 2019; accordingly, no allowance for doubtful accounts is considered necessary. Accounts are charged to bad debt expense as they are deemed uncollectible. The Aquarium had \$542,764 and \$284,671 in contributions receivable as of December 31, 2020 and 2019, 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 \$4,397,742 and \$4,421,444 for the years ended December 31, 2020 and 2019, 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.

##### Inventories:

In October 2019, the Aquarium signed an agreement to transfer management of its gift shops and concession stands to Event Network. On January 21, 2020, management of the gift shops and concession stands officially transferred to Event Network. Per the terms of the agreement, Event Network receives a percentage of the gross gift shop and concession sales as a management fee. Also, as part of that agreement, Event Network bought all non-obsolete inventory from the Aquarium at cost. Any obsolete inventory was written off by the Aquarium and used for promotional purposes. Payment for the inventory is to take place in quarterly installments commencing on July 15, 2020, and ending July 15, 2021.

## Tennessee Aquarium

### Notes to Financial Statements December 31, 2020 and 2019

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

##### Inventories, continued:

The 2019 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 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, 2020 and 2019*

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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 statements 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, 2020 and 2019

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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
Utilities	Square footage
Maintenance	Nature of expenses
Postage and shipping	Nature of expenses
Lease and rental	Nature of expenses
Travel and education	Nature of expenses
Financing costs	In proportion to total expense categories
Depreciation	Square footage
Other	Nature of expenses

#### Advertising costs:

The Aquarium expenses advertising costs as incurred. Advertising expense for the years ended December 31, 2020 and 2019, was \$988,621 and \$1,869,904, 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 believes that it has appropriate support for any tax positions taken, and as such, does not have any uncertain tax positions that are material to the financial statements. The Aquarium's 990 tax filings are subject to examination by the Internal Revenue Service, generally for three years after they are filed.

#### Recently issued accounting pronouncement:

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, 2021. Early adoption is permitted. The Aquarium is currently in the process of evaluating the impact of adoption of this guidance on its financial statements.



## Tennessee Aquarium

### Notes to Financial Statements December 31, 2020 and 2019

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

##### 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.

##### Subsequent events:

The Aquarium has evaluated subsequent events for potential recognition and disclosure through May 27, 2021, the date the financial statements were available to be issued, as disclosed in Note 16.

#### Note 2. Donated Services

The Aquarium received contributed services valued at approximately \$128,000 and \$299,000 in 2020 and 2019, respectively, from participants in its Volunteer Diver program. Such contributed services have been recognized as contributions without donor restrictions 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, 2020 and 2019, reduced by amounts not available within one year:

	<u>2020</u>	<u>2019</u>
Financial assets at year end:		
Cash and cash equivalents	\$ 471,994	\$ 2,288,212
Contributions receivable	542,674	284,671
Accounts receivable	765,282	444,452
Investments, at fair value	<u>16,247,578</u>	<u>14,832,639</u>
Total financial assets	<u>18,027,528</u>	<u>17,849,974</u>
Less amounts not available to be used within one year:		
Net assets with donor restrictions	388,719	598,126
Board-designated funds	7,026,285	6,612,629
Internally-designated bond funds	<u>3,425,937</u>	<u>3,160,940</u>
	<u>10,840,941</u>	<u>10,371,695</u>
Financial assets available to meet general expenditures over the next twelve months	<u>\$ 7,186,587</u>	<u>\$ 7,478,279</u>

## Tennessee Aquarium

### Notes to Financial Statements December 31, 2020 and 2019

#### Note 3. Availability and Liquidity, Continued

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. The Aquarium also maintains a \$4,000,000 line of credit to use if needed for cash flow.

#### Note 4. Contributions Receivable

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

	<u>2020</u>	<u>2019</u>
Less than one year	\$ 523,903	\$ 200,250
One to five years	<u>20,000</u>	<u>85,500</u>
	543,903	285,750
Unamortized discount (at 4%)	<u>1,139</u>	<u>1,079</u>
	<u>\$ 542,764</u>	<u>\$ 284,671</u>

As of December 31, 2020, there was one contribution receivable totaling \$488,653, representing 90% of gross contributions receivable. As of December 31, 2019, there were two contributions receivable totaling \$225,750, representing 79% of gross contributions receivable.

#### Note 5. Property and Equipment

Property and equipment as of December 31, 2020 and 2019, consist of the following major classifications:

	<u>2020</u>	<u>2019</u>
Land	\$ 4,484,445	\$ 4,484,445
Buildings	92,157,692	91,361,738
Furniture, fixtures and equipment	31,227,884	30,162,883
Telecommunications equipment under capital lease	579,276	579,276
Construction in progress	<u>-</u>	<u>820,999</u>
	128,449,297	127,409,341
Accumulated depreciation	<u>(79,111,800)</u>	<u>(74,714,058)</u>
	<u>\$ 49,337,497</u>	<u>\$ 52,695,283</u>

## Tennessee Aquarium

Notes to Financial Statements  
December 31, 2020 and 2019

### Note 6. Investments

Investments consist of the following:

	2020		
	Fair value	Cost	Net unrealized gain
Equity securities	\$ 5,374,682	\$ 5,083,266	\$ 291,416
Corporate bonds	10,872,896	10,746,865	126,031
	<u>\$ 16,247,578</u>	<u>\$ 15,830,131</u>	<u>\$ 417,447</u>
	2019		
	Fair value	Cost	Net unrealized gain (loss)
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 and infrastructure	134,050	139,296	(5,246)
Hard assets funds	154,150	132,231	21,919
	<u>\$ 14,832,639</u>	<u>\$ 14,445,224</u>	<u>\$ 387,415</u>

The net change in unrealized gain (loss) on investments is included in net investment income on the accompanying statements of activities and changes in net assets and is presented with realized and unrealized gain 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, 2020 and 2019, was \$70,509 and \$68,831, 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:				
	Level 1	Level 2	Level 3	Investments measured at net asset value	Total
<b>December 31, 2020:</b>					
<b>Assets</b>					
Equity securities	\$ 5,374,682	\$ -	\$ -	\$ -	\$ 5,374,682
Corporate bonds	-	10,872,896	-	-	10,872,896
	<u>\$ 5,374,682</u>	<u>\$ 10,872,896</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 16,247,578</u>

## Tennessee Aquarium

Notes to Financial Statements  
December 31, 2020 and 2019

### Note 6. Investments, Continued

	Fair value measurement using:				Total
	Level 1	Level 2	Level 3	Investments measured at net asset value	
<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
	<u>\$ 4,061,846</u>	<u>\$ 9,923,115</u>	<u>\$ -</u>	<u>\$ 847,678</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.

Net investment income consists of the following:

	2020	2019
Interest and dividend income	\$ 411,779	\$ 437,870
Investment expense	(70,509)	(68,831)
Realized and unrealized gain	591,018	1,056,267
	<u>\$ 932,288</u>	<u>\$ 1,425,306</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 were set to 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.

## Tennessee Aquarium

### Notes to Financial Statements December 31, 2020 and 2019

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

Under the terms of the December 30, 2010, loan agreement, the Aquarium was required to make monthly principal and interest payments based on a 25-year amortization. Interest on \$11,500,000 of the Series 2010 Bonds was at a fixed rate of 4.12%. Interest on the balance of \$10,000,000 of the Series 2010 Bonds was at a variable rate determined weekly and payable monthly. During 2019, the variable interest rate ranged from 3.13% to 3.94%. The variable rate portion of the Series 2010 Bonds was subject to an interest rate swap agreement. The Series 2010 Bonds were secured by a springing lien on the Aquarium's property. As of December 31, 2019, the balance of the Series 2010 Bonds was \$16,084,319.

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 were calculated in reference to agreed-upon notional amounts, which were amortized with the variable rate portion of the Series 2010 Bonds disclosed above. Under the agreement, the Aquarium received interest payments at rates equal to 68% of 1-month LIBOR plus 1.42% (3.12% as of December 31, 2019) and paid interest at a fixed rate of 3.99%. As of December 31, 2019, the fair value of the interest rate swap agreement resulted in a liability of \$324,896. 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.

In April 2020, the Board of Trustees approved the decision to restructure the Aquarium's debt package. The Aquarium restructured its bond debt by paying off the Series 2010 Bonds and refinancing with bank-qualified tax-exempt bonds. On May 5, 2020, the Industrial Development Board of the County of Hamilton, Tennessee, issued \$15,841,139 of Revenue Refunding Bonds Series 2020 (the Series 2020 Bonds). The Series 2020 Bonds mature on December 30, 2035. The Series 2020 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 May 5, 2020.

Under the terms of the May 5, 2020, loan agreement, the Aquarium is to make monthly principal and interest payments of \$99,856 based on a 15-year and 8-month amortization. Interest on the Series 2020 Bonds is at a fixed rate of 2.25%. As of December 31, 2020, the balance of the Series 2020 Bonds was \$15,469,387. The Series 2020 Bonds are secured by a springing lien on the Aquarium's property. The loan agreement matures on December 30, 2035.

In addition, as part of the 2020 restructuring, the Aquarium terminated the aforementioned interest rate swap agreement that was associated with a portion of the Series 2010 Bonds. On May 5, 2020, the Aquarium paid a Termination Settlement Amount of \$465,400 to terminate the swap 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, the balance of the promissory note was \$387,948. This note is cross-collateralized with the Aquarium's Series 2010 Bonds. The loan agreement matures on October 1, 2022.

## Tennessee Aquarium

### Notes to Financial Statements December 31, 2020 and 2019

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

Concurrent with terminating the swap agreement, the Aquarium also refinanced the October 2012 note mentioned above. On May 5, 2020, the balance of the 2012 note was paid off and a new note was executed for the total amount of the note payoff and the swap Termination Settlement Amount. The new note financed a total of \$794,500. Interest is at a fixed rate of 2.50%. The Aquarium is to make monthly principal and interest payments of \$14,110 based on a 5-year amortization. As of December 31, 2020, the balance of the promissory note was \$706,718. The note is cross collateralized with the Aquarium's Series 2020 Bonds. The maturity date of the note is May 1, 2025.

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, 2020, and 2019, the Aquarium determined it was in compliance with all the financial covenants of the loan agreements.

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 allowed the Aquarium to borrow up to \$2.5 million. On April 12, 2020, the maximum amount of the line of credit was increased to \$4.0 million. The line of credit bears a variable interest rate of 30-day LIBOR plus 1.25% with a minimum rate of 1.75% (the December 31, 2020 rate). The line of credit expires on November 5, 2021. The balance of the line of credit was \$1,241,050 and \$0 as of December 31, 2020 and 2019, respectively.

In April 2020, the Aquarium entered into a loan with First Horizon for a principal amount of \$2,238,700 pursuant to the Paycheck Protection Program (PPP loan) under the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act"). The PPP loan is unsecured and guaranteed by the United States Small Business Administration. The Aquarium may apply to the financial institution for forgiveness of the PPP loan, with the amount which may be forgiven equal to the sum of payroll costs, covered rent and mortgage obligations, and covered utility payments incurred by the Aquarium during the twenty-four week period beginning on April 17, 2020, calculated in accordance with the terms of the CARES Act.

The Aquarium performed calculations for loan forgiveness in accordance with the terms of the CARES Act and, based on such calculations, expects that the PPP loan will be forgiven in full. Further, the Aquarium has determined that it has met all the conditions of the loan required under the CARES Act as of December 31, 2020, and has elected to account for the PPP loan in accordance with 958-605, *Not-for-Profit Entities: Revenue Recognition*, which allows the Aquarium to recognize the loan forgiveness as a contribution when the conditions for loan forgiveness have been substantially met. Therefore, the Aquarium recognized the full amount borrowed under the PPP loan in revenue and support on the accompanying statements of activities and changes in net assets for the year ended December 31, 2020.

## Tennessee Aquarium

### Notes to Financial Statements December 31, 2020 and 2019

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

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

	<u>2020</u>	<u>2019</u>
Principal amount	\$ 16,176,106	\$ 16,472,267
Less unamortized debt issuance costs	<u>33,640</u>	<u>69,141</u>
Long-term debt, less unamortized debt issuance costs	16,142,466	16,403,126
Less current portion	<u>1,027,067</u>	<u>800,411</u>
Long-term debt, less current portion	<u>\$ 15,115,399</u>	<u>\$ 15,602,715</u>

Aggregate maturities of long-term debt, excluding unamortized debt issuance costs, for the years subsequent to December 31, 2020, are as follows:

<i>Year ending</i>	
December 31, 2021	\$ 1,027,067
December 31, 2022	1,033,921
December 31, 2023	1,058,014
December 31, 2024	1,082,278
December 31, 2025	1,008,493
Thereafter	<u>10,966,333</u>
	<u>\$ 16,176,106</u>

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

Net assets with donor restrictions as of December 31, 2020 and 2019, consist of the following:

	<u>2020</u>	<u>2019</u>
Subject to expenditure for specified purpose:		
Grant agreements	\$ 247,792	\$ 457,199
Subject to permanent restriction of corpus	<u>140,927</u>	<u>140,927</u>
	<u>\$ 388,719</u>	<u>\$ 598,126</u>

During 2020 and 2019, net assets released from restrictions consisted of:

	<u>2020</u>	<u>2019</u>
Satisfaction of purpose restrictions:		
Internship program	\$ -	\$ 5,022
Other purpose fulfilled	<u>1,245,478</u>	<u>292,669</u>
	<u>\$ 1,245,478</u>	<u>\$ 297,691</u>

## Tennessee Aquarium

### Notes to Financial Statements December 31, 2020 and 2019

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#### Note 9. Board Designated Endowment

As of December 31, 2020 and 2019, the Board of Trustees had designated \$7,026,285 and \$6,612,629, 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, 2020 and 2019, were as follows:

	<u>2020</u>	<u>2019</u>
<b>Endowment net assets, beginning of year</b>	\$ 6,612,629	\$ 5,586,956
Interest and dividend income	92,453	100,439
Release from board designation	(201,000)	-
Realized and unrealized gain	<u>522,203</u>	<u>925,234</u>
<b>Endowment net assets, end of year</b>	<u>\$ 7,026,285</u>	<u>\$ 6,612,629</u>



## Tennessee Aquarium

### Notes to Financial Statements December 31, 2020 and 2019

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#### Note 10. Capital Leases

The Aquarium leases server equipment under a capital lease agreement expiring in 2023. Future minimum lease payments under the agreement as of December 31, 2020, are as follows:

<i>Year ending</i>	
December 31, 2021	\$ 18,595
December 31, 2022	18,595
December 31, 2023	<u>13,945</u>
Total minimum lease payments	51,135
Less amounts representing interest & fees	<u>7,741</u>
Present value of future minimum lease payments	43,394
Less current portion	<u>16,127</u>
	<u>\$ 27,267</u>

#### Note 11. Operating Lease Commitments

The Aquarium leases equipment and office space pursuant to noncancelable operating lease agreements that expire through 2026. Future minimum rental payments under the lease agreements as of December 31, 2020, are as follows:

<i>Year ending</i>	
December 31, 2021	\$ 183,712
December 31, 2022	170,679
December 31, 2023	166,030
December 31, 2024	152,084
December 31, 2025	93,967
Thereafter	<u>31,081</u>
	<u>\$ 797,553</u>

The Aquarium's total rent expense for the years ended December 31, 2020 and 2019, was \$345,393 and \$443,643, 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, 2020 and 2019, was \$523,772 and \$538,193, respectively.

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## **Tennessee Aquarium**

### ***Notes to Financial Statements*** ***December 31, 2020 and 2019***

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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 \$843,859 and \$815,707 for the years ended December 31, 2020 and 2019, respectively.

#### **Note 15. COVID-19**

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. Restrictions have been lifted and the Aquarium is working toward increasing capacity as dictated by these authorities. The Aquarium expects to continue to operate at decreased capacity for some time, but expect to be close to operating levels seen before the COVID-19 in the near future.

#### **Note 16. Subsequent Events**

On February 24, 2021, the Aquarium entered into a promissory note evidencing an unsecured loan of \$1,935,200. The loan constitutes a Second Draw PPP loan made pursuant to the CARES Act. A provision of the program provides that a portion of the loan will be forgiven if certain conditions are met. Management expects the loan to be forgiven in 2021. The remaining amount that is not forgiven will convert into a term note with a five-year maturity, bearing interest at 1.00%.

**Independent Auditor's Report on Internal Control Over  
Financial Reporting and on Compliance and Other Matters  
Based on an Audit of Financial Statements Performed in  
Accordance with *Government Auditing Standards***

Board of Trustees  
Tennessee Aquarium  
Chattanooga, Tennessee

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Tennessee Aquarium (the "Aquarium") as of and for the year ended December 31, 2020, and the related notes to the financial statements, which collectively comprise the Aquarium's basic financial statements as listed in the table of contents, and have issued our report thereon dated May 27, 2021.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Aquarium's internal control over financial reporting ("internal control") to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Aquarium's internal control. Accordingly, we do not express an opinion on the effectiveness of the Aquarium's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Aquarium's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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

Chattanooga, Tennessee  
May 27, 2021

**Independent Auditor's Report on Compliance for Each Major  
Program and on Internal Control Over Compliance  
Required by the Uniform Guidance**

Board of Trustees  
Tennessee Aquarium  
Chattanooga, Tennessee

**Report on Compliance for Each Major Federal Program**

We have audited the Tennessee Aquarium's (the "Aquarium") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Aquarium's major federal programs for the year ended December 31, 2020. The Aquarium's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

**Management's Responsibility**

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

**Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for each of the Aquarium's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Aquarium's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Aquarium's compliance.

## Opinion on Each Major Federal Program

In our opinion, the Aquarium complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2020.

## Report on Internal Control Over Compliance

Management of the Aquarium is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Aquarium's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the requirements of the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Aquarium's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



Chattanooga, Tennessee  
May 27, 2021

**Tennessee Aquarium**

*Schedule of Expenditures of Federal Awards*

*For the year ended December 31, 2020*

<u>CFDA number</u>	<u>Grant number</u>	<u>Program name</u>	<u>Grantor agency</u>	<u>Receivable balance December 31, 2019</u>	<u>Federal reimbursements</u>	<u>Federal expenditures</u>	<u>Receivable balance December 31, 2020</u>
21.019		Coronavirus Aid, Relief, and Economic Security (CARES) Act	United States Department of Treasury	\$ -	\$ 336,511	\$ 825,165	\$ 488,654
15.615	328.01-01013	Cooperative Endangered Species Conservation Fund	United States Fish and Wildlife Service	1,945	5,615	6,541	2,871
15.615	328.01-01024	Cooperative Endangered Species Conservation Fund	United States Fish and Wildlife Service	-	1,744	1,744	-
15.615	328.01-01025	Cooperative Endangered Species Conservation Fund	United States Fish and Wildlife Service	-	1,199	3,133	1,934
				<u>\$ 1,945</u>	<u>\$ 345,069</u>	<u>\$ 836,583</u>	<u>\$ 493,459</u>

**Note 1. Basis of Presentation**

The schedule of expenditures of federal awards has been prepared on the accrual basis of accounting, consistent with the measurement focus and accounting basis used by the Aquarium. The information presented on this schedule is presented in accordance with the requirements of the Uniform Guidance.

# Tennessee Aquarium

## Schedule of Findings and Questioned Costs For the year ended December 31, 2020

### I. Summary of Auditor's Results

#### Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

- Material weaknesses identified?  Yes  None Reported
- Significant deficiency that is not considered to be a material weakness?  Yes  None Reported

Noncompliance material to financial statements noted?  Yes  None Reported

#### Federal Awards

Internal control over major programs:

- Material weaknesses identified?  Yes  None Reported
- Significant deficiencies identified that are not considered to be material weaknesses?  Yes  None Reported

Type of auditor's report issued on compliance for major programs: Unmodified

- Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?  Yes  None Reported

#### Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
21.019	Coronavirus Relief Fund

Dollar threshold used to distinguish between type A and type B programs: \$ 750,000

Auditee qualified as low-risk auditee?  Yes  No

### II. Financial Statement Findings

None reported.

### III. Findings and Questioned Costs for Federal Awards

None reported.



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## **Tennessee Aquarium**

### ***Summary Schedule of Prior Audit Findings For the year ended December 31, 2020***

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There were no prior audit findings reported.