

Tennessee Aquarium

Report on Financial Statements

For the years ended December 31, 2021 and 2020

Tennessee Aquarium

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Independent Auditor's Report

Board of Trustees
Tennessee Aquarium
Chattanooga, Tennessee

Report on the Audit of Financial Statements

Opinion

We have audited the accompanying financial statements of the Tennessee Aquarium (the "Aquarium"), which comprise the statements of financial position as of December 31, 2021 and 2020, 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.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Aquarium as of December 31, 2021 and 2020, 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Aquarium and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Aquarium's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audits.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audits 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 Aquarium's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Aquarium's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audits, significant audit findings, and certain internal control-related matters that we identified during the audits.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 *U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with GAAS. In our opinion, the schedule of expenditures of federal awards, is fairly stated, in all material respects, in relation to the 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 31, 2022, 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.



Chattanooga, Tennessee
May 31, 2022

Tennessee Aquarium
Statements of Financial Position
As of December 31, 2021 and 2020

	2021	2020
Assets		
Current assets		
Cash and cash equivalents	\$ 14,892,840	\$ 471,994
Contributions and grants receivable	260,000	523,903
Accounts receivable	629,947	765,282
Prepaid expenses	712,314	634,998
Total current assets	<u>16,495,101</u>	<u>2,396,177</u>
Property and equipment, net	<u>46,621,344</u>	<u>49,337,497</u>
Other assets		
Contributions receivable, less current portion, net	18,861	18,861
Investments, at fair value	18,686,221	16,247,578
Total other assets	<u>18,705,082</u>	<u>16,266,439</u>
Total assets	<u>\$ 81,821,527</u>	<u>\$ 68,000,113</u>
Liabilities and Net Assets		
Current liabilities		
Accounts payable	\$ 1,001,416	\$ 450,963
Accrued expenses	1,241,097	1,087,711
Line of credit	-	1,241,050
Current portion of long-term debt	1,030,552	1,027,067
Current portion of capital lease obligation	15,222	16,127
Deferred membership revenue	1,191,605	851,959
Other deferred revenue	228,250	91,250
Total current liabilities	<u>4,708,142</u>	<u>4,766,127</u>
Long-term liabilities		
Long-term debt, less current portion	14,004,950	15,115,399
Capital lease obligation, less current portion	12,127	27,267
Total long-term liabilities	<u>14,017,077</u>	<u>15,142,666</u>
Total liabilities	<u>18,725,219</u>	<u>19,908,793</u>
Net assets		
Without donor restrictions		
Undesignated	54,266,758	40,676,316
Board designated endowment	7,921,871	7,026,285
Total without donor restrictions	<u>62,188,629</u>	<u>47,702,601</u>
With donor restrictions	907,679	388,719
Total net assets	<u>63,096,308</u>	<u>48,091,320</u>
Total liabilities and net assets	<u>\$ 81,821,527</u>	<u>\$ 68,000,113</u>

See Notes to Financial Statements

Tennessee Aquarium**Statement of Activities and Changes in Net Assets****For the year ended December 31, 2021**

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>
Operating revenues and other support			
Admissions	\$ 17,585,832	\$ -	\$ 17,585,832
Ancillary sales	3,674,369	-	3,674,369
Membership dues	1,896,484	-	1,896,484
Contributions	995,340	847,990	1,843,330
Fundraising events	29,518	-	29,518
Facility rental, sponsorship and other program income	1,171,491	-	1,171,491
Paycheck Protection Program loan forgiveness	-	1,935,042	1,935,042
Shuttered Venue Operating Grant received	-	8,064,958	8,064,958
Net assets released from donor restrictions	10,329,030	(10,329,030)	-
Total operating revenues and other support	<u>35,682,064</u>	<u>518,960</u>	<u>36,201,024</u>
Operating expenses			
Program services	13,039,875	-	13,039,875
Guest services	1,347,205	-	1,347,205
Management and general	5,002,174	-	5,002,174
Marketing costs	2,509,244	-	2,509,244
Fundraising costs	398,101	-	398,101
Total operating expenses	<u>22,296,599</u>	<u>-</u>	<u>22,296,599</u>
Change in net assets from operations	13,385,465	518,960	13,904,425
Nonoperating change in net assets			
Net investment income	1,100,563	-	1,100,563
Change in net assets	14,486,028	518,960	15,004,988
Net assets, beginning of year	47,702,601	388,719	48,091,320
Net assets, end of year	<u>\$ 62,188,629</u>	<u>\$ 907,679</u>	<u>\$ 63,096,308</u>

See Notes to Financial Statements

Tennessee Aquarium**Statement 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>
Operating revenues and other support			
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
Paycheck Protection Program loan forgiveness	-	2,238,700	2,238,700
Net assets released from donor restrictions	3,484,178	(3,484,178)	-
Total operating revenues and other support	<u>19,190,529</u>	<u>(209,407)</u>	<u>18,981,122</u>
Operating expenses			
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>(3,861,574)</u>	<u>(209,407)</u>	<u>(4,070,981)</u>
Nonoperating change in net assets			
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>791,784</u>	<u>-</u>	<u>791,784</u>
Change in net assets	<u>(3,069,790)</u>	<u>(209,407)</u>	<u>(3,279,197)</u>
Net assets, beginning of year	50,772,391	598,126	51,370,517
Net assets, end of year	<u>\$ 47,702,601</u>	<u>\$ 388,719</u>	<u>\$ 48,091,320</u>

See Notes to Financial Statements

Tennessee Aquarium**Statement of Functional Expenses****For the year ended December 31, 2021**

	<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	\$ 5,438,607	\$ 896,340	\$ 2,287,942	\$ 1,058,496	\$ 318,357	\$ 9,999,742
Printing, publications and promotions	1,164	-	307	1,165,178	213	1,166,862
Supplies and marine life acquisition	741,591	2,888	183,790	43,099	5,826	977,194
Professional and other contract services	597,943	209,480	1,132,471	118,754	3,080	2,061,728
Film and projection costs	251,266	-	-	-	-	251,266
Utilities	1,494,531	65,694	49,270	16,423	16,423	1,642,341
Maintenance	403,844	-	243,506	912	-	648,262
Postage and shipping	1,768	-	17,747	6,154	268	25,937
Lease and rental	-	-	296,799	-	-	296,799
Travel and education	35,498	-	16,221	6,212	1,908	59,839
Telecommunications	127,981	-	-	-	-	127,981
Financing costs	214,448	38,990	77,981	38,990	19,495	389,904
Depreciation	3,656,667	133,813	127,464	34,801	30,415	3,983,160
Other	74,567	-	568,676	20,225	2,116	665,584
	<u>\$ 13,039,875</u>	<u>\$ 1,347,205</u>	<u>\$ 5,002,174</u>	<u>\$ 2,509,244</u>	<u>\$ 398,101</u>	<u>\$ 22,296,599</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**Statements of Cash Flows****For the years ended December 31, 2021 and 2020**

	<u>2021</u>	<u>2020</u>
Operating activities		
Change in net assets	\$ 15,004,988	\$ (3,279,197)
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Depreciation	3,983,160	4,397,742
Noncash interest expense related to debt issuance costs	2,243	70,636
Noncash contribution of investment securities	(24,416)	(61,470)
Realized and unrealized gain on investments	(655,566)	(591,018)
Contributions restricted for endowments	(100,000)	-
Change in fair value of interest rate swap obligation	-	140,504
Changes in operating assets and liabilities:		
Contributions and grants receivable	263,903	(258,093)
Inventories	-	302,640
Accounts receivable	135,335	(320,830)
Prepaid expenses	(77,316)	161,034
Accounts payable	550,453	(683,160)
Accrued expenses	153,386	(6,855)
Deferred revenue	476,646	(283,366)
Net cash flows from operating activities	<u>19,712,816</u>	<u>(411,433)</u>
Investing activities		
Proceeds from sale of investments	7,024,575	15,114,945
Purchases of investments	(8,783,236)	(15,877,396)
Purchases of property and equipment	(1,267,007)	(1,039,956)
Net cash flows from investing activities	<u>(3,025,668)</u>	<u>(1,802,407)</u>
Financing activities		
Contributions restricted for endowments	100,000	-
Net (payments) borrowings on line of credit	(1,241,050)	1,241,050
Proceeds of long-term debt	-	16,635,639
Payments of long-term debt	(1,109,207)	(16,931,800)
Payments of capital lease obligation	(16,045)	(46,732)
Payment of bond issuance costs	-	(35,135)
Settlement of interest rate swap obligation	-	(465,400)
Net cash flows from financing activities	<u>(2,266,302)</u>	<u>397,622</u>
Net change in cash and cash equivalents	14,420,846	(1,816,218)
Cash and cash equivalents, beginning of year	471,994	2,288,212
Cash and cash equivalents, end of year	<u>\$ 14,892,840</u>	<u>\$ 471,994</u>
Cash paid for:		
Financing costs	<u>\$ 386,328</u>	<u>\$ 551,301</u>

See Notes to Financial Statements

Tennessee Aquarium

Notes to Financial Statements
December 31, 2021 and 2020

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, 2021 and 2020

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, 2021, 2020 and 2019, were \$1,191,605, \$851,959 and \$1,150,248, respectively.

Rental income, a component of facility rental, sponsorship and other program income on the statements of activities and changes in net assets are recognized over the period of rental. Deferred income from these arrangements totaled \$87,750, \$62,250 and \$30,850 as of December 31, 2021, 2020 and 2019, respectively.

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>2021</u>	<u>2020</u>
Performance obligations satisfied at a point in time	\$ 22,461,210	\$ 11,909,714
Performance obligations satisfied over time	<u>1,896,484</u>	<u>1,595,671</u>
Total performance obligations satisfied	25,357,694	13,505,385
Not in scope of ASC 606	<u>11,843,330</u>	<u>5,475,737</u>
Total operating revenues and other support	<u>\$ 36,201,024</u>	<u>\$ 18,981,122</u>

Tennessee Aquarium

Notes to Financial Statements
December 31, 2021 and 2020

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, 2021 and 2020; accordingly, no allowance for doubtful accounts is considered necessary. Accounts are charged to bad debt expense as they are deemed uncollectible. The Aquarium had \$278,861 and \$542,764 in contributions receivable as of December 31, 2021 and 2020, 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 more than 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 \$3,983,160 and \$4,397,742 for the years ended December 31, 2021 and 2020, 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 took place in quarterly installments commencing on July 15, 2020 and ending July 15, 2021.

Tennessee Aquarium

Notes to Financial Statements December 31, 2021 and 2020

Note 1. Summary of Significant Accounting Policies, Continued

Inventories, continued:

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.

Tennessee Aquarium

*Notes to Financial Statements
December 31, 2021 and 2020*

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. In 2020, the interest rate swap derivative was terminated, and as a result, the Aquarium no longer holds derivative instruments.

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. 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.

Tennessee Aquarium

Notes to Financial Statements
December 31, 2021 and 2020

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, 2021 and 2020, was \$1,146,329 and \$988,621, 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 statement of financial position 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 statement of activities and changes in net assets. The amendments will be effective for the Aquarium on January 1, 2022. 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, 2021 and 2020

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.

Reclassifications:

Certain reclassifications have been made to the prior year financial statements to conform to the current year presentation.

Subsequent events:

The Aquarium has evaluated subsequent events for potential recognition and disclosure through May 31, 2022, 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 \$126,000 and \$128,000 in 2021 and 2020, 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, 2021 and 2020, reduced by amounts not available within one year:

	<u>2021</u>	<u>2020</u>
Financial assets at year end:		
Cash and cash equivalents	\$ 14,892,840	\$ 471,994
Contributions receivable	278,861	542,674
Accounts receivable	629,947	765,282
Investments, at fair value	<u>18,686,221</u>	<u>16,247,578</u>
Total financial assets	<u>34,487,869</u>	<u>18,027,528</u>
Less amounts not available to be used within one year:		
Net assets with donor restrictions	907,679	388,719
Board-designated funds	7,921,871	7,026,285
Internally designated bond funds	<u>3,914,445</u>	<u>3,425,937</u>
	<u>12,743,995</u>	<u>10,840,941</u>
Financial assets available to meet general expenditures over the next twelve months	<u>\$ 21,743,874</u>	<u>\$ 7,186,587</u>

Tennessee Aquarium

Notes to Financial Statements December 31, 2021 and 2020

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 and Grants Receivable

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

	<u>2021</u>	<u>2020</u>
Less than one year	\$ 260,000	\$ 523,903
One to five years	<u>20,000</u>	<u>20,000</u>
	280,000	543,903
Unamortized discount (at 4%)	<u>1,139</u>	<u>1,139</u>
	<u>\$ 278,861</u>	<u>\$ 542,764</u>

As of December 31, 2021, there was one contribution receivable totaling \$250,000, representing 89% of gross contributions receivable. As of December 31, 2020, there was one contribution receivable totaling \$488,653, representing 90% of gross contributions receivable.

Note 5. Property and Equipment

Property and equipment as of December 31, 2021 and 2020, consist of the following major classifications:

	<u>2021</u>	<u>2020</u>
Land	\$ 4,484,445	\$ 4,484,445
Buildings	92,608,277	92,157,692
Furniture, fixtures, and equipment	31,425,356	31,227,884
Telecommunications equipment under capital lease	579,276	579,276
Construction in progress	<u>596,242</u>	<u>-</u>
	129,693,596	128,449,297
Accumulated depreciation	<u>(83,072,252)</u>	<u>(79,111,800)</u>
	<u>\$ 46,621,344</u>	<u>\$ 49,337,497</u>

Tennessee Aquarium

Notes to Financial Statements
December 31, 2021 and 2020

Note 6. Investments

Investments consist of the following:

	<u>2021</u>		
	<u>Fair value</u>	<u>Cost</u>	<u>Net unrealized gain (loss)</u>
Equity securities	\$ 6,610,538	\$ 5,413,320	\$ 1,197,218
Corporate bonds	<u>12,075,683</u>	<u>12,107,806</u>	<u>(32,123)</u>
	<u>\$ 18,686,221</u>	<u>\$ 17,521,126</u>	<u>\$ 1,165,095</u>
	<u>2020</u>		
	<u>Fair value</u>	<u>Cost</u>	<u>Net unrealized gain</u>
Equity securities	\$ 5,374,682	\$ 5,083,266	\$ 291,416
Corporate bonds	<u>10,872,896</u>	<u>10,746,865</u>	<u>126,031</u>
	<u>\$ 16,247,578</u>	<u>\$ 15,830,131</u>	<u>\$ 417,447</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.

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

	<u>Fair value measurement using:</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
December 31, 2021:				
Assets				
Equity securities	\$ 6,610,538	\$ -	\$ -	\$ 6,610,538
Corporate bonds	<u>-</u>	<u>12,075,683</u>	<u>-</u>	<u>12,075,683</u>
	<u>\$ 6,610,538</u>	<u>\$ 12,075,683</u>	<u>\$ -</u>	<u>\$ 18,686,221</u>
	<u>Fair value measurement using:</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
December 31, 2020:				
Assets				
Equity securities	\$ 5,374,682	\$ -	\$ -	\$ 5,374,682
Corporate bonds	<u>-</u>	<u>10,872,896</u>	<u>-</u>	<u>10,872,896</u>
	<u>\$ 5,374,682</u>	<u>\$ 10,872,896</u>	<u>\$ -</u>	<u>\$ 16,247,578</u>

Tennessee Aquarium

Notes to Financial Statements December 31, 2021 and 2020

Note 6. Investments, Continued

Net investment income consists of the following:

	<u>2021</u>	<u>2020</u>
Interest and dividend income	\$ 524,401	\$ 411,779
Investment expense	(79,404)	(70,509)
Realized and unrealized gain	655,566	591,018
	<u>\$ 1,100,563</u>	<u>\$ 932,288</u>

Note 7. Long-Term Debt

Series 10 Bonds and Interest Rate Swap Prior to Restructuring

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.

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. 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.

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% and paid interest at a fixed rate of 3.99%.

2020 Bonds and Related Debt Restructuring

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.

Tennessee Aquarium

Notes to Financial Statements December 31, 2021 and 2020

Note 7. Long-Term Debt, Continued

2020 Bonds and Related Debt Restructuring, continued

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%. The balance of the Series 2020 Bonds was \$14,513,358 and \$15,469,387 on December 31, 2021 and 2020, respectively. 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 was 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. This note was cross collateralized with the Aquarium's Series 2010 Bonds. The loan agreement was set to mature on October 1, 2022.

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. The balance of the promissory note was \$553,542 and \$706,718 on December 31, 2021 and 2020, respectively. 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, 2021, and 2020, the Aquarium determined it was in compliance with all the financial covenants of the loan agreements.

Line of Credit

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, 2021 rate). The line of credit expires on November 5, 2022. The balance of the line of credit was \$0 and \$1,241,050 as of December 31, 2021 and 2020, respectively.

Tennessee Aquarium

Notes to Financial Statements
December 31, 2021 and 2020

Note 7. Long-Term Debt, Continued

Summary of Long-Term Debt and Future Obligations

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

	<u>2021</u>	<u>2020</u>
Principal amount	\$ 15,066,899	\$ 16,176,106
Less unamortized debt issuance costs	<u>31,397</u>	<u>33,640</u>
Long-term debt, less unamortized debt issuance costs	15,035,502	16,142,466
Less current portion	<u>1,030,552</u>	<u>1,027,067</u>
Long-term debt, less current portion	<u>\$ 14,004,950</u>	<u>\$ 15,115,399</u>

Aggregate maturities of long-term debt, excluding unamortized debt issuance costs, for the years after December 31, 2021, are as follows:

<i>Years ending</i>	
December 31, 2022	\$ 1,030,552
December 31, 2023	1,058,014
December 31, 2024	1,082,278
December 31, 2025	1,008,493
December 31, 2026	956,797
Thereafter	<u>9,930,765</u>
	<u>\$ 15,066,899</u>

Note 8. Net Assets with Donor Restrictions

Net assets with donor restrictions as of December 31, 2021 and 2020, consist of the following:

	<u>2021</u>	<u>2020</u>
Subject to expenditure for specified purpose:		
Grant agreements	\$ 661,752	\$ 247,792
Subject to permanent restriction of corpus	<u>245,927</u>	<u>140,927</u>
	<u>\$ 907,679</u>	<u>\$ 388,719</u>

During 2021 and 2020, net assets released from restrictions consisted of:

	<u>2021</u>	<u>2020</u>
Satisfaction of purpose restrictions:		
Payroll Protection Program	\$ 1,935,042	\$ 2,238,700
Shuttered Venue Operating Grant	8,064,958	-
Other purpose fulfilled	<u>329,030</u>	<u>1,245,478</u>
	<u>\$ 10,329,030</u>	<u>\$ 3,484,178</u>

Tennessee Aquarium

Notes to Financial Statements December 31, 2021 and 2020

Note 9. Board Designated Endowment

As of December 31, 2021 and 2020, the Board of Trustees had designated \$7,921,871 and \$7,026,285, 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, 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, 2021 and 2020, were as follows:

	<u>2021</u>	<u>2020</u>
Endowment net assets, beginning of year	\$ 7,026,285	\$ 6,612,629
Interest and dividend income	182,080	92,453
Release from board designation	(262,380)	(201,000)
Realized and unrealized gain	<u>975,886</u>	<u>522,203</u>
Endowment net assets, end of year	<u>\$ 7,921,871</u>	<u>\$ 7,026,285</u>

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, 2021, are as follows:

Years ending	
December 31, 2022	\$ 18,595
December 31, 2023	<u>3,946</u>
Total minimum lease payments	32,541
Less amounts representing interest	<u>5,192</u>
Present value of future minimum lease payments	27,349
Less current portion	<u>15,222</u>
	<u>\$ 12,127</u>

Tennessee Aquarium

Notes to Financial Statements December 31, 2021 and 2020

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, 2021, are as follows:

<i>Years ending</i>	
December 31, 2022	\$ 235,238
December 31, 2023	235,238
December 31, 2024	152,084
December 31, 2025	93,967
December 31, 2026	<u>31,081</u>
	<u>\$ 747,608</u>

The Aquarium's total rent expense for the years ended December 31, 2021 and 2020, was \$296,799 and \$345,393, 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, 2021 and 2020, was \$347,291 and \$523,772, respectively.

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 \$472,630 and \$843,859 for the years ended December 31, 2021 and 2020, respectively.

Note 15. Paycheck Protection Program

In April 2020, the Aquarium entered into a loan with First Horizon Bank 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.

Tennessee Aquarium

Notes to Financial Statements

December 31, 2021 and 2020

Note 15. Paycheck Protection Program, Continued

The Aquarium performed calculations for loan forgiveness in accordance with the terms of the CARES Act and based on such calculations, expected that the PPP loan would be forgiven in full. Further, the Aquarium determined that it met all the conditions of the loan required under the CARES Act as of December 31, 2020, and elected to account for the PPP loan in accordance with 958-605, *Not-for-Profit Entities: Revenue Recognition*, which allowed the Aquarium to recognize the loan forgiveness as a contribution when the conditions for loan forgiveness had 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. The PPP loan was officially forgiven by the United States Small Business Administration on June 8, 2021.

In February 2021, the Aquarium entered into a loan with First Horizon Bank for a principal amount of \$1,935,042 pursuant to the Paycheck Protection Program ("PPP2 loan") under the CARES Act. The PPP2 loan is unsecured and guaranteed by the United States Small Business Administration. The Aquarium may apply to the financial institution for forgiveness of the PPP2 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 February 24, 2021, 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, expected that the PPP2 loan would be forgiven in full. Further, the Aquarium determined that it met all the conditions of the loan required under the CARES Act as of December 31, 2021, and elected to account for the PPP2 loan in accordance with 958-605, *Not-for-Profit Entities: Revenue Recognition*, which allowed the Aquarium to recognize the loan forgiveness as a contribution when the conditions for loan forgiveness had been substantially met. Therefore, the Aquarium recognized the full amount borrowed under the PPP2 loan in revenue and support on the accompanying statements of activities and changes in net assets for the year ended December 31, 2021. The PPP2 loan was officially forgiven by the United States Small Business Administration on February 22, 2022.

Note 16. Shuttered Venue Operating Grant

The Shuttered Venue Operators Grant (SVOG) program provides relief to certain entities that have encountered financial challenges because of the coronavirus (COVID-19) pandemic. The Consolidated Appropriations Act, 2021 provided funding for the SVOG program, which like the Paycheck Protection Program is administered by the United States Small Business Administration and provides up to \$10 million in funding for certain eligible entities. Management determined that the Aquarium qualified for the SVOG program and, therefore applied for and received \$8,064,958 in funding in 2021. SVOG recipients have up to one year to use grant funds for allowable expenses which may include payroll costs, rent payments, utility payments, scheduled payments on mortgages or other debt, covered worker protection expenditures, payments to independent contractors, and other ordinary and necessary business expenses such as maintenance, administrative costs, state and local taxes, and advertising.

Tennessee Aquarium

Notes to Financial Statements

December 31, 2021 and 2020

Note 16. Shuttered Venue Operating Grant, Continued

The Aquarium has applied the guidance in ASC 958-605, *Clarifying Guidance for Contributions Received and Contributions Made*, to funds received through the SVOG program, similar to the contribution model used to account for the PPP loan and PPP2 loan. SVOG funds qualify as a conditional contribution, thus contribution revenue was recognized only to the extent that eligible expenses were incurred. Management determined that the conditions of the entire SVOG grant had been met by December 31, 2021, and the entire SVOG funding was released into revenue and support. Payments received were considered to be donor-restricted, however the Aquarium determined that the restrictions were satisfied simultaneously with meeting the conditions.

Note 17. COVID-19

The World Health Organization declared the coronavirus outbreak a "Public Health Emergency of International Concern" and declared it to be a pandemic. Actions taken around the world to help mitigate the spread of the coronavirus include restrictions on travel, and quarantines in certain areas, and forced closures for certain types of public places and businesses. The coronavirus and actions taken to mitigate the spread of it have had and are expected to continue to have an adverse impact on the economies and financial markets of many countries, including the geographical area in which the Aquarium operates. During 2020, Congress passed the CARES Act and various other acts extending and supplementing the benefits which amongst other provisions, provide emergency assistance for individuals, families and businesses affected by the coronavirus pandemic. It is unknown how long the adverse conditions associated with the coronavirus will last and what the complete financial effect will be to the Aquarium.

**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***

Independent Auditor's Report

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, 2021, and the related notes to the financial statements, which collectively comprise the Aquarium's basic financial statements, and have issued our report thereon dated May 31, 2022.

Report on 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") as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions 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 or significant deficiencies may exist that were not identified.

Report on 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 financial statements. 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 31, 2022

**Report on Compliance for Each Major Federal Program; Report on
Internal Control Over Compliance; and Report on Schedule of
Expenditures of Federal Awards Required by the Uniform Guidance**

Independent Auditor's Report

Board of Trustees
Tennessee Aquarium
Chattanooga, Tennessee

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited Tennessee Aquarium's compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on each of Tennessee Aquarium's major federal programs for the year ended December 31, 2021. Tennessee Aquarium's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, Tennessee Aquarium complied, in all material respects, with the 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, 2021.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards*⁵ issued by the Comptroller General of the United States (*Government Auditing Standards*); 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). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of Tennessee Aquarium and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of Tennessee Aquarium's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to Tennessee Aquarium's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on Tennessee Aquarium's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about Tennessee Aquarium's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we:

- exercise professional judgment and maintain professional skepticism throughout the audit.
- identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding Tennessee Aquarium's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- obtain an understanding of Tennessee Aquarium's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of Tennessee Aquarium's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on 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 a 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 Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of Tennessee Aquarium as of and for the year ended December 31, 2021, and have issued our report thereon dated May 31, 2022, which contained an unmodified opinion on those financial statements. Our audit was performed for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.



Chattanooga, Tennessee
May 31, 2022

Tennessee Aquarium

Schedule of Expenditures of Federal Awards

For the year ended December 31, 2021

CFDA number	Grant number	Program name	Grantor agency	Receivable balance December 31, 2020	Federal reimbursements	Federal expenditures	Receivable balance December 31, 2021
21.019		Coronavirus Aid, Relief, and Economic Security (CARES) Act	United States Department of Treasury	\$ 488,654	\$ 488,654	\$ -	\$ -
15.615	328.01-01023	Cooperative Endangered Species Conservation Fund	United States Fish and Wildlife Service	-	-	8,500	8,500
15.615	328.01-01013	Cooperative Endangered Species Conservation Fund	United States Fish and Wildlife Service	2,871	2,923	10,035	9,983
15.615	328.01-01025	Cooperative Endangered Species Conservation Fund	United States Fish and Wildlife Service	1,934	1,934	307	307
45.301	MA-245750-OMS-20	Museums for America, Office of Museum Services	Institute of Museum and Library Services	-	19,802	20,843	1,041
45.301	ME-245705-OMS-20	Museums Empowered, Office of Museum Services	Institute of Museum and Library Services	12,875	14,163	2,750	1,463
10.902	1904.20.068295		National Fish and Wildlife Foundation	-	16,653	18,051	1,398
10.693	1906.20.070609		National Fish and Wildlife Foundation	-	-	29,615	29,615
15.657	F21AC00901-00	Determining physical and biological barriers to reintroduction of the Federally endangered Laurel Dace	United States Fish and Wildlife Service	-	6,716	7,885	1,169
59.075	SBAHQ21SV002030	Shuttered Venue Operators Grant	US Small Business Administration	-	8,064,958	8,064,958	-
				<u>\$ 506,334</u>	<u>\$ 8,615,803</u>	<u>\$ 8,162,944</u>	<u>\$ 53,475</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, 2021

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>
59.075	Shuttered Venue Operator's Grant

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.

Tennessee Aquarium

Summary Schedule of Prior Audit Findings

For the year ended December 31, 2021

There were no prior audit findings reported.