



CONSOLIDATED FINANCIAL STATEMENTS

Tennessee Aquarium  
Years Ended December 31, 2009 and 2008  
With Report of Independent Auditors

Ernst & Young LLP

 **ERNST & YOUNG**

Tennessee Aquarium

Consolidated Financial Statements

Years Ended December 31, 2009 and 2008

**Contents**

Report of Independent Auditors..... 1

Consolidated Financial Statements

Consolidated Statements of Financial Position..... 2

Consolidated Statements of Activities and Changes in Net Assets ..... 4

Consolidated Statements of Cash Flows..... 5

Notes to Consolidated Financial Statements..... 6

## Report of Independent Auditors

The Board of Trustees  
Tennessee Aquarium

We have audited the accompanying consolidated statements of financial position of the Tennessee Aquarium (the Aquarium) as of December 31, 2009 and 2008, and the related consolidated statements of activities and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Aquarium's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Aquarium's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Aquarium's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Tennessee Aquarium as of December 31, 2009 and 2008, and the consolidated changes in their net assets and their cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

*Ernst & Young LLP*

May 27, 2010

# Tennessee Aquarium

## Consolidated Statements of Financial Position

	<b>December 31</b>	
	<b>2009</b>	<b>2008</b>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 3,144,856	\$ 1,303,434
Contributions receivable	175,062	674,514
Inventories	209,237	249,559
Accounts receivable	599,476	526,685
Prepaid expenses	384,890	479,674
Total current assets	4,513,521	3,233,866
Property and equipment:		
Land	4,484,445	4,484,445
Buildings	82,568,795	82,568,795
Equipment, furniture, and fixtures	24,390,187	23,181,700
Construction in progress	254,231	529,861
	111,697,658	110,764,801
Less accumulated depreciation	44,523,106	40,631,460
Total property and equipment	67,174,552	70,133,341
Other assets:		
Contributions receivable, less current portion	593,328	661,840
Accrued investment income	152,796	153,411
Investments at fair value	14,835,937	14,526,327
Other assets	497,672	539,568
Total other assets	16,079,733	15,881,146
Total assets	\$ 87,767,806	\$ 89,248,353

	<b>December 31</b>	
	<b>2009</b>	<b>2008</b>
<b>Liabilities and net assets</b>		
Current liabilities:		
Accounts payable	\$ 407,785	\$ 559,518
Accrued expenses	770,358	614,578
Current portion of note payable	–	100,000
Deferred membership revenue	770,845	615,544
Other deferred revenue	177,859	142,546
Other liabilities	–	100,245
Total current liabilities	<u>2,126,847</u>	<u>2,132,431</u>
Deferred sponsorship revenues	25,000	50,000
Long-term portion of notes payable	2,594,128	2,718,103
Long-term debt	<u>34,500,000</u>	<u>34,500,000</u>
Total liabilities	<u>39,245,975</u>	<u>39,400,534</u>
Net assets:		
Unrestricted	48,521,831	49,697,819
Temporarily restricted	–	150,000
Total net assets	<u>48,521,831</u>	<u>49,847,819</u>
Total liabilities and net assets	<u><u>\$ 87,767,806</u></u>	<u><u>\$ 89,248,353</u></u>

*See accompanying notes.*

## Tennessee Aquarium

### Consolidated Statements of Activities and Changes in Net Assets

	<b>Year Ended December 31</b>	
	<b>2009</b>	<b>2008</b>
Changes in unrestricted net assets:		
Revenues and gains:		
Admissions	\$ 11,007,425	\$ 10,571,575
Ancillary sales	3,646,967	3,757,755
Membership dues	1,456,525	1,519,443
Investment income (loss)	961,579	(396,416)
Contributions	840,162	492,072
Other income	1,175,368	1,189,896
Gain on change in fair market value of derivative	100,245	-
Net assets released from restrictions	150,000	-
	<b>19,338,271</b>	<b>17,134,325</b>
Expenses and losses:		
Programming	7,515,710	7,380,458
Guest services	2,919,600	2,787,935
Management and general	2,402,610	2,429,894
Marketing costs	1,610,616	1,678,318
Fundraising costs	144,785	74,660
Cost of ancillary sales	1,141,986	1,201,837
Financing costs	825,115	1,286,194
Depreciation and amortization	3,953,837	3,725,765
Loss on change in fair market value of derivative	-	30,928
	<b>20,514,259</b>	<b>20,595,989</b>
Decrease in unrestricted net assets	<b>(1,175,988)</b>	<b>(3,461,664)</b>
Changes in temporarily restricted net assets:		
Net assets released from restrictions	(150,000)	-
Contributions	-	150,000
	<b>(150,000)</b>	<b>150,000</b>
(Decrease) increase in temporarily restricted net assets	<b>(150,000)</b>	<b>150,000</b>
Change in net assets	<b>(1,325,988)</b>	<b>(3,311,664)</b>
Net assets at beginning of year	<b>49,847,819</b>	<b>53,159,483</b>
Net assets at end of year	<b>\$ 48,521,831</b>	<b>\$ 49,847,819</b>

*See accompanying notes.*

# Tennessee Aquarium

## Consolidated Statements of Cash Flows

	<b>Year Ended December 31</b>	
	<b>2009</b>	<b>2008</b>
<b>Operating activities</b>		
Change in net assets	<b>\$ (1,325,988)</b>	\$ (3,311,664)
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Depreciation and amortization	3,953,837	3,725,765
Realized and unrealized (gain) loss on investments	(400,445)	979,040
Changes in operating assets and liabilities:		
Decrease in contributions receivable	567,964	343,888
Decrease in inventories	40,322	60,501
Increase in accounts receivable	(72,791)	(15,072)
Decrease in prepaid expenses	94,784	41,267
Decrease in accounts payable and accrued expenses	4,047	(165,690)
Increase (decrease) in other liabilities	90,369	(111,122)
Decrease in other non-current liabilities	(25,000)	(94,317)
Net cash provided by operating activities	<b>2,927,099</b>	1,452,596
<b>Investing activities</b>		
Proceeds (purchases) from sale of investments, net	91,450	(505,685)
Net purchases of property and equipment	(953,152)	(3,525,969)
Net cash used in investing activities	<b>(861,702)</b>	(4,031,654)
<b>Financing activities</b>		
Proceeds of long-term borrowings	–	1,700,200
Payments of long-term borrowings	(223,975)	(342,097)
Net cash (used in) provided by financing activities	<b>(223,975)</b>	1,358,103
Net increase (decrease) in cash and cash equivalents	<b>1,841,422</b>	(1,220,955)
Cash and cash equivalents at beginning of year	<b>1,303,434</b>	2,524,389
Cash and cash equivalents at end of year	<b>\$ 3,144,856</b>	\$ 1,303,434
<b>Supplemental disclosure of cash flow information</b>		
Cash paid during the year for interest, net of capitalized interest	<b>\$ 233,475</b>	\$ 993,843

*See accompanying notes.*

# Tennessee Aquarium

## Notes to Consolidated Financial Statements

December 31, 2009 and 2008

### 1. Summary of Significant Accounting Policies

#### Description of Business

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

#### Principles of Consolidation

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

#### Net Assets

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

1. Unrestricted net assets are not subject to donor restrictions and are utilized to account for public support and program revenues that are unrestricted in nature and may be designated for specific purposes by the Board of Directors. All of the Aquarium's net assets at December 31, 2009 were unrestricted.
2. Temporarily restricted net assets are utilized to account for contributions that are subject to donor imposed restrictions that limit their use either through purpose or time restrictions. When donor restrictions expire, that is, when a time restriction ends or a purpose restriction is fulfilled, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Consolidated Statements of Activities and Changes in Net Assets as net assets released from restrictions. It is the Aquarium's policy to record temporarily restricted contributions received and expended in the same accounting period in the unrestricted net asset class category. In 2008, the

# Tennessee Aquarium

## Notes to Consolidated Financial Statements (continued)

### 1. Summary of Significant Accounting Policies (continued)

Aquarium received a temporarily restricted pledge of \$150,000 to be used to construct the *Jellies: Living Art* exhibit that opened in May, 2009.

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

### Use of Estimates

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

### Subsequent Events

Management has reviewed transactions and events occurring between December 31, 2009 and May 27, 2010 for any that would require recognition or disclosure in the accompanying consolidated financial statements. No such transactions or events were identified.

### Revenue Recognition

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

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

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

# Tennessee Aquarium

## Notes to Consolidated Financial Statements (continued)

### **1. Summary of Significant Accounting Policies (continued)**

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

#### **Contributions Receivable**

Contributions receivable represents unconditional promises to give. In 2007, the Aquarium launched a capital campaign to fund its Penguins' Rock exhibit which opened in 2007. All unconditional pledges received were recognized as revenue in 2007. The pledges were payable over periods of less than one year, one to five years, or in more than five years. The Aquarium had \$175,062 and \$674,514 of contributions receivable due in less than twelve months and \$593,328 and \$661,840 due after one year, as of December 31, 2009 and 2008, respectively.

#### **Grants**

In September, 2009 the Aquarium was awarded a grant expected to total \$1,352,253 from the National Oceanic and Atmospheric Administration (NOAA). The grant is to be used to enhance and expand the Aquarium's environmental education programming over a three year period. The proceeds of the grant will be paid as reimbursements to the Aquarium as expenses are incurred. At December 31, 2009, the Aquarium had incurred \$32,175 of grant-related expenses that had not been reimbursed but are recognized in accounts receivable.

#### **Cash and Cash Equivalents**

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

#### **Cash and Cash Equivalents – Restricted**

In 2008, the Aquarium received \$1,700,200 from the Community Foundation of Greater Chattanooga to finance the high-speed catamaran discussed in Note 5. The total amount was spent to complete construction of the catamaran in 2008.

# Tennessee Aquarium

## Notes to Consolidated Financial Statements (continued)

### 1. Summary of Significant Accounting Policies (continued)

#### Property and Equipment

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

#### Inventory

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

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

#### Advertising Costs

The Aquarium expenses advertising costs as incurred. Advertising expense for the years ended December 31, 2009 and 2008, was approximately \$665,000 and \$592,000, respectively.

#### Accounting Standards Codification

Effective for interim and annual periods ending after September 15, 2009, the Financial Accounting Standards Board (FASB) established the FASB Accounting Standards Codification (Codification) as the single source of authoritative accounting principles to be applied by nongovernmental entities in the preparation of financial statements in conformity with GAAP. The Aquarium adopted Codification effective September 15, 2009. The adoption of Codification expanded disclosures but had no effect on the Company's consolidated financial position or results of operations.

#### Investments

Marketable investments in equities and debt securities are carried at fair value based upon market prices pursuant to Accounting Standards Codification (ASC) 820, *Fair Value Measurements and Disclosures* (ASC 820). This statement defines fair value, establishes a framework for measuring

# Tennessee Aquarium

## Notes to Consolidated Financial Statements (continued)

### 1. Summary of Significant Accounting Policies (continued)

fair value, and expands disclosure about fair value measurement. The adoption of ASC 820 did not have a material effect on the Aquarium's consolidated financial position or related changes in net assets. As required by ASC 820, financial assets and liabilities are categorized based upon the level of judgment associated with the inputs used to measure the fair value into the following hierarchy:

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

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

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

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

Realized gains and losses on the sale of investments are computed using the specific identification method. Included in Investments in the accompanying Consolidated Statements of Financial Position are \$151,870 and \$924,639 of investments that mature in one year or less, as of December 31, 2009 and 2008, respectively.

Investment Income is presented net of investment expense. Investment expense for the years ended December 31, 2009 and 2008, was approximately \$47,000 and \$53,000, respectively.

Effective January 1, 2008, the Aquarium adopted ASC 825, *Financial Instruments* (ASC 825). This statement permits entities to choose fair value measurements of many financial instruments, with subsequent changes in fair value reported in investment (loss) income on the Consolidated Statements of Activities and Changes in Net Assets for the period. This choice is made for each individual financial instrument, is irrevocable and, after implementation, must be determined

# Tennessee Aquarium

## Notes to Consolidated Financial Statements (continued)

### **1. Summary of Significant Accounting Policies (continued)**

when the entity first commits to or recognizes the financial instrument. The adoption of ASC 825 did not impact the Aquarium's consolidated financial statements as no items were initially elected for fair value measurement. For financial assets and liabilities acquired in subsequent periods, the Aquarium will determine whether to use the fair value election at the time of acquisition.

#### **Derivatives**

Until May 1, 2009 the Aquarium used an interest rate swap to hedge interest rate risks associated with certain of its long-term debt. The basic type of risk associated with derivatives is market risk (that the value of the derivative will be adversely impacted by changes in the market, primarily the change in interest rates). The market risk of the derivatives should generally offset the market risk associated with the hedged liability. The agreement involved payments of fixed-rate amounts in exchange for the receipt of variable-rate interest payments over the life of the agreements without an exchange of the underlying principal amounts. The Aquarium used mark-to-market accounting to value the derivative and recorded changes in the value in the Consolidated Statements of Activities and Changes in Net Assets. The fair value of the swap comprises the balance of other liabilities in the Consolidated Statements of Financial Position at December 31, 2009 and 2008, respectively. The swap expired on May 1, 2009 which resulted in a gain of \$100,245 that is included in the consolidated statements of activities and changes in net assets.

#### **Classification of Expenses**

The Aquarium classifies expenses as programming expenses or support expenses. Programming expenses are the activities that fulfill the Aquarium's mission and include its Husbandry, Facility Operations, Education and Research expenses. For the years ended December 31, 2009 and 2008, programming expenses for the Aquarium include all Programming, 94% of Financing Costs, and 87% of Depreciation and Amortization in the Consolidated Statements of Activities and Changes in Net Assets.

Support expenses are all activities other than programming and include Guest Services, Retail, Marketing, Human Resources, and Administrative expenses. Support expenses for the Aquarium include all Guest Services, Management and General, Marketing costs, and Cost of Ancillary Sales included in the Consolidated Statements of Activities and Changes in Net Assets. Support expenses also include 6% of Financing Costs and 13% of Depreciation and Amortization for the years ended December 31, 2009 and 2008.

## Tennessee Aquarium

### Notes to Consolidated Financial Statements (continued)

#### 2. Donated Services

The Aquarium received contributed services valued at approximately \$254,000 and \$220,000 in 2009 and 2008, respectively, from participants in its Volunteer Diver program. Such contributed services have been recognized as unrestricted contributions and as programming expenses as they require specialized skills, provided by individuals possessing these skills and would otherwise need to be purchased if not provided by donation.

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

#### 3. Lease Commitments

The Aquarium leases equipment and office space pursuant to agreements that expire from 2010 to 2014. Future minimum rental payments under the lease agreements are as follows:

2010		\$ 247,586
2011		149,198
2012		82,465
2013		82,465
2014		25,710
		\$ 587,424

The Aquarium's total rent expense for the year ended December 31, 2009 and 2008, was \$372,569 and \$367,744, respectively.

#### 4. Investments

Investments at December 31, 2009 and 2008, are composed of the following:

	2009		
	Fair Market Value	Cost	Net Unrealized Gain (Loss)
Mutual funds	\$ 2,582,978	\$ 2,725,690	\$ (142,712)
U.S. Government obligations	3,127,278	3,173,298	(46,020)
Federal agency bonds	3,167,423	3,104,116	63,307
Corporate bonds	5,020,128	4,953,917	66,211
Certificates of deposit	938,130	1,000,000	(61,870)
Total	\$ 14,835,937	\$ 14,957,021	\$ (121,084)

## Tennessee Aquarium

### Notes to Consolidated Financial Statements (continued)

#### 4. Investments (continued)

	<b>2008</b>		
	<b>Fair Market Value</b>	<b>Cost</b>	<b>Net Unrealized Gain (Loss)</b>
Mutual funds	\$ 2,035,030	\$ 2,670,933	\$ (635,903)
U.S. Government obligations	2,717,956	2,464,365	253,591
Federal agency bonds	4,115,036	3,934,256	180,780
Corporate bonds	4,673,930	4,907,904	(233,974)
Corporate equities	984,375	1,000,000	(15,625)
<b>Total</b>	<b>\$14,526,327</b>	<b>\$14,977,458</b>	<b>\$ (451,131)</b>

The net change in unrealized gain (loss) on investments is included in investment income (loss) in the Consolidated Statements of Activities and Changes in Net Assets and is included in the realized and unrealized gains and losses on the Consolidated Statements of Cash Flows.

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

	<b>2009</b>		
	<b>Fair Market Value</b>	<b>Cost</b>	<b>Net Unrealized Loss</b>
Mutual funds	<b>\$ 2,061,980</b>	<b>\$ 2,213,607</b>	<b>\$ 151,627</b>
Corporate bonds	<b>1,036,714</b>	<b>1,099,061</b>	<b>62,347</b>
Certificates of deposit	<b>938,130</b>	<b>1,000,000</b>	<b>61,870</b>
<b>Total</b>	<b>\$ 4,036,824</b>	<b>\$ 4,312,668</b>	<b>\$ 275,844</b>

	<b>2008</b>		
	<b>Fair Market Value</b>	<b>Cost</b>	<b>Net Unrealized Loss</b>
Corporate bonds	\$ 2,183,182	\$ 2,436,408	\$ 253,226
<b>Total</b>	<b>\$ 2,183,182</b>	<b>\$ 2,436,408</b>	<b>\$ 253,226</b>

## Tennessee Aquarium

### Notes to Consolidated Financial Statements (continued)

#### 4. Investments (continued)

The Aquarium's financial assets and liabilities carried at fair value have been classified based upon the hierarchy defined by ASC 820. The following table provides information as of December 31, 2009, about the Aquarium's financial assets and liabilities measured at fair value:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets at fair value:				
Mutual funds	\$ 2,582,978	\$ –	\$ –	\$ 2,582,978
U.S. government obligations	3,127,278	–	–	3,127,278
Federal agency bonds	–	3,167,423	–	3,167,423
Corporate bonds	–	5,020,128	–	5,020,128
Certificates of deposit	–	938,130	–	938,130
Total assets at fair value	<u>\$ 5,710,256</u>	<u>\$ 9,125,681</u>	<u>\$ –</u>	<u>\$ 14,835,937</u>

#### 5. Long-Term Debt

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

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

## Tennessee Aquarium

### Notes to Consolidated Financial Statements (continued)

#### **5. Long-Term Debt (continued)**

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

Interest on all of the aforementioned bond series is at a variable rate determined weekly and payable monthly. During 2009, interest rates ranged from 0.23% to 0.80%. All three bond series are secured by a mortgage on the Aquarium's property and direct pay letters of credit expiring on April 29, 2011. All letters of credit may terminate sooner than their expressed expiration dates upon the occurrence of certain conditions.

The Aquarium is required to meet profitability, liquidity and leverage financial covenants and is limited as to the amount of additional debt that can be incurred, the purchase and disposition of assets and other business activities under the terms of the various financing documents. At December 31, 2009, the Aquarium was in compliance with all of the financial covenants of the loan agreements. At December 31, 2008, the Aquarium was in compliance with all of the financial covenants of the loan agreements with the exception of financial covenants stipulating minimum Net Assets and Cash Flow Coverage ratios for which a waiver of the violations was obtained from the lender.

In May of 2007, the Aquarium entered into a Vessel Building Agreement to have a 70-passenger, high-speed catamaran constructed to take visitors on an ecotour into the Tennessee River Gorge. The vessel was put into operation in June, 2008. The total purchase price of the vessel was \$2,885,600. In connection with the Company entering into the Vessel Building Agreement, the Aquarium also executed promissory notes to the Community Foundation of Greater Chattanooga, to fund \$2,860,200 of the purchase price. The notes bear interest at 0% and are non-recourse such that repayment is required only to the extent the vessel's operations generate revenues in excess of the related expenses. The Aquarium repaid \$123,975 and \$142,097 of the loans in 2009 and 2008, respectively. The loans are secured by the value of the vessel and are subordinate to the Aquarium's other debt.

## Tennessee Aquarium

### Notes to Consolidated Financial Statements (continued)

#### 5. Long-Term Debt (continued)

The Aquarium executed a loan agreement on April 10, 2002, establishing a \$5,000,000 revolving line of credit. The loan bears interest at a rate of 2.00% above the LIBOR Daily Floating Rate. The principal of the loan balance was due on April 10, 2005. The line of credit was reduced to \$1,000,000 on May 3, 2004, and converted to a term loan. The term loan required semi-annual principal payments of \$100,000 beginning October 1, 2004. The term loan was paid off on April 1, 2009.

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

2010	\$	—
2011		—
2012		—
2013		—
Thereafter		37,094,128
		<u>\$37,094,128</u>

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

On March 24, 2003, the Aquarium entered into an interest rate swap agreement to reduce the impact of changes in interest rates on its long-term debt. At December 31, 2008, the swap agreement had a notional amount of \$7,000,000 and resulted in fixed interest rate payable of 3.41%. The Aquarium made payments at the stated fixed rates and received payments at tax-exempt variable rates, which reset on a weekly basis. The interest rate swap is recorded on the Consolidated Statements of Financial Position at fair value. The fair value of the interest rate swap at December 31, 2008 was a liability of \$100,245. The swap agreement expired on May 1, 2009 and was not renewed.

#### 6. Benefit Plan

The Aquarium adopted a 403(b) defined contribution retirement plan on January 1, 1996, covering substantially all full-service employees. Employer contributions under the new plan are based upon a defined percentage of eligible participant compensation plus a defined matching percentage of any voluntary employee contributions to the plan. Benefit plan expense for the year ended December 31, 2009 and 2008, was approximately \$346,000 and \$341,000, respectively.

# Tennessee Aquarium

## Notes to Consolidated Financial Statements (continued)

### 7. Functional Expenses

Expenses incurred in 2009 were:

	<u>Programming</u>	<u>Guest Services</u>	<u>Management &amp; General</u>	<u>Marketing Costs</u>	<u>Fundraising</u>	<u>Total</u>
Salaries and benefits	\$ 3,750,777	\$ 2,125,077	\$ 1,219,834	\$ 711,585	\$ 136,645	\$ 7,943,918
Printing, publications, and promotion	6,525	50,657	2,802	724,801	3,136	787,921
Supplies and marine life acquisition	638,148	241,352	65,487	49,537	-	994,524
Professional and other contract services	577,164	156,932	538,594	53,349	-	1,326,039
Film and projection costs	428,456	-	-	-	-	428,456
Utilities	1,651,444	2,414	-	-	-	1,653,858
Maintenance	126,961	227,270	83,356	-	-	437,587
Postage and shipping	4,040	46,535	44,978	24,880	58	120,491
Lease and rental	57,152	31,082	284,334	-	-	372,568
Travel and education	28,096	4,813	22,575	9,909	4,639	70,032
Telecommunications	132,675	-	-	-	-	132,675
Other	114,272	33,468	140,650	36,555	307	325,252
Total	<u>\$ 7,515,710</u>	<u>\$ 2,919,600</u>	<u>\$ 2,402,610</u>	<u>\$ 1,610,616</u>	<u>\$ 144,785</u>	<u>\$ 14,593,321</u>
Cost of ancillary sales						1,141,986
Financing costs						825,115
Depreciation and amortization						3,953,837
Total costs						<u>\$ 20,514,259</u>

# Tennessee Aquarium

## Notes to Consolidated Financial Statements (continued)

### 7. Functional Expenses (continued)

Expenses incurred in 2008 were:

	<b>Programming</b>	<b>Guest Services</b>	<b>Management &amp; General</b>	<b>Marketing Costs</b>	<b>Fundraising</b>	<b>Total</b>
Salaries and benefits	\$ 3,628,058	\$ 2,162,705	\$ 1,229,749	\$ 742,786	\$ 68,489	\$ 7,831,787
Printing, publications, and promotion	3,824	9,842	15,653	704,363	2,601	736,283
Supplies and marine life acquisition	607,886	276,123	82,597	69,765	11	1,036,382
Professional and other contract services	546,606	98,856	345,070	66,666	395	1,057,593
Film and projection costs	458,390	-	-	-	-	458,390
Utilities	1,581,683	1,977	-	-	-	1,583,660
Maintenance	139,450	124,356	100,763	385	-	364,954
Postage and shipping	5,108	50,382	53,324	28,487	608	137,909
Lease and rental	52,186	5,710	309,848	-	-	367,744
Travel and education	57,649	17,051	30,384	14,385	1,929	121,398
Telecommunications	152,031	-	-	-	-	152,031
Other	147,587	40,933	262,506	51,481	627	503,134
<b>Total</b>	<b>\$ 7,380,458</b>	<b>\$ 2,787,935</b>	<b>\$ 2,429,894</b>	<b>\$ 1,678,318</b>	<b>\$ 74,660</b>	<b>\$ 14,351,265</b>
Cost of ancillary sales						1,201,837
Financing costs						1,286,194
Depreciation and amortization						3,725,765
Loss on change in fair market						30,928
<b>Total costs</b>						<b>\$ 20,595,989</b>