

TENNESSEE AQUARIUM

FINANCIAL STATEMENTS

DECEMBER 31, 2022 AND 2021



CERTIFIED PUBLIC ACCOUNTANTS

TENNESSEE AQUARIUM

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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Tennessee Aquarium
Chattanooga, Tennessee

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Tennessee Aquarium, which comprise the statements of financial position as of December 31, 2022, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the year 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 Tennessee Aquarium as of December 31, 2022, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). 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 Tennessee 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.

Other Matter

The financial statements of Tennessee Aquarium for the year ended December 31, 2021 were audited by another auditor who expressed an unmodified opinion on those statements on May 31, 2022.

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 Tennessee Aquarium's ability to continue as a going concern for one year after the date that the financial statements are 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 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, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- 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 audit 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 Tennessee 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 Tennessee 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 audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Chattanooga, Tennessee
May 31, 2023

*Henderson Hutcherson
& McCullough, PLLC*

TENNESSEE AQUARIUM

STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2022 AND 2021

ASSETS		
	2022	2021
CURRENT ASSETS		
Cash and cash equivalents	\$ 6,706,848	\$ 14,892,840
Contributions and grants receivable	10,000	260,000
Accounts receivable	822,979	629,947
Prepaid expenses	<u>802,880</u>	<u>712,314</u>
Total current assets	<u>8,342,707</u>	<u>16,495,101</u>
PROPERTY AND EQUIPMENT, NET	<u>45,886,161</u>	<u>46,621,344</u>
OTHER ASSETS		
Contributions receivable - less current portion, net	9,246	18,861
Right-of-use assets	750,561	-
Investments - at fair value	<u>27,578,771</u>	<u>18,686,221</u>
Total other assets	<u>28,338,578</u>	<u>18,705,082</u>
TOTAL ASSETS	<u>\$ 82,567,446</u>	<u>\$ 81,821,527</u>

TENNESSEE AQUARIUM

STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2022 AND 2021

LIABILITIES AND NET ASSETS

	2022	2021
CURRENT LIABILITIES		
Long-term debt, current portion	\$ 1,054,716	\$ 1,030,552
Finance lease liabilities, current portion	12,200	15,222
Operating lease liabilities, current portion	140,812	-
Accounts payable	1,447,396	1,001,416
Accrued expenses	1,300,832	1,241,097
Deferred membership revenue	1,383,622	1,191,605
Other deferred revenue	<u>146,000</u>	<u>228,250</u>
Total current liabilities	<u>5,485,578</u>	<u>4,708,142</u>
LONG TERM LIABILITIES		
Long-term debt, net of current portion	12,894,513	14,004,950
Finance lease liabilities, net of current portion	-	12,127
Operating lease liabilities, net of current portion	<u>609,749</u>	<u>-</u>
Total non-current liabilities	<u>13,504,262</u>	<u>14,017,077</u>
TOTAL LIABILITIES	<u>18,989,840</u>	<u>18,725,219</u>
NET ASSETS		
Without donor restrictions - undesignated	56,405,367	54,266,758
Without donor restrictions - board designated	6,305,541	7,921,871
With donor restrictions	<u>866,698</u>	<u>907,679</u>
TOTAL NET ASSETS	<u>63,577,606</u>	<u>63,096,308</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 82,567,446</u>	<u>\$ 81,821,527</u>

The accompanying notes are an integral part of these financial statements.

TENNESSEE AQUARIUM

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

YEARS ENDED DECEMBER 31, 2022 AND 2021

	2022	2021
CHANGES IN NET ASSETS		
WITHOUT DONOR RESTRICTIONS		
Revenues and support:		
Public contributions	\$ 1,543,637	\$ 995,340
Fundraising events	252,561	29,518
Membership dues	2,348,834	1,896,484
Admissions	18,707,264	17,585,832
Ancillary sales	4,075,276	3,674,369
Facility rental, sponsorship, and other program income	1,272,502	1,171,491
Net investment income (loss)	(1,866,808)	1,100,563
Net assets released from restriction	<u>336,666</u>	<u>10,329,030</u>
Total unrestricted support and revenue	<u>26,669,932</u>	<u>36,782,627</u>
EXPENSES		
Program services	14,989,432	13,039,875
Guest services	1,572,830	1,347,205
Management and general	5,776,099	5,002,174
Marketing costs	3,166,685	2,509,244
Fundraising costs	538,299	398,101
Cost of ancillary sales	<u>104,308</u>	<u>-</u>
Total expenses	<u>26,147,653</u>	<u>22,296,599</u>
Change in net assets without donor restrictions	<u>522,279</u>	<u>14,486,028</u>
CHANGE IN NET ASSETS		
WITH DONOR RESTRICTIONS		
Grants and contributions	295,685	847,990
Paycheck protection program loan forgiveness	-	1,935,042
Shuttered venue operating grant received	-	8,064,958
Net assets released from restriction	<u>(336,666)</u>	<u>(10,329,030)</u>
Change in net assets with donor restrictions	<u>(40,981)</u>	<u>518,960</u>
CHANGE IN NET ASSETS	481,298	15,004,988
NET ASSETS - beginning of year	<u>63,096,308</u>	<u>48,091,320</u>
NET ASSETS - end of year	<u>\$ 63,577,606</u>	<u>\$ 63,096,308</u>

The accompanying notes are an integral part of these financial statements.

TENNESSEE AQUARIUM

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2022

	Program Services	Guest Services	Management and General	Marketing Costs	Fundraising Costs	Total
Salaries and benefits	\$ 6,545,463	\$ 1,220,267	\$ 2,622,963	\$ 1,317,121	\$ 388,374	\$ 12,094,188
Printing, publications, and promotions	3,253	-	1,687	1,589,422	1,336	1,595,698
Supplies and marine life acquisition	858,739	15,687	248,198	70,136	8,778	1,201,538
Professional and other contract services	781,688	201,743	1,241,723	108,162	91,560	2,424,876
Film and projection costs	409,154	-	-	-	-	409,154
Utilities	1,929,473	-	-	-	-	1,929,473
Maintenance	695,032	-	258,019	278	-	953,329
Postage and shipping	1,571	-	39,830	2,548	771	44,720
Lease and rental	8,121	-	335,295	-	-	343,416
Travel and education	150,003	9,081	74,363	11,053	3,655	248,155
Telecommunications	131,156	-	-	-	-	131,156
Financing costs	-	-	329,492	-	-	329,492
Depreciation	3,375,577	125,269	120,507	32,048	29,184	3,682,585
Other	100,202	783	504,022	35,917	14,641	655,565
	<u>14,989,432</u>	<u>1,572,830</u>	<u>5,776,099</u>	<u>3,166,685</u>	<u>538,299</u>	<u>26,043,345</u>
Cost of ancillary sales	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>104,308</u>
Total functional expenses	<u>\$ 14,989,432</u>	<u>\$ 1,572,830</u>	<u>\$ 5,776,099</u>	<u>\$ 3,166,685</u>	<u>\$ 538,299</u>	<u>\$ 26,147,653</u>

The accompanying notes are an integral part of these financial statements.

TENNESSEE AQUARIUM

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2021

	Program Services	Guest Services	Management and General	Marketing Costs	Fundraising Costs	Total
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>
Total functional expenses	<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>

The accompanying notes are an integral part of these financial statements.

TENNESSEE AQUARIUM

STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2022 AND 2021

	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 481,298	\$ 15,004,988
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Depreciation	3,682,585	3,983,160
Noncash interest expense related to debt issuance costs	304	2,243
Noncash contribution of investment securities	(2,550)	(24,416)
Net realized and unrealized (gain) loss on investments	2,333,131	(655,566)
Contributions restricted for endowments	-	(100,000)
Changes in operating assets and liabilities:		
Contributions and grants receivable	259,615	263,903
Accounts receivable	(193,032)	135,335
Prepaid expenses	(90,566)	(77,316)
Accounts payable	445,980	550,453
Accrued expenses	59,735	153,386
Deferred revenue	109,767	476,646
Net cash flows from operating activities	<u>7,086,267</u>	<u>19,712,816</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(2,947,402)	(1,267,007)
Proceeds from sale or maturity of investments	6,491,327	7,024,575
Purchase of investments	<u>(17,714,458)</u>	<u>(8,783,236)</u>
Net cash flows from investing activities	<u>(14,170,533)</u>	<u>(3,025,668)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Contributions restricted for endowments	-	100,000
Net (payments) borrowings on line of credit	-	(1,241,050)
Payments of long-term debt	(1,086,577)	(1,109,207)
Payments of lease liability - financing	<u>(15,149)</u>	<u>(16,045)</u>
Net cash flows from financing activities	<u>(1,101,726)</u>	<u>(2,266,302)</u>
NET CHANGE IN CASH	(8,185,992)	14,420,846
Cash and cash equivalents - beginning of year	<u>14,892,840</u>	<u>471,994</u>
Cash and cash equivalents - end of year	<u>\$ 6,706,848</u>	<u>\$ 14,892,840</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid for financing costs	<u>\$ 227,480</u>	<u>\$ 386,328</u>

The accompanying notes are an integral part of these financial statements.

TENNESSEE AQUARIUM

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2022 AND 2021

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Nature of Operations

Tennessee Aquarium (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 are prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America (GAAP). The Financial Accounting Standards Board (FASB) establishes GAAP in the Accounting Standards Codification (ASC). Updates to the ASC are done through the issuance of Accounting Standards Updates (ASU).

Basis of Presentation

The financial statements of the Aquarium have been prepared in accordance with GAAP, which require the Aquarium to report information regarding its financial position and activities according to the following net asset classifications:

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 organization. These net assets may be used at the discretion of the Aquarium's management and the board of directors.

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, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statement of activities.

Cash and Cash Equivalents

The Aquarium considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents. These accounts may exceed federally insured amounts at times and may, at times, significantly exceed amounts in the statements of financial position due to outstanding checks.

(Continued)

TENNESSEE AQUARIUM

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2022 AND 2021

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, 2022 and 2021; accordingly, no allowance for doubtful accounts is considered necessary. Accounts are charged to bad debt expense as they are deemed uncollectible. The Aquarium had \$19,246 and \$278,861 in contributions receivable as of December 31, 2022 and 2021, respectively.

Prepaid Expenses

Prepaid expenses consist primarily of amounts paid on IMAX, insurance, and software license fees.

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.

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

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation. Expenditures for repairs and maintenance are charged to expense as incurred and additions and improvements that significantly extend the lives of assets are capitalized. Upon sale or other retirement of depreciable property, the cost and accumulated depreciation are removed from the related accounts and any gain or loss is reflected in operations.

Depreciation is provided using the straight-line method over the estimated useful lives of the depreciable assets ranging from 3 to 40 years.

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TENNESSEE AQUARIUM

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2022 AND 2021

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments and 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 set out a fair value hierarchy. The three levels of the fair value hierarchy are described below:

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

Level 2 – Observable inputs other than prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or other inputs that are observable or can be corroborated with observable market data.

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.

Investments in marketable securities with readily determinable fair values, shares in mutual funds, limited partnerships, and all investments in debt securities are reported at their fair values in the statements of financial position. Realized and unrealized gains and losses are included in net investment return.

Accordingly, the fair values may differ significantly from the values that would have been used had a ready market existed for these investments. The fair value of the Aquarium's investments in investment partnerships generally represents the amount the Aquarium would expect to receive if it were to liquidate its investment in the investment partnerships excluding any redemption charges that may apply. These investments are classified in Level 3 of the fair value hierarchy. Certain investment partnerships invest in foreign securities and debt obligations. As these entities do not all report their complete portfolio of investments, a determination cannot be made by the Aquarium of the total exposure to foreign currencies' exchange rates. The assets of these entities are translated into U.S. dollars using year-end exchange rates.

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 change could materially affect the amounts reported in the financial statements.

(Continued)

TENNESSEE AQUARIUM

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2022 AND 2021

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Deferred Revenue

Advanced collections of membership dues and facility rental income are deferred and recognized over the periods to which the income relates.

Functional 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.

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

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.

(Continued)

TENNESSEE AQUARIUM

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2022 AND 2021

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Tax Status

The Aquarium is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code.

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 federal exempt organization tax returns are subject to examination by the Internal Revenue Service, generally for three years after they are filed.

Estimates and Uncertainties

The preparation of financial statements in conformity 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.

Advertising

The Aquarium expenses advertising costs as incurred. Advertising expense totaled \$1,535,466 and \$1,146,329 for the years ended December 31, 2022 and 2021, respectively, and is included with marketing costs on the statements of activities and changes in net assets.

Revenue Recognition

The Aquarium follows the guidance of ASU 2014-09, *Revenue from Contracts with Customers*, and all subsequent amendments to the ASU (collectively, "ASC 606"). ASC 606 outlines a comprehensive five-step revenue recognition model based on the principle that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The five-step revenue recognition model is as follows:

- 1) Identify the contract with a customer
- 2) Identify the performance obligations in the contract
- 3) Determine the transaction price
- 4) Allocate the transaction price to performance obligations in the contract
- 5) Recognize revenue when or as the Organization satisfies a performance obligation

(Continued)

TENNESSEE AQUARIUM

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2022 AND 2021

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition (Continued)

Admissions revenue is recognized at the time the tickets are sold. Ancillary sales include revenue from the Aquarium's gift shop. 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 discounts). Proceeds from the sale of annual memberships are recognized at the time memberships are sold. Rental income is recognized on the date of the rental.

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 \$95,000 and \$87,750 as of December 31, 2022 and 2021, respectively.

Contributions, grants, and state funding are non-exchange transactions outside the scope of 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:

	2022	2021
Performance obligations satisfied at a point in time	\$ 23,945,696	\$ 22,461,210
Performance obligations satisfied over time	2,710,741	1,896,484
Not in scope of ASC 606	<u>1,839,322</u>	<u>11,843,330</u>
Total operating revenues and other support	<u>\$ 28,495,759</u>	<u>\$ 36,201,024</u>

Reclassifications

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

TENNESSEE AQUARIUM

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2022 AND 2021

NOTE 2 – CONTRIBUTIONS AND GRANTS RECEIVABLE

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

	2022	2021
Less than one year	\$ 10,000	\$ 260,000
One to five years	<u>10,000</u>	<u>20,000</u>
	20,000	280,000
Unamortized discount (at 4%)	<u>(754)</u>	<u>(1,139)</u>
	<u>\$ 19,246</u>	<u>\$ 278,861</u>

As of December 31, 2022, there were no contributions receivable representing more than 10% of gross contributions receivable. As of December 31, 2021, there was one contribution receivable totaling \$250,000, representing 89% of gross contributions receivable.

NOTE 3 – INVESTMENTS

Investments are stated at fair value and consist of the following as of December 31, 2022 and 2021:

2022	Cost	Fair Value	Unrealized Gains (Losses)
Equity securities	\$ 4,878,385	\$ 4,896,557	\$ 18,172
Corporate bonds	<u>23,789,485</u>	<u>22,682,214</u>	<u>(1,107,271)</u>
	<u>\$ 28,667,870</u>	<u>\$ 27,578,771</u>	<u>\$ (1,089,099)</u>
2021			
Equity securities	\$ 5,413,320	\$ 6,610,538	\$ 1,197,218
Corporate bonds	<u>12,107,806</u>	<u>12,075,683</u>	<u>(32,123)</u>
	<u>\$ 17,521,126</u>	<u>\$ 18,686,221</u>	<u>\$ 1,165,095</u>

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

Net investment return consists of the following:

	2022	2021
Interest and dividend income	\$ 550,677	\$ 524,401
Investment expense	(84,354)	(79,404)
Realized and unrealized gain (loss)	<u>(2,333,131)</u>	<u>655,566</u>
Total investment income (loss)	<u>\$ (1,866,808)</u>	<u>\$ 1,100,563</u>

(Continued)

TENNESSEE AQUARIUM

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2022 AND 2021

NOTE 3 – INVESTMENTS (Continued)

The Aquarium's financial assets carried at fair value have been classified based upon the hierarchy defined by accounting standard, *Fair Value Measurements*. The following table provides information as of December 31, 2022 about the Aquarium's financial assets and liabilities measured at fair value:

	Level 1	Level 2	Level 3	Total
Assets at fair value:				
Equity securities	\$ 4,896,557	\$ -	\$ -	\$ 4,896,557
Corporate bonds	-	22,682,214	-	22,682,214
Total assets at fair value	<u>\$ 4,896,557</u>	<u>\$ 22,682,214</u>	<u>\$ -</u>	<u>\$ 27,578,771</u>

Information about the Aquarium's financial assets measured at fair value as of December 31, 2021 is as follows:

	Level 1	Level 2	Level 3	Total
Assets at fair value:				
Equity securities	\$ 6,610,538	\$ -	\$ -	\$ 6,610,538
Corporate bonds	-	12,075,683	-	12,075,683
Total assets at fair value	<u>\$ 6,610,538</u>	<u>\$ 12,075,683</u>	<u>\$ -</u>	<u>\$ 18,686,221</u>

NOTE 4 – PROPERTY AND EQUIPMENT

Property and equipment consist of the following major classifications:

	2022	2021
Land	\$ 4,484,445	\$ 4,484,445
Buildings	92,791,206	92,608,277
Furniture, fixtures, and equipment	31,757,822	31,425,356
Telecommunications equipment under financing lease	579,276	579,276
Construction in progress	<u>3,012,908</u>	<u>596,242</u>
	132,625,657	129,693,596
Accumulated depreciation	<u>(86,739,496)</u>	<u>(83,072,252)</u>
	<u>\$ 45,886,161</u>	<u>\$ 46,621,344</u>

Depreciation expense for the years ended December 31, 2022 and 2021 was \$3,682,585 and \$3,983,160, respectively.

NOTE 5 – 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 1-Month CME Term SOFR plus a margin of 1.36% per annum. The line of credit expires on November 1, 2023. There was no outstanding balance on the line of credit as of December 31, 2022 and 2021.

TENNESSEE AQUARIUM

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2022 AND 2021

NOTE 6 – LONG-TERM DEBT

On May 5, 2020, the Aquarium entered into a loan agreement with the lender that purchased the Revenue Refunding Bonds Series 2020 (the “Series 2020 Bonds”) in their entirety of \$15,841,139 as issued by the Industrial Development Board of the County of Hamilton, Tennessee. The Series 2020 Bonds mature on December 30, 2035. Under the terms of the loan, the Aquarium is to make monthly principal and interest payments of \$99,856 at a fixed rate of 2.25% until the Series 2020 Bonds maturity date. The balance of the Series 2020 Bonds was \$13,582,004 and \$14,513,356 on December 31, 2022 and 2021, respectively. The Series 2020 Bonds are secured by a springing lien on the Aquarium’s property.

On May 5, 2020, the Aquarium entered into a loan agreement totaling \$794,500. Under the terms of the loan, the Aquarium is to make monthly principal and interest payments of \$14,110 at a fixed rate of 2.50% until the loan’s maturity date of May 1, 2025. The balance of the loan was \$396,379 and \$553,542 on December 31, 2022 and 2021, respectively. The loan is cross collateralized with the Aquarium’s Series 2020 Bonds.

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, 2022 and 2021, the Aquarium determined it was in compliance with all the financial covenants of the loan agreements.

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

	2022	2021
Principal amount	\$ 13,978,383	\$ 15,066,899
Unamortized debt issuance costs	<u>(29,154)</u>	<u>(31,397)</u>
Long-term debt, less unamortized debt issuance costs	13,949,229	15,035,502
Current portion of long-term debt	<u>(1,054,716)</u>	<u>(1,030,552)</u>
Noncurrent portion of long-term debt	<u>\$ 12,894,513</u>	<u>\$ 14,004,950</u>

Future maturities of long-term debt, excluding unamortized debt issuance costs, are as follows as of December 31:

2023	\$ 1,054,716
2024	1,083,819
2025	1,009,210
2026	960,719
2027	982,560
Thereafter	<u>8,887,359</u>
	<u>\$ 13,978,383</u>

TENNESSEE AQUARIUM

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2022 AND 2021

NOTE 7 – NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions as of December 31, 2022 and 2021, consist of the following:

	2022	2021
Subject to expenditure for specified purpose:		
Grant agreements	\$ 620,771	\$ 661,752
Subject to permanent restriction of corpus	<u>245,927</u>	<u>245,927</u>
	<u>\$ 866,698</u>	<u>\$ 907,679</u>

During 2022 and 2021, net assets released from restrictions consisted of:

	2022	2021
Satisfaction of purpose restrictions:		
Payroll Protection Program	\$ -	\$ 1,935,042
Shuttered Venue Operating Grant	-	8,064,958
Other purpose filled	<u>336,666</u>	<u>329,030</u>
	<u>\$ 336,666</u>	<u>\$ 10,329,030</u>

NOTE 8 – BOARD DESIGNATED ENDOWMENT

As of December 31, 2022 and 2021, the Board of Trustees had designated \$6,305,541 and \$7,921,871, 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.

(Continued)

TENNESSEE AQUARIUM

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2022 AND 2021

NOTE 8 – BOARD DESIGNATED ENDOWMENT (Continued)

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, which 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, 2022 and 2021, were as follows:

	2022	2021
Endowment net assets, beginning of year	\$ 7,921,871	\$ 7,026,285
Interest and dividend income	62,681	182,080
Release from board designation	(293,000)	(262,380)
Realized and unrealized gain (loss)	<u>(1,386,011)</u>	<u>975,886</u>
Endowment net assets, end of year	<u>\$ 6,305,541</u>	<u>\$ 7,921,871</u>

NOTE 9 – OPERATING LEASES

Effective January 1, 2022, the Aquarium adopted the new lease accounting guidance in ASU 2016-02, *Leases* (ASC Topic 842). The Aquarium has elected the package of practical expedients permitted in ASC Topic 842. Accordingly, the Aquarium accounted for its existing operating lease as an operating lease under the new guidance, without reassessing (a) whether the contract contains a lease under ASC Topic 842, (b) whether classification of the operating lease would be different in accordance with ASC Topic 842, or (c) whether the unamortized initial direct costs before transition adjustments would have met the definition of initial direct costs in ASC Topic 842 at lease commencement. As a result of the adoption of the new lease accounting guidance, the Aquarium recognized on January 1, 2022 (a) a lease liability - operating of \$887,221, which represents the present value of the remaining lease payments discounted using the risk-free discount rate of 2.59%, and (b) a right-of-use asset of \$887,221.

The Aquarium leases a building under an operating lease arrangement with a third party, expiring May 31, 2026. Monthly lease expense is payable in equal monthly installments of \$6,694. The risk-free discount rate used for future operating lease payments is 4.31%.

The Aquarium leases equipment under an operating leases agreement with a third party, expiring September 1, 2029. Monthly lease expense is payable in equal monthly installments of \$6,458. The risk-free discount rate used for future operating lease payments is 1.68%.

Operating lease cost for the year ended December 31, 2022 was \$157,824.

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TENNESSEE AQUARIUM

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2022 AND 2021

NOTE 9 – OPERATING LEASES (Continued)

The following is a maturity analysis of the annual undiscounted cash flows of the operating lease payments to be received as of December 31:

2023	\$ 157,822
2024	157,822
2025	157,822
2026	110,962
2027	77,490
Thereafter	<u>135,608</u>
Total undiscounted cash flows	797,526
Present value discount	<u>(46,964)</u>
Total lease liability	<u>\$ 750,562</u>

The Aquarium also leases telecommunication equipment previously recognized as a capital lease. This equipment consists of two finance leases, both of which expire in October 2023. The cost of the equipment is included in property and equipment as disclosed in Note 4.

NOTE 10 – SBA PAYCHECK PROTECTION PROGRAM

In February 2021, the Aquarium received loan proceeds of \$1,935,042 under the second round of the Paycheck Protection Program (PPP). The PPP was established under the congressionally approved Coronavirus Aid, Relief, and Economic Security Act (the “CARES Act”) and is administered by the U.S. Small Business Administration (SBA). The PPP loan to the Aquarium was made through First Horizon Bank. A provision of the program provides that a portion of the loan will be forgiven if certain conditions are met. The loan was fully forgiven on February 22, 2022 and has therefore been recognized in the statements of activities and changes in net assets as paycheck protection program loan forgiveness for the year ended December 31, 2021.

NOTE 11 – SHUTTERED VENUE OPERATING GRANT

The Shuttered Venue Operating 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 PPP, is administered by the SBA 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.

(Continued)

TENNESSEE AQUARIUM

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2022 AND 2021

NOTE 11 – 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 loans. SVOG funds qualify as a conditional contribution, this 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 12 – DEFINED CONTRIBUTION 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, 2022 and 2021, was \$494,666 and \$347,291, respectively.

NOTE 13 – RELATED PARTY TRANSACTIONS

A board member of the Aquarium is the chief operating officer for the organization that provides the Aquarium's employee healthcare insurance. Premiums paid were \$624,707 and \$472,630 for the years ended December 31, 2022 and 2021, respectively.

NOTE 14 – DONATED SERVICES

The Aquarium received contributed services valued at approximately \$188,000 and \$126,000 in 2022 and 2021, 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 15 – UNCERTAIN TAX POSITIONS

The Aquarium is exempt, by statute, from Federal and state income taxes. However, the Aquarium may be subject to tax on unrelated business income. This income is reported on the federal form 990-T as unrelated business income.

The Aquarium follows the guidance of FASB ASC Topic 740, *Income Taxes*, which specifies the accounting for uncertainty in income taxes recognized in an entity's financial statements. Based on its evaluation, the Aquarium has concluded that there are no significant uncertain tax positions requiring disclosure, and there are no material amounts of unrecognized tax benefits.

TENNESSEE AQUARIUM

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2022 AND 2021

NOTE 16 – AVAILABILITY AND LIQUIDITY

The following represents the Aquarium's financial assets at December 31:

	2022	2021
Financial assets at year-end:		
Cash and cash equivalents	\$ 6,706,848	\$ 14,892,840
Contributions receivable	19,246	278,861
Accounts receivable	822,979	629,947
Investments, at fair value	<u>27,578,771</u>	<u>18,686,221</u>
Total financial assets	35,127,844	34,487,869
Less amounts not available to be used within one year:		
Net assets with donor restrictions	866,698	907,679
Board-designated funds	6,305,541	7,921,871
Internally designated bond funds	13,767,179	3,914,445
Less net assets with purpose restrictions to be met in less than a year	<u>-</u>	<u>-</u>
	<u>20,939,418</u>	<u>12,743,995</u>
Financial assets available to meet general expenditures over the next twelve months	<u>\$ 14,188,426</u>	<u>\$ 21,743,874</u>

The Aquarium is substantially supported by restricted and unrestricted contributions, as well as by admissions, membership dues, and various fundraising events. Because a donor's restriction requires resources to be used in a particular manner or in a future period, the Aquarium must maintain sufficient resources to meet those responsibilities to its donors.

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 cash 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 17 – SUBSEQUENT EVENTS

The Aquarium has evaluated events and transactions subsequent to December 31, 2022 through May 31, 2023 (the date the financial statements were available to be issued) for potential recognition or disclosure in the financial statements. The Aquarium has not identified any items requiring recognition or disclosure.