

**TENNESSEE AQUARIUM AND SUBSIDIARY
CONSOLIDATED FINANCIAL STATEMENTS**

December 31, 2012

TENNESSEE AQUARIUM AND SUBSIDIARY
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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Tennessee Aquarium
Chattanooga, Tennessee

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of the Tennessee Aquarium and subsidiary, which comprise the consolidated statements of financial position as of December 31, 2012, and the related consolidated 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.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the 2012 consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Tennessee Aquarium and subsidiary as of December 31, 2012, and the changes in their net assets and their cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matter

The consolidated financial statements of the Tennessee Aquarium and subsidiary, as of and for the year ended December 31, 2011, were audited by other auditors whose report dated June 18, 2012, expressed an unmodified opinion on those financial statements.

Joseph Decasino and Company, PLLC

Chattanooga, Tennessee
June 28, 2013

TENNESSEE AQUARIUM AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

December 31, 2012 and 2011

ASSETS	2012	2011
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,553,138	\$ 1,845,008
Contributions receivable	50,000	132,363
Inventories	195,593	184,869
Accounts receivable	513,879	811,360
Prepaid expenses	<u>344,434</u>	<u>280,521</u>
Total current assets	<u>2,657,044</u>	<u>3,254,121</u>
PROPERTY AND EQUIPMENT		
Land	4,484,445	4,484,445
Buildings	83,818,795	82,568,795
Furniture, fixtures and equipment	27,367,085	25,946,384
Construction in progress	<u>167,268</u>	<u>292,197</u>
	115,837,593	113,291,821
Less accumulated depreciation	<u>54,911,629</u>	<u>51,555,450</u>
Property and equipment, net	<u>60,925,964</u>	<u>61,736,371</u>
OTHER ASSETS		
Contributions receivable, less current portion	501,465	-
Investments, at fair value	7,216,580	5,810,155
Other assets	<u>117,060</u>	<u>86,443</u>
Total other assets	<u>7,835,105</u>	<u>5,896,598</u>
TOTAL ASSETS	<u>\$ 71,418,113</u>	<u>\$ 70,887,090</u>
 LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 401,684	\$ 532,521
Accrued expenses	722,777	586,548
Current portion of long-term debt	660,097	465,621
Deferred membership revenue	843,703	771,764
Other deferred revenue	<u>29,539</u>	<u>43,201</u>
Total current liabilities	<u>2,657,800</u>	<u>2,399,655</u>
LONG-TERM DEBT	<u>23,529,949</u>	<u>23,051,514</u>
INTEREST RATE SWAP OBLIGATION	<u>1,144,012</u>	<u>1,058,696</u>
NET ASSETS		
Unrestricted -		
Undesignated	41,772,214	42,861,713
Board designated for endowment	<u>1,683,428</u>	<u>1,515,512</u>
Total unrestricted	43,455,642	44,377,225
Temporarily restricted	<u>630,710</u>	<u>-</u>
Total net assets	<u>44,086,352</u>	<u>44,377,225</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 71,418,113</u>	<u>\$ 70,887,090</u>

The accompanying notes are an integral part of the consolidated financial statements.

TENNESSEE AQUARIUM AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
Years Ended December 31, 2012 and 2011

	2012	2011
CHANGE IN UNRESTRICTED NET ASSETS		
Revenues, gains and support -		
Admissions	\$ 11,826,309	\$ 11,200,544
Ancillary sales	4,064,417	3,783,375
Membership dues	1,628,559	1,453,734
Investment income	636,227	34,299
Contributions	1,100,100	1,295,509
Fundraising events	152,776	82,899
Other income	<u>1,299,521</u>	<u>1,173,517</u>
Total revenues, gains and support	<u>20,707,909</u>	<u>19,023,877</u>
Expenses -		
Programming	9,103,221	8,698,907
Guest services	2,007,345	2,042,354
Management and general	2,760,288	2,564,428
Marketing costs	1,936,100	1,719,211
Fundraising costs	288,139	192,545
Cost of ancillary sales	1,213,011	1,137,110
Financing costs	875,462	887,701
Depreciation and amortization	3,360,610	3,926,554
Loss on change in fair value of interest rate swap obligation	<u>85,316</u>	<u>1,014,831</u>
Total expenses	<u>21,629,492</u>	<u>22,183,641</u>
Change in unrestricted net assets	(921,583)	(3,159,764)
CHANGE IN TEMPORARILY RESTRICTED NET ASSETS		
Contributions	<u>630,710</u>	<u>-</u>
CHANGE IN NET ASSETS	(290,873)	(3,159,764)
NET ASSETS - beginning of year	<u>44,377,225</u>	<u>47,536,989</u>
NET ASSETS - end of year	<u>\$ 44,086,352</u>	<u>\$ 44,377,225</u>

The accompanying notes are an integral part of the consolidated financial statements.

TENNESSEE AQUARIUM AND SUBSIDIARY
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

Year Ended December 31, 2012

	Programming	Guest Services	Management and General	Marketing Costs	Fundraising	Total
Salaries and benefits	\$ 4,379,458	\$ 1,785,696	\$ 1,329,297	\$ 794,223	\$ 201,441	\$ 8,490,115
Printing, publications and promotions	64,303	-	1,120	909,760	10,384	985,567
Supplies and marine life acquisition	974,275	61,406	86,235	112,053	26,001	1,259,970
Professional and other contract services	737,554	46,528	351,064	41,423	40,223	1,216,792
Film and projection costs	474,974	-	-	-	-	474,974
Utilities	1,556,628	-	-	-	-	1,556,628
Maintenance	458,554	4,122	117,871	-	-	580,547
Postage and shipping	21,051	50,759	33,611	20,232	384	126,037
Lease and rental	25,075	801	341,766	-	-	367,642
Travel and education	45,930	20,207	15,412	14,960	5,453	101,962
Telecommunications	152,147	-	-	-	-	152,147
Other	<u>213,272</u>	<u>37,826</u>	<u>483,912</u>	<u>43,449</u>	<u>4,253</u>	<u>782,712</u>
	<u>\$ 9,103,221</u>	<u>\$ 2,007,345</u>	<u>\$ 2,760,288</u>	<u>\$ 1,936,100</u>	<u>\$ 288,139</u>	16,095,093
Cost of ancillary sales						1,213,011
Financing costs						875,462
Depreciation and amortization						3,360,610
Loss on change in fair value of interest rate swap						<u>85,316</u>
						<u>\$ 21,629,492</u>

The accompanying notes are an integral part of the consolidated financial statements.

TENNESSEE AQUARIUM AND SUBSIDIARY
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

Year Ended December 31, 2011

	Programming	Guest Services	Management and General	Marketing Costs	Fundraising	Total
Salaries and benefits	\$ 4,230,812	\$ 1,864,134	\$ 1,279,778	\$ 776,224	\$ 106,811	\$ 8,257,759
Printing, publications and promotions	44,997	-	6,065	784,819	3,543	839,424
Supplies and marine life acquisition	927,186	57,239	103,797	74,024	6,803	1,169,049
Professional and other contract services	704,819	42,211	354,913	23,160	67,104	1,192,207
Film and projection costs	427,579	-	-	-	-	427,579
Utilities	1,530,403	-	-	-	-	1,530,403
Maintenance	396,175	843	98,784	-	-	495,802
Postage and shipping	6,969	42,897	36,001	25,531	172	111,570
Lease and rental	78,360	-	333,182	-	-	411,542
Travel and education	91,459	7,952	19,602	8,641	2,613	130,267
Telecommunications	140,886	-	-	-	-	140,886
Other	<u>119,262</u>	<u>27,078</u>	<u>332,306</u>	<u>26,812</u>	<u>5,499</u>	<u>510,957</u>
	<u>\$ 8,698,907</u>	<u>\$ 2,042,354</u>	<u>\$ 2,564,428</u>	<u>\$ 1,719,211</u>	<u>\$ 192,545</u>	15,217,445
Cost of ancillary sales						1,137,110
Financing costs						887,701
Depreciation and amortization						3,926,554
Loss on change in fair value of interest rate swap						<u>1,014,831</u>
						<u>\$ 22,183,641</u>

The accompanying notes are an integral part of the consolidated financial statements.

TENNESSEE AQUARIUM AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended December 31, 2012 and 2011

	2012	2011
OPERATING ACTIVITIES		
Change in net assets	\$ (290,873)	\$ (3,159,764)
Adjustments to reconcile change in net assets to net cash flows from operating activities -		
Depreciation and amortization	3,360,610	3,926,554
Realized and unrealized (gain) loss on investments	(494,474)	97,283
Change in fair value of interest rate swap obligation	85,316	1,014,831
Changes in operating assets and liabilities -		
Contributions receivable	(419,102)	48,252
Inventories	(10,724)	42,535
Accounts receivable	297,481	(330,434)
Prepaid expenses	(63,913)	29,210
Other noncurrent assets	(30,617)	(3,503)
Accounts payable and accrued expenses	5,392	(381,613)
Deferred revenue	<u>58,277</u>	<u>34,594</u>
Net cash flows from operating activities	<u>2,497,373</u>	<u>1,317,945</u>
INVESTING ACTIVITIES		
Net purchases of investments	(911,951)	(1,028,406)
Purchase of property and equipment	<u>(2,550,203)</u>	<u>(843,765)</u>
Net cash flows from investing activities	<u>(3,462,154)</u>	<u>(1,872,171)</u>
FINANCING ACTIVITIES		
Proceeds of long-term debt	1,250,000	-
Use of restricted cash for debt payoff	-	34,720,907
Payments of long-term debt	<u>(577,089)</u>	<u>(35,076,993)</u>
Net cash flows from financing activities	<u>672,911</u>	<u>(356,086)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	(291,870)	(910,312)
CASH AND CASH EQUIVALENTS - beginning of year	<u>1,845,008</u>	<u>2,755,320</u>
CASH AND CASH EQUIVALENTS - end of year	<u>\$ 1,553,138</u>	<u>\$ 1,845,008</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid for interest	\$ 873,190	\$ 831,337

The accompanying notes are an integral part of the consolidated financial statements.

TENNESSEE AQUARIUM AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies and practices followed by the Aquarium are as follows:

NATURE OF ACTIVITIES AND ORGANIZATION - Tennessee Aquarium and subsidiary (the "Aquarium") are nonprofit corporations in the State of Tennessee. 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.

PRINCIPALS OF CONSOLIDATION - The accompanying consolidated financial statements include the accounts of the Tennessee Aquarium and its wholly-owned subsidiary, the Tennessee Aquarium Research Institute. All intercompany transactions and accounts have been eliminated in consolidation.

BASIS OF ACCOUNTING - The financial statements of the Aquarium have been prepared on the accrual basis of accounting.

FINANCIAL STATEMENT PRESENTATION - The Aquarium is required to report information regarding its financial position and activities according to three classes of net assets:

Unrestricted net assets - Net assets that are not subject to donor-imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of the Board of Directors or may otherwise be limited by contractual agreements with outside parties.

Temporarily restricted net assets - Net assets subject to donor-imposed restrictions on their use that may be met by either actions of the Aquarium or the passage of time. When donor restrictions expire, that is, when a time restriction end 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.

Permanently restricted net assets - Net assets subject to donor-imposed stipulation that they must be maintained permanently by the Aquarium.

REVENUE RECOGNITION - Revenue is recognized on admission tickets and ancillary sales on a cash basis at the point of sale.

Contributions are recognized as revenue when an unconditional promise to give is made or when a cash contribution is received. All contributions are considered to be available for unrestricted use unless specifically restricted by the donor.

Income from the sale of annual memberships is deferred and recognized ratably over the period for which the membership is valid.

TENNESSEE AQUARIUM AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 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. The agreement expired in 2012.

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.

RESTRICTED CASH - In 2010, the Aquarium refinanced its long-term bond debt. The Aquarium's existing bondholders were notified on the required dates that the bonds would be called on January 3, 2011. In order to fund the bond repayment, the Aquarium borrowed \$21,500,000. In addition, the Aquarium liquidated \$13,220,907 of its investments. The total of \$34,720,907 was deposited in an account on December 30, 2010, in order to fund the bond repayment made on January 3, 2011. This cash disbursement is reported as "Use of restricted cash for debt payoff" on the consolidated statements of cash flows.

CONTRIBUTIONS RECEIVABLE - Contributions receivable represents unconditional promises to give. 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.

In 2012 the Aquarium launched a capital campaign to raise \$10,000,000 for its Fund for Excellence and \$10,000,000 for its Endowment. The contributions are payable over periods of less than one year, one to five years or in more than five years. As of December 31, 2012, the Aquarium had \$551,465 in contributions receivable due from this campaign.

In 2007, the Aquarium launched a capital campaign to fund its Penguins' Rock exhibit, which opened in 2007. All unconditional promises to give were recognized as revenue in 2007. The contributions were collectible over periods of less than one year, one to five years, or in more than five years. The Aquarium had \$0 and \$132,363 of contributions receivables due from this campaign as of December 31, 2012 and 2011, respectively.

PROPERTY AND EQUIPMENT - Property and equipment are stated at cost or at the estimated fair value at the date of the gift, if donated, less accumulated depreciation. Significant additions and improvements that have estimated useful lives in excess of one year are capitalized. Other 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 \$3,360,610 and \$3,924,944 for the years ended December 31, 2012 and 2011, respectively.

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.

TENNESSEE AQUARIUM AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

INVESTMENTS - Investments in marketable securities with readily determinable fair values, shares in mutual funds, and all investments in debt securities are reported at fair value in the consolidated statements of financial position. Realized and unrealized gains and losses are included in investment income in the consolidated 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. Generally accepted accounting principles establish 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.

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 Company'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 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 derivatives should generally offset the market risk associated with the hedged liability. The agreements involve 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 records the derivative at fair value and changes in fair value are included in the accompanying consolidated statements of activities and changes in net assets.

FUNCTIONAL ALLOCATION 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.

Support expenses are all activities other than programming and include guest services, retail, marketing costs, human resources, and management and general expenses. Support expenses for the Aquarium include all guest services, management and general, marketing costs, and cost of ancillary sales included in the accompanying consolidated statements of activities and changes in net assets. All fundraising costs are classified as support expenses.

TENNESSEE AQUARIUM AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

ADVERTISING COSTS - The Aquarium expenses advertising costs as incurred. Advertising expense for the years ended December 31, 2012 and 2011, was approximately \$847,938 and \$743,208, respectively.

INCOME TAX STATUS - The Aquarium qualifies as a tax-exempt organization under Internal Revenue Code Section 501(c)(3) and, accordingly, is exempt from federal and state income taxes. The Aquarium's federal exempt income tax returns for the years ended December 31, 2011, 2010 and 2009, 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 accounting principles generally accepted in the United States of America 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 consolidated financial statements in order to conform to the current year presentation.

SUBSEQUENT EVENTS - The Aquarium has evaluated subsequent events for potential recognition and disclosure through June 28, 2013, the date the consolidated financial statements were available to be issued.

NOTE 2 - DONATED SERVICES

The Aquarium received contributed services valued at approximately \$251,000 and \$261,000 in 2012 and 2011, respectively, from participants in its Volunteer Diver program. Such contributed services have been recognized as unrestricted contributions and as programming expenses 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 no specialized skills are required.

NOTE 3 - CONTRIBUTIONS RECEIVABLE

Contributions receivable as of December 31, 2012 and 2011, are expected to be collected in the following periods:

	2012	2011
Less than one year	\$ 50,000	\$ 132,363
One to five years	<u>550,000</u>	<u>-</u>
	600,000	132,363
Unamortized discount (at 4%)	<u>(48,535)</u>	<u>-</u>
	<u>\$ 551,465</u>	<u>\$ 132,363</u>

TENNESSEE AQUARIUM AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4 - INVESTMENTS

Investments as of December 31, 2012 and 2011, consist of the following:

	2012		
	Fair Value	Cost	Net Unrealized Gain (Loss)
Mutual funds	\$ 5,170,262	\$ 4,859,603	\$ 310,659
Federal agency bonds	300,968	302,752	(1,784)
Certificates of deposit	<u>1,745,350</u>	<u>1,725,000</u>	<u>20,350</u>
	<u>\$ 7,216,580</u>	<u>\$ 6,887,355</u>	<u>\$ 329,225</u>
	2011		
	Fair Value	Cost	Net Unrealized Loss
Mutual funds	\$ 4,812,555	\$ 4,853,258	\$ (40,703)
Certificates of deposit	<u>997,600</u>	<u>1,000,000</u>	<u>(2,400)</u>
	<u>\$ 5,810,155</u>	<u>\$ 5,853,258</u>	<u>\$ (43,103)</u>

The net change in unrealized gain (loss) on investments is included in investment income in the accompanying consolidated statements of activities and changes in net assets and is included in the realized and unrealized gain on the accompanying consolidated statements of cash flows. Investment income is presented net of investment expense. Investment expense for the years ended December 31, 2012 and 2011, was approximately \$11,300 and \$11,900, respectively.

Investments that have been in a continuous unrealized loss position for greater than 12 months as of December 31, 2012 and 2011, are as follows:

	2012		
	Fair Value	Cost	Net Unrealized Loss
Mutual funds	<u>\$ 140,005</u>	<u>\$ 142,492</u>	<u>\$ (2,487)</u>

TENNESSEE AQUARIUM AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4 - INVESTMENTS - continued

	2011		
	Fair Value	Cost	Net Unrealized Loss
Mutual funds	\$ 409,818	\$ 424,310	\$ (14,492)
Certificates of deposit	<u>997,600</u>	<u>1,000,000</u>	<u>(2,400)</u>
	<u>\$ 1,407,418</u>	<u>\$ 1,424,310</u>	<u>\$ (16,892)</u>

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

	December 31, 2012			
	Level 1	Level 2	Level 3	Total
Assets				
Mutual funds	\$ 5,170,262	\$ -	\$ -	\$ 5,170,262
Federal agency bonds	-	300,968	-	300,968
Certificates of deposit	<u>725,350</u>	<u>1,020,000</u>	<u>-</u>	<u>1,745,350</u>
	<u>\$ 5,895,612</u>	<u>\$ 1,320,968</u>	<u>\$ -</u>	<u>\$ 7,216,580</u>
Liabilities				
Interest rate swap	<u>\$ -</u>	<u>\$ 1,144,012</u>	<u>\$ -</u>	<u>\$ 1,144,012</u>

	December 31, 2011			
	Level 1	Level 2	Level 3	Total
Assets				
Mutual funds	\$ 4,812,555	\$ -	\$ -	\$ 4,812,555
Certificates of deposit	<u>-</u>	<u>997,600</u>	<u>-</u>	<u>997,600</u>
	<u>\$ 4,812,555</u>	<u>\$ 997,600</u>	<u>\$ -</u>	<u>\$ 5,810,155</u>
Liabilities				
Interest rate swap	<u>\$ -</u>	<u>\$ 1,058,696</u>	<u>\$ -</u>	<u>\$ 1,058,696</u>

TENNESSEE AQUARIUM AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 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 refinanced \$5,500,000 Series 1991 Bonds were to mature in their entirety on July 1, 2021, but were paid off on January 3, 2011.

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 were to mature on March 1, 2015, but were paid off on January 3, 2011.

During 2005, the Aquarium completed construction of the Tennessee Aquarium Ocean Journey building. 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 were to mature in their entirety on April 1, 2024, but were paid off on January 3, 2011.

Interest on all of the aforementioned bond series was at a variable rate determined weekly and payable monthly. During 2010. All three bond series were 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 have terminated sooner than their expressed expiration dates upon the occurrence of certain conditions.

In October of 2010, the Board of Trustees approved the decision to restructure the Aquarium's bond debt by paying off \$13,000,000 of the existing bond debt and refinancing the remaining the balance with bank-qualified tax-exempt bonds. On December 30, 2010, the Industrial Development Board of the County of Hamilton, Tennessee, issued \$21,500,000 of Revenue Refunding Bonds Series 2010 (the Series 2010 Bonds). The Series 2010 Bonds mature on December 30, 2035.

The Series 2010 Bonds were purchased in their entirety by the Aquarium's lender and the proceeds were loaned to the Aquarium pursuant to a loan agreement dated December 30, 2010. The proceeds of the December 30, 2010, loan of \$21,500,000 plus \$13,220,907 of proceeds from the sale of Aquarium investments were deposited in an account with the Aquarium's lender to be used to payoff the Series 1991 Bonds, Series 1995 Bonds, and Series 2004 Bonds plus outstanding interest, letter of credit fees, and legal fees on January 3, 2011.

TENNESSEE AQUARIUM AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 5 - LONG-TERM DEBT - continued

Under the terms of the December 30, 2010 loan agreement, the Aquarium is to make monthly principal and interest payments based on a 25-year amortization. Interest on \$11,500,000 of the Series 2010 Bonds is at a fixed rate of 4.12%. Interest on the balance of \$10,000,000 of the Series 2010 Bonds is at a variable rate determined weekly and payable monthly. During 2012, the variable interest rate ranged from 1.56% to 1.62%. As of December 31, 2012 and 2011, the balance of the Series 2010 bonds was \$20,501,360 and \$21,032,928, respectively. The variable rate portion of the Series 2010 Bond is subject to an interest rate swap agreement disclosed below. The Series 2010 Bonds are secured by a springing lien on the Aquarium's property. The loan agreement matures on December 30, 2022.

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, 2012 and 2011, the Aquarium was in compliance with all of the financial covenants of the loan agreements.

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 ecotours 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 nonrecourse, such that repayment is required only to the extent the vessel's operations generate revenues in excess of the related expenses. The Aquarium repaid \$27,525 and \$109,921 of the loans in 2012 and 2011, respectively. As of December 31, 2012 and 2011, the balance of the promissory notes was \$2,456,682 and \$2,484,207, respectively. The loans are secured by the value of the vessel and are subordinate to the Aquarium's other debt.

In October of 2012, the Aquarium entered into a purchase and sale agreement to acquire the office space which it has 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 all of the purchase price. Under the terms of the loan agreement the Aquarium is to make monthly principal and interest payments based on a 10-year amortization. Interest is at a fixed rate of 4.05%. As of December 31, 2012, the balance of the promissory note was \$1,232,004. This note is cross-collateralized with the Aquarium's Series 2010 Bonds. The loan agreement matures on October 1, 2022.

Aggregate maturities of long-term debt for the years subsequent to December 31, 2012, are as follows:

Years ending	
December 31, 2013	\$ 660,097
December 31, 2014	688,423
December 31, 2015	717,231
December 31, 2016	745,074
December 31, 2017	778,422
Thereafter	<u>20,600,799</u>
	<u>\$ 24,190,046</u>

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

TENNESSEE AQUARIUM AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 5 - LONG-TERM DEBT - continued

The Aquarium entered into an interest rate swap agreement on December 21, 2010, with a financial institution, whereby, at specified intervals, the difference between fixed and variable rate interest amounts are calculated in reference to agreed upon notional amounts, which are amortized with the variable rate portion of the Series 2010 Bond disclosed above. Under the agreement the Aquarium receives interest payments at rates equal to 68% of LIBOR plus 1.42% and pays interest at a fixed rate of 3.99%. As of December 31, 2012 and 2011, the fair value of the interest rate swap agreement resulted in a liability of \$1,144,012 and \$1,058,696, respectively. For the years ended December 31, 2012 and 2011, the loss incurred from the change in fair value of the interest rate swap agreement was included in the consolidated statements of activities and changes in net assets in the amount of \$85,316 and \$1,014,831, respectively.

NOTE 6 - LEASE COMMITMENTS

The Aquarium leases equipment and office space pursuant to noncancelable operating lease agreements that expire from 2013 to 2017. Future minimum rental payments under the lease agreements are as follows:

Years ending

December 31, 2013	\$ 255,123
December 31, 2014	241,116
December 31, 2015	221,899
December 31, 2016	152,195
December 31, 2017	<u>40,799</u>
	<u>\$ 911,132</u>

The Aquarium's total rent expense for the years ended December 31, 2012 and 2011, was \$367,642 and \$411,542, respectively.

NOTE 7 - 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 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 years ended December 31, 2012 and 2011, was approximately \$375,317 and \$368,908, respectively.

NOTE 8 - LITIGATION

The Aquarium is a defendant in a lawsuit that arose from claims by an individual for an event that occurred in August of 2012. The suit seeks damages totaling \$500,000 in compensatory damages and \$1,000,000 in punitive damages. As of December 31, 2012, the Aquarium's consolidated financial statements do not include a provision for this matter as management intends to vigorously defend its position. Management believes that the payment of the aforementioned amounts is not probable. Management has determined that any liability that the Aquarium may incur would not have a material adverse effect on its consolidated financial statements.