

**ADVENTURE SCIENCE CENTER-NASHVILLE**

**FINANCIAL STATEMENTS**

**June 30, 2009 and 2008**

# **ADVENTURE SCIENCE CENTER-NASHVILLE**

## **TABLE OF CONTENTS**

Independent Auditor's Report.....	2
Financial Statements:	
Statements of Financial Position.....	3
Statements of Activities .....	4 – 5
Statements of Cash Flows .....	6
Notes to Financial Statements.....	7 – 20
Supplemental Information:	
Statements of Functional Expenses .....	21 – 22



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## INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees of  
Adventure Science Center-Nashville  
Nashville, Tennessee

We have audited the accompanying statements of financial position of Adventure Science Center-Nashville as of June 30, 2009 and 2008, and the related statements of activities, and cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audits. The 2007 summarized comparative information has been derived from the Organization's 2007 financial statements and in our report dated November 25, 2008 we expressed an unqualified opinion on those financial statements.

We conducted our audits 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as 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 financial position of Adventure Science Center-Nashville as of June 30, 2009 and 2008, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements of Adventure Science Center-Nashville taken as a whole. The accompanying supplemental information on pages 21 and 22 is presented for the purpose of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

*Frasier, Dean & Howard, PLLC*

December 2, 2009  
(March 2, 2010 as to note 9)  
Nashville, Tennessee

**ADVENTURE SCIENCE CENTER-NASHVILLE**  
**STATEMENTS OF FINANCIAL POSITION**  
**June 30, 2009 and 2008**

	<u>2009</u>	<u>2008</u>
<b>Assets</b>		
Cash and cash equivalents	\$ 1,955,645	\$ 1,010,868
Accounts and pledges receivable, net	3,822,414	4,964,223
Prepaid expenses	11,300	7,726
Inventory	36,944	17,371
Restricted/designated cash and cash equivalents	921,679	761,470
Property and equipment, net of accumulated depreciation	20,664,146	21,929,490
Other assets, net of accumulated amortization	606,429	626,177
Investments, substantially restricted	<u>2,387,688</u>	<u>2,830,779</u>
Total assets	<u>\$ 30,406,245</u>	<u>\$ 32,148,104</u>
<b>Liabilities and Net Assets</b>		
Liabilities:		
Accounts payable	\$ 167,813	\$ 1,153,007
Accrued expenses	213,026	197,982
Deferred revenue	52,585	54,280
Derivative financial instrument	192,243	-
Notes payable	<u>8,154,284</u>	<u>9,277,732</u>
Total liabilities	<u>8,779,951</u>	<u>10,683,001</u>
Net assets:		
Unrestricted	15,233,370	16,199,290
Temporarily restricted	4,770,056	3,642,945
Permanently restricted	<u>1,622,868</u>	<u>1,622,868</u>
Total net assets	<u>21,626,294</u>	<u>21,465,103</u>
Total liabilities and net assets	<u>\$ 30,406,245</u>	<u>\$ 32,148,104</u>

See accompanying notes.

**ADVENTURE SCIENCE CENTER-NASHVILLE**  
**STATEMENT OF ACTIVITIES**  
**For the Year Ended June 30, 2009 With Summarized Comparative Information for 2008**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Totals</u>	
				<u>2009</u>	<u>2008</u>
Revenue:					
Gifts, appropriations, and private grants	\$ 1,724,212	\$ 1,990,098	\$ -	\$ 3,714,310	\$ 7,530,587
Fees and admissions	2,783,512	-	-	2,783,512	1,427,525
Science Center shop	298,045	-	-	298,045	202,520
Interest and dividend income	89,893	-	-	89,893	177,407
Net loss on investments	(468,056)	-	-	(468,056)	(301,805)
Other income (loss)	11,680	-	-	11,680	(3,871)
Net assets released from restrictions	862,987	(862,987)	-	-	-
Total revenue	5,302,273	1,127,111	-	6,429,384	9,032,363
Expenses:					
Program services	5,352,293	-	-	5,352,293	3,778,103
Management and general	406,522	-	-	406,522	297,445
Fundraising	332,899	-	-	332,899	648,924
Total expenses	6,091,714	-	-	6,091,714	4,724,472
Loss on derivative	192,243	-	-	192,243	-
Bad debt recovery	(15,764)	-	-	(15,764)	(672,683)
Total expenses and losses	6,268,193	-	-	6,268,193	4,051,789
Change in net assets	(965,920)	1,127,111	-	161,191	4,980,574
Net assets - beginning of year	16,199,290	3,642,945	1,622,868	21,465,103	16,484,529
Net assets - end of year	<u>\$ 15,233,370</u>	<u>\$ 4,770,056</u>	<u>\$ 1,622,868</u>	<u>\$ 21,626,294</u>	<u>\$ 21,465,103</u>

See accompanying notes.

**ADVENTURE SCIENCE CENTER-NASHVILLE**  
**STATEMENT OF ACTIVITIES**

**For the Year Ended June 30, 2008 With Summarized Comparative Information for 2007**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Totals</u>	
				<u>2008</u>	<u>2007</u>
Revenue:					
Gifts, appropriations, and private grants	\$ 6,046,154	\$ 1,484,433	\$ -	\$ 7,530,587	\$ 8,312,992
Fees and admissions	1,427,525	-	-	1,427,525	1,416,036
Science Center shop	202,520	-	-	202,520	185,266
Interest and dividend income	177,407	-	-	177,407	154,095
Net (loss) gain on investments	(301,805)	-	-	(301,805)	279,632
Other (loss) income	(3,871)	-	-	(3,871)	23,912
Net assets released from restrictions	<u>5,038,093</u>	<u>(5,038,093)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total revenue	<u>12,586,023</u>	<u>(3,553,660)</u>	<u>-</u>	<u>9,032,363</u>	<u>10,371,933</u>
Expenses:					
Program services	3,778,103	-	-	3,778,103	3,680,722
Management and general	297,445	-	-	297,445	374,852
Fundraising	<u>648,924</u>	<u>-</u>	<u>-</u>	<u>648,924</u>	<u>834,007</u>
Total expenses	<u>4,724,472</u>	<u>-</u>	<u>-</u>	<u>4,724,472</u>	<u>4,889,581</u>
Bad debt (recovery) expense	<u>(672,683)</u>	<u>-</u>	<u>-</u>	<u>(672,683)</u>	<u>445,639</u>
Total expenses and losses	<u>4,051,789</u>	<u>-</u>	<u>-</u>	<u>4,051,789</u>	<u>5,335,220</u>
Change in net assets	8,534,234	(3,553,660)	-	4,980,574	5,036,713
Net assets - beginning of year	<u>7,665,056</u>	<u>7,196,605</u>	<u>1,622,868</u>	<u>16,484,529</u>	<u>11,447,816</u>
Net assets - end of year	<u>\$ 16,199,290</u>	<u>\$ 3,642,945</u>	<u>\$ 1,622,868</u>	<u>\$ 21,465,103</u>	<u>\$ 16,484,529</u>

See accompanying notes.

**ADVENTURE SCIENCE CENTER-NASHVILLE**  
**STATEMENTS OF CASH FLOWS**  
**For The Years ended June 30, 2009 and 2008**

	<u>2009</u>	<u>2008</u>
Cash flows from operating activities:		
Change in net assets	\$ 161,191	\$ 4,980,574
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Contributions restricted for long-term purposes	(1,990,098)	(1,484,433)
Bad debt recovery	(15,764)	(672,683)
Depreciation and amortization	1,855,798	925,752
Loss on disposition of property and equipment	-	9,617
Loss on derivative financial instrument	192,243	-
Net loss on investments	468,056	301,805
Changes in operating assets and liabilities:		
Accounts and pledges receivable	45,764	321,104
Prepaid expenses	(3,574)	(4,173)
Inventory	(19,573)	(4,715)
Accounts payable	(136,224)	56,263
Accrued expenses	15,044	15,086
Deferred revenue	(1,695)	(12,884)
Net cash provided by operating activities	<u>571,168</u>	<u>4,431,313</u>
Cash flows from investing activities:		
Purchase of property and equipment	(546,949)	(10,225,497)
Purchase of investments	(1,230,635)	(1,589,718)
Proceeds from sale of investments	1,205,670	1,654,564
Increase in restricted cash and cash equivalents	<u>(160,209)</u>	<u>(164,202)</u>
Net cash used in investing activities	<u>(732,123)</u>	<u>(10,324,853)</u>
Cash flows from financing activities:		
Payments on accounts payable for additions to property and equipment	(872,727)	(866,127)
Proceeds from contributions restricted for investment in property and equipment	3,101,907	2,572,100
Proceeds from note payable	153,334	5,296,610
Principal payments on notes payable	<u>(1,276,782)</u>	<u>(662,724)</u>
Net cash provided by financing activities	<u>1,105,732</u>	<u>6,339,859</u>
Net increase in cash and cash equivalents	944,777	446,319
Cash and cash equivalents - beginning of year	<u>1,010,868</u>	<u>564,549</u>
Cash and cash equivalents - end of year	<u>\$ 1,955,645</u>	<u>\$ 1,010,868</u>
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	<u>\$ 333,140</u>	<u>\$ 185,303</u>
Accounts payable for additions to property and equipment	<u>\$ 23,757</u>	<u>\$ 872,727</u>

See accompanying notes.

**ADVENTURE SCIENCE CENTER-NASHVILLE**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2009 and 2008**

**NOTE 1 – NATURE OF ACTIVITIES**

Adventure Science Center-Nashville (“the Center”) is a nonprofit corporation organized exclusively for charitable, educational and scientific purposes. The Center, formerly the Cumberland Science Museum, serves the community as Adventure Science Center. The Center provides an exciting and didactic environment for visitors of all ages to better understand science, technology, engineering and health through participatory exhibits, demonstrations, and a variety of educational activities and programs including Adventure Tower, BodyQuest and the Sudekum Planetarium. The Sudekum Planetarium closed in January 2007 and reopened in June 2008 as part of a \$21.4 million expansion project. It is the only center of its kind in a 200-mile radius, from which its visitors are primarily drawn. The Center receives funding from private contributions, local appropriations, grants, program fees and admissions.

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accompanying financial statements present the financial position and results of operations of the Center in conformity with accounting principles generally accepted in the United States of America. A summary of the significant accounting policies utilized in the preparation of these financial statements follows:

**Basis of Presentation**

The Center reports information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted and permanently restricted, as follows:

**Unrestricted net assets** - Net assets that are not subject to donor-imposed stipulations.

**Temporarily restricted net assets** - Net assets subject to donor-imposed stipulations that may or will be met, either by actions of the Center and/or the passage of time.

**Permanently restricted net assets** - Net assets subject to donor-imposed stipulations that they be maintained permanently by the Center. Generally, the donors of these assets permit the Center to use all or part of the income earned on related investments for general or specific purposes.

**Revenue Recognition**

Unconditional promises to give are recorded as assets at their estimated realizable value when received and are generally available for unrestricted use in the related year unless specifically restricted by the donor. An allowance for uncollectible accounts is provided based on past experience with collections and estimated collectability of current receivables. Uncollectible accounts are charged against the allowance in the period determined to be uncollectible.



**ADVENTURE SCIENCE CENTER-NASHVILLE**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**June 30, 2009 and 2008**

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Revenue Recognition (Continued)**

Unconditional promises to give that are expected to be collected in future years are recorded at the present value of estimated future cash flows, unless resulting income streams are not predictable. The discount on those amounts is computed using an interest rate in effect at the time the pledge is initially recognized. Amortization of the discount is recognized on the interest method over the term of the gift and included in contribution revenue.

Contributions of cash and other assets are reported as temporarily restricted support if they are received with donor stipulations that prescribe or limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted and reported in the statements of activities as net assets released from restrictions.

**Use of Estimates**

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 and allocation of functional expenses during the reporting period. Actual results could differ from those estimates.

**Cash and Cash Equivalents and Restricted Cash**

Cash and cash equivalents consist principally of checking account balances, money market accounts and certificates of deposit and are stated at cost plus accrued interest, which approximates market value. Cash and cash equivalents in investment accounts designated for long-term purposes, or restricted for major construction projects, are excluded from the definition of cash and cash equivalents. Restricted cash consists of contributions received with donor-imposed restrictions limiting their use to long-term purposes and proceeds from a note payable restricted for use in construction of the new Sudekum Planetarium and related exhibits. Unrestricted and restricted cash are held in separate bank accounts.

**Investments**

In accordance with Statement of Financial Accounting Standards (“SFAS”) No. 124, *Accounting for Certain Investments Held by Not-for-Profit Organizations*, investments in marketable securities with readily determinable fair values and all investments in debt securities are valued at their fair values in the statements of financial position. Unrealized gains and losses are recognized in the statements of activities for the years ended June 30, 2009 and 2008. Fair values are based on quoted market price on the last business day of the fiscal year.

**ADVENTURE SCIENCE CENTER-NASHVILLE**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**June 30, 2009 and 2008**

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Investments (Continued)**

Gains and losses arising from the sale, collection, or other disposition of investments and other noncash assets and ordinary income from investments are accounted for in the unrestricted and temporarily restricted funds unless permanently restricted by the donor.

**Fair Value Measurements**

The Center has an established process for determining fair values. Fair value is based upon quoted market prices, where available. If listed prices or quotes are not available, fair value is based upon internally developed models or processes that use primarily market-based or independently-sourced market data and third party information. Valuation adjustments may be made to ensure that financial instruments are recorded at fair value. Furthermore, while the Center believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies, or assumptions, to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date. Generally accepted accounting principles have a three-level valuation hierarchy for fair value measurements. A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

The three levels are explained as follows:

*Level 1* – inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.

*Level 2* – inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset and liability, either directly or indirectly, for substantially the full term of the financial instrument.

*Level 3* – inputs to the valuation methodology are unobservable and significant to the fair value measurement.

**Inventory**

Inventory consists primarily of gift shop inventory and is valued at lower of cost (first-in, first-out method) or market.

**ADVENTURE SCIENCE CENTER-NASHVILLE**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**June 30, 2009 and 2008**

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Property and Equipment**

Property and equipment is reported at cost at the date of purchase or at fair market value at the date of gift. Depreciation and amortization are calculated by the straight-line method to allocate the cost of depreciable assets over their estimated useful lives starting in the period in which the assets are placed in service. Interest cost on outstanding borrowings is capitalized as part of the cost of acquiring qualifying assets, if material, during the period required to prepare such assets for intended use.

**Donated Materials and Services**

Donated materials are recorded as gifts in the period received at fair value, if there is an objective and measurable basis for determining such value. Donated services are recognized if they create or enhance nonfinancial assets or the donated service requires specialized skills, is performed by a donor who possesses such skills, and would have been purchased by the Center if not donated. Such services are recognized at fair value as support and expense in the period the services are performed. There were no significant donated materials and services in fiscal 2009 and 2008. Unpaid volunteers have made significant contributions of their time to assist the Center in implementing various programs and exhibits. The value of contributed time is not reflected in these statements since it is not susceptible to objective measurement or valuation and generally does not comply with specialized skill requirements necessary to record such volunteer services by professional standards. However, during the years ended June 30, 2009 and 2008, volunteers provided approximately 20,100 and 21,400 hours of service, respectively, to various Center programs.

**Functional Allocation of Expenses**

The following program and supporting services are included in the accompanying financial statements:

Program services – includes costs of activities carried out to fulfill the Center’s mission, resulting in services being provided to beneficiaries, customers and members. Program services are the major purpose for the Center. The Center’s program services include exhibit activities, educational and public programs, planetarium operation, advertising and media costs directly related to programs and exhibits, and the cost of operating the Center’s gift shop.

Management and general – relates to the overall direction of the Center. These expenses are not identifiable with a particular program or with fundraising, but are indispensable to the conduct of those activities and are essential to the Center. Specific activities include organization oversight, business management, recordkeeping, budgeting, financing, and other administrative activities.

**ADVENTURE SCIENCE CENTER-NASHVILLE**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**June 30, 2009 and 2008**

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Functional Allocation of Expenses (Continued)**

Fundraising – includes costs of activities directed toward appeals for financial support, including special events. Other activities include the cost of solicitation as well as creation and distribution of fundraising materials. They also include membership development.

Expenses that can be directly attributed to a particular function are charged to that function. Expenses that relate to more than one function are allocated among applicable functions on the basis of objectively evaluated financial and nonfinancial data or reasonable subjective methods determined by management.

**Income Taxes**

The Center is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. Accordingly, federal income taxes have not been recorded in the accompanying financial statements.

**Capitalization of Exhibit Costs**

Costs of long-lived exhibits are capitalized and depreciated over their estimated useful lives. Such costs include allocable payroll costs, representing the time spent by the Center staff in constructing or creating these exhibits.

**Advertising Costs**

The cost of advertising and media expenditures is expensed when incurred. Advertising and media expense amounted to \$319,744 and \$430,629 during the years ended June 30, 2009 and 2008, respectively.

**Compensated Absences**

Full-time, permanent employees of the Center are granted vacation benefits in varying amounts to specified maximums depending on tenure. Employees are entitled to their balances of accrued vacation leave upon termination. The estimated liability for vested benefits is included in accrued expenses.

**Endowment Funds**

During 2008, the Staff of the Financial Accounting Standards Board (“FASB”) issued Proposed FASB Staff Position No. FAS 117-1, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of*

**ADVENTURE SCIENCE CENTER-NASHVILLE**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**June 30, 2009 and 2008**

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Endowment Funds (Continued)**

*Institutional Funds Act, (“UPMIFA”) and Enhanced Disclosures for All Endowment Funds (“FSP 117-1”).* The FSP clarifies that a nonprofit organization should classify the portion of a donor-restricted endowment fund that is not permanently restricted by the donor or by law as temporarily restricted net assets (time restricted) until it is appropriated for expenditure and donor-imposed purpose restrictions, if any, are met. When the purpose restrictions, if any, on the portion of donor-restricted endowment funds are met and the appropriation has occurred, temporarily restricted net assets are reclassified to unrestricted net assets. FSP 117-1 also required additional disclosures applicable to all nonprofit organizations. Those disclosures provide: a) a description of the organization’s policies for making appropriations for expenditures from endowment funds (i.e. the organization’s endowment spending policies), b) a description of the organization’s investment policies for endowment funds, c) a description of the organization’s endowment by net asset class at the end of the period in total and by type of endowment fund, d) a reconciliation of the beginning and ending balances of endowment funds in total and by net asset class, and e) a description of the organization’s interpretation of the laws underlying the net asset classification of donor-restricted endowment funds. The Center has implemented this pronouncement and is now providing the expanded disclosures as of June 30, 2009.

**NOTE 3 – ACCOUNTS AND PLEDGES RECEIVABLE**

Accounts and pledges receivable are primarily composed of unconditional promises to give and are collectible over the following periods:

	<u>2009</u>	<u>2008</u>
Less than one year	\$ 2,143,794	\$ 2,938,772
One to five years	1,839,933	2,447,825
	3,983,727	5,386,597
Less discount to net present value	(182,811)	(304,847)
	3,800,916	5,081,750
Less allowance for uncollectibles	(75,418)	(179,075)
Unconditional promises to give, net	3,725,498	4,902,675
Program related receivables	96,916	61,548
Accounts and pledges receivable, net	<u>\$ 3,822,414</u>	<u>\$ 4,964,223</u>

The Center discounts pledges that are expected to be collected after one year using rates ranging from 3.00% to 5.18% during the years ended June 30, 2009 and 2008. Discounted unconditional promises to give, that are included in accounts and pledges receivable, include \$11,355 restricted for the engineers’ capital improvements and facilities, \$36,615 restricted for the adventure tower capital project, \$676,757 restricted for the BodyQuest capital project, \$3,007,993 restricted for planetarium

**ADVENTURE SCIENCE CENTER-NASHVILLE**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**June 30, 2009 and 2008**

**NOTE 3 – ACCOUNTS AND PLEDGES RECEIVABLE (Continued)**

capital project, and \$68,196 for other purposes at June 30, 2009. During 2008, a pledge previously deemed uncollectible was reaffirmed. As a result, a bad debt recovery of \$15,764 and \$672,683 has been recorded in the accompanying statements of activities for the years ended June 30, 2009 and 2008, respectively.

**NOTE 4 – PROPERTY AND EQUIPMENT**

Property and equipment consists of the following at June 30:

	<u>2009</u>	<u>2008</u>	<u>Estimated Useful Lives</u>
Buildings	\$ 17,827,563	\$ 17,822,031	5 - 40 years
Equipment and exhibits	10,131,416	9,803,885	3 - 20 years
Exhibits – construction in progress	<u>408,288</u>	<u>223,434</u>	
	28,367,267	27,849,350	
Less accumulated depreciation	<u>(7,703,121)</u>	<u>(5,919,860)</u>	
	<u>\$ 20,664,146</u>	<u>\$ 21,929,490</u>	

Fully depreciated assets amounted to approximately \$1,007,000 and \$920,000, at June 30, 2009 and 2008, respectively.

**Land lease**

Land on which the Center's main building and parking lots are located is leased through the year 2017 from the Metropolitan Board of Parks and Recreation of the Metropolitan Government of Nashville and Davidson County, Tennessee, for one dollar per year. The Center has the option to renew the lease at expiration for an additional 50 years at the same terms.

**NOTE 5 – OTHER ASSETS**

Other assets consist of the following at June 30:

	<u>2009</u>	<u>2008</u>
STARS show	\$ 645,195	\$ 594,480
Loan costs	<u>35,659</u>	<u>35,659</u>
	680,854	630,139
Less accumulated amortization	<u>(74,425)</u>	<u>(3,962)</u>
	<u>\$ 606,429</u>	<u>\$ 626,177</u>

**ADVENTURE SCIENCE CENTER-NASHVILLE**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**June 30, 2009 and 2008**

**NOTE 5 – OTHER ASSETS (Continued)**

The Center incurred \$645,195 of costs to produce its new planetarium show. These costs have been capitalized and included in other assets in the accompanying statements of financial position. The costs are being amortized over 10 years, the expected life of the show. During the year ended June 30, 2008, the Center incurred \$35,659 in connection with its planetarium note payable. These costs are included in other assets in the accompanying statements of financial position and are being amortized over 6 years, the term of the related loan.

**NOTE 6 – INVESTMENTS**

Investments are stated at fair value with fair value determined based on active markets (Level 1) and consist of the following at June 30:

	<u>2009</u>	<u>2008</u>
Mutual Funds	\$ 1,201,964	\$ 1,433,653
Short-term investments	441,300	264,295
Stocks	281,610	648,032
Corporate bonds	259,361	232,511
Asset backed securities	149,908	176,772
Government bonds	53,545	62,802
International securities	<u>-</u>	<u>12,714</u>
	<u>\$ 2,387,688</u>	<u>\$ 2,830,779</u>

The following schedule summarizes the investment return for the years ended June 30:

	<u>2009</u>	<u>2008</u>
Realized (losses) gains	\$ (427,108)	\$ 152,239
Unrealized losses	<u>(18,702)</u>	<u>(427,016)</u>
Net realized and unrealized losses	(445,810)	(274,777)
Investment fees	<u>(22,246)</u>	<u>(27,028)</u>
	<u>\$ (468,056)</u>	<u>\$ (301,805)</u>

**NOTE 7 – COLLECTIONS**

In conformity with the practice followed by many museums, art objects purchased and donated are not included in the statements of financial position. The value of art objects acquired by gift cannot be reasonably estimated and has not been recognized in the statements of activities. The cost of art objects purchased is reported under exhibits and programs expense. There were no material art objects purchased or donated during the years ended June 30, 2009 and 2008.

**ADVENTURE SCIENCE CENTER-NASHVILLE**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**June 30, 2009 and 2008**

**NOTE 8 – TRUST FUND**

The Sudekum Memorial Trust was established to defray operating expenses of the Sudekum Planetarium through annual contributions from the income of the Trust. The Trust is governed by five directors, including the Center's Board Chair, another Center trustee and representatives of the Sudekum family. Distributions, which amounted to \$71,710 and \$470,436 in 2009 and 2008, respectively, are recorded in gifts, appropriations and private grants. The trustees have full discretion as to the timing of distributions and may elect to use Trust funds for another purpose. Accordingly, contribution support is recorded when distributions are received and trust assets are not reported in the Center's statements of financial position.

**NOTE 9 – NOTES PAYABLE**

Notes payable consist of the following at June 30:

	<u>2009</u>	<u>2008</u>
Note payable to bank, matures May 2012 and accrues interest at 6.28%. The note is secured by substantially all real and personal property of the Center. The note requires quarterly payments of \$94,796, including interest.	\$ 978,709	\$ 1,332,059
Note payable to bank, \$7,000,000 maximum borrowings available, matures October 1, 2013 and accrues interest at LIBOR plus 1.25% (1.565% at June 30, 2009). The note is secured by substantially all real and personal property of the Center and gross pledges of \$3,166,329 at June 30, 2009. The note requires quarterly payments, including interest, through the maturity date.	4,904,950	5,296,610
Note payable to bank, matures December 2015 and accrues interest 3.12%. The note requires quarterly payments, including interest, through the maturity date. The note payable is secured by an exhibit with a depreciated value of approximately \$1,090,214 and gross pledges receivable of \$700,000 at June 30, 2009.	<u>2,270,625</u>	<u>2,649,063</u>
	<u>\$ 8,154,284</u>	<u>\$ 9,277,732</u>



**ADVENTURE SCIENCE CENTER-NASHVILLE**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**June 30, 2009 and 2008**

**NOTE 9 – NOTES PAYABLE (Continued)**

A schedule by year, of aggregate principal maturities of notes payable as of June 30, 2009, follows:

Year ending <u>June 30,</u>	
2010	\$ 1,784,479
2011	1,805,392
2012	1,766,426
2013	1,459,196
2014	914,201
Thereafter	<u>424,590</u>
	<u>\$ 8,154,284</u>

The Center was not in compliance with certain covenants contained in its credit facility at June 30, 2009 and 2008. The Center has received a waiver from its lender for the covenant violation and, as a result, the principal maturities above are classified according to scheduled maturities in the note agreement.

Total interest expense for the years ended June 30, 2009 and 2008 was \$525,788 (includes interest rate swap valuation decline) and \$198,651, respectively. During the year ended June 30, 2008, \$83,228 of interest incurred was capitalized into the cost of the new planetarium building.

**NOTE 10 – DERIVATIVE FINANCIAL INSTRUMENT**

The Center is party to an interest rate swap agreement in an effort to reduce the risk associated with interest rate fluctuations. The Center does not engage in trading this derivative. This swap agreement was entered into to manage a portion of the variable rate obligation related to the new planetarium note payable. Based on the swap agreement, the Center will pay interest quarterly calculated by multiplying the notional amount times a fixed rate of 4.75% per annum. In return, the counterparty will pay interest based on a variable rate. At June 30, 2009, the notional amount is \$2,700,000. The fair value of the interest rate swap liability was \$192,243 as of June 30, 2009 and was included as a liability in the statement of financial position. The swap agreement expires in October 2013.

**ADVENTURE SCIENCE CENTER-NASHVILLE**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**June 30, 2009 and 2008**

**NOTE 11 – TEMPORARILY RESTRICTED NET ASSETS**

Temporarily restricted net assets consist principally of contributions restricted for future programs or improvements to existing programs. Significant components at June 30 include the following:

	<u>2009</u>	<u>2008</u>
BodyQuest	\$ 3,032,579	\$ 3,088,829
Planetarium	1,253,227	-
Bugs Backyard	252,492	250,000
Tennessee Engineering Center	108,929	94,629
Contributions receivable - other	61,696	106,110
Adventure Tower	31,136	74,820
Other	<u>29,997</u>	<u>28,557</u>
	<u>\$ 4,770,056</u>	<u>\$ 3,642,945</u>

**NOTE 12 – PERMANENTLY RESTRICTED NET ASSETS**

Permanently restricted net assets consist of contributions whose principal is to be held in perpetuity in accordance with terms prescribed by the donors. The income from permanently restricted contributions is expendable to support the operations of the Center. Permanently restricted net assets totaled \$1,622,868 at June 30, 2009 and 2008.

The UPMIFA was enacted in Tennessee effective July 1, 2007. The Center has interpreted the UPMIFA as requiring that the Center classify as permanently restricted net assets a) the original value of donor-restricted gifts to the permanent endowment, b) the original value of subsequent donor-restricted gifts to the permanent endowment, and c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are approved for expenditure by the board in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Center considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund
- The purposes of the Center and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the Center
- The investment policies of the Center

**ADVENTURE SCIENCE CENTER-NASHVILLE**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**June 30, 2009 and 2008**

**NOTE 12 – PERMANENTLY RESTRICTED NET ASSETS (Continued)**

**Endowment Net Asset Composition by Type of Fund as of June 30, 2009:**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor restricted endowment funds	\$ (242,650)	\$ -	\$ 1,622,868	\$ 1,380,218

**Changes in Endowment Net Assets for the fiscal year ended June 30, 2009:**

Endowment net assets, beginning of year	\$ (27,549)	\$ -	\$ 1,622,868	\$ 1,595,319
Investment return:				
Investment income	30,198	-	-	30,198
Net depreciation (realized and unrealized)	(245,299)	-	-	(245,299)
Total investment return	(215,101)	-	-	(215,101)
Endowment net assets, end of year	\$ (242,650)	\$ -	\$ 1,622,868	\$ 1,380,218

**Endowment Net Asset Composition by Type of Fund as of June 30, 2008:**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor restricted endowment funds	\$ (27,549)	\$ -	\$ 1,622,868	\$ 1,595,319
<b>Changes in Endowment Net Assets for the fiscal year ended June 30, 2008:</b>				
Endowment net assets, beginning of year	\$ -	\$ 274,887	\$ 1,622,868	\$ 1,897,755
Appropriation of endowment assets for expenditure	-	(200,000)	-	(200,000)
Investment return:				
Investment income	81,695	-	-	81,695
Net depreciation (realized and unrealized)	(109,244)	(74,887)	-	(184,131)
Total investment return	(27,549)	(74,887)	-	(102,436)
Endowment net assets, end of year	\$ (27,549)	\$ -	\$ 1,622,868	\$ 1,595,319

**ADVENTURE SCIENCE CENTER-NASHVILLE**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**June 30, 2009 and 2008**

**NOTE 12 – PERMANENTLY RESTRICTED NET ASSETS (Continued)**

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Center to retain as a fund of perpetual duration. In accordance with generally accepted accounting principles, deficiencies of this nature that are reported in unrestricted net assets were \$242,650 and \$27,549 as of June 30, 2009 and 2008, respectively. These deficiencies resulted from unfavorable market fluctuations that occurred shortly after the appropriation for certain programs that was deemed prudent by the board of trustees.

The Center has adopted investment and spending policies for endowment assets that attempt to preserve the capital and maintain the purchasing power of the endowment assets. Under this policy, as approved by the board of trustees, the endowment assets are invested in a manner that is intended to provide a real total return, net of investment management fees, that will grow principal and cash flow. Actual returns in any given year may vary. To satisfy its long-term rate-of-return objectives, the Center investment policy allows for up to 100% investment in equities and up to 20% in fixed income securities.

The Center may authorize a distribution of any and all earnings above the fair value of the original gift.

**NOTE 13 – CONCENTRATIONS OF CREDIT RISK**

Financial instruments that potentially subject the Center to concentrations of credit risk consist of cash, investments and pledges receivable.

The Center maintains its cash in bank accounts that, at times, may exceed federally insured limits. The Center has not experienced any losses in such accounts. Deposits are insured by the Federal Deposit Insurance Corporation. Management believes the Center is not exposed to any significant credit risk on cash. Uninsured balances at June 30, 2008 totaled \$1,377,887.

Investments are subject to market risk. Money market funds held in the investment account are uninsured. Risk related to equity and debt investments is mitigated by diversification of the portfolio among issuers and industries.

Pledges receivable consist of individual, foundation and corporate contribution pledges. At June 30, 2009, pledges receivable from five corporate and foundation donors amounted to \$2,683,165, or 70% of total accounts and pledges receivable by the Center. At June 30, 2008, pledges receivable from three corporate and individual donors amounted to \$2,680,348, or 53% of total accounts and pledges receivable by the Center. Allowances for uncollectible pledges are provided for receivables, with specific emphasis on the unique characteristics of significant campaigns, based on collection history and discrete knowledge of the donor base.

**ADVENTURE SCIENCE CENTER-NASHVILLE**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**June 30, 2009 and 2008**

**NOTE 14 – EMPLOYEE BENEFIT PLAN**

The Center provides its employees with a 401(k) retirement plan (the “Plan”). Employees are eligible to contribute to the Plan upon reaching age 18 and completing three months of qualified service. Employees are eligible to receive matching and discretionary contributions upon reaching age 21 and completing one year of qualified service. For the years ended June 30, 2009 and 2008, the Center provided a discretionary matching contribution of \$26,975 and \$21,983, respectively.

**NOTE 15 – CAPITAL CAMPAIGN**

The Center is conducting a capital campaign for a 33,000 square foot expansion project which includes new exhibit space interpreting sky and space and a new, state-of-the-art planetarium. The new planetarium and the first phase of exhibits opened in June 2008, with the second phase of exhibits opening in 2009. Net pledges have been recognized as revenue. During the years ended June 30, 2009 and 2008, approximately \$370,000 and \$15,000,000, respectively, of building and exhibits were placed into service related to this project.

The Center received grants from the National Aeronautics and Space Administration (“NASA”) amounting to approximately \$1,600,000 to facilitate the purchase of equipment related to completion of the new planetarium. At June 30, 2008, all of these grants had been expended and reimbursed by NASA.

**NOTE 16 – COMMITMENTS AND CONTINGENCIES**

The Center is involved in various legal proceedings arising in the ordinary course of business. In the opinion of management, although the outcome of any legal proceedings cannot be predicted, the ultimate liability of the Center in connection with its legal proceedings will not have a material adverse effect on the financial position or activities of the Center.

## **SUPPLEMENTAL INFORMATION**

**ADVENTURE SCIENCE CENTER-NASHVILLE**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**For The Year ended June 30, 2009**

	<b>Program Services</b>	<b>Management and General</b>	<b>Fundraising</b>	<b>Total</b>
Salaries and wages	\$ 1,433,654	\$ 200,296	\$ 189,804	\$ 1,823,754
Employee benefits	167,874	46,861	27,252	241,987
Payroll taxes and workers comp.	118,176	14,107	13,771	146,054
 Total payroll and related expenses	 1,719,704	 261,264	 230,827	 2,211,795
 Interest	 333,545	 -	 -	 333,545
Capital related expense	250,701	54,550	-	305,251
Building maintenance and facility rental	230,336	2,452	6,315	239,103
Utilities	186,167	21,155	4,231	211,553
Marketing expenses	151,192	160	430	151,782
Supplies	115,249	27,596	1,831	144,676
Science Center gift shop	140,499	-	-	140,499
Exhibits and programs	115,657	-	1,200	116,857
Professional fees and dues	62,023	13,909	26,519	102,451
Equipment costs - main.	86,301	2,863	-	89,164
Insurance	39,001	17,708	2,952	59,661
Fundraising events	-	-	38,213	38,213
Printing and publications	22,184	138	11,268	33,590
Postage and shipping	18,275	1,261	5,647	25,183
Telephone	13,190	3,466	3,466	20,122
Travel	12,471	-	-	12,471
 Total functional expenses before depreciation	 3,496,495	 406,522	 332,899	 4,235,916
 Depreciation and amortization	 1,855,798	 -	 -	 1,855,798
 Total functional expenses	 <u>\$ 5,352,293</u>	 <u>\$ 406,522</u>	 <u>\$ 332,899</u>	 <u>\$ 6,091,714</u>

**ADVENTURE SCIENCE CENTER-NASHVILLE**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**For The Year ended June 30, 2008**

	<b>Program Services</b>	<b>Management and General</b>	<b>Fundraising</b>	<b>Total</b>
Salaries and wages	\$ 1,224,053	\$ 185,062	\$ 164,242	\$ 1,573,357
Employee benefits	169,607	14,794	16,006	200,407
Payroll taxes and workers comp.	97,417	13,505	11,829	122,751
 Total payroll and related expenses	 1,491,077	 213,361	 192,077	 1,896,515
Professional fees and dues	45,968	22,719	293,485	362,172
Marketing expenses	249,916	-	-	249,916
Interest	198,651	-	-	198,651
Utilities	146,052	16,597	3,319	165,968
Building maintenance and facility rentals	149,607	-	6,134	155,741
Supplies	80,795	10,670	30,903	122,368
Science Center gift shop	110,647	-	-	110,647
Exhibits and programs	75,388	7,633	26,617	109,638
Capital related expense	95,967	-	-	95,967
Equipment costs - main.	87,499	1,970	95	89,564
Printing and publications	44,273	245	16,477	60,995
Fundraising events	-	-	58,773	58,773
Insurance	32,481	14,734	2,456	49,671
Postage and shipping	15,006	1,346	12,867	29,219
Telephone	12,770	4,257	5,316	22,343
Travel	18,583	1,733	256	20,572
 Total functional expenses before depreciation	 2,854,680	 295,265	 648,775	 3,798,720
Depreciation and amortization	923,423	2,180	149	925,752
 Total functional expenses	 <u>\$ 3,778,103</u>	 <u>\$ 297,445</u>	 <u>\$ 648,924</u>	 <u>\$ 4,724,472</u>