ADVENTURE SCIENCE CENTER-NASHVILLE

FINANCIAL STATEMENTS

June 30, 2012

ADVENTURE SCIENCE CENTER-NASHVILLE

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FRASIERDEAN
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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 statement of financial position of Adventure Science Center-Nashville as of June 30, 2012, and the related statements of activities and cash flows for the year 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 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 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 significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides 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, 2012, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 16, during 2012 management reviewed the Organization's net asset classifications and determined that certain reclassifications were necessary to properly reflect the balances of net asset categories as of June 30, 2011.

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of functional expenses on page 20 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Frasier, Dean & Howard, PLLC

October 18, 2012
Nashville, Tennessee

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ADVENTURE SCIENCE CENTER-NASHVILLE
STATEMENT OF FINANCIAL POSITION
June 30, 2012

Assets

Cash and cash equivalents	$ 634,831
Accounts and pledges receivable, net	660,412
Prepaid expenses	144,723
Inventory	31,069
Investments	1,615,852
Restricted cash and cash equivalents	607,870
Property and equipment, net of accumulated depreciation	16,980,821
Other assets, net of accumulated amortization	395,041
Beneficial interest in charitable remainder unitrust	558,456
Total assets	$ 21,629,075

Liabilities and Net Assets

Liabilities:	
Accounts payable	$ 89,130
Accrued expenses	147,922
Deferred revenue	101,114
Derivative financial instrument	35,552
Notes payable	1,809,996
Total liabilities	2,183,714
Net assets:	
Unrestricted:	
Undesignated	15,981,491
Board-designated endowment	1,570,603
Total unrestricted	17,552,094
Temporarily restricted	1,893,267
Total net assets	19,445,361
Total liabilities and net assets	$ 21,629,075

See accompanying notes.

ADVENTURE SCIENCE CENTER-NASHVILLE
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2012

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue:				
Fees and admissions	$ 2,317,291	$ -	$ -	$ 2,317,291
Gifts, appropriations, and private grants	1,319,501	852,178	-	2,171,679
Beneficial interest in charitable remainder unitrust	-	558,456	-	558,456
Science Center shop	269,759	-	-	269,759
Interest and dividend income	48,329	1,754	-	50,083
Other income	25,938	-	-	25,938
Net loss on investments	(28,486)	-	-	(28,486)
Net assets released from restrictions	382,398	(382,398)	-	-
Total revenue	4,334,730	1,029,990	-	5,364,720
Expenses:				
Program services	4,629,081	-	-	4,629,081
Management and general	313,298	-	-	313,298
Fundraising	377,398	-	-	377,398
Total expenses	5,319,777	-	-	5,319,777
Change in net assets	(985,047)	1,029,990	-	44,943
Net assets - beginning of year *(as reclassified)*	18,537,141	863,277	-	19,400,418
Net assets - end of year	$ 17,552,094	$ 1,893,267	$ -	$ 19,445,361

See accompanying notes.

ADVENTURE SCIENCE CENTER-NASHVILLE
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2012

Cash flows from operating activities:	
Change in net assets	$ 44,943
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Contributions restricted for long-term purposes	(427,568)
Depreciation and amortization	1,417,499
Change in value of derivative financial instrument	(54,685)
Donation of beneficial interest in charitable remainder unitrust	(558,456)
Net loss on investments	28,486
Changes in operating assets and liabilities:	
Accounts and pledges receivable	41,021
Prepaid expenses	28,451
Inventory	(1,228)
Accounts payable	5,519
Accrued expenses	(2,435)
Deferred revenue	9,137
Net cash provided by operating activities	530,684
Cash flows from investing activities:	
Purchase of property and equipment	(26,537)
Purchase of investments	(429,685)
Proceeds from sale of investments	481,554
Increase in restricted cash and cash equivalents	(347,910)
Net cash used in investing activities	(322,578)
Cash flows from financing activities:	
Proceeds from contributions restricted for investment in property and equipment	841,312
Principal payments on notes payable	(956,017)
Net cash used in financing activities	(114,705)
Net increase in cash and cash equivalents	93,401
Cash and cash equivalents - beginning of year	541,430
Cash and cash equivalents - end of year	$ 634,831

See accompanying notes.

ADVENTURE SCIENCE CENTER-NASHVILLE
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

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, Space Chase and the Sudekum Planetarium. 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 accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Center and changes therein are classified and reported 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. The Center had no permanently restricted net assets at June 30, 2012.

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of Estimates (Continued)

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.

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.

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 commensurate with the risks involved 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 statement of activities as net assets released from restrictions.

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 bank-imposed restrictions on certain contributions for use of paying down long-term debt. Unrestricted and restricted cash are held in separate bank accounts.

Inventory

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments

In accordance with standards of accounting for investments prescribed for 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 statement of financial position. Unrealized gains and losses are recognized in the statement of activities. Fair values are based on quoted market price on the last business day of the fiscal year.

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 value. 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. Accounting principles generally accepted in the United States of America 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.

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 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 significant, 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 during the year ended June 30, 2012.

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 year ended June 30, 2012, volunteers provided approximately 7,500 hours of service 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 operations, 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.

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. These costs 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.

Advertising Costs

The cost of advertising and media expenditures is expensed when incurred. Advertising and media expense amounted to $231,136 during the year ended June 30, 2012.

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.

The Center follows guidance that clarifies the accounting for uncertainty in income taxes recognized in an entity's financial statements. This guidance prescribes a minimum probability threshold that a tax position must meet before a financial statement benefit is recognized. The minimum threshold is defined as a tax position that is more likely than not to be sustained upon examination by the applicable taxing authority, including resolution of any related appeals or litigation processes, based on the technical merits of the position. The tax benefit to be recognized is measured as the largest amount of benefit that is greater than fifty percent likely of being realized upon ultimate settlement. The Center has no tax penalties or interest reported in the accompanying financial statements. Tax years that remain open for examination include the years ended June 30, 2009 through June 30, 2012. The Center had no uncertain tax positions at June 30, 2012.

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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Charitable Remainder Unitrust

The Center has been named as the charitable beneficiary of a charitable remainder unitrust. A charitable remainder unitrust is a split-interest agreement in which the charitable beneficiary receives its beneficial interest in the donated assets after the designated beneficiary has received benefits for a specified time period (or upon the designated beneficiary's death). At the termination of the agreement, the remaining assets of the unitrust pass to the charitable beneficiary for its use. A temporarily restricted contribution and related asset are recognized in the year the unitrust is established based on the fair value of the assets contributed less the present value of the future payments expected to be made to the designated beneficiary. The expected future payments are based on the actuarial life expectancy of the life of the income recipient using the discount rate in existence at the time of notification. Discount amortization and any revaluations of expected future payments to the beneficiaries are recognized as periodic adjustments to the asset. Corresponding changes in the value of the split interest agreement are recognized currently and included in temporarily restricted contributions.

Endowment Funds

Accounting principles generally accepted in the United States of America state 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. The guidance also requires 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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Subsequent Events

The Center evaluated subsequent events through October 18, 2012, when these financial statements were available to be issued. Management is not aware of any significant events that occurred subsequent to the statement of financial position date but prior to the filing of this report that would have a material impact on the financial statements.

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 at June 30, 2012:

Less than one year	$ 357,341
One to five years	280,794
	638,135
Less discount to net present value	(8,179)
	629,956
Less allowance for uncollectibles	(68,551)
Unconditional promises to give, net	561,405
Program related receivables	99,007
Accounts and pledges receivable, net	$ 660,412

The Center discounts pledges that are expected to be collected after one year using rates ranging from .33% to 3.00%. Discounted unconditional promises to give, that are included in accounts and pledges receivable at June 30, 2012, include $309,765 restricted for the planetarium capital project, $299,015 restricted for the Bugs Backyard exhibit project, and $21,176 for debt reduction.

NOTE 4 – PROPERTY AND EQUIPMENT

Property and equipment consists of the following at June 30, 2012:

		Estimated Useful Lives
Buildings	$ 17,904,615	5 - 40 years
Equipment and exhibits	11,038,126	3 - 20 years
Construction in progress	128,632	
	29,071,373	
Less accumulated depreciation	(12,090,552)	
	$ 16,980,821	

Fully depreciated assets amounted to approximately $4,000,000 at June 30, 2012.

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, 2012:

STARS show	$ 645,195
Loan costs	35,659
	680,854
Less accumulated amortization	(285,813)
	$ 395,041

The Center incurred $645,195 of costs to produce its planetarium show. These costs have been capitalized and included in other assets in the accompanying statement of financial position. The costs are being amortized over 10 years, the expected life of the show. The Center also incurred $35,659 in connection with its note payable. These costs are included in other assets in the accompanying statement 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, 2012:

Short-term investments	$ 37,314
Common stocks	750,378
Corporate bonds	438,992
U.S. government bonds	389,168
	$ 1,615,852

The following schedule summarizes the investment return (loss) for the year ended June 30, 2012:

Realized losses	$ (6,070)
Unrealized gains	1,274
Net realized and unrealized losses	(4,796)
Investment fees	(23,690)
	$ (28,486)

NOTE 7 – COLLECTIONS

In conformity with the practice followed by many museums, collection items purchased and donated are not included in the statement of financial position. The value of collection items acquired by gift cannot be reasonably estimated and has not been recognized in the statement of activities. The cost of collection items purchased is reported under exhibits and programs expense. There were no material collection items purchased or donated during the year ended June 30, 2012.

NOTE 8 – TRUST FUND

The Sudekum Memorial Trust (the "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 seven directors, including the Center's board chair, another Center trustee and representatives of the Sudekum family. Distributions, which amounted to approximately $60,000 in 2012 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 statement of financial position.

NOTE 9 – NOTES PAYABLE

The Center has a note payable to a financial institution secured by substantially all assets of the Center which bears interest at LIBOR plus 3.5% (3.74% at June 30, 2012). The note has a covenant which requires that any money received on pledges is to be paid on the principal of the note. The Center is also required to obtain and collect specified amounts of new pledges as scheduled for each year of the note. In addition to the pledge payments, the Center is required to make quarterly interest payments until April 1, 2013, the maturity date. Total interest expense (including change in interest rate swap valuation) for the year ended June 30, 2012 was $85,486. The Center was not in compliance with the new pledge covenant of the note payable at June 30, 2012. The Center has received a waiver from its lender for this covenant violation. In accordance with the note agreement, the full balance of $1,800,558 will be due on April 1, 2013.

During the year ended June 30, 2012, the Center entered into a capital lease for certain equipment. The related equipment has a cost of $20,438 and accumulated depreciation of $2,384 at June 30, 2012 and is recorded in property and equipment in the accompanying statement of financial position. The remaining obligation under the capital lease of $9,438 is recorded in notes payable in the accompanying statement of financial position.

Future principal maturities of notes payable are as follows:

Year ending June 30,	
2013	$ 1,808,358
2014	1,638
	$ 1,809,996

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. Accordingly, the swap agreement was designated as a cash flow hedging activity and represents a derivative financial instrument. The Center does not engage in trading this derivative. This swap agreement was entered into for the purpose of managing a portion of the variable rate obligation related to the 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, 2012, the notional amount was $900,000. The fair value of the interest rate swap liability was $35,552 as of June 30, 2012 and was included as a liability in the statement of financial position. The fair value was determined based on the expected cash flows over the life of the derivative. Expected cash flows are determined by evaluating transactions with a pricing model using a specific market environment. The derivative is considered Level 2 within the fair value measurement hierarchy. The swap agreement expires in October 2013.

NOTE 11 – BENEFICIAL INTEREST IN TRUST

The Center has been named as a beneficiary of a charitable remainder unitrust, held and administrated by a third party. The Center receives the balance of the assets remaining in the trust upon termination of the trust. In the event that the amount distributed to the Center exceeds $250,000, the funds are to be used for building improvements, additions to the Center, and/or for permanent exhibits. Based upon earnings at an estimated rate of 5% over the life of the trust, 5% annual distribution to an unrelated specified beneficiary over their lifetime, and a 2.73% discount rate, the estimated present value of future benefits expected to be received by the Center totaled $558,456 as of June 30, 2012.

NOTE 12 – 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, 2012 include the following:

Bugs Backyard	$ 559,572
Beneficial interest in charitable remainder unitrust	558,456
Other	399,074
BodyQuest	324,167
Planetarium	51,998
	$ 1,893,267

NOTE 13 – BOARD DESIGNATED ENDOWMENT

The Center's endowment was established to further its programs. The endowment comprises funds designated by the board of trustees to function as endowments. As required by U.S. generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the board of trustees as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

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. The Center had no permanently restricted net assets at June 30, 2012.

The Uniform Prudent Management of Institutional Funds Act ("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

NOTE 13 – BOARD DESIGNATED ENDOWMENT (Continued)

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

Endowment Net Asset Composition by Type of Fund as of June 30, 2012:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Board designated endowment funds	$ 1,570,603	$ -	$ -	$ 1,570,603

Changes in Endowment Net Assets for the fiscal year ended June 30, 2012:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 1,650,278	$ -	$ -	$ 1,650,278
Investment return:				
Investment income	48,364	-	-	48,364
Net depreciation	(4,519)	-	-	(4,519)
Investment fees	(23,520)	-	-	(23,520)
Total investment return	20,325	-	-	20,325
Appropriation	(100,000)	-	-	(100,000)
Endowment net assets, end of year	$ 1,570,603	$ -	$ -	$ 1,570,603

NOTE 13 – BOARD DESIGNATED ENDOWMENT (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, any deficiencies of this nature are reported in unrestricted net assets.

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, which 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's investment policy allows for funds to be invested in accordance with five approved models. Within those modules, the policy specifies an asset allocation with an approved range of fixed income and equities. Investment in any one security is not permitted to exceed 5% of the market value of the portfolio, with the exception of donated stock.

NOTE 14 – 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, 2012 totaled $10,557.

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, 2012, pledges receivable from two foundation donors amounted to $493,274, or approximately 75% 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.

NOTE 15 – 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 year ended June 30, 2012, the Center provided a discretionary matching contribution of $33,621.

NOTE 16 – RECLASSIFICATION

During the year ended June 30, 2012, the board of trustees and management reviewed its permanently and temporarily restricted net asset balances and determined that restrictions had been inappropriately interpreted in previous years. As a result, $1,622,868 of previously reported permanently and $27,410 of previously reported temporarily restricted net asset balances have been reclassified to unrestricted net assets at June 30, 2011. The reclassification had no effect on total net assets as previously reported at June 30, 2011.

NOTE 17 – SUPPLEMENTAL CASH FLOW INFORMATION

The following is supplemental cash flow information required by generally accepted accounting principles.

Supplemental Cash Flow Information

Cash paid during the year for interest	$ 156,041

Supplemental Schedule of Non-Cash Investing and Financing Activities

Donation of beneficial interest in charitable remainder trust	$ 558,456
Purchase of equipment through capital lease	$ 20,438

SUPPLEMENTAL INFORMATION

ADVENTURE SCIENCE CENTER-NASHVILLE
SCHEDULE OF FUNCTIONAL EXPENSES
For the Year Ended June 30, 2012

	Program Services	Management and General	Fundraising	Total
Salaries and wages	$ 1,392,395	$ 185,954	$ 243,235	$ 1,821,584
Employee taxes and benefits	271,452	39,285	35,872	346,609
Total payroll and related expenses	1,663,847	225,239	279,107	2,168,193
Exhibits and programs	379,780	-	10,085	389,865
Building maintenance and facility rental	240,544	5,300	242	246,086
Advertising	231,136	-	-	231,136
Utilities	204,249	-	-	204,249
Professional fees and dues	60,118	65,861	1,161	127,140
Gift shop	120,454	-	-	120,454
Interest	85,486	-	-	85,486
Insurance	48,934	4,729	4,509	58,172
Credit card fees	39,294	-	12,408	51,702
Equipment costs - maintenance	44,658	-	-	44,658
Printing	20,521	-	23,800	44,321
Postage and shipping	8,440	5	19,457	27,902
Telephone and communications	16,562	2,094	2,740	21,396
Fundraising events	-	-	19,607	19,607
Conferences and meetings	18,297	-	10	18,307
Supplies	14,207	1,174	473	15,854
Memberships and dues	7,630	-	1,027	8,657
Other expenses	3,475	2,450	832	6,757
Bank fees	-	6,446	-	6,446
Travel and mileage	3,950	-	1,940	5,890
Total functional expenses before depreciation and amortization	3,211,582	313,298	377,398	3,902,278
Depreciation and amortization	1,417,499	-	-	1,417,499
Total functional expenses	$ 4,629,081	$ 313,298	$ 377,398	$ 5,319,777