

ADVENTURE SCIENCE CENTER-NASHVILLE

FINANCIAL STATEMENTS

June 30, 2010 and 2009

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, 2010 and 2009, 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.

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 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, 2010 and 2009, 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

October 20, 2010
Nashville, Tennessee

ADVENTURE SCIENCE CENTER-NASHVILLE
STATEMENTS OF FINANCIAL POSITION
June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Assets		
Cash and cash equivalents	\$ 504,508	\$ 1,955,645
Accounts and pledges receivable, net	2,343,113	3,822,414
Prepaid expenses	47,228	11,300
Inventory	33,039	36,944
Restricted cash and cash equivalents	315,559	921,679
Property and equipment, net of accumulated depreciation	19,747,784	20,664,146
Other assets, net of accumulated amortization	535,966	606,429
Investments, substantially restricted	1,621,889	2,387,688
	<u> </u>	<u> </u>
Total assets	<u>\$ 25,149,086</u>	<u>\$ 30,406,245</u>
Liabilities and Net Assets		
Liabilities:		
Accounts payable	\$ 99,232	\$ 167,813
Accrued expenses	161,780	213,026
Deferred revenue	90,533	52,585
Derivative financial instrument	154,960	192,243
Notes payable	4,347,639	8,154,284
	<u> </u>	<u> </u>
Total liabilities	<u>4,854,144</u>	<u>8,779,951</u>
Net assets:		
Unrestricted	14,867,537	15,233,370
Temporarily restricted	3,804,537	4,770,056
Permanently restricted	1,622,868	1,622,868
	<u> </u>	<u> </u>
Total net assets	<u>20,294,942</u>	<u>21,626,294</u>
	<u> </u>	<u> </u>
Total liabilities and net assets	<u>\$ 25,149,086</u>	<u>\$ 30,406,245</u>

See accompanying notes.

ADVENTURE SCIENCE CENTER-NASHVILLE
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2010

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Revenue:				
Fees and admissions	\$ 2,173,918	\$ -	\$ -	\$ 2,173,918
Gifts, appropriations, and private grants	1,426,576	114,355	-	1,540,931
Science Center shop	270,334	-	-	270,334
Net gain on investments	236,417	-	-	236,417
Interest and dividend income	66,270	-	-	66,270
Gain on derivative	37,283	-	-	37,283
Other income	11,179	-	-	11,179
Net assets released from restrictions	<u>1,079,874</u>	<u>(1,079,874)</u>	<u>-</u>	<u>-</u>
Total revenue	<u>5,301,851</u>	<u>(965,519)</u>	<u>-</u>	<u>4,336,332</u>
Expenses:				
Program services	4,985,257	-	-	4,985,257
Management and general	316,956	-	-	316,956
Fundraising	<u>337,338</u>	<u>-</u>	<u>-</u>	<u>337,338</u>
Total expenses	5,639,551	-	-	5,639,551
Bad debt expense	<u>28,133</u>	<u>-</u>	<u>-</u>	<u>28,133</u>
Total expenses and losses	<u>5,667,684</u>	<u>-</u>	<u>-</u>	<u>5,667,684</u>
Change in net assets	(365,833)	(965,519)	-	(1,331,352)
Net assets - beginning of year	<u>15,233,370</u>	<u>4,770,056</u>	<u>1,622,868</u>	<u>21,626,294</u>
Net assets - end of year	<u>\$ 14,867,537</u>	<u>\$ 3,804,537</u>	<u>\$ 1,622,868</u>	<u>\$ 20,294,942</u>

See accompanying notes.

ADVENTURE SCIENCE CENTER-NASHVILLE
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2009

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Revenue:				
Gifts, appropriations, and private grants	\$ 1,724,212	\$ 1,990,098	\$ -	\$ 3,714,310
Fees and admissions	2,783,512	-	-	2,783,512
Science Center shop	298,045	-	-	298,045
Interest and dividend income	89,893	-	-	89,893
Other income	11,680	-	-	11,680
Net loss on investments	(468,056)	-	-	(468,056)
Net assets released from restrictions	<u>862,987</u>	<u>(862,987)</u>	<u>-</u>	<u>-</u>
Total revenue	<u>5,302,273</u>	<u>1,127,111</u>	<u>-</u>	<u>6,429,384</u>
Expenses:				
Program services	5,352,293	-	-	5,352,293
Management and general	406,522	-	-	406,522
Fundraising	<u>332,899</u>	<u>-</u>	<u>-</u>	<u>332,899</u>
Total expenses	6,091,714	-	-	6,091,714
Loss on derivative	192,243	-	-	192,243
Bad debt recovery	<u>(15,764)</u>	<u>-</u>	<u>-</u>	<u>(15,764)</u>
Total expenses and losses	<u>6,268,193</u>	<u>-</u>	<u>-</u>	<u>6,268,193</u>
Change in net assets	(965,920)	1,127,111	-	161,191
Net assets - beginning of year	<u>16,199,290</u>	<u>3,642,945</u>	<u>1,622,868</u>	<u>21,465,103</u>
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>

See accompanying notes.

ADVENTURE SCIENCE CENTER-NASHVILLE
STATEMENTS OF CASH FLOWS
For the Years ended June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Cash flows from operating activities:		
Change in net assets	\$(1,331,352)	\$ 161,191
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Contributions restricted for long-term purposes	(114,355)	(1,990,098)
Bad debt expense (recovery)	28,133	(15,764)
Depreciation and amortization	1,869,739	1,855,798
(Gain) loss on derivative financial instrument	(37,283)	192,243
Net (gain) loss on investments	(236,417)	468,056
Changes in operating assets and liabilities:		
Accounts and pledges receivable	902	45,764
Prepaid expenses	(35,928)	(3,574)
Inventory	3,905	(19,573)
Accounts payable	(53,274)	(136,224)
Accrued expenses	(51,246)	15,044
Deferred revenue	37,948	(1,695)
Net cash provided by operating activities	<u>80,772</u>	<u>571,168</u>
Cash flows from investing activities:		
Purchase of property and equipment	(874,464)	(546,949)
Purchase of investments	(1,341,386)	(1,230,635)
Proceeds from sale of investments	2,343,602	1,205,670
Decrease (increase) in restricted cash and cash equivalents	<u>606,120</u>	<u>(160,209)</u>
Net cash provided by (used in) investing activities	<u>733,872</u>	<u>(732,123)</u>
Cash flows from financing activities:		
Payments on accounts payable for additions to property and equipment	(23,757)	(872,727)
Proceeds from contributions restricted for investment in property and equipment	1,564,621	3,101,907
Proceeds from note payable	-	153,334
Principal payments on notes payable	<u>(3,806,645)</u>	<u>(1,276,782)</u>
Net cash (used in) provided by financing activities	<u>(2,265,781)</u>	<u>1,105,732</u>
Net (decrease) increase in cash and cash equivalents	(1,451,137)	944,777
Cash and cash equivalents - beginning of year	<u>1,955,645</u>	<u>1,010,868</u>
Cash and cash equivalents - end of year	<u>\$ 504,508</u>	<u>\$ 1,955,645</u>
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	<u>\$ 278,165</u>	<u>\$ 333,140</u>
Accounts payable for additions to property and equipment	<u>\$ 8,450</u>	<u>\$ 23,757</u>

See accompanying notes.

ADVENTURE SCIENCE CENTER-NASHVILLE
NOTES TO FINANCIAL STATEMENTS
June 30, 2010 and 2009

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:

Accounting Standards Codification

The Financial Accounting Standards Board Accounting Standards Codification (“FASB ASC”) became the sole authoritative source of generally accepted accounting principles in the United States of America for periods ending after September 15, 2009. The FASB ASC incorporates all authoritative literature previously issued by a standard setter. Adoption of the FASB ASC had no effect on the Center’s financial statements.

Basis of Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles. 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.

ADVENTURE SCIENCE CENTER-NASHVILLE
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2010 and 2009

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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. Those rates ranged from 3% to 5% at June 30, 2010 and 2009. 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 bank-imposed restrictions on certain contributions for use of paying down long-term debt. Unrestricted and restricted cash are held in separate bank accounts.

ADVENTURE SCIENCE CENTER-NASHVILLE
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2010 and 2009

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 statements of financial position. Unrealized gains and losses are recognized in the statements of activities for the years ended June 30, 2010 and 2009. 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. 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.

ADVENTURE SCIENCE CENTER-NASHVILLE
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2010 and 2009

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Inventory

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

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 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 during the years ended June 30, 2010 and 2009.

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, 2010 and 2009, volunteers provided approximately 17,200 and 20,100 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 operations, advertising and media costs directly related to programs and exhibits, and the cost of operating the Center's gift shop.

ADVENTURE SCIENCE CENTER-NASHVILLE
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2010 and 2009

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Functional Allocation of Expenses (Continued)

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.

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.

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.

On July 1, 2009, the Center adopted FASB ASC 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 guidance must be applied to all existing tax positions upon initial adoption. 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, 2007 through June 30, 2010. The Center had no uncertain tax positions at June 30, 2010 or 2009.

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.

ADVENTURE SCIENCE CENTER-NASHVILLE
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2010 and 2009

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Advertising Costs

The cost of advertising and media expenditures is expensed when incurred. Advertising and media expense amounted to \$205,873 and \$319,744 during the years ended June 30, 2010 and 2009, 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

FASB ASC guidance regarding endowment funds 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. 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.

Subsequent Events

The Center evaluated subsequent events through October 20, 2010, when these financial statements were available to be issued. We are 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.

ADVENTURE SCIENCE CENTER-NASHVILLE
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2010 and 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>2010</u>	<u>2009</u>
Less than one year	\$ 1,576,868	\$ 2,143,794
One to five years	<u>906,000</u>	<u>1,839,933</u>
	2,482,868	3,983,727
Less discount to net present value	<u>(76,918)</u>	<u>(182,811)</u>
	2,405,950	3,800,916
Less allowance for uncollectibles	<u>(98,551)</u>	<u>(75,418)</u>
Unconditional promises to give, net	2,307,399	3,725,498
Program related receivables	<u>35,714</u>	<u>96,916</u>
Accounts and pledges receivable, net	<u>\$ 2,343,113</u>	<u>\$ 3,822,414</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, 2010 and 2009. Discounted unconditional promises to give, that are included in accounts and pledges receivable at June 30, 2010, include \$5,000 restricted for the engineers' capital improvements and facilities, \$13,850 restricted for the adventure tower capital project, \$250,000 restricted for the BodyQuest capital project, \$2,042,461 restricted for planetarium capital project, and \$94,639 for other purposes. During 2009, a pledge previously deemed uncollectible was reaffirmed. As a result, a bad debt recovery of \$15,764 has been recorded in the accompanying statement of activities for the year ended June 30, 2009.

NOTE 4 – PROPERTY AND EQUIPMENT

Property and equipment consists of the following at June 30:

	<u>2010</u>	<u>2009</u>	<u>Estimated Useful Lives</u>
Buildings	\$ 18,030,241	\$ 17,827,563	5 - 40 years
Equipment and exhibits	11,063,306	10,131,416	3 - 20 years
Exhibits – construction in progress	<u>116,632</u>	<u>408,288</u>	
	29,210,179	28,367,267	
Less accumulated depreciation	<u>(9,462,395)</u>	<u>(7,703,121)</u>	
	<u>\$ 19,747,784</u>	<u>\$ 20,664,146</u>	

ADVENTURE SCIENCE CENTER-NASHVILLE
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2010 and 2009

NOTE 4 – PROPERTY AND EQUIPMENT (Continued)

Fully depreciated assets amounted to approximately \$1,027,000 and \$1,007,000, at June 30, 2010 and 2009, respectively.

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>2010</u>	<u>2009</u>
STARS show	\$ 645,195	\$ 645,195
Loan costs	<u>35,659</u>	<u>35,659</u>
	680,854	680,854
Less accumulated amortization	<u>(144,888)</u>	<u>(74,425)</u>
	<u>\$ 535,966</u>	<u>\$ 606,429</u>

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 statements 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 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>2010</u>	<u>2009</u>
Mutual Funds	\$ 376,998	\$ 1,201,964
Short-term investments	608,945	441,300
Stocks	635,946	281,610
Corporate bonds	-	259,361
Asset backed securities	-	149,908
Government bonds	<u>-</u>	<u>53,545</u>
	<u>\$ 1,621,889</u>	<u>\$ 2,387,688</u>

ADVENTURE SCIENCE CENTER-NASHVILLE
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2010 and 2009

NOTE 6 – INVESTMENTS (Continued)

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

	<u>2010</u>	<u>2009</u>
Realized gains (losses)	\$ 303,842	\$ (427,108)
Unrealized gains (losses)	<u>(41,385)</u>	<u>(18,702)</u>
Net realized and unrealized gains (losses)	262,457	(445,810)
Investment fees	<u>(26,040)</u>	<u>(22,246)</u>
	<u>\$ 236,417</u>	<u>\$ (468,056)</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, 2010 and 2009.

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 five directors, including the Center’s Board Chair, another Center trustee and representatives of the Sudekum family. Distributions, which amounted to approximately \$43,500 and \$71,700 in 2010 and 2009, 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

At June 30, 2009, total notes payable were \$8,154,284. During the year ended June 30, 2010, the Center consolidated their notes payable into one loan. At June 30, 2010, the principal balance of the loan was \$4,347,639. The loan is secured by substantially all assets of the Center and bears interest at LIBOR plus 3.5% (3.85% at June 30, 2010). The loan has a covenant which requires that any money received on pledges is to be paid on the principal of the loan. The Center is also required to obtain and collect specified amounts of new pledges as scheduled for each year of the loan. 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 years ended June 30, 2010 and 2009 was \$276,102 and \$525,788, respectively.

ADVENTURE SCIENCE CENTER-NASHVILLE
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2010 and 2009

NOTE 9 – NOTES PAYABLE (Continued)

A schedule by year, of aggregate principal maturities of notes payable as of June 30, 2010, follows:

Year ending <u>June 30,</u>	
2011	\$ -
2012	-
2013	4,347,639
2014	-
2015	-
Thereafter	<u>-</u>
	<u>\$ 4,347,639</u>

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 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, 2010 and 2009, the notional amount was \$2,100,000 and \$2,700,000, respectively. The fair value of the interest rate swap liability was \$154,960 and \$192,243 as of June 30, 2010 and 2009, respectively, and was included as a liability in the statements of financial position. The swap agreement expires in October 2013.

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>2010</u>	<u>2009</u>
BodyQuest	\$ 2,960,887	\$ 3,032,579
Planetarium	374,951	1,253,227
Bugs Backyard	257,230	252,492
Tennessee Engineering Center	115,365	108,929
Contributions receivable - other	62,958	61,696
Other	33,146	29,997
Adventure Tower	<u>-</u>	<u>31,136</u>
	<u>\$ 3,804,537</u>	<u>\$ 4,770,056</u>

ADVENTURE SCIENCE CENTER-NASHVILLE
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2010 and 2009

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, 2010 and 2009.

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 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, 2010:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor restricted endowment funds	\$ (48,498)	\$ -	\$ 1,622,868	\$ 1,574,370

ADVENTURE SCIENCE CENTER-NASHVILLE
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2010 and 2009

NOTE 12 – PERMANENTLY RESTRICTED NET ASSETS (Continued)

Changes in Endowment Net Assets for the fiscal year ended June 30, 2010:

Endowment net assets, beginning of year	\$ (242,650)	\$ -	\$ 1,622,868	\$ 1,380,218
Investment return:				
Investment income	25,933	-	-	25,933
Net depreciation (realized and unrealized)	<u>168,219</u>	<u>-</u>	<u>-</u>	<u>168,219</u>
Total investment return	<u>194,152</u>	<u>-</u>	<u>-</u>	<u>194,152</u>
Endowment net assets, end of year	\$ <u>(48,498)</u>	\$ <u>-</u>	\$ <u>1,622,868</u>	\$ <u>1,574,370</u>

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	\$ <u>(242,650)</u>	\$ <u>-</u>	\$ <u>1,622,868</u>	\$ <u>1,380,218</u>

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)	<u>(245,299)</u>	<u>-</u>	<u>-</u>	<u>(245,299)</u>
Total investment return	<u>(215,101)</u>	<u>-</u>	<u>-</u>	<u>(215,101)</u>
Endowment net assets, end of year	\$ <u>(242,650)</u>	\$ <u>-</u>	\$ <u>1,622,868</u>	\$ <u>1,380,218</u>

ADVENTURE SCIENCE CENTER-NASHVILLE
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2010 and 2009

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 \$48,498 and \$242,650 as of June 30, 2010 and 2009, 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 ("FDIC"). Beginning July 1, 2010, the Center's primary depository terminated its participation in the FDIC's Transaction Account Guarantee Program. Management believes the Center is not exposed to any significant credit risk on cash. Uninsured balances at June 30, 2010 and 2009 totaled \$341,803 and \$0, respectively.

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.

ADVENTURE SCIENCE CENTER-NASHVILLE
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2010 and 2009

NOTE 13 – CONCENTRATIONS OF CREDIT RISK (Continued)

Pledges receivable consist of individual, foundation and corporate contribution pledges. At June 30, 2010, pledges receivable from three corporate and foundation donors amounted to \$1,386,538, or 59% of total accounts and pledges receivable by the Center. 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. 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 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, 2010 and 2009, the Center provided a discretionary matching contribution of \$27,497 and \$26,975, 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. The second phase of exhibits opened in November 2009. Net pledges have been recognized as revenue. During the years ended June 30, 2010 and 2009, approximately \$750,000 and \$367,000, respectively, of building and exhibits were placed into service related to this project.

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, 2010

	Program Services	Management and General	Fundraising	Total
Salaries and wages	\$ 1,353,413	\$ 196,222	\$ 195,351	\$ 1,744,986
Employee benefits	131,600	49,859	32,749	214,208
Payroll taxes and workers comp.	112,720	13,456	13,691	139,867
 Total payroll and related expenses	 1,597,733	 259,537	 241,791	 2,099,061
 Interest	 313,385	 -	 -	 313,385
Building maintenance and facility rental	181,376	2,572	8,765	192,713
Equipment costs - maintenance	187,878	2,782	-	190,660
Utilities	165,676	18,827	3,765	188,268
Marketing expenses	155,096	-	5,688	160,784
Exhibits and programs	139,680	-	1,130	140,810
Science Center gift shop	126,377	-	-	126,377
Professional fees and dues	105,906	7,248	5,970	119,124
Insurance	42,451	19,274	3,212	64,937
Printing and publications	25,621	-	19,468	45,089
Fundraising events	-	-	29,259	29,259
Supplies	23,906	1,278	2,513	27,697
Postage and shipping	13,597	1,348	11,687	26,632
Telephone	12,271	4,090	4,090	20,451
Miscellaneous	14,130	-	-	14,130
Capital related expense	9,108	-	-	9,108
Travel	1,327	-	-	1,327
 Total functional expenses before depreciation and amortization	 3,115,518	 316,956	 337,338	 3,769,812
 Depreciation and amortization	 1,869,739	 -	 -	 1,869,739
 Total functional expenses	 <u>\$ 4,985,257</u>	 <u>\$ 316,956</u>	 <u>\$ 337,338</u>	 <u>\$ 5,639,551</u>

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

	Program Services	Management and General	Fundraising	Total
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 - maintenance	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 and amortization	 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>