



AQUARIUM OF THE PACIFIC
(A Public/Private Partnership of the City of Long Beach, California,
and the Aquarium of the Pacific Corporation)

Consolidating Financial Statements

September 30, 2006 and 2005

(With Independent Auditors' Report Thereon)



KPMG LLP
Suite 2000
355 South Grand Avenue
Los Angeles, CA 90071-1568

Independent Auditors' Report

The Honorable City Council
City of Long Beach, California

The Board of Directors
Aquarium of the Pacific Corporation:

We have audited the accompanying consolidating statements of financial position of the Aquarium of the Pacific (the Aquarium), a public/private partnership of the City of Long Beach, California (the City), and the Aquarium of the Pacific Corporation (the Corporation), as of September 30, 2006 and 2005, and the related consolidating statements of activities, functional expenses, and cash flows for the years then ended. These consolidating financial statements are the responsibility of the Corporation and City managements. Our responsibility is to express opinions on the consolidating financial statements based on our audit.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Aquarium's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audit provide a reasonable basis for our opinions.

The accompanying consolidating financial statements were prepared to present the public/private partnership between the City and the Corporation pursuant to the Continuing Disclosure Agreement described in notes 1 and 2, and are not intended to be a complete presentation of the City's individual financial statements.

In our opinion, the consolidating financial statements referred to above present fairly, in all material respects, the consolidated and individual financial position of the Aquarium of the Pacific as of September 30, 2006 and 2005, and the consolidated and individual changes in its net assets and its consolidated and individual cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 8, 2007 on our consideration of Aquarium of the Pacific internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

This report is intended solely for the information and use of the City of Long Beach's City Council, the Board of Directors of the Corporation, the managements of the City and the Corporation, the Long Beach Bond Financing Authority, the Redevelopment Agency of the City of Long Beach, and the U.S. Bank Trust National Association and is not intended to be, and should not be, used by anyone other than these specified parties.

KPMG LLP

January 8, 2007

AQUARIUM OF THE PACIFIC
(A Public/Private Partnership of the City of Long Beach, California,
and the Aquarium of the Pacific Corporation)

Consolidating Statement of Financial Position

September 30, 2006

Assets	Aquarium of the Pacific Corporation				City of Long Beach	Eliminations (note 1)	Consolidated total
	Unrestricted	Temporarily restricted	Total				
Cash and cash equivalents	\$ 395,001	1,597,490	1,992,491	—	—	1,992,491	
Accrued interest receivable	—	—	—	252,478	—	252,478	
Accounts receivable, net of allowance for doubtful accounts of \$1,084,948 (note 10)	1,916,743	—	1,916,743	—	—	1,916,743	
Contributions receivable, net (note 8)	4,650	417,267	421,917	—	—	421,917	
Prepaid expenses and other assets	241,833	—	241,833	—	—	241,833	
Gift store inventory	279,362	—	279,362	—	—	279,362	
Restricted investments held by trustee (notes 3 and 5)	—	—	—	15,279,335	—	15,279,335	
Other assets	282,447	—	282,447	—	—	282,447	
Deferred financing costs, net	—	—	—	2,737,698	—	2,737,698	
Property and equipment, net (note 4)	8,012,798	—	8,012,798	76,474,312	(9,236,020)	75,251,090	
Total assets	\$ 11,132,834	2,014,757	13,147,591	94,743,823	(9,236,020)	98,655,394	
Liabilities and Net Assets							
Accounts payable	\$ 2,099,776	—	2,099,776	—	—	2,099,776	
Accrued interest payable	—	—	—	2,732,464	—	2,732,464	
Accrued liabilities	911,496	—	911,496	—	—	911,496	
Deferred revenue	519,317	—	519,317	—	—	519,317	
Bonds payable, net of unamortized discounts/deferred amount on refunding aggregating \$9,883,102 (note 5)	—	—	—	119,636,898	—	119,636,898	
Total liabilities	3,530,589	—	3,530,589	122,369,362	—	125,899,951	
Net assets (deficit):							
Unrestricted	7,602,245	—	7,602,245	(27,625,539)	(9,236,020)	(29,259,314)	
Temporarily restricted (note 7)	—	2,014,757	2,014,757	—	—	2,014,757	
Total net assets (deficit)	7,602,245	2,014,757	9,617,002	(27,625,539)	(9,236,020)	(27,244,557)	
Commitments and contingencies (notes 6 and 9)	—	—	—	—	—	—	
Total liabilities and net assets	\$ 11,132,834	2,014,757	13,147,591	94,743,823	(9,236,020)	98,655,394	

See accompanying notes to consolidating financial statements.

AQUARIUM OF THE PACIFIC
(A Public/Private Partnership of the City of Long Beach, California,
and the Aquarium of the Pacific Corporation)

Consolidating Statement of Financial Position

September 30, 2005

	Aquarium of the Pacific Corporation				City of Long Beach	Eliminations (note 1)	Consolidated total
	Unrestricted	Temporarily restricted	Total				
Assets							
Cash and cash equivalents	\$ 459,761	647,599	1,107,360	—	—	1,107,360	
Accrued interest receivable	—	—	—	248,611	—	248,611	
Accounts receivable, net of allowance for doubtful accounts of \$658,255 (note 10)	1,714,907	—	1,714,907	—	—	1,714,907	
Contributions receivable, net (note 8)	265,302	359,208	624,510	—	—	624,510	
Prepaid expenses and other assets	241,241	—	241,241	—	—	241,241	
Gift store inventory	245,574	—	245,574	—	—	245,574	
Restricted investments held by trustee (notes 3 and 5)	—	—	—	14,795,772	—	14,795,772	
Other assets	312,327	—	312,327	—	—	312,327	
Deferred financing costs, net	—	—	—	2,633,370	—	2,633,370	
Property and equipment, net (note 4)	7,353,770	—	7,353,770	80,016,235	(9,611,722)	77,758,283	
Total assets	\$ 10,592,882	1,006,807	11,599,689	97,693,988	(9,611,722)	99,681,955	
Liabilities and Net Assets							
Accounts payable	\$ 1,596,356	—	1,596,356	—	—	1,596,356	
Accrued interest payable	—	—	—	2,732,464	—	2,732,464	
Accrued liabilities	1,101,366	—	1,101,366	—	—	1,101,366	
Deferred revenue	932,255	—	932,255	—	—	932,255	
Bonds payable, net of unamortized discounts/deferred amount on refunding aggregating \$10,500,886 (note 5)	—	—	—	119,019,114	—	119,019,114	
Total liabilities	3,629,977	—	3,629,977	121,751,578	—	125,381,555	
Net assets (deficit):							
Unrestricted	6,962,905	—	6,962,905	(24,057,590)	(9,611,722)	(26,706,407)	
Temporarily restricted (note 7)	—	1,006,807	1,006,807	—	—	1,006,807	
Total net assets (deficit)	6,962,905	1,006,807	7,969,712	(24,057,590)	(9,611,722)	(25,699,600)	
Commitments and contingencies (notes 6 and 9)	—	—	—	—	—	—	
Total liabilities and net assets	\$ 10,592,882	1,006,807	11,599,689	97,693,988	(9,611,722)	99,681,955	

See accompanying notes to consolidating financial statements.

AQUARIUM OF THE PACIFIC
(A Public/Private Partnership of the City of Long Beach, California
and the Aquarium of the Pacific Corporation)

Consolidating Statement of Activities

Year ended September 30, 2006

	Aquarium of the Pacific Corporation				City of Long Beach	Eliminations	Consolidated total
	Unrestricted	Temporarily restricted	Total				
Operating revenues (note 5):							
Admissions	\$ 14,457,695	—	14,457,695	—	—	14,457,695	
Facility rental	—	—	—	28,875,887	(28,875,887)	—	
Memberships	3,539,775	—	3,539,775	—	—	3,539,775	
Educational programs	1,316,528	—	1,316,528	—	—	1,316,528	
Gift store	3,996,539	—	3,996,539	—	—	3,996,539	
Contributions	1,021,532	1,867,596	2,889,128	—	—	2,889,128	
Ancillary	604,365	—	604,365	—	—	604,365	
Food service	656,892	—	656,892	—	—	656,892	
Fund-raising events	462,833	—	462,833	—	—	462,833	
Donated goods and services	987,055	—	987,055	—	—	987,055	
Parking garage	1,499,200	—	1,499,200	—	—	1,499,200	
Grants and other income	58,874	4,335	63,209	—	—	63,209	
Net assets released from restriction for operations (note 7)	863,981	(863,981)	—	—	—	—	
Total operating revenues	29,465,269	1,007,950	30,473,219	28,875,887	(28,875,887)	30,473,219	
Operating expenses:							
Husbandry and facilities	6,833,353	—	6,833,353	—	—	6,833,353	
Education, interpretation, and outreach	2,567,321	—	2,567,321	—	—	2,567,321	
Guest services	3,428,278	—	3,428,278	—	—	3,428,278	
Gift store	2,596,177	—	2,596,177	—	—	2,596,177	
Facility operating expense	—	—	—	25,922,000	(25,922,000)	—	
Development and membership	2,148,085	—	2,148,085	—	—	2,148,085	
Marketing	4,322,834	—	4,322,834	—	—	4,322,834	
Human resources	581,627	—	581,627	—	—	581,627	
Finance and administration	2,338,574	—	2,338,574	—	—	2,338,574	
Net operating transfer to the City of Long Beach	2,953,887	—	2,953,887	—	(2,953,887)	—	
Total operating expenses	27,770,136	—	27,770,136	25,922,000	(28,875,887)	24,816,249	
Earnings before interest, taxes, depreciation, and amortization from operations	1,695,133	1,007,950	2,703,083	2,953,887	—	5,656,970	
Transient occupancy tax transfer from City of Long Beach (note 5)	—	—	—	3,018,762	—	3,018,762	
Depreciation and amortization	(1,055,793)	—	(1,055,793)	(4,055,379)	375,702	(4,735,470)	
Interest expense, net of bond interest income	—	—	—	(5,485,219)	—	(5,485,219)	
Change in net assets (deficit)	639,340	1,007,950	1,647,290	(3,567,949)	375,702	(1,544,957)	
Net assets (deficit) at beginning of year	6,962,905	1,006,807	7,969,712	(24,057,590)	(9,611,722)	(25,699,600)	
Net assets (deficit) at end of year	7,602,245	2,014,757	9,617,002	(27,625,539)	(9,236,020)	(27,244,557)	

See accompanying notes to consolidating financial statements.

AQUARIUM OF THE PACIFIC
(A Public/Private Partnership of the City of Long Beach, California
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Consolidating Statement of Activities

Year ended September 30, 2005

	Aquarium of the Pacific Corporation				City of Long Beach	Eliminations	Consolidated total
	Unrestricted	Temporarily restricted	Total				
Operating revenues (note 5):							
Admissions	\$ 12,949,795	—	12,949,795	—	—	12,949,795	
Facility rental	—	—	—	27,023,960	(27,023,960)	—	
Memberships	3,343,271	—	3,343,271	—	—	3,343,271	
Educational programs	1,175,692	—	1,175,692	—	—	1,175,692	
Gift store	3,955,456	—	3,955,456	—	—	3,955,456	
Contributions	867,764	870,707	1,738,471	—	—	1,738,471	
Ancillary	491,991	—	491,991	—	—	491,991	
Food service	623,366	—	623,366	—	—	623,366	
Fund-raising events	392,220	—	392,220	—	—	392,220	
Donated goods and services	373,145	—	373,145	—	—	373,145	
Parking garage	1,054,987	—	1,054,987	—	—	1,054,987	
Grants and other income	498,795	1,938	500,733	275	—	1,054,987	
Net assets released from restriction for operations (note 7)	966,798	(966,798)	—	—	—	501,008	
Total operating revenues	26,693,280	(94,153)	26,599,127	27,024,235	(27,023,960)	26,599,402	
Operating expenses:							
Husbandry and facilities	6,107,772	—	6,107,772	—	—	6,107,772	
Education, interpretation, and outreach	2,239,019	—	2,239,019	158,965	—	2,397,984	
Guest services	3,200,821	—	3,200,821	—	—	3,200,821	
Gift store	2,550,688	—	2,550,688	—	—	2,550,688	
Facility operating expense	—	—	—	24,664,000	(24,664,000)	—	
Development and membership	1,834,709	—	1,834,709	—	—	1,834,709	
Marketing	3,680,114	—	3,680,114	—	—	3,680,114	
Human resources	660,135	—	660,135	—	—	660,135	
Finance and administration	1,974,643	—	1,974,643	275	—	1,974,918	
Net operating transfer to the City of Long Beach	2,359,960	—	2,359,960	—	(2,359,960)	—	
Total operating expenses	24,607,861	—	24,607,861	24,823,240	(27,023,960)	22,407,141	
Earnings (loss) before interest, taxes, depreciation, and amortization from operations	2,085,419	(94,153)	1,991,266	2,200,995	—	4,192,261	
Transient occupancy tax transfer from City of Long Beach (note 5)	—	—	—	2,797,782	—	2,797,782	
Depreciation and amortization	(676,233)	—	(676,233)	(4,316,348)	375,703	(4,616,878)	
Interest expense, net of bond interest income	—	—	—	(5,062,267)	—	(5,062,267)	
Change in net assets (deficit)	1,409,186	(94,153)	1,315,033	(4,379,838)	375,703	(2,689,102)	
Net assets (deficit) at beginning of year	5,553,719	1,100,960	6,654,679	(19,677,752)	(9,987,425)	(23,010,498)	
Net assets (deficit) at end of year	6,962,905	1,006,807	7,969,712	(24,057,590)	(9,611,722)	(25,699,600)	

See accompanying notes to consolidating financial statements.

AQUARIUM OF THE PACIFIC
(A Public/Private Partnership of the City of Long Beach, California,
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Consolidating Statement of Functional Expenses
Year ended September 30, 2006

	Program services			Support services			Total
	Husbandry and facilities	Education, interpretation, and outreach	Guest services	Development and membership	Marketing	Human resources	
Salaries, taxes, and benefits (note 9)	\$ 2,560,255	1,645,902	2,382,732	758,014	764,748	416,464	1,194,878
Cost of goods sold	—	—	—	—	—	—	—
Insurance	57,952	76,814	76,268	1,648,707	1,029	536	74,688
Permits, maintenance, and construction	299,147	30,491	20,169	24,836	3,132	377	50,551
Occupancy (note 6)	—	24,795	1,147	52	369	982	140,779
Utilities	2,374,599	71	—	62,154	40,813	—	310,036
Husbandry/animals and collecting	311,047	—	—	3,825	—	—	2,378,495
Services	245,406	420,197	302,579	—	401,096	—	311,047
Supplies and other expendables	893,491	252,573	356,145	7,030	461,297	55,825	524,728
Postage, shipping, and courier	12,781	15,240	5,790	37,633	346,916	41,101	111,397
Information technology and telecommunications	9,021	5,531	39,771	2,906	143,546	1,696	2,094,743
Printing and publishing	586	19,990	7,741	6,930	93,119	3,288	284,751
Advertising, promotions, and public relations	50	5,055	981	205	39,322	2,474	142,038
Travel, meals, and training	68,884	69,429	26,556	954	478,137	385	3,634
Other	134	1,233	208,399	3,747	2,208,184	58,496	34,585
				61,374	215,440	3	41,880
Operating expenses before transient occupancy tax transfer, depreciation and amortization and interest	6,833,353	2,567,321	3,428,278	2,596,177	4,322,834	581,627	2,338,574
Transient occupancy tax transfer	—	—	—	—	—	—	(3,018,762)
Depreciation and amortization	511,952	1,507,071	2,042,413	15,601	33,431	13,372	598,258
Interest expense, net of bond interest income	—	—	—	—	—	—	4,735,470
Total expenses	\$ 7,345,305	4,074,392	5,470,691	2,611,778	4,356,265	594,999	5,485,219
				2,161,457			5,403,289
							32,018,176

See accompanying notes to consolidating financial statements.

AQUARIUM OF THE PACIFIC
(A Public/Private Partnership of the City of Long Beach, California,
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Consolidating Statement of Functional Expenses
Year ended September 30, 2005

	Program services				Support services				Total
	Husbandry and facilities	Education, interpretation, and outreach	Guest services	Gift store	Development and membership	Marketing	Human resources	Finance and administration	
Salaries, taxes, and benefits (note 9)	\$ 2,325,520	1,444,039	2,277,925	769,632	655,472	907,516	425,370	1,083,058	9,888,532
Cost of goods sold	—	—	—	1,561,742	—	—	—	—	1,561,742
Insurance	59,432	74,707	74,590	24,864	915	1,109	578	69,466	305,661
Permits, maintenance, and construction	331,063	162,019	32,846	6,887	10	17	—	49,637	582,479
Occupancy (note 6)	6	25,434	79	60,343	34,136	34,899	—	125,046	279,943
Utilities	1,995,878	—	—	3,444	—	—	—	—	1,999,322
Husbandry/animals and collecting	309,269	—	—	—	—	—	—	—	309,269
Services	206,197	425,286	267,271	19,987	422,394	365,395	98,151	261,135	2,065,816
Supplies and other expendables	801,786	117,327	295,577	41,047	80,429	63,703	52,921	128,358	1,581,148
Postage, shipping, and courier	14,329	14,765	9,169	2,318	151,496	52,788	3,031	15,304	263,200
Information technology and telecommunications	7,694	4,868	38,509	1,779	15,835	12,262	2,664	137,923	221,534
Printing and publishing	2,409	72,448	6,951	51	190,500	319,266	8,124	5,599	605,348
Advertising, promotions, and public relations	1,932	4,032	3,437	1,611	1,070	1,957,378	50	3,943	1,973,453
Travel, meals, and training	52,093	57,532	22,890	7,792	55,670	29,082	69,246	30,388	324,693
Other	164	(4,473)	171,577	49,191	226,782	(63,301)	—	65,061	445,001
Operating expenses before transient occupancy tax transfer, depreciation and amortization and interest	\$ 6,107,772	2,397,984	3,200,821	2,550,688	1,834,709	3,680,114	660,135	1,974,918	22,407,141
Transient occupancy tax transfer	—	—	—	—	—	—	—	(2,797,782)	(2,797,782)
Depreciation and amortization	462,997	1,411,879	1,647,461	13,142	11,264	28,161	11,264	1,030,710	4,616,878
Interest expense, net of bond interest income	—	—	—	—	—	—	—	5,062,267	5,062,267
Total expenses	\$ 6,570,769	3,809,863	4,848,282	2,563,830	1,845,973	3,708,275	671,399	5,270,113	29,288,504

See accompanying notes to consolidating financial statements.

AQUARIUM OF THE PACIFIC
(A Public/Private Partnership of the City of Long Beach, California,
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Consolidating Statement of Cash Flows

Year ended September 30, 2006

	<u>Aquarium of the Pacific Corporation</u>	<u>City of Long Beach</u>	<u>Eliminations (note 1)</u>	<u>Consolidated total</u>
Cash flows from operating activities and nonoperating revenue:				
Change in net assets (deficit)	\$ 1,647,290	(3,567,949)	375,702	(1,544,957)
Adjustments to reconcile change in net assets (deficit) to net cash provided by operating activities and nonoperating revenue:				
Depreciation and amortization	1,055,793	4,055,379	(375,702)	4,735,470
(Increase) decrease in assets:				
Accrued interest receivable	—	(3,867)	—	(3,867)
Accounts receivable, net	(201,836)	—	—	(201,836)
Contributions receivable	202,593	—	—	202,593
Prepaid expenses and other assets	29,288	—	—	29,288
Gift store inventory	(33,788)	—	—	(33,788)
Increase (decrease) in liabilities:				
Accounts payable	503,420	—	—	503,420
Accrued liabilities	(189,870)	—	—	(189,870)
Deferred revenue	(412,938)	—	—	(412,938)
Net cash provided by operating activities and nonoperating revenue	<u>2,599,952</u>	<u>483,563</u>	<u>—</u>	<u>3,083,515</u>
Cash flows from investing activities:				
Capital expenditures	(1,714,821)	—	—	(1,714,821)
Proceeds from sale of investments held by trustee	—	(483,563)	—	(483,563)
Net cash used in investing activities	<u>(1,714,821)</u>	<u>(483,563)</u>	<u>—</u>	<u>(2,198,384)</u>
Net increase in cash and cash equivalents	885,131	—	—	885,131
Cash and cash equivalents, beginning of year	<u>1,107,360</u>	<u>—</u>	<u>—</u>	<u>1,107,360</u>
Cash and cash equivalents, end of year	<u>\$ 1,992,491</u>	<u>—</u>	<u>—</u>	<u>1,992,491</u>

See accompanying notes to consolidating financial statements.

AQUARIUM OF THE PACIFIC
(A Public/Private Partnership of the City of Long Beach, California,
and the Aquarium of the Pacific Corporation)

Consolidating Statement of Cash Flows

Year ended September 30, 2005

	<u>Aquarium of the Pacific Corporation</u>	<u>City of Long Beach</u>	<u>Eliminations (note 1)</u>	<u>Consolidated total</u>
Cash flows from operating activities and nonoperating revenue:				
Change in net assets (deficit)	\$ 1,315,033	(4,379,838)	375,703	(2,689,102)
Adjustments to reconcile change in net assets (deficit) to net cash provided by (used in) operating activities and nonoperating revenue:				
Depreciation and amortization	676,233	4,316,348	(375,703)	4,616,878
(Increase) decrease in assets:				
Accrued interest receivable	—	(1,381)	—	(1,381)
Accounts receivable, net	(358,488)	—	—	(358,488)
Contributions receivable	491,849	—	—	491,849
Prepaid expenses and other assets	(170,487)	—	—	(170,487)
Gift store inventory	515	—	—	515
Increase (decrease) in liabilities:				
Accounts payable	33,530	—	—	33,530
Accrued liabilities	127,438	—	—	127,438
Deferred revenue	110,795	—	—	110,795
Net cash provided by (used in) operating activities and nonoperating revenue	<u>2,226,418</u>	<u>(64,871)</u>	<u>—</u>	<u>2,161,547</u>
Cash flows from investing activities:				
Capital expenditures	(1,825,567)	—	—	(1,825,567)
Proceeds from sale of investments held by trustee	—	64,871	—	64,871
Net cash provided by (used in) investing activities	<u>(1,825,567)</u>	<u>64,871</u>	<u>—</u>	<u>(1,760,696)</u>
Net increase in cash and cash equivalents	400,851	—	—	400,851
Cash and cash equivalents, beginning of year	706,509	—	—	706,509
Cash and cash equivalents, end of year	<u>\$ 1,107,360</u>	<u>—</u>	<u>—</u>	<u>1,107,360</u>

See accompanying notes to consolidating financial statements.

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(1) Description of Business

Organization and Business Activity

The accompanying consolidating financial statements present the financial condition and results of operations and cash flows of the Aquarium of the Pacific (the Aquarium) as of and for the years ended September 30, 2006 and 2005. Such financial statements depict a public/private partnership between the City of Long Beach, California (the City), and the Aquarium of the Pacific Corporation (the Corporation), a California nonprofit public benefit corporation organized as a nonprofit organization under Section 501(c)(3) of the Internal Revenue Code.

Under a formal operating arrangement approved by the City Council of the City of Long Beach and the Corporation's board of directors, the Aquarium's operations are carried out by the Corporation.

In October 1992, the Corporation was organized under the provisions of Internal Revenue Code Section 501(c)(3) as a California nonprofit public benefit corporation. Under its articles of incorporation, the Corporation was organized for the benefit of the general public to promote educational, scientific, and charitable purposes relative to the design, construction, and subsequent operation of a public aquarium and sea life exhibit facility in the City of Long Beach. Since its inception, the Corporation's sole objective has been to manage the operations of the Aquarium.

In May 2001, the City of Long Beach finalized an agreement whereby the Corporation's original outstanding tax-exempt debt would be defeased from funds generated by the sale of \$129,520,000 of Lease Revenue Refunding Bonds (Aquarium of the Pacific Project), Series 2001 (Series 2001 Refunding Bonds) issued by the Long Beach Bond Finance Authority (the Authority). In conjunction with the issuance of the 2001 Series Refunding Bonds, a Continuing Disclosure Agreement was also entered into by the City, the Corporation, the Authority, the Redevelopment Agency of the City of Long Beach (the Agreement) dated as of April 1, 2001.

The Authority was created by the exercise of a joint powers agreement between the City and its affiliated entity, the Redevelopment Agency of the City of Long Beach. The Authority's sole purpose is to act as a vehicle to obtain long-term financing for the City and its Redevelopment Agency. Under the terms of this agreement, the City assumed ownership of all physical plant assets at that time as well as responsibility for the Corporation's then outstanding long-term indebtedness.

For their participation in the partnership, the City receives rent for the use of the Aquarium facility in an amount equal to the "net operating profit" of the Corporation. Under the operating agreement currently in force, such rent is applied to debt service on the outstanding long-term indebtedness. "Net operating profit" is defined as the difference between daily unrestricted operating receipts transferred by the Corporation to the City's trustee, less reimbursements for the costs of operating, including operating capital, and is eliminated in the accompanying consolidating statements of activities.

Unrestricted funds relating to Aquarium operations are held by the City's designated trustee. Formal procedures are in place relating to deposit of operating receipts and withdrawals for operating expenses, including operating capital, from these trustee-maintained accounts. Restricted funds generated by the

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Corporation's fund-raising activities, including grants and donations from private or public sources, remain the property of the Corporation. Assets comprising investments held by trustee, fixed assets as of May 2001, certain other assets, and net bonds payable are accounted for in the City's Tidelands Operating Fund, a nonexpendable trust fund of the City. The remaining net assets, including asset acquisitions subsequent to May 2001, remain with the Corporation, which operates as a separate legal 501(c)(3) not-for-profit organization with a separate board of directors who are independent from the City.

(2) Summary of Significant Accounting Policies

(a) Basis of Presentation

The accompanying consolidating financial statements of the Aquarium include the accounts maintained by the Corporation and the City, which, in the aggregate, depict the financial condition and results of operations and cash flows of the Aquarium using the accrual basis of accounting. The accompanying consolidating statements of financial position of the Aquarium as of September 30, 2006 and 2005, and the related consolidating statements of activities, functional expenses, and cash flows for the years then ended were prepared to present financial information for the public/private partnership between the City and the Corporation to comply with the reporting requirements pursuant to the Continuing Disclosure Agreement entered into by the City, the Corporation, the Authority, and the Redevelopment Agency of the City of Long Beach. These consolidating financial statements are not intended to be a complete presentation of the City's individual financial statements. Although the Corporation's fiscal year ends December 31, the accompanying consolidating financial statements reflect the 12-month activity for the Aquarium as of and for the years ended September 30, 2006 and 2005. All significant intercompany transactions and accounts have been eliminated in consolidation.

Funds that have similar characteristics have been combined for the accompanying financial statement presentation into these net asset categories:

For the Corporation: temporarily restricted and unrestricted net assets. Unrestricted net assets are not restricted by donors, or the donor-imposed restrictions have expired. Temporarily restricted net assets contain donor-imposed restrictions that require the Corporation to use or expend the assets as specified. The restrictions are satisfied either by the passage of time or by actions of the Corporation's management.

(b) Use of Estimates

The preparation of consolidating financial statements in conformity with United States generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates.

(c) Cash Equivalents

For purposes of the consolidating statements of cash flows, the Aquarium considers all unrestricted highly liquid investments with an original maturity of three months or less to be cash equivalents.

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(d) Gift Store Inventory

Gift store inventory is valued at the lower of cost or market.

(e) Live Animal Inventory

The costs of purchasing or collecting live animals are expensed as incurred. Donated specimens are not valued and, therefore, are not reflected in the consolidating financial statements.

(f) Contributions Receivable

Contributions receivable, less an appropriate allowance for estimated uncollectible amounts, are recorded at their estimated net realizable value. Contributions that are expected to be collected in future years are recorded as contributions receivable at the present value of their estimated cash flows. The Aquarium discounts contributions that are expected to be collected after one year using a risk-free interest rate. Amortization of the discounts is included in contribution revenue.

(g) Property and Equipment

Building and equipment are recorded at cost and are depreciated using the straight-line method over the following estimated useful lives: buildings – 27.5 years and equipment, furniture, and fixtures – 3 to 7 years. Leasehold improvements are amortized over the shorter of the period of the lease or the estimated useful life. Expenditures for repairs and maintenance are charged to expense as incurred. Physical assets as of May 2001 are recorded as City assets, and assets acquired after May 2001 are recorded as Corporation assets.

(h) Revenue Recognition

The Aquarium records its revenues on the accrual basis. In addition, the Aquarium records as revenue the following types of contributions, when they are received unconditionally, at their fair value: cash, promises to give (pledges), and gifts of long-lived and other assets. Conditional contributions are recognized as revenue when the conditions on which they depend have been substantially met.

The Aquarium records the sale of its consignment tickets as deferred revenue. Revenue is recognized in the period in which the tickets are redeemed for admission.

(i) Temporarily Restricted Contributions

The Aquarium records contributions as temporarily restricted if they are received with donor restrictions that limit their use either through purpose or time restrictions. Unconditional promises to give cash and other assets are reported at fair value at the date the promise is received, rather than when the assets are received. The gifts are reported as temporarily or permanently restricted net assets if they are received with donor stipulations that limit the use of the donated assets. When donor restrictions expire, that is, when a purpose restriction is fulfilled or a time restriction ends, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidating statement of activities as net assets released from restrictions.

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(j) *Donated Goods and Services*

The Aquarium records various types of in-kind support including donated professional services and supplies. Contributed professional services are recognized if the services received (a) create or enhance long-lived assets or (b) require specialized skills that are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation. Contributions of tangible assets are recognized at fair market value when received. The amounts reflected in the accompanying consolidating financial statements as in-kind support are offset by like amounts included in expenses or property, plant, and equipment as appropriate.

A substantial number of unpaid volunteers have made significant contributions of their time that do not meet the two recognition criteria described above. Accordingly, the value of this donated time is not reflected in the consolidating financial statements.

(k) *Functional Allocation of Expenses*

The costs of providing Aquarium programs and administration have been summarized on a functional basis in the accompanying consolidating statements of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Program and fundraising expenses were \$19,502,166 and \$2,161,457, respectively, for the year ended September 30, 2006. For the year ended September 30, 2005, program and fundraising expenses were \$17,792,744 and \$1,845,973, respectively.

(l) *Income Taxes*

As a nonprofit organization, the Corporation is exempt from federal and state income taxes on related income pursuant to Section 501(a) of the Internal Revenue Code and Section 23701d of the California Revenue and Taxation Code and is generally not subject to federal or state income taxes. However, the Corporation is subject to income taxes on any net income that is derived from a trade or business, regularly carried on and not in furtherance of the purpose for which it was granted exemption. No income tax provision has been recorded as the net income, if any, from any unrelated trade or business, in the opinion of management, is not material to the financial statements taken as a whole.

(m) *Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of*

The Aquarium reviews property and equipment for impairment whenever events or changes in circumstances indicate that the carrying value of the property and equipment may not be recoverable. Recoverability is measured by a comparison of the carrying amount of the asset to future net cash flows, undiscounted and without interest, expected to be generated by the asset. If such asset is considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the asset exceeds fair value of the asset. During the years ended September 30, 2006 and 2005, there were no events or changes in circumstances indicating that the carrying amount of property and equipment may not be recoverable.

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(n) Reclassifications

Certain reclassifications have been made to the 2005 financial statements to conform to the 2006 presentation. Such reclassifications had no effect on previously reported change in net assets.

(3) Restricted Investments Held by Trustees

Certain assets held by the City are entrusted to third-party trustees and restricted for the operating and capital expenditures of the Aquarium and for the payment of principal and interest on the outstanding Series 2001 Refunding Bonds. Such restricted invested assets consist of money market accounts and guaranteed investment contracts, which are recorded at fair value, based on market and contract values, respectively.

The composition of such restricted invested assets, stated at fair value, at September 30, 2006 and 2005 is as follows:

	2006	2005
U.S. Bank Trust National Association money market accounts	\$ 5,956,422	5,472,859
AMBAC guaranteed investment contract, 6.4% per annum through November 1, 2030	9,322,913	9,322,913
	\$ 15,279,335	14,795,772

(4) Property and Equipment

A summary of the Aquarium physical plant assets, including Corporation and City assets, at September 30, 2006 and 2005 is as follows:

	2006	2005
Land	\$ 9,900,000	9,900,000
Building	91,933,074	91,729,844
Leasehold improvements	140,503	140,503
Furniture and fixtures	948,218	752,412
Equipment	6,901,619	5,751,430
Construction in progress	465,201	299,597
Total	110,288,615	108,573,786
Less accumulated depreciation and amortization	(35,037,525)	(30,815,503)
Property and equipment, net	\$ 75,251,090	77,758,283

In connection with the issuance of the Series 2001 Refunding Bonds (notes 1 and 5), the 1995 ground lease with the City was terminated and the City reassumed rights of ownership. With the reversion of the ground

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lease back to the City, the City recorded the value of the reacquired property at the lease's remaining fair market value consistent with the provisions of Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*.

(5) Long-term Debt

Lease Revenue Refunding Bonds (Series 2001 Refunding Bonds)

In May 2001, the Authority issued its Series 2001 Refunding Bonds totaling \$129,520,000 to refund the Corporation's outstanding 1995 Series A and B Long Beach Aquarium Revenue Bonds. Such term bonds require annual mandatory sinking fund payments in varying installments prior to maturity. The following is a summary of long-term debt at September 30, 2006 and 2005:

	2006	2005
2001 Lease revenue refunding tax-exempt serial bonds, maturing on November 1, 2006 through November 1, 2019, interest ranging from 3.875% to 5.500%	\$ 52,710,000	52,710,000
2001 Lease revenue refunding tax-exempt term bonds, maturing on November 1, 2026, 5.000% interest	43,950,000	43,950,000
2001 Lease revenue refunding tax-exempt term bonds, maturing on November 1, 2030, 5.250% interest	<u>32,860,000</u>	<u>32,860,000</u>
	129,520,000	129,520,000
Less unamortized discount on bonds and deferred amount on refunding	<u>(9,883,102)</u>	<u>(10,500,886)</u>
Total long-term debt outstanding, net	<u>\$ 119,636,898</u>	<u>119,019,114</u>

Interest on the Series 2001 Refunding Bonds is payable semiannually. The original issue discount and other costs of issuance totaled approximately \$5,619,957 for the Series 2001 Refunding Bonds, of which approximately \$1,765,157 and \$1,775,045 were amortized as of September 30, 2006 and 2005, respectively.

The gross revenues of the Corporation, as defined, investments held by the trustee, and related earnings are pledged as collateral for debt service. Also pledged are Agency Hotel Taxes as defined in the Owner Participation Agreement and City Available Tidelands Revenues as defined in the City Pledge Agreement, which are used to fund the difference between total debt service and rent paid by the Corporation. For financial statement purposes, rent paid by the Corporation is defined as the difference between daily unrestricted operating receipts transferred by the Corporation to the City's trustee, less reimbursements for the costs of operating, including operating capital. On March 1, 2006, an "Implementation Agreement" was entered into between the Corporation and the Authority, which clarified costs of operating within the definitions included in the 2001 Series Bond Indenture. The Implementation Agreement provided a framework by which the Corporation could execute long-term expansion and renewal of the facility and

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maximize bondholder security. The bond insurer reviewed and did not object to the agreement, and non-adverse opinions of bond counsel were obtained regarding the consistency of the agreement with the governing bond documents.

A portion of the proceeds of the Series 2001 Refunding Bonds was used to purchase U.S. government securities. Such securities were deposited into an irrevocable trust with an independent escrow agent to provide for all future debt service payments on the then outstanding 1995 Series A and B Long Beach Aquarium Revenue Bonds in existence prior to the issuance of the Series 2001 Refunding Bonds. As a result, the 1995 Series A and B bonds were considered defeased and the liability for those bonds removed from the accompanying consolidating financial statements. The 1995 Series A and B bonds were extinguished in full in July 2005. Under the terms of the Series 2001 Bond Indenture, the Aquarium of the Pacific Project was required to establish and maintain various funds and accounts with the trustee. Such required funds have been classified in the accompanying consolidating financial statements as investments held by trustee. The refunding bond indenture also places limits on the incurrence of additional borrowings the Corporation's and the City's Tidelands Operating Funds requiring that certain measures of compliance and financial performance are satisfied as long as the bonds are outstanding.

The total remaining principal payments of long-term debt amount to \$129,520,000 as of September 30, 2006 and 2005. Pursuant to the chart below, principal payments are scheduled to commence in fiscal year ending 2007:

	<u>Annual debt service requirements</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Fiscal year ending September 30:			
2007	\$ 2,765,000	6,557,913	9,322,913
2008	2,870,000	6,504,341	9,374,341
2009	2,985,000	6,393,369	9,378,369
2010	3,105,000	6,274,403	9,379,403
2011	3,240,000	6,146,856	9,386,856
2012-2016	18,730,000	28,332,150	47,062,150
2017-2021	24,415,000	22,818,913	47,233,913
2022-2026	31,315,000	16,030,375	47,345,375
2027-2031	40,095,000	7,493,281	47,588,281
2032-2036	—	232,444	232,444
Total	<u>\$ 129,520,000</u>	<u>106,784,045</u>	<u>236,304,045</u>

With the issuance of the Series 2001 Refunding Bonds, the City increased its aggregate debt service payments by approximately \$49,176,000 over the life of the newly issued bonds compared to the Aquarium's original 1995 Series A and B bonds. The payment stream was effectively increased 7½ years from July 2023 to November 2030. The refunding resulted in the recognition of an accounting loss of \$11,600,777, which, in accordance with U.S. generally accepted accounting principles applicable to governmental units, has been capitalized and will be amortized over the debt service payment stream of the defeased bonds. Although such termination resulted in a loss for financial reporting purposes of

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\$11,600,777, the net present value of the corresponding economic loss (difference between the aggregate debt service payments of the refunding and refunded issues) aggregated approximately \$2,800,000.

(6) Commitments and Contingencies

(a) Operating Leases

The Aquarium leases various office space and equipment under noncancelable operating leases. Future minimum lease payments under operating leases that have initial or remaining lease terms in excess of one year as of September 30, 2006 are as follows:

2007	\$	184,316
2008		61,475
2009		22,777
2010		21,121
2011		3,601
Thereafter		3,301
	\$	<u>296,591</u>

Rent aggregating \$247,317 and \$241,289 was paid during the years ended September 30, 2006 and 2005, respectively.

(b) Professional Liability Coverage

The Aquarium is insured for professional and general liability claims on a claims made basis to \$20,000,000, with certain sublimits, through the Special Liability Insurance Program, a California public entity sponsored insurance pool. The deductible amount is \$1,000 per claim, except \$5,000 for automobile liability, and is expensed as incurred. Management believes the deductibles to be immaterial and insurance adequate to cover losses incurred.

(c) Litigation

The Aquarium is subject to potential litigation arising in the normal course of business. Management believes they are adequately insured for potential losses that may arise related to such litigation.

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(7) Temporarily Restricted Net Assets

Temporarily restricted net assets as of September 30, 2006 and 2005 consist of the following:

	<u>2006</u>	<u>2005</u>
Marketing	\$ 37,490	47,637
Scholarships	248,422	211,716
Equipment and construction projects	1,261,285	396,036
Education and conservation projects	467,560	351,418
	<u>\$ 2,014,757</u>	<u>1,006,807</u>

During the years ended September 30, 2006 and 2005, net assets were released either by the passage of time or from donor restrictions by incurring expenses as follows:

	<u>2006</u>	<u>2005</u>
Marketing	\$ 12,510	50,625
Scholarships	248,557	183,166
Equipment and construction projects	298,792	465,194
Education and conservation projects	304,122	267,813
	<u>\$ 863,981</u>	<u>966,798</u>

(8) Contributions Receivable

As of September 30, 2006 and 2005, contributions receivable are expected to be received as follows:

	<u>2006</u>	<u>2005</u>
Within one year	\$ 339,428	505,694
Within two to five years	100,000	135,000
	439,428	640,694
Less discount to reflect contributions receivable at present value	(17,511)	(16,184)
Contributions receivable, net	<u>\$ 421,917</u>	<u>624,510</u>

The Aquarium discounts contributions that are expected to be collected after one year using a risk-free interest rate. The interest-free rate used during the years ended September 30, 2006 and 2005 was approximately 4.65%.

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(9) Retirement Plan

The Corporation offers a 457 plan covering all regular employees who have completed 500 hours of service. For the years ended September 30, 2006 and 2005, participants in the plan may make contributions of up to 15% of their base salary. The Aquarium contributes an additional amount equal to 25% of the first 4% of each participant's plan contribution. Total contributions to the plan, including employer match, may not exceed \$15,000 and \$14,000 for the years ended September 30, 2006 and 2005, respectively. Participants are 100% vested in all plan contributions plus actual earnings thereon. The Aquarium's contribution was \$43,492 and \$46,041 for the years ended September 30, 2006 and 2005, respectively.

(10) Related Parties

In May 1997, the City and the Corporation terminated a portion of the October 1995 ground lease between the Corporation and the City described as the "Parking Parcel." The City agreed to construct, operate, and maintain a Public Parking Facility. The Corporation transferred the sum of \$1,500,000 to be applied toward the construction of such Public Parking Facility. The City further agreed during the term of the lease to pay to the Corporation an annual amount of net revenues not to exceed \$1,500,000. The Parking Agreement was included in the new lease between the City and the Corporation dated April 1, 2001, extending the term of the agreement to fiscal year 2031.

The annual revenue due to the Corporation for the years ended September 30, 2006 and 2005 was \$1,500,000 and \$1,054,987, respectively, and is included in accounts receivable for each respective year in the accompanying consolidating statements of financial position.