



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, 2009 and 2008

(With Independent Auditors' Report Thereon)



KPMG LLP
Suite 700
20 Pacifica
Irvine, CA 92618-3391

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, 2009 and 2008, 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 the City managements. Our responsibility is to express opinions on the consolidating 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 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 audits provide a reasonable basis for our opinions.

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

In our opinion, the consolidating financial statements referred to above present fairly, in all material respects, the financial position of the Aquarium of the Pacific as of September 30, 2009 and 2008, and the changes in its net assets and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

As discussed in notes 2 and 10, the Corporation implemented the provisions included in Financial Accounting Standards Board Accounting Standards Codification 958-205, *Not-for-Profit Entities – Presentation of Financial Statements*, for the net asset classification of donor-restricted endowment funds as of October 1, 2008.

This report is intended solely for the information and use of the City's Council, the board of directors of the Corporation, the managements of the City and the Corporation, the Long Beach Bond Finance 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

March 30, 2010

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, 2009

Assets	Aquarium of the Pacific Corporation				City of Long Beach	Eliminations (note 1)	Consolidated total
	Unrestricted	Temporarily restricted	Permanently restricted	Total			
Cash and cash equivalents	\$ 1,935,191	2,786,014	80,029	4,801,234	—	—	4,801,234
Accrued interest receivable	—	—	—	—	—	—	—
Accounts receivable, net of allowance for doubtful accounts of \$498,444	1,943,775	—	—	1,943,775	—	—	1,943,775
Contributions receivable, net	458,174	4,387,204	—	4,845,378	—	—	4,845,378
Prepaid expenses and other assets	399,329	—	—	399,329	—	—	399,329
Gift store inventory	237,299	—	—	237,299	—	—	237,299
Restricted investments held by trustee	—	—	—	—	16,373,296	—	16,373,296
Investments	—	—	215,915	215,915	—	—	215,915
Other assets	159,067	—	—	159,067	—	—	159,067
Deferred financing costs, net	—	—	—	—	2,125,880	—	2,125,880
Property and equipment, net	10,443,937	2,828,245	—	13,272,182	66,003,573	(8,108,911)	71,166,844
Total assets	<u>\$ 15,576,772</u>	<u>10,001,463</u>	<u>295,944</u>	<u>25,874,179</u>	<u>84,502,749</u>	<u>(8,108,911)</u>	<u>102,268,017</u>
Liabilities and Net Assets							
Accounts payable	\$ 2,390,279	—	—	2,390,279	—	—	2,390,279
Accrued interest payable	—	—	—	—	2,588,682	—	2,588,682
Accrued liabilities	1,377,638	—	—	1,377,638	—	—	1,377,638
Deferred revenue	543,694	—	—	543,694	—	—	543,694
Bonds payable, net of unamortized discounts/deferred amount on refunding aggregating \$8,063,420	—	—	—	—	112,836,580	—	112,836,580
Total liabilities	<u>4,311,611</u>	<u>—</u>	<u>—</u>	<u>4,311,611</u>	<u>115,425,262</u>	<u>—</u>	<u>119,736,873</u>
Net assets (deficit):							
Unrestricted	11,265,161	—	—	11,265,161	(30,922,513)	(8,108,911)	(27,766,263)
Temporarily restricted	—	10,001,463	—	10,001,463	—	—	10,001,463
Permanently restricted	—	—	295,944	295,944	—	—	295,944
Total net assets (deficit)	<u>11,265,161</u>	<u>10,001,463</u>	<u>295,944</u>	<u>21,562,568</u>	<u>(30,922,513)</u>	<u>(8,108,911)</u>	<u>(17,468,856)</u>
Commitments and contingencies							
Total liabilities and net assets	<u>\$ 15,576,772</u>	<u>10,001,463</u>	<u>295,944</u>	<u>25,874,179</u>	<u>84,502,749</u>	<u>(8,108,911)</u>	<u>102,268,017</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 Financial Position

September 30, 2008

Assets	Aquarium of the Pacific Corporation				City of Long Beach	Eliminations (note 1)	Consolidated total
	Unrestricted	Temporarily restricted	Permanently restricted	Total			
Cash and cash equivalents	\$ 384,850	3,194,568	52,648	3,632,066	—	—	3,632,066
Accrued interest receivable	—	—	—	—	249,992	—	249,992
Accounts receivable, net of allowance for doubtful accounts of \$527,700	1,603,080	—	—	1,603,080	—	—	1,603,080
Contributions receivable, net	959,296	5,478,568	—	6,437,864	—	—	6,437,864
Prepaid expenses and other assets	279,380	—	—	279,380	—	—	279,380
Gift store inventory	494,597	—	—	494,597	—	—	494,597
Restricted investments held by trustee	—	—	—	—	16,036,880	—	16,036,880
Investments	—	—	215,915	215,915	—	—	215,915
Other assets	200,194	—	—	200,194	—	—	200,194
Deferred financing costs, net	—	—	—	—	2,316,980	—	2,316,980
Property and equipment, net	8,381,689	2,821,415	—	11,203,104	69,436,827	(8,484,614)	72,155,317
Total assets	<u>\$ 12,303,086</u>	<u>11,494,551</u>	<u>268,563</u>	<u>24,066,200</u>	<u>88,040,679</u>	<u>(8,484,614)</u>	<u>103,622,265</u>
Liabilities and Net Assets							
Accounts payable	\$ 3,133,182	—	—	3,133,182	—	—	3,133,182
Accrued interest payable	—	—	—	—	2,639,987	—	2,639,987
Accrued liabilities	1,295,998	—	—	1,295,998	—	—	1,295,998
Deferred revenue	531,580	—	—	531,580	—	—	531,580
Bonds payable, net of unamortized discounts/deferred amount on refunding aggregating \$8,664,742	—	—	—	—	115,220,258	—	115,220,258
Total liabilities	<u>4,960,760</u>	<u>—</u>	<u>—</u>	<u>4,960,760</u>	<u>117,860,245</u>	<u>—</u>	<u>122,821,005</u>
Net assets (deficit):							
Unrestricted	7,342,326	—	—	7,342,326	(29,819,566)	(8,484,614)	(30,961,854)
Temporarily restricted	—	11,494,551	—	11,494,551	—	—	11,494,551
Permanently restricted	—	—	268,563	268,563	—	—	268,563
Total net assets (deficit)	<u>7,342,326</u>	<u>11,494,551</u>	<u>268,563</u>	<u>19,105,440</u>	<u>(29,819,566)</u>	<u>(8,484,614)</u>	<u>(19,198,740)</u>
Commitments and contingencies							
Total liabilities and net assets	<u>\$ 12,303,086</u>	<u>11,494,551</u>	<u>268,563</u>	<u>24,066,200</u>	<u>88,040,679</u>	<u>(8,484,614)</u>	<u>103,622,265</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 Activities

Year ended September 30, 2009

	Aquarium of the Pacific Corporation			Total	City of Long Beach	Eliminations	Consolidated total
	Unrestricted	Temporarily restricted	Permanently restricted				
Operating revenues:							
Admissions	\$ 15,779,077	—	—	15,779,077	—	—	15,779,077
Facility rental	—	—	—	—	30,244,239	(30,244,239)	—
Memberships	3,604,734	—	—	3,604,734	—	—	3,604,734
Educational programs	1,141,143	—	—	1,141,143	—	—	1,141,143
Gift store	3,839,574	—	—	3,839,574	—	—	3,839,574
Contributions	914,746	1,860,115	27,381	2,802,242	—	—	2,802,242
Ancillary	736,424	—	—	736,424	—	—	736,424
Food service	665,586	—	—	665,586	—	—	665,586
Fund-raising events	513,708	—	—	513,708	—	—	513,708
Donated goods and services	1,732,006	—	—	1,732,006	—	—	1,732,006
Parking garage	1,282,070	—	—	1,282,070	—	—	1,282,070
Grants and other income	148,401	26,083	—	174,484	—	—	174,484
Net assets released from restriction for operations	3,379,286	(3,379,286)	—	—	—	—	—
Total operating revenues	<u>33,736,755</u>	<u>(1,493,088)</u>	<u>27,381</u>	<u>32,271,048</u>	<u>30,244,239</u>	<u>(30,244,239)</u>	<u>32,271,048</u>
Operating expenses:							
Husbandry and facilities	5,900,493	—	—	5,900,493	—	—	5,900,493
Education, interpretation, and outreach	2,526,864	—	—	2,526,864	—	—	2,526,864
Guest services	3,485,671	—	—	3,485,671	—	—	3,485,671
Gift store	2,714,743	—	—	2,714,743	—	—	2,714,743
Facility operating expense	—	—	—	—	26,593,000	(26,593,000)	—
Development and membership	2,222,742	—	—	2,222,742	—	—	2,222,742
Marketing	4,867,254	—	—	4,867,254	—	—	4,867,254
Human resources	571,544	—	—	571,544	—	—	571,544
Finance and administration	2,333,803	—	—	2,333,803	—	—	2,333,803
Net operating transfer to the City of Long Beach	3,651,239	—	—	3,651,239	—	(3,651,239)	—
Total operating expenses	<u>28,274,353</u>	<u>—</u>	<u>—</u>	<u>28,274,353</u>	<u>26,593,000</u>	<u>(30,244,239)</u>	<u>24,623,114</u>
Earnings (loss) before taxes, depreciation and amortization from operations, and interest	5,462,402	(1,493,088)	27,381	3,996,695	3,651,239	—	7,647,934
Transfers from City of Long Beach	—	—	—	—	5,488,038	—	5,488,038
Depreciation and amortization	(1,539,567)	—	—	(1,539,567)	(4,225,675)	375,703	(5,389,539)
Interest expense, net of bond interest income	—	—	—	—	(6,016,549)	—	(6,016,549)
Change in net assets (deficit)	3,922,835	(1,493,088)	27,381	2,457,128	(1,102,947)	375,703	1,729,884
Net assets (deficit) at beginning of year	7,342,326	11,494,551	268,563	19,105,440	(29,819,566)	(8,484,614)	(19,198,740)
Net assets (deficit) at end of year	<u>\$ 11,265,161</u>	<u>10,001,463</u>	<u>295,944</u>	<u>21,562,568</u>	<u>(30,922,513)</u>	<u>(8,108,911)</u>	<u>(17,468,856)</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 Activities

Year ended September 30, 2008

	<u>Aquarium of the Pacific Corporation</u>			<u>Total</u>	<u>City of Long Beach</u>	<u>Eliminations</u>	<u>Consolidated total</u>
	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>				
Operating revenues:							
Admissions	\$ 15,077,552	—	—	15,077,552	—	—	15,077,552
Facility rental	—	—	—	—	30,025,271	(30,025,271)	—
Memberships	3,162,021	—	—	3,162,021	—	—	3,162,021
Educational programs	1,304,492	—	—	1,304,492	—	—	1,304,492
Gift store	4,086,018	—	—	4,086,018	—	—	4,086,018
Contributions	1,256,902	4,839,697	53,755	6,150,354	—	—	6,150,354
Ancillary	645,638	—	—	645,638	—	—	645,638
Food service	723,762	—	—	723,762	—	—	723,762
Fund-raising events	781,470	—	—	781,470	—	—	781,470
Donated goods and services	905,902	—	—	905,902	—	—	905,902
Parking garage	1,081,695	—	—	1,081,695	—	—	1,081,695
Grants and other income	91,184	309,574	—	400,758	—	—	400,758
Net assets released from restriction for operations	52,430	(267,238)	214,808	—	—	—	—
Total operating revenues	<u>29,169,066</u>	<u>4,882,033</u>	<u>268,563</u>	<u>34,319,662</u>	<u>30,025,271</u>	<u>(30,025,271)</u>	<u>34,319,662</u>
Operating expenses:							
Husbandry and facilities	7,106,807	—	—	7,106,807	—	—	7,106,807
Education, interpretation, and outreach	2,796,959	—	—	2,796,959	—	—	2,796,959
Guest services	3,930,813	—	—	3,930,813	—	—	3,930,813
Gift store	2,960,899	—	—	2,960,899	—	—	2,960,899
Facility operating expense	—	—	—	—	27,520,849	(27,520,849)	—
Development and membership	2,480,172	—	—	2,480,172	—	—	2,480,172
Marketing	4,450,025	—	—	4,450,025	—	—	4,450,025
Human resources	804,304	—	—	804,304	—	—	804,304
Finance and administration	2,227,592	—	—	2,227,592	—	—	2,227,592
Net operating transfer to the City of Long Beach	2,504,422	—	—	2,504,422	—	(2,504,422)	—
Total operating expenses	<u>29,261,993</u>	<u>—</u>	<u>—</u>	<u>29,261,993</u>	<u>27,520,849</u>	<u>(30,025,271)</u>	<u>26,757,571</u>
Earnings (loss) before taxes, depreciation and amortization from operations, and interest	(92,927)	4,882,033	268,563	5,057,669	2,504,422	—	7,562,091
Transfers from City of Long Beach	—	—	—	—	6,151,804	—	6,151,804
Depreciation and amortization	(1,370,059)	—	—	(1,370,059)	(4,313,936)	375,703	(5,308,292)
Interest expense, net of bond interest income	—	—	—	—	(5,619,316)	—	(5,619,316)
Change in net assets (deficit)	(1,462,986)	4,882,033	268,563	3,687,610	(1,277,026)	375,703	2,786,287
Net assets (deficit) at beginning of year	8,805,312	6,612,518	—	15,417,830	(28,542,540)	(8,860,317)	(21,985,027)
Net assets (deficit) at end of year	<u>\$ 7,342,326</u>	<u>11,494,551</u>	<u>268,563</u>	<u>19,105,440</u>	<u>(29,819,566)</u>	<u>(8,484,614)</u>	<u>(19,198,740)</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 Functional Expenses

Year ended September 30, 2009

	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	\$ 2,984,672	1,673,050	2,531,223	822,535	903,546	930,991	393,433	1,380,290	11,619,740
Cost of goods sold	—	—	—	1,651,318	—	—	—	—	1,651,318
Insurance	53,708	70,991	68,934	22,741	811	983	512	71,640	290,320
Permits, maintenance, and construction	203,616	1,229	27,054	6,902	32	—	—	11,133	249,966
Occupancy	8,807	53,690	33,592	91,758	42,484	42,137	28,596	173,325	474,389
Utilities	1,388,291	66	—	4,064	—	—	—	—	1,392,421
Husbandry/animals and collecting	320,433	—	—	—	—	—	—	—	320,433
Services	248,323	390,141	215,670	8,815	495,026	298,543	99,397	254,123	2,010,038
Supplies and other expendables	648,911	171,133	308,484	38,006	110,995	41,349	32,447	85,280	1,436,605
Postage, shipping, and courier	14,582	11,637	6,551	5,434	151,192	79,027	4,978	14,205	287,606
Information technology and telecommunications	8,317	4,732	9,555	1,841	827	5,241	2,125	304,265	336,903
Printing and publishing	583	26,844	200	—	99,827	334,394	1,545	651	464,044
Advertising, promotions, and public relations	2	67,146	—	500	1,828	2,867,415	375	2,422	2,939,688
Travel, meals, and training	20,248	50,026	11,747	300	27,391	5,652	8,136	16,658	140,158
Other	—	6,179	272,661	60,529	388,783	261,522	—	19,811	1,009,485
Operating expenses before transient occupancy tax transfer, depreciation and amortization, and interest	5,900,493	2,526,864	3,485,671	2,714,743	2,222,742	4,867,254	571,544	2,333,803	24,623,114
Transfers from City of Long Beach	—	—	—	—	—	—	—	(5,488,038)	(5,488,038)
Depreciation and amortization	1,106,650	1,548,187	1,679,423	19,732	16,913	42,284	16,913	959,437	5,389,539
Interest expense, net of bond interest income	—	—	—	—	—	—	—	6,016,549	6,016,549
Total expenses	<u>\$ 7,007,143</u>	<u>4,075,051</u>	<u>5,165,094</u>	<u>2,734,475</u>	<u>2,239,655</u>	<u>4,909,538</u>	<u>588,457</u>	<u>3,821,751</u>	<u>30,541,164</u>

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, 2008

	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	\$ 3,053,936	1,690,451	2,770,176	932,360	785,715	925,564	504,290	1,220,217	11,882,709
Cost of goods sold	—	—	—	1,713,784	—	—	—	—	1,713,784
Insurance	49,689	73,957	9,866	22,856	794	962	501	128,923	287,548
Permits, maintenance, and construction	424,808	2,391	26,339	5,023	30	—	414	5,611	464,616
Occupancy	9,503	55,776	42,068	95,294	43,951	41,375	25,025	142,763	455,755
Utilities	1,845,025	55	—	4,870	—	—	—	—	1,849,950
Husbandry/animals and collecting	354,974	—	—	—	—	—	—	—	354,974
Services	248,966	483,383	241,380	19,610	637,953	313,926	121,398	277,461	2,344,077
Supplies and other expendables	1,023,512	225,047	470,465	90,060	312,708	42,739	55,489	118,147	2,338,167
Postage, shipping, and courier	12,811	15,849	22,452	5,423	118,230	70,327	4,973	18,459	268,524
Information technology and telecommunications	9,870	3,134	50,584	3,535	22,710	10,746	3,015	229,579	333,173
Printing and publishing	1,154	61,405	1,896	—	249,995	359,948	3,777	2,377	680,552
Advertising, promotions, and public relations	75	84,350	802	48	6,958	2,356,657	2,437	9,696	2,461,023
Travel, meals, and training	72,415	41,987	25,590	2,039	20,840	21,909	82,985	27,045	294,810
Other	69	59,174	269,195	65,997	280,288	305,872	—	47,314	1,027,909
Operating expenses before transient occupancy tax transfer, depreciation and amortization, and interest	7,106,807	2,796,959	3,930,813	2,960,899	2,480,172	4,450,025	804,304	2,227,592	26,757,571
Transfers from City of Long Beach	—	—	—	—	—	—	—	(6,151,804)	(6,151,804)
Depreciation and amortization	727,750	1,515,823	2,021,238	22,575	19,350	48,374	19,350	933,832	5,308,292
Interest expense, net of bond interest income	—	—	—	—	—	—	—	5,619,316	5,619,316
Total expenses	<u>\$ 7,834,557</u>	<u>4,312,782</u>	<u>5,952,051</u>	<u>2,983,474</u>	<u>2,499,522</u>	<u>4,498,399</u>	<u>823,654</u>	<u>2,628,936</u>	<u>31,533,375</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, 2009

	<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)	\$ 2,457,128	(1,102,947)	375,703	1,729,884
Adjustments to reconcile change in net assets (deficit) to net cash provided by operating activities and nonoperating revenue:				
Depreciation and amortization	1,539,567	4,225,675	(375,703)	5,389,539
Contributions restricted for long-term purposes	(1,979,940)	—	—	(1,979,940)
(Increase) decrease in assets:				
Accrued interest receivable	—	249,992	—	249,992
Accounts receivable, net	(340,695)	—	—	(340,695)
Contributions receivable	1,592,486	—	—	1,592,486
Prepaid expenses and other assets	(78,822)	—	—	(78,822)
Gift store inventory	257,298	—	—	257,298
Increase (decrease) in liabilities:				
Accounts payable	(742,903)	(51,305)	—	(794,208)
Accrued liabilities	81,640	—	—	81,640
Deferred revenue	12,114	—	—	12,114
Net cash provided by operating activities and nonoperating revenue	<u>2,797,873</u>	<u>3,321,415</u>	<u>—</u>	<u>6,119,288</u>
Cash flows from investing activities:				
Capital expenditures	(3,608,645)	—	—	(3,608,645)
Purchase of investments held by trustee	—	(336,415)	—	(336,415)
Net cash used in investing activities	<u>(3,608,645)</u>	<u>(336,415)</u>	<u>—</u>	<u>(3,945,060)</u>
Cash flows from financing activities:				
Contributions restricted for long-term purposes	1,979,940	—	—	1,979,940
Payment on long-term debt	—	(2,985,000)	—	(2,985,000)
Net cash provided by (used in) financing activities	<u>1,979,940</u>	<u>(2,985,000)</u>	<u>—</u>	<u>(1,005,060)</u>
Net decrease in cash and cash equivalents	1,169,168	—	—	1,169,168
Cash and cash equivalents, beginning of year	3,632,066	—	—	3,632,066
Cash and cash equivalents, end of year	<u>\$ 4,801,234</u>	<u>—</u>	<u>—</u>	<u>4,801,234</u>

See accompanying notes to consolidating financial statements.

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Consolidating Statement of Cash Flows

Year ended September 30, 2008

	Aquarium of the Pacific Corporation	City of Long Beach	Eliminations (note 1)	Consolidated total
Cash flows from operating activities and nonoperating revenue:				
Change in net assets (deficit)	\$ 3,687,610	(1,277,026)	375,703	2,786,287
Adjustments to reconcile change in net assets (deficit) to net cash provided by operating activities and nonoperating revenue:				
Depreciation and amortization	1,370,059	4,313,936	(375,703)	5,308,292
Contributions restricted for long-term purposes	(2,880,097)	—	—	(2,880,097)
(Increase) decrease in assets:				
Accrued interest receivable	—	2,763	—	2,763
Accounts receivable, net	(648,796)	—	—	(648,796)
Contributions receivable	(1,093,355)	—	—	(1,093,355)
Prepaid expenses and other assets	48,434	—	—	48,434
Gift store inventory	(87,214)	—	—	(87,214)
Increase (decrease) in liabilities:				
Accounts payable	646,544	(47,833)	—	598,711
Accrued liabilities	234,429	—	—	234,429
Deferred revenue	118,459	—	—	118,459
Net cash provided by operating activities and nonoperating revenue	<u>1,396,073</u>	<u>2,991,840</u>	<u>—</u>	<u>4,387,913</u>
Cash flows from investing activities:				
Capital expenditures	(4,345,531)	—	—	(4,345,531)
Purchase of investments held by trustee	—	(121,840)	—	(121,840)
Net cash used in investing activities	<u>(4,345,531)</u>	<u>(121,840)</u>	<u>—</u>	<u>(4,467,371)</u>
Cash flows from financing activities:				
Contributions restricted for long-term purposes	2,880,097	—	—	2,880,097
Payment on long-term debt	—	(2,870,000)	—	(2,870,000)
Net cash provided by (used in) financing activities	<u>2,880,097</u>	<u>(2,870,000)</u>	<u>—</u>	<u>10,097</u>
Net decrease in cash and cash equivalents	(69,361)	—	—	(69,361)
Cash and cash equivalents, beginning of year	<u>3,701,427</u>	<u>—</u>	<u>—</u>	<u>3,701,427</u>
Cash and cash equivalents, end of year	<u>\$ 3,632,066</u>	<u>—</u>	<u>—</u>	<u>3,632,066</u>

See accompanying notes to consolidating financial statements.

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Notes to Consolidating Financial Statements

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(1) Description of Business

Organization and Business Activity

The accompanying consolidating 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, collectively the Aquarium of the Pacific (the Aquarium). 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, 2009 and 2008.

Under a formal operating arrangement approved by the City Council of the City 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. The Corporation's sole objective is to manage the operations of the Aquarium.

In May 2001, the City 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, and 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. Under the operating agreement currently in force, such rent is applied to debt service on the outstanding long-term indebtedness. Pursuant to the Implementation Agreement as adopted on March 1, 2006, rent includes a stabilized payment of \$3,528,000 net of revenue-sharing arrangements for operating funds available after operating expenses including operating capital, rent, and parking operations.

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. The Corporation operates as a separate legal 501(c)(3) not-for-profit organization with a separate independent board of directors.

(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, 2009 and 2008, 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, 2009 and 2008. 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: permanently restricted, 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. Permanently restricted net assets include gifts subject to donor-imposed stipulations that the Corporation maintain them permanently. Generally, the donors of these assets permit the Corporation to use all or part of the income earned on these assets.

(b) New Accounting Pronouncements

Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC 820), *Fair Value Measurements and Disclosures*, establishes a framework for measuring fair value and expands disclosures about fair value measurements. FASB ASC 820 is generally effective for fiscal years beginning after November 15, 2007 and provides a one-year deferral of the effective date of FASB ASC 820 for nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed in the financial statements at fair value at least annually. Therefore, effective October 1, 2008, the Aquarium implemented the provisions of FASB ASC 820. The implementation of the

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provisions of FASB ASC 820 resulted in additional financial statement disclosures and did not have an impact on the Aquarium's change in net assets or financial position.

FASB ASC 958-205, *Not-for-Profit Entities – Presentation of Financial Statements*, provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA) and provides improved disclosures about an organization's endowment funds. Therefore, effective October 1, 2008, the Aquarium implemented the provisions included in FASB ASC 958-205. See enhanced disclosures required by FASB ASC 958-205 at note 10.

(c) ***Fair Value of Financial Instruments***

Fair Value Determination

The fair value of the Aquarium's financial instruments as of September 30, 2009 represents management's best estimates of the amounts that would be received to sell those assets in an orderly transaction between market participants at that date. Those fair value measurements maximize the use of observable inputs. However, in situations where there are little, if any observable inputs, management's own judgments about the assumptions of market participants were used in pricing the asset.

Fair Value Hierarchy

FASB ASC 820 established a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level I measurements) and the lowest priority to measurements involving significant unobservable inputs (Level III measurements). The three levels of the fair value hierarchy are as follows:

Level I inputs are quoted prices (unadjusted) in active markets for identical assets that the Aquarium has the ability to access at the measurement date.

Level II inputs are inputs other than quoted prices included within Level I that are observable for the assets, either directly or indirectly, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other observable inputs that can be corroborated by observable market data.

Level III inputs are unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets.

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.

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(d) Use of Estimates

The preparation of consolidating financial statements in conformity with U.S. 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.

(e) 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.

(f) Gift Store Inventory

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

(g) Live Animal Inventory

The costs of purchasing or collecting live animals are expensed as incurred.

(h) 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.

(i) 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 were recorded as the City assets, and assets acquired after May 2001 are recorded as the Corporation assets.

(j) 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.

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(k) *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. Contributions restricted for the acquisition of long-lived assets are reported as temporarily restricted net assets until such time as the long-lived assets are placed in service by the Aquarium.

(l) *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 or receipt of operating goods or services such as advertising that would otherwise require additional cash expenditures. 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.

(m) *Functional Allocation of Expenses*

The costs of providing the Aquarium's 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 fund-raising expenses were \$18,981,763 and \$2,239,655, respectively, for the year ended September 30, 2009. Program and fund-raising expenses were \$21,085,394 and \$2,499,522, respectively, for the year ended September 30, 2008.

(n) *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

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trade or business, in the opinion of management, is not material to the consolidating financial statements taken as a whole.

(o) Accounting for Uncertainty in Income Taxes

FASB ASC 740, *Income Taxes*, clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements and prescribes a threshold of more likely than not for recognition of tax benefits of uncertain tax positions taken or expected to be taken in a tax return. FASB ASC 740 also provides related guidance on measurement, derecognition, classification, interest and penalties, and disclosure. The Aquarium implemented the provisions of FASB ASC 740 during fiscal year 2008. The implementation of FASB ASC 740 did not have a material impact of the Aquarium's financial statements.

(p) 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, 2009 and 2008, there were no events or changes in circumstances indicating that the carrying amount of property and equipment may not be recoverable.

(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. The composition of such restricted invested assets, stated at fair value, at September 30, 2009 and 2008 is as follows:

	<u>2009</u>	<u>2008</u>
Cash and cash equivalents	\$ 7,157,957	6,713,967
U.S. government obligations	9,215,339	—
AMBAC guaranteed investment contract, 6.4% per annum through November 1, 2030	—	9,322,913
	<u>\$ 16,373,296</u>	<u>16,036,880</u>

Subsequent to September 30, 2008, the investment contract with AMBAC was terminated due to a rating downgrade.

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(4) Fair Values of Financial Instruments

The following table presents assets that are measured at fair value on a recurring basis at September 30, 2009:

<u>Assets</u>	<u>Quoted prices in active markets for identical assets (Level I)</u>	<u>Significant other observable inputs (Level II)</u>	<u>Significant unobservable inputs (Level III)</u>	<u>Total 2009</u>
Cash and cash equivalents	\$ 11,959,193	—	—	11,959,193
U.S. government obligations	—	9,431,252	—	9,431,252
	<u>\$ 11,959,193</u>	<u>9,431,252</u>	<u>—</u>	<u>21,390,445</u>

(5) Property and Equipment

A summary of the Aquarium capital assets, including the Corporation and the City assets, at September 30, 2009 and 2008 is as follows:

	<u>2009</u>	<u>2008</u>
Land	\$ 9,900,000	9,900,000
Building	93,720,649	92,154,891
Leasehold improvements	144,537	140,503
Furniture and fixtures	1,227,129	989,821
Equipment	10,425,181	9,470,648
Construction in progress	3,959,818	3,457,612
Total	119,377,314	116,113,475
Less accumulated depreciation and amortization	(48,210,470)	(43,958,158)
Property and equipment, net	<u>\$ 71,166,844</u>	<u>72,155,317</u>

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 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 Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*.

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(6) 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, 2009 and 2008:

	2009	2008
2001 Lease revenue refunding tax-exempt serial bonds, maturing on November 1, 2007 through November 1, 2019, interest ranging from 3.875% to 5.500%	\$ 44,090,000	47,075,000
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	32,860,000	32,860,000
	120,900,000	123,885,000
Less unamortized discount on bonds and deferred amount on refunding	(8,063,420)	(8,664,742)
Total long-term debt outstanding, net	\$ 112,836,580	115,220,258

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 \$2,626,628 and \$2,357,549 were amortized as of September 30, 2009 and 2008, 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, and are reflected as transfers from City of Long Beach in the accompanying consolidating statements of activities. 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 maximize bondholder security. The intent of the agreement is to facilitate the success of future capital projects by codifying current practices, within the structure of the bonds. Included in the agreement is a stabilized rent payment to the City of \$3,528,000, and a revenue-sharing arrangement for operating funds available after operating expenses including operating capital, and rent. Further, operating capital expenditure levels and parking garage revenue assumptions were predefined through 2031, and certain other review and control mechanisms were

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codified. The bond insurer reviewed and did not object to the agreement, and nonadverse opinions of bond counsel were obtained regarding the consistency of the agreement with the governing bond documents.

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 \$120,900,000 and \$123,855,000 as of September 30, 2009 and 2008, respectively. Pursuant to the chart below, principal payments are scheduled as follows:

	Annual debt service requirements		
	Principal	Interest	Total
Fiscal year ending September 30:			
2010	\$ 3,105,000	6,146,856	9,251,856
2011	3,240,000	6,010,000	9,250,000
2012	3,380,000	5,863,075	9,243,075
2013 – 2017	19,730,000	26,338,300	46,068,300
2018 – 2022	25,700,000	20,238,363	45,938,363
2023 – 2027	32,885,000	12,896,875	45,781,875
2028 – 2032	32,860,000	3,560,550	36,420,550
Total	\$ 120,900,000	81,054,019	201,954,019

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 \$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.

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(7) 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, 2009 are as follows:

2010	\$	402,508
2011		396,430
2012		200,216
		200,216
	\$	999,154

Rent aggregating \$429,236 and \$373,528 was paid during the years ended September 30, 2009 and 2008, 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.

(8) Temporarily Restricted Net Assets

Temporarily restricted net assets as of September 30, 2009 and 2008 consist of the following:

	2009	2008
Marketing	\$ 10,073	1,473
Scholarships	208,131	179,022
Equipment and construction projects	9,247,081	11,135,183
Education and conservation projects	536,178	178,873
	\$ 10,001,463	11,494,551

(9) Permanently Restricted Net Assets

Permanently restricted net assets as of September 30, 2009 and 2008 consist of \$295,944 and \$268,563, respectively, related to endowment activities.

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(10) Endowment

FASB ASC 958-205 provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the UPMIFA and provides improved disclosures about an organization's endowment funds.

The Aquariums endowment consists of 6 donor-restricted funds primarily established to support scholarships. As required by U.S. generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

(a) Interpretation of Relevant Law

The Board of Directors of the Aquarium has interpreted UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Aquarium classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent 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 appropriated for expenditure by the Aquarium in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Aquarium considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. The duration and preservation of the fund
2. The purposes of the Aquarium and the donor-restricted endowment fund
3. General economic conditions
4. The possible effect of inflation and deflation
5. The expected total return from income and the appreciation of investments
6. Other resources of the Aquarium
7. The investment policies of the Aquarium

(b) Return Objectives and Risk Parameters

The Aquarium has adopted investment and prudent spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the corpus of the endowed assets. This policy shall provide for safety of principal when taking into consideration the current and expected market conditions. The overall rate of return objective for the endowment is a risk-free rate of return, or less than 1%. This objective was

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determined given the recent volatility in the equity and debt markets. Once the Board of Directors or its finance committee determines that a higher rate of return is worth the risk, the investments will be held in money-market accounts.

(c) Investment Strategy

Consistent with the investment and prudent spending policies stated above, the investment strategy is as follows:

1. Preservation of Capital: to seek to minimize the probability of loss of principal over the investment horizon of the portfolio relative to the market.
2. Long-Term Growth of Capital: to seek long-term growth of principal.
3. Preservation of Purchasing Power: to seek returns in excess of the rate of inflation over the long-term investment horizon of the portfolio relative to the market.

(d) Spending Policy

The Aquarium has a policy of appropriating for distribution each year only 80 percent of the net returns generated over the previous twelve months from the its investments and endowment. In establishing this policy, the Board of Directors considered the size of the investment and endowment balance so that it could grow through new gifts and investment return.

Endowment net asset composition by type of fund as of September 30, 2009:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Donor-restricted endowments	\$ —	21,195	295,944	317,139
Board-designated endowments	—	—	—	—
Total	<u>\$ —</u>	<u>21,195</u>	<u>295,944</u>	<u>317,139</u>

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Changes in endowment net assets for the fiscal year ended September 30, 2009:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Net assets, beginning of year	\$ —	16,967	268,563	285,530
Reclassification due to change in accounting principle	—	—	—	—
Endowment net assets after reclassification	—	16,967	268,563	285,530
Investment return:				
Investment income	—	8,329	—	8,329
Net depreciation (realized and unrealized)	—	—	—	—
Total investment return	—	8,329	—	8,329
Contributions	—	—	27,381	27,381
Appropriation for endowment spending	—	(4,101)	—	(4,101)
Net assets, end of year	\$ —	21,195	295,944	317,139

(11) Contributions Receivable

As of September 30, 2009 and 2008, contributions receivable are expected to be received as follows:

	<u>2009</u>	<u>2008</u>
Within one year	\$ 2,105,200	2,003,959
Within two to five years	2,933,851	4,833,600
	5,039,051	6,837,559
Less discount to reflect contributions receivable at present value	(193,673)	(399,695)
Contributions receivable, net	\$ <u>4,845,378</u>	<u>6,437,864</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, 2009 and 2008 was approximately 2.31% and 2.98%, respectively.

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(12) 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, 2009 and 2008, 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 \$16,500 and \$15,500 for the years ended September 30, 2009 and 2008, respectively. Participants are 100% vested in all plan contributions plus actual earnings thereon. The Aquarium's contribution was \$51,901 and \$49,873 for the years ended September 30, 2009 and 2008, respectively.

(13) 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, 2009 and 2008 was \$1,282,070 and \$989,799, respectively, and is included in accounts receivable for each respective year in the accompanying consolidating statements of financial position.

(14) Subsequent Events

Subsequent events have been evaluated through March 30, 2010, which is the date the financial statements were available to be issued.