

**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, 2012 and 2011

(With Independent Auditors' Report Thereon)

## **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, 2012 and 2011, 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 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, 2012 and 2011, 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.

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, and the Bank of New York Mellon, and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

March 30, 2013

**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, 2012

Assets	<b>Aquarium of the Pacific Corporation</b>				<b>City of Long Beach</b>	<b>Eliminations (note 1)</b>	<b>Consolidated total</b>
	<b>Unrestricted</b>	<b>Temporarily restricted</b>	<b>Permanently restricted</b>	<b>Total</b>			
Cash and cash equivalents	\$ 2,130,660	4,693,121	365,409	7,189,190	—	—	7,189,190
Accrued interest receivable	—	—	—	—	38,716	—	38,716
Accounts receivable, net of allowance for doubtful accounts of \$323,468	2,815,551	—	—	2,815,551	—	—	2,815,551
Contributions receivable, net	—	3,655,025	—	3,655,025	—	—	3,655,025
Prepaid expenses and other assets	456,999	—	—	456,999	—	—	456,999
Gift store inventory	372,461	—	—	372,461	—	—	372,461
Restricted investments held by trustee	—	—	—	—	15,017,732	—	15,017,732
Other assets	35,688	—	—	35,688	—	—	35,688
Deferred financing costs, net	—	—	—	—	896,592	—	896,592
Property and equipment, net	17,106,163	1,709,749	—	18,815,912	55,703,816	(6,981,802)	67,537,926
Total assets	<u>\$ 22,917,522</u>	<u>10,057,895</u>	<u>365,409</u>	<u>33,340,826</u>	<u>71,656,856</u>	<u>(6,981,802)</u>	<u>98,015,880</u>
<b>Liabilities and Net Assets</b>							
Accounts payable	\$ 1,955,702	—	—	1,955,702	—	—	1,955,702
Accrued interest payable	—	—	—	—	1,919,063	—	1,919,063
Accrued liabilities	1,265,993	—	—	1,265,993	—	—	1,265,993
Deferred revenue	380,172	—	—	380,172	—	—	380,172
Bonds payable, net of unamortized premium/deferred amount on refunding aggregating \$2,550,843	—	—	—	—	105,130,843	—	105,130,843
Total liabilities	<u>3,601,867</u>	<u>—</u>	<u>—</u>	<u>3,601,867</u>	<u>107,049,906</u>	<u>—</u>	<u>110,651,773</u>
Net assets (deficit):							
Unrestricted	19,315,655	—	—	19,315,655	(35,393,050)	(6,981,802)	(23,059,197)
Temporarily restricted	—	10,057,895	—	10,057,895	—	—	10,057,895
Permanently restricted	—	—	365,409	365,409	—	—	365,409
Total net assets (deficit)	<u>19,315,655</u>	<u>10,057,895</u>	<u>365,409</u>	<u>29,738,959</u>	<u>(35,393,050)</u>	<u>(6,981,802)</u>	<u>(12,635,893)</u>
Commitments and contingencies							
Total liabilities and net assets	<u>\$ 22,917,522</u>	<u>10,057,895</u>	<u>365,409</u>	<u>33,340,826</u>	<u>71,656,856</u>	<u>(6,981,802)</u>	<u>98,015,880</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, 2011

Assets	<b>Aquarium of the Pacific Corporation</b>				City of Long Beach	Eliminations (note 1)	Consolidated total
	Unrestricted	Temporarily restricted	Permanently restricted	Total			
Cash and cash equivalents	\$ 1,541,675	4,111,740	362,784	6,016,199	—	—	6,016,199
Accrued interest receivable	—	—	—	—	44,171	—	44,171
Accounts receivable, net of allowance for doubtful accounts of \$389,005	1,674,570	—	—	1,674,570	—	—	1,674,570
Contributions receivable, net	25,000	1,244,801	—	1,269,801	—	—	1,269,801
Prepaid expenses and other assets	244,299	—	—	244,299	—	—	244,299
Gift store inventory	353,097	—	—	353,097	—	—	353,097
Restricted investments held by trustee	—	—	—	—	16,055,598	—	16,055,598
Other assets	76,815	—	—	76,815	—	—	76,815
Deferred financing costs, net	—	—	—	—	1,776,932	—	1,776,932
Property and equipment, net	16,691,318	989,840	—	17,681,158	59,137,069	(7,357,505)	69,460,722
<b>Total assets</b>	<b>\$ 20,606,774</b>	<b>6,346,381</b>	<b>362,784</b>	<b>27,315,939</b>	<b>77,013,770</b>	<b>(7,357,505)</b>	<b>96,972,204</b>
<b>Liabilities and Net Assets</b>							
Accounts payable	\$ 2,672,749	—	—	2,672,749	—	—	2,672,749
Accrued interest payable	—	—	—	—	2,474,635	—	2,474,635
Accrued liabilities	1,054,868	—	—	1,054,868	—	—	1,054,868
Deferred revenue	382,640	—	—	382,640	—	—	382,640
Bonds payable, net of unamortized discounts/deferred amount on refunding aggregating \$6,874,346	—	—	—	—	107,680,654	—	107,680,654
<b>Total liabilities</b>	<b>4,110,257</b>	<b>—</b>	<b>—</b>	<b>4,110,257</b>	<b>110,155,289</b>	<b>—</b>	<b>114,265,546</b>
Net assets (deficit):							
Unrestricted	16,496,517	—	—	16,496,517	(33,141,519)	(7,357,505)	(24,002,507)
Temporarily restricted	—	6,346,381	—	6,346,381	—	—	6,346,381
Permanently restricted	—	—	362,784	362,784	—	—	362,784
<b>Total net assets (deficit)</b>	<b>16,496,517</b>	<b>6,346,381</b>	<b>362,784</b>	<b>23,205,682</b>	<b>(33,141,519)</b>	<b>(7,357,505)</b>	<b>(17,293,342)</b>
Commitments and contingencies							
<b>Total liabilities and net assets</b>	<b>\$ 20,606,774</b>	<b>6,346,381</b>	<b>362,784</b>	<b>27,315,939</b>	<b>77,013,770</b>	<b>(7,357,505)</b>	<b>96,972,204</b>

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, 2012

	<b>Aquarium of the Pacific Corporation</b>			<b>Total</b>	<b>City of</b>	<b>Eliminations</b>	<b>Consolidated</b>
	<b>Unrestricted</b>	<b>Temporarily restricted</b>	<b>Permanently restricted</b>		<b>Long Beach</b>		<b>total</b>
Operating revenues:							
Admissions	\$ 16,832,223	—	—	16,832,223	—	—	16,832,223
Facility rental	—	—	—	—	31,326,936	(31,326,936)	—
Memberships	3,818,005	—	—	3,818,005	—	—	3,818,005
Educational programs	1,089,798	—	—	1,089,798	—	—	1,089,798
Gift store	3,934,372	—	—	3,934,372	—	—	3,934,372
Contributions	1,751,130	6,205,347	2,625	7,959,102	—	—	7,959,102
Ancillary	691,002	—	—	691,002	—	—	691,002
Food service	586,599	—	—	586,599	—	—	586,599
Fund-raising events	262,322	—	—	262,322	—	—	262,322
Donated goods and services	485,008	—	—	485,008	—	—	485,008
Parking garage	1,381,117	—	—	1,381,117	—	—	1,381,117
Grants and other income	170,533	231,166	—	401,699	—	—	401,699
Net assets released from restriction for operations	2,724,999	(2,724,999)	—	—	—	—	—
Total operating revenues	<u>33,727,108</u>	<u>3,711,514</u>	<u>2,625</u>	<u>37,441,247</u>	<u>31,326,936</u>	<u>(31,326,936)</u>	<u>37,441,247</u>
Operating expenses:							
Husbandry and facilities	6,598,155	—	—	6,598,155	—	—	6,598,155
Education, interpretation, and outreach	3,147,804	—	—	3,147,804	—	—	3,147,804
Guest services	4,095,504	—	—	4,095,504	—	—	4,095,504
Gift store	2,859,733	—	—	2,859,733	—	—	2,859,733
Facility operating expense	—	—	—	—	28,516,000	(28,516,000)	—
Development and membership	2,245,458	—	—	2,245,458	—	—	2,245,458
Marketing	3,814,698	—	—	3,814,698	—	—	3,814,698
Human resources	697,191	—	—	697,191	—	—	697,191
Finance and administration	1,988,532	—	—	1,988,532	—	—	1,988,532
Net operating transfer to the City of Long Beach	2,810,936	—	—	2,810,936	—	(2,810,936)	—
Total operating expenses	<u>28,258,011</u>	<u>—</u>	<u>—</u>	<u>28,258,011</u>	<u>28,516,000</u>	<u>(31,326,936)</u>	<u>25,447,075</u>
Earnings before taxes, depreciation and amortization from operations, and interest	5,469,097	3,711,514	2,625	9,183,236	2,810,936	—	11,994,172
Transfers from City of Long Beach	—	—	—	—	4,146,012	—	4,146,012
Depreciation and amortization	(2,649,959)	—	—	(2,649,959)	(3,829,446)	375,703	(6,103,702)
Interest expense, net of bond interest income	—	—	—	—	(5,379,033)	—	(5,379,033)
Change in net assets (deficit)	2,819,138	3,711,514	2,625	6,533,277	(2,251,531)	375,703	4,657,449
Net assets (deficit) at beginning of year	16,496,517	6,346,381	362,784	23,205,682	(33,141,519)	(7,357,505)	(17,293,342)
Net assets (deficit) at end of year	<u>\$ 19,315,655</u>	<u>10,057,895</u>	<u>365,409</u>	<u>29,738,959</u>	<u>(35,393,050)</u>	<u>(6,981,802)</u>	<u>(12,635,893)</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, 2011

	<b>Aquarium of the Pacific Corporation</b>			<b>City of Long Beach</b>	<b>Eliminations</b>	<b>Consolidated total</b>	
	<b>Unrestricted</b>	<b>Temporarily restricted</b>	<b>Permanently restricted</b>				<b>Total</b>
Operating revenues:							
Admissions	\$ 15,144,954	—	—	15,144,954	—	15,144,954	
Facility rental	—	—	—	29,545,565	(29,545,565)	—	
Memberships	3,264,069	—	—	3,264,069	—	3,264,069	
Educational programs	964,660	—	—	964,660	—	964,660	
Gift store	3,644,227	—	—	3,644,227	—	3,644,227	
Contributions	1,160,751	3,205,944	17,373	4,384,068	—	4,384,068	
Ancillary	617,595	—	—	617,595	—	617,595	
Food service	491,008	—	—	491,008	—	491,008	
Fund-raising events	379,094	—	—	379,094	—	379,094	
Donated goods and services	680,329	—	—	680,329	—	680,329	
Parking garage	1,321,409	—	—	1,321,409	—	1,321,409	
Grants and other income	152,838	109,570	—	262,408	—	262,408	
Net assets released from restriction for operations	7,833,512	(7,833,512)	—	—	—	—	
Total operating revenues	<u>35,654,446</u>	<u>(4,517,998)</u>	<u>17,373</u>	<u>31,153,821</u>	<u>29,545,565</u>	<u>(29,545,565)</u>	<u>31,153,821</u>
Operating expenses:							
Husbandry and facilities	6,273,568	—	—	6,273,568	—	6,273,568	
Education, interpretation, and outreach	2,655,067	—	—	2,655,067	—	2,655,067	
Guest services	3,624,563	—	—	3,624,563	—	3,624,563	
Gift store	2,610,168	—	—	2,610,168	—	2,610,168	
Facility operating expense	—	—	—	—	25,621,000	(25,621,000)	
Development and membership	1,975,937	—	—	1,975,937	—	1,975,937	
Marketing	4,118,120	—	—	4,118,120	—	4,118,120	
Human resources	713,119	—	—	713,119	—	713,119	
Finance and administration	3,136,428	—	—	3,136,428	—	3,136,428	
Net operating transfer to the City of Long Beach	3,924,565	—	—	3,924,565	(3,924,565)	—	
Total operating expenses	<u>29,031,535</u>	<u>—</u>	<u>—</u>	<u>29,031,535</u>	<u>25,621,000</u>	<u>(29,545,565)</u>	<u>25,106,970</u>
Earnings (loss) before taxes, depreciation and amortization from operations, and interest	6,622,911	(4,517,998)	17,373	2,122,286	3,924,565	—	6,046,851
Transfers from City of Long Beach	—	—	—	—	5,578,454	—	5,578,454
Depreciation and amortization	(2,082,735)	—	—	(2,082,735)	(4,194,820)	375,703	(5,901,852)
Interest expense, net of bond interest income	—	—	—	—	(5,850,726)	—	(5,850,726)
Change in net assets (deficit)	4,540,176	(4,517,998)	17,373	39,551	(542,527)	375,703	(127,273)
Net assets (deficit) at beginning of year	11,956,341	10,864,379	345,411	23,166,131	(32,598,992)	(7,733,208)	(17,166,069)
Net assets (deficit) at end of year	<u>\$ 16,496,517</u>	<u>6,346,381</u>	<u>362,784</u>	<u>23,205,682</u>	<u>(33,141,519)</u>	<u>(7,357,505)</u>	<u>(17,293,342)</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, 2012

	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	\$ 3,521,590	1,779,090	2,983,671	950,563	1,083,503	1,087,594	427,966	1,190,379	13,024,356
Cost of goods sold	—	—	—	1,668,518	—	—	—	—	1,668,518
Insurance	55,809	62,149	62,069	21,570	891	1,080	563	54,105	258,236
Permits, maintenance, and construction	326,848	7,519	28,867	2,999	—	—	—	16,319	382,552
Occupancy	12,234	51,950	46,851	86,807	49,411	46,300	66,566	150,930	511,049
Utilities	1,234,143	937	—	3,887	—	—	—	—	1,238,967
Husbandry/animals and collecting	384,719	16,433	—	—	—	—	—	—	401,152
Services	258,130	864,258	289,381	14,635	493,882	251,249	154,535	220,355	2,546,425
Supplies and other expendables	719,861	224,292	369,946	45,709	92,633	34,900	23,185	89,571	1,600,097
Postage, shipping, and courier	38,450	10,229	8,345	5,722	123,245	67,700	2,432	5,492	261,615
Information technology and telecommunications	9,235	3,606	62,890	4,652	7,507	5,857	1,734	167,083	262,564
Printing and publishing	1,024	22,212	2,151	—	152,566	282,672	942	1,143	462,710
Advertising, promotions, and public relations	—	46,642	75	—	8,890	1,914,942	50	10,450	1,981,049
Travel, meals, and training	36,112	57,746	18,470	1,886	18,293	6,879	18,918	26,663	184,967
Write-off of contribution receivable	—	—	—	—	—	—	—	56,042	56,042
Other	—	741	222,788	52,785	214,637	115,525	300	—	606,776
Operating expenses before transient occupancy tax transfer, depreciation and amortization, and interest	6,598,155	3,147,804	4,095,504	2,859,733	2,245,458	3,814,698	697,191	1,988,532	25,447,075
Transfers from City of Long Beach	—	—	—	—	—	—	—	(4,146,012)	(4,146,012)
Depreciation and amortization	1,680,397	1,589,294	1,914,934	11,803	10,117	25,292	10,117	861,748	6,103,702
Interest expense, net of bond interest income	—	—	—	—	—	—	—	5,379,033	5,379,033
Total expenses, net	<u>\$ 8,278,552</u>	<u>4,737,098</u>	<u>6,010,438</u>	<u>2,871,536</u>	<u>2,255,575</u>	<u>3,839,990</u>	<u>707,308</u>	<u>4,083,301</u>	<u>32,783,798</u>

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**AQUARIUM OF THE PACIFIC**  
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Consolidating Statement of Functional Expenses

Year ended September 30, 2011

	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	\$ 3,245,598	1,552,541	2,677,807	858,890	1,061,637	1,000,466	459,154	1,434,241	12,290,334
Cost of goods sold	—	—	—	1,515,155	—	—	—	—	1,515,155
Insurance	55,311	60,182	60,077	20,867	861	1,043	544	50,020	248,905
Permits, maintenance, and construction	333,321	4,823	16,206	2,403	62	—	—	11,540	368,355
Occupancy	9,155	52,219	36,775	92,807	41,495	38,726	64,074	174,389	509,640
Utilities	1,299,872	—	—	3,913	—	—	—	—	1,303,785
Husbandry/animals and collecting	362,958	23,598	—	—	—	—	—	—	386,556
Services	209,068	500,491	172,957	7,787	507,389	205,197	145,471	162,737	1,911,097
Supplies and other expendables	669,668	283,621	339,864	38,530	79,747	37,389	20,846	66,046	1,535,711
Postage, shipping, and courier	52,966	11,212	4,429	5,061	115,690	87,271	2,545	5,796	284,970
Information technology and telecommunications	8,882	2,496	49,111	6,740	23,348	5,533	1,342	179,613	277,065
Printing and publishing	259	40,134	2,502	—	53,019	322,334	939	3,947	423,134
Advertising, promotions, and public relations	—	22,963	575	—	6,496	2,137,913	25	3,205	2,171,177
Travel, meals, and training	26,510	97,812	9,859	1,866	9,300	7,688	18,179	17,878	189,092
Write-off of contribution receivable	—	—	—	—	—	—	—	1,000,000	1,000,000
Other	—	2,975	254,401	56,149	76,893	274,560	—	27,016	691,994
Operating expenses before transient occupancy tax transfer, depreciation and amortization, and interest	6,273,568	2,655,067	3,624,563	2,610,168	1,975,937	4,118,120	713,119	3,136,428	25,106,970
Transfers from City of Long Beach	—	—	—	—	—	—	—	(5,578,454)	(5,578,454)
Depreciation and amortization	1,354,497	1,562,014	1,778,796	12,351	10,586	26,466	10,586	1,146,556	5,901,852
Interest expense, net of bond interest income	—	—	—	—	—	—	—	5,850,726	5,850,726
Total expenses, net	\$ 7,628,065	4,217,081	5,403,359	2,622,519	1,986,523	4,144,586	723,705	4,555,256	31,281,094

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, 2012

	<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)	\$ 6,533,277	(2,251,531)	375,703	4,657,449
Adjustments to reconcile change in net assets (deficit) to net cash provided by operating activities and nonoperating revenue:				
Depreciation and amortization	2,649,959	3,829,446	(375,703)	6,103,702
Contributions restricted for long-term purposes	(2,807,866)			(2,807,866)
(Increase) decrease in assets:				
Accrued interest receivable	—	5,455	—	5,455
Accounts receivable, net	(1,140,981)	—	—	(1,140,981)
Contributions receivable	(2,385,224)	—	—	(2,385,224)
Prepaid expenses and other assets	(171,573)	—	—	(171,573)
Gift store inventory	(19,364)	—	—	(19,364)
Increase (decrease) in liabilities:				
Accounts payable	(717,047)	(555,572)	—	(1,272,619)
Accrued liabilities	211,125	—	—	211,125
Deferred revenue	(2,468)	—	—	(2,468)
Net cash provided by operating activities and nonoperating revenue	<u>2,149,838</u>	<u>1,027,798</u>	<u>—</u>	<u>3,177,636</u>
Cash flows from investing activities:				
Capital expenditures	(3,784,713)	—	—	(3,784,713)
Sales of investments held by trustee	—	95,387,823	—	95,387,823
Purchases of investments held by trustee	—	(94,349,957)	—	(94,349,957)
Net cash (used in) provided by investing activities	<u>(3,784,713)</u>	<u>1,037,866</u>	<u>—</u>	<u>(2,746,847)</u>
Cash flows from financing activities:				
Contributions restricted for long-term purposes	2,807,866	—	—	2,807,866
Proceeds from bond issuance	—	114,175,462	—	114,175,462
Refunding of prior indebtedness	—	(111,943,101)	—	(111,943,101)
Payment on long-term debt	—	(3,380,000)	—	(3,380,000)
Payment for debt issuance costs	—	(918,025)	—	(918,025)
Net cash provided by (used in) financing activities	<u>2,807,866</u>	<u>(2,065,664)</u>	<u>—</u>	<u>742,202</u>
Net increase in cash and cash equivalents	<u>1,172,991</u>	<u>—</u>	<u>—</u>	<u>1,172,991</u>
Cash and cash equivalents, beginning of year	<u>6,016,199</u>	<u>—</u>	<u>—</u>	<u>6,016,199</u>
Cash and cash equivalents, end of year	<u>\$ 7,189,190</u>	<u>—</u>	<u>—</u>	<u>7,189,190</u>
Supplemental disclosure of noncash financing activity:				
Deferred loss on defeasance (note 6)	\$ —	3,147,988	—	3,147,988
Premium on issuance of Series 2012 Refunding Bonds (note 6)	—	11,595,462	—	11,595,462
Supplemental disclosure of cash flow information:				
Cash paid during the year for interest	\$ —	5,980,173	—	5,980,173

See accompanying notes to consolidating financial statements.

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Consolidating Statement of Cash Flows

Year ended September 30, 2011

	<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)	\$ 39,551	(542,527)	375,703	(127,273)
Adjustments to reconcile change in net assets (deficit) to net cash provided by operating activities and nonoperating revenue:				
Depreciation and amortization	2,082,735	4,194,820	(375,703)	5,901,852
Contributions restricted for long-term purposes	(2,328,337)	—	—	(2,328,337)
Decrease (increase) in assets:				
Accrued interest receivable	—	4,245	—	4,245
Accounts receivable, net	124,564	—	—	124,564
Contributions receivable	1,544,959	—	—	1,544,959
Prepaid expenses and other assets	64,389	—	—	64,389
Gift store inventory	(92,981)	—	—	(92,981)
Increase (decrease) in liabilities:				
Accounts payable	862,408	(59,063)	—	803,345
Accrued liabilities	155,371	—	—	155,371
Deferred revenue	(201,105)	—	—	(201,105)
Net cash provided by operating activities and nonoperating revenue	<u>2,251,554</u>	<u>3,597,475</u>	<u>—</u>	<u>5,849,029</u>
Cash flows from investing activities:				
Capital expenditures	(3,420,219)	—	—	(3,420,219)
Sales of investments held by trustee	—	74,809,528	—	74,809,528
Purchases of investments held by trustee	—	(75,167,003)	—	(75,167,003)
Net cash used in investing activities	<u>(3,420,219)</u>	<u>(357,475)</u>	<u>—</u>	<u>(3,777,694)</u>
Cash flows from financing activities:				
Contributions restricted for long-term purposes	2,328,337	—	—	2,328,337
Payment on long-term debt	—	(3,240,000)	—	(3,240,000)
Net cash provided by (used in) financing activities	<u>2,328,337</u>	<u>(3,240,000)</u>	<u>—</u>	<u>(911,663)</u>
Net increase in cash and cash equivalents	1,159,672	—	—	1,159,672
Cash and cash equivalents, beginning of year	4,856,527	—	—	4,856,527
Cash and cash equivalents, end of year	<u>\$ 6,016,199</u>	<u>—</u>	<u>—</u>	<u>6,016,199</u>
Supplemental disclosure of cash flow information:				
Cash paid during the year for interest	\$ —	6,010,001	—	6,010,001

See accompanying notes to consolidating financial statements.

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Notes to Consolidating Financial Statements

September 30, 2012 and 2011

**(1) Description of Business**

**(a) 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 as of and for the years ended September 30, 2012 and 2011.

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. In March 2012, the Long Beach Bond Finance Authority 2012 Refunding Revenue Bonds (Aquarium of the Pacific Project) (the Series 2012 Bonds) was issued by the Long Beach Bond Finance Authority (the Authority) to (a) refund all of the outstanding Long Beach Bond Finance Authority Lease Revenue Refunding Bonds (Aquarium of the Pacific Project) Series 2001, (b) fund a reserve fund for the Series 2012 Bonds and (c) pay for costs of issuance of the Series 2012 Bonds. The purchase price of the Bonds shall be \$113,730,033 (representing the principal amount of the Bonds of \$102,580,000, plus and original issue premium of \$11,595,462 and less an underwriters' discount of \$445,429).

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

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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 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, 2012 and 2011, 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 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 and primarily include the operating transfers to and from the Aquarium. 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, 2012 and 2011. 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.

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

The Aquarium adopted the provisions of Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 820, *Fair Value Measurements and Disclosures*, on July 1, 2008, for fair value measurements of financial assets and financial liabilities and for fair value measurements of nonfinancial items that are recognized or disclosed at fair value in the financial statements on a recurring basis. In accordance with ASC Topic 820, fair value is defined as the price that the Aquarium would receive upon selling an investment in an orderly transaction to a market participant in the principal or most advantageous market of the investment. ASC Topic 820 also establishes a framework for measuring fair value and expands disclosures about fair value measurements. ASC Topic 820 also prioritizes, within the measurement of fair value, the use of market-based information over entity-specific information. ASC Topic 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 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 entity 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.

The level in the fair value hierarchy within which a fair value measurement in its entirety falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

**(c) *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 consolidating financial statements. Actual results could differ from those estimates.

**(d) *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.

**(e) *Gift Store Inventory***

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

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**(f) *Live Animal Inventory***

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

**(g) *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 credit-adjusted rates in accordance with ASC Topic 820.

**(h) *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 by the Corporation after May 2001 are recorded as Corporation assets.

**(i) *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.

**(j) *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.

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**(k) 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 that would otherwise require additional cash expenditures. Contributions of tangible assets are recognized at fair 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.

**(l) 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 support services benefited. Program and support services expenses were \$21,897,624 and \$10,866,174, respectively, for the year ended September 30, 2012. Program and support services expenses were \$19,871,024 and \$11,410,070, respectively, for the year ended September 30, 2011. Fund-raising expenses were \$281,457 and \$251,199 for the years ended September 30, 2012 and 2011, respectively, and are included in development and membership in the accompanying statements of functional expenses.

**(m) 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 consolidating financial statements taken as a whole.

The Corporation has applied the provisions of ASC Topic 740-10, *Income Taxes – Overall*, which prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return, and provides guidance on derecognition, classification, interest and penalties, disclosure, and transition. The management of the Corporation believes that no such uncertain tax positions exist at September 30, 2012 and 2011, respectively.



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(n) ***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, 2012 and 2011, 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 2012 Refunding Bonds. The composition of such restricted invested assets, stated at fair value, at September 30, 2012 and 2011 is as follows:

	<b>2012</b>	<b>2011</b>
Cash and cash equivalents	\$ 6,860,173	6,604,349
U.S. government obligations	8,157,559	9,451,249
	\$ 15,017,732	16,055,598

(4) **Fair Values of Financial Instruments**

The following table presents assets that are measured at fair value on a recurring basis at September 30, 2012:

	<b>Quoted prices in active markets for identical assets (Level I)</b>	<b>Significant other observable inputs (Level II)</b>	<b>Significant unobservable inputs (Level III)</b>	<b>2012</b>
Assets:				
Cash and cash equivalents	\$ 14,049,363	—	—	14,049,363
U.S. government obligations	—	8,157,559	—	8,157,559
	\$ 14,049,363	8,157,559	—	22,206,922

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The following table presents assets that are measured at fair value on a recurring basis at September 30, 2011:

	<b>Quoted prices in active markets for identical assets (Level I)</b>	<b>Significant other observable inputs (Level II)</b>	<b>Significant unobservable inputs (Level III)</b>	<b>2011</b>
Assets:				
Cash and cash equivalents	\$ 12,620,548	—	—	12,620,548
U.S. government obligations	—	9,451,249	—	9,451,249
	<u>\$ 12,620,548</u>	<u>9,451,249</u>	<u>—</u>	<u>22,071,797</u>

**(5) Property and Equipment**

A summary of the Aquarium capital assets, including the Corporation and the City assets, at September 30, 2012 and 2011 is as follows:

	<b>2012</b>	<b>2011</b>
Land	\$ 9,900,000	9,900,000
Building	98,443,666	97,716,390
Leasehold improvements	144,537	144,537
Furniture and fixtures	4,245,449	3,492,666
Equipment	16,386,157	14,409,490
Construction in progress	1,896,240	1,572,128
Total	<u>131,016,049</u>	<u>127,235,211</u>
Less accumulated depreciation and amortization	<u>(63,478,123)</u>	<u>(57,774,489)</u>
Property and equipment, net	<u>\$ 67,537,926</u>	<u>69,460,722</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 & 2012 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. In March 2012, the Authority issued its Series 2012 Bonds totaling \$102,580,000 to refinance the Series 2001 Bonds. Proceeds from the sale of the Series 2012 Bonds, along with certain other available moneys, were used to (a) refund all the Long Beach Bond Finance Authority Lease Revenue Refunding Bonds (Aquarium of the Pacific Project) Series 2001, which were outstanding in the aggregate principal amount of \$111.2 million, (b) fund a reserve fund for the Series 2012 Bonds, and (c) pay the costs of issuance of Series 2012 Bonds. Aggregate debt service decreased by \$19.6 million, thereby resulting in an economic gain of \$13.6 million. 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, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
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%	\$ —	37,745,000
2001 Lease revenue refunding tax-exempt term bonds, maturing on November 1, 2026, 5.000% interest	—	43,950,000
2001 Lease revenue refunding tax-exempt term bonds, maturing on November 1, 2030, 5.250% interest	\$ —	32,860,000
	—	<u>114,555,000</u>
2012 Lease revenue refunding tax-exempt serial bonds, maturing on November 1, 2007 through November 1, 2019, interest ranging from 1.00% to 5.00%	29,635,000	—
2012 Lease revenue refunding tax-exempt term bonds, maturing on November 1, 2026 interest ranging from 4.00% to 5.00%	37,360,000	—
2012 Lease revenue refunding tax-exempt term bonds, maturing on November 1, 2030, 5.00% interest	<u>35,585,000</u>	—
	102,580,000	—
Plus (less) unamortized premium (discount) on bonds and deferred amount on refunding	<u>2,550,843</u>	<u>(6,874,346)</u>
Total long-term debt outstanding, net	<u>\$ 105,130,843</u>	<u>107,680,654</u>

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The unamortized premium on bonds and deferred amount on refunding as of September 30, 2012 includes the premium on the Series 2012 Refunding Bonds of \$11,595,462 offset by the unamortized deferred loss of refunding of the Series 2001 Bonds of \$9,013,794. These amounts were reduced during the year 2012 by amortization of the premium and deferred loss on refunding of \$270,725 and \$239,900, respectively.

Interest on the Series 2001 Refunding Bonds is payable semiannually. The original issue discount and other costs of issuance totaled approximately \$5,619,657 for the Series 2001 Refunding Bonds, of which approximately \$3,257,136 and \$3,117,963 were amortized as of September 30, 2012 and 2011, respectively.

Interest on the Series 2012 Refunding Bonds is payable semiannually. The original issue discount and other costs of issuance totaled approximately \$918,026 for the Series 2012 Refunding Bonds, of which approximately \$2,113,530 and \$0 were amortized as of September 30, 2012 and 2011, 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 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 2012 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.

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With the issuance of the Series 2012 Refunding Bonds, The total payment of long-term debt amount is \$102,580,000 as of September 30, 2012. Pursuant to the chart below, Principal payments are scheduled as follows:

	<b>Annual debt service requirements</b>		
	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
Fiscal year ending September 30:			
2013	\$ 5,560,000	4,577,950	10,137,950
2014	3,670,000	4,495,100	8,165,100
2015	3,780,000	4,373,900	8,153,900
2016	3,915,000	4,229,450	8,144,450
2017	4,070,000	4,069,750	8,139,750
2018 – 2022	23,160,000	17,413,650	40,573,650
2023 – 2027	29,280,000	11,088,750	40,368,750
2028 – 2031	29,145,000	3,003,625	32,148,625
Total	\$ 102,580,000	53,252,175	155,832,175

**(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, 2012 are as follows:

2013	\$ 537,064
2014	534,922
2015	529,745
2016	494,402
2017	275,795
Thereafter	637,500
	\$ 3,009,428

Office, warehouse, and equipment leases aggregating \$535,575 and \$323,767 was paid during the years ended September 30, 2012 and 2011, 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 sub limits, through the Special Liability Insurance Program, a California-public-entity-sponsored insurance pool. The deductible amount is \$5,000 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.

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**(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, 2012 and 2011 consist of the following:

	<b>2012</b>	<b>2011</b>
Marketing	\$ 1,297	1,297
Scholarships	358,251	297,292
Equipment and construction projects	9,196,031	5,609,254
Education and conservation projects	502,316	438,538
	\$ 10,057,895	6,346,381

**(9) Permanently Restricted Net Assets**

Permanently restricted net assets as of September 30, 2012 and 2011 consist of \$365,409 and \$362,784, respectively, related to endowment activities.

**(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 Uniform Prudent Management of Institutional Funds Act (UPMIFA) and provides improved disclosures about an organization's endowment funds.

The Aquariums endowment consists of six 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

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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 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% of the net returns generated over the previous 12 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.

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Endowment net asset composition by type of fund as of September 30, 2012:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Donor-restricted endowments	\$ —	24,431	365,409	389,840
Board-designated endowments	—	—	—	—
Total	<u>\$ —</u>	<u>24,431</u>	<u>365,409</u>	<u>389,840</u>

Changes in endowment net assets for the fiscal year ended September 30, 2012:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Net assets, beginning of year	\$ —	25,528	362,784	388,312
Investment return:				
Investment income	—	567	—	567
Net depreciation (realized and unrealized)	—	—	—	—
Total investment return	—	567	—	567
Contributions	—	—	2,625	2,625
Appropriation for endowment spending	—	(1,664)	—	(1,664)
Net assets, end of year	<u>\$ —</u>	<u>24,431</u>	<u>365,409</u>	<u>389,840</u>

Endowment net asset composition by type of fund as of September 30, 2011:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Donor-restricted endowments	\$ —	25,528	362,784	388,312
Board-designated endowments	—	—	—	—
Total	<u>\$ —</u>	<u>25,528</u>	<u>362,784</u>	<u>388,312</u>



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Changes in endowment net assets for the fiscal year ended September 30, 2011:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Net assets, beginning of year	\$ —	25,202	345,411	370,613
Investment return:				
Investment income	—	903	—	903
Net depreciation (realized and unrealized)	—	—	—	—
Total investment return	—	903	—	903
Contributions	—	—	17,373	17,373
Appropriation for endowment spending	—	(577)	—	(577)
Net assets, end of year	<u>\$ —</u>	<u>25,528</u>	<u>362,784</u>	<u>388,312</u>

**(11) Contributions Receivable**

As of September 30, 2012 and 2011, contributions receivable are expected to be received as follows:

	<u>2012</u>	<u>2011</u>
Within one year	\$ 517,288	912,515
Within two to five years	3,793,200	369,500
	4,310,488	1,282,015
Less discount at 7.25% to reflect contributions receivable at present value	(655,463)	(12,214)
Contributions receivable, net	<u>\$ 3,655,025</u>	<u>1,269,801</u>

**(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, 2012 and 2011, participants in the plan may make contributions of up to 4% 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 \$17,000 and \$16,500 for the years ended September 30, 2012 and 2011, respectively. Participants are 100% vested in all plan contributions plus actual earnings thereon. The Aquarium's contribution was \$52,888 and \$54,922 for the years ended September 30, 2012 and 2011, respectively.

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**(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, and amended in the Implementation Agreement.

The annual revenue due to the Corporation for the years ended September 30, 2012 and 2011 was \$1,381,117 and \$1,321,409, respectively, and is included in accounts receivable for each respective year in the accompanying consolidating statements of financial position.

Primarily all of the contributions receivable included in the accompanying consolidating statements of financial position represent receivables from the Corporation's board members.

**(14) Subsequent Events**

Subsequent events have been evaluated through March 30, 2013, which is the date the financial statements were issued.