



**AQUARIUM OF THE
PACIFIC CORPORATION**

Financial Statements

December 31, 2009 and 2008

(With Independent Auditors' Report Thereon)



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

Independent Auditors' Report

The Board of Directors
Aquarium of the Pacific Corporation:

We have audited the accompanying statements of financial position of the Aquarium of the Pacific Corporation as of December 31, 2009 and 2008, and the related statements of activities, functional expenses, and cash flows for the years then ended. These financial statements are the responsibility of the management of the Aquarium of the Pacific Corporation. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes 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 of the Pacific Corporation'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 financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Aquarium of the Pacific Corporation as of December 31, 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.

KPMG LLP

April 30, 2010

**AQUARIUM OF THE
PACIFIC CORPORATION**

Statements of Financial Position

December 31, 2009 and 2008

| Assets | 2009 | 2008 |
|---|---------------|-------------|
| Cash and cash equivalents (note 4) | \$ 4,754,025 | 4,661,587 |
| Accounts receivable, net of allowance for doubtful accounts of \$560,299 and \$524,092 in 2009 and 2008, respectively (note 3) | 2,430,949 | 2,325,247 |
| Contributions receivable, net (note 10) | 4,508,812 | 6,143,869 |
| Prepaid expenses | 449,714 | 265,070 |
| Gift store inventory | 246,153 | 520,629 |
| Other assets | 148,786 | 189,912 |
| Property and equipment, net (note 5) | 14,404,083 | 11,438,835 |
| Total assets | \$ 26,942,522 | 25,545,149 |
| Liabilities and Net Assets | | |
| Accounts payable | \$ 2,386,635 | 2,477,287 |
| Accrued liabilities | 1,270,374 | 1,140,866 |
| Deferred revenue | 1,006,307 | 946,537 |
| Total liabilities | 4,663,316 | 4,564,690 |
| Commitments and contingencies (notes 6 and 11) | | |
| Net assets: | | |
| Unrestricted | 12,147,327 | 10,937,494 |
| Temporarily restricted (note 7) | 9,791,354 | 9,774,402 |
| Permanently restricted (notes 8 and 9) | 340,525 | 268,563 |
| Total net assets | 22,279,206 | 20,980,459 |
| Total liabilities and net assets | \$ 26,942,522 | 25,545,149 |

See accompanying notes to financial statements.

**AQUARIUM OF THE
PACIFIC CORPORATION**

Statements of Activities

Years ended December 31, 2009 and 2008

| | 2009 | | | | 2008 | | | |
|--|----------------------|---------------------------|---------------------------|-------------------|-------------------|---------------------------|---------------------------|-------------------|
| | Unrestricted | Temporarily restricted | Permanently restricted | Total | Unrestricted | Temporarily restricted | Permanently restricted | Total |
| Operating revenues: | | | | | | | | |
| Admissions | \$ 15,630,702 | — | — | 15,630,702 | 14,980,293 | — | — | 14,980,293 |
| Memberships | 3,589,584 | — | — | 3,589,584 | 3,208,037 | — | — | 3,208,037 |
| Educational programs | 1,094,371 | — | — | 1,094,371 | 1,295,554 | — | — | 1,295,554 |
| Gift store | 3,748,226 | — | — | 3,748,226 | 4,082,538 | — | — | 4,082,538 |
| Contributions | 902,080 | 1,173,637 | 71,962 | 2,147,679 | 1,225,232 | 3,544,587 | 53,755 | 4,823,574 |
| Ancillary | 730,836 | — | — | 730,836 | 644,382 | — | — | 644,382 |
| Food service | 581,841 | — | — | 581,841 | 713,567 | — | — | 713,567 |
| Fund-raising events | 492,458 | — | — | 492,458 | 804,062 | — | — | 804,062 |
| Donated goods and services | 1,621,218 | — | — | 1,621,218 | 968,543 | — | — | 968,543 |
| Parking garage (note 3) | 1,076,190 | — | — | 1,076,190 | 1,075,190 | — | — | 1,075,190 |
| Other | 106,342 | 120,812 | — | 227,154 | 133,769 | 297,606 | — | 431,375 |
| Net assets released from restriction for operations | 1,277,497 | (1,277,497) | — | — | 2,308,147 | (2,522,955) | 214,808 | — |
| Total operating revenues | <u>30,851,345</u> | <u>16,952</u> | <u>71,962</u> | <u>30,940,259</u> | <u>31,439,314</u> | <u>1,319,238</u> | <u>268,563</u> | <u>33,027,115</u> |
| Operating expenses: | | | | | | | | |
| Husbandry and facilities | 5,881,722 | — | — | 5,881,722 | 6,927,117 | — | — | 6,927,117 |
| Education, interpretation, and outreach | 2,428,833 | — | — | 2,428,833 | 2,717,558 | — | — | 2,717,558 |
| Guest services | 3,508,528 | — | — | 3,508,528 | 3,911,780 | — | — | 3,911,780 |
| Gift store | 2,646,676 | — | — | 2,646,676 | 2,956,893 | — | — | 2,956,893 |
| Development and membership | 2,190,186 | — | — | 2,190,186 | 2,473,320 | — | — | 2,473,320 |
| Marketing | 4,995,166 | — | — | 4,995,166 | 4,514,563 | — | — | 4,514,563 |
| Human resources | 545,905 | — | — | 545,905 | 779,995 | — | — | 779,995 |
| Finance and administration | 2,174,799 | — | — | 2,174,799 | 2,274,910 | — | — | 2,274,910 |
| Total operating expenses | <u>24,371,815</u> | <u>—</u> | <u>—</u> | <u>24,371,815</u> | <u>26,556,136</u> | <u>—</u> | <u>—</u> | <u>26,556,136</u> |
| Earnings from operations before other changes | 6,479,530 | 16,952 | 71,962 | 6,568,444 | 4,883,178 | 1,319,238 | 268,563 | 6,470,979 |
| Other changes: | | | | | | | | |
| Net rent to the City of Long Beach (note 3) | (3,418,588) | — | — | (3,418,588) | (2,924,595) | — | — | (2,924,595) |
| Amounts funded to (received from) bond related reserves (note 3) | (426,682) | — | — | (426,682) | 1,610,464 | — | — | 1,610,464 |
| Depreciation and amortization | (1,424,427) | — | — | (1,424,427) | (1,359,296) | — | — | (1,359,296) |
| Change in net assets | <u>1,209,833</u> | <u>16,952</u> | <u>71,962</u> | <u>1,298,747</u> | <u>2,209,751</u> | <u>1,319,238</u> | <u>268,563</u> | <u>3,797,552</u> |
| Net assets at beginning of year | 10,937,494 | 9,774,402 | 268,563 | 20,980,459 | 8,727,743 | 8,455,164 | — | 17,182,907 |
| Net assets at end of year | <u>\$ 12,147,327</u> | <u>9,791,354</u> | <u>340,525</u> | <u>22,279,206</u> | <u>10,937,494</u> | <u>9,774,402</u> | <u>268,563</u> | <u>20,980,459</u> |

See accompanying notes to financial statements.

**AQUARIUM OF THE
PACIFIC CORPORATION**

Statement of Functional Expenses

Year ended December 31, 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 | \$ 2,933,042 | 1,654,399 | 2,484,080 | 806,536 | 888,246 | 950,250 | 370,864 | 1,281,638 | 11,369,055 |
| Cost of goods sold | — | — | — | 1,611,151 | — | — | — | — | 1,611,151 |
| Insurance | 53,042 | 69,532 | 68,772 | 22,425 | 771 | 934 | 486 | 75,331 | 291,293 |
| Permits, maintenance, and construction | 198,973 | 2,562 | 20,851 | 6,049 | 32 | — | — | 3,992 | 232,459 |
| Occupancy | 9,539 | 48,855 | 29,973 | 90,528 | 42,519 | 41,396 | 28,607 | 140,243 | 431,660 |
| Utilities | 1,512,847 | — | — | 3,912 | — | — | — | — | 1,516,759 |
| Husbandry/animals and collecting | 338,038 | — | — | — | — | — | — | — | 338,038 |
| Services | 175,130 | 347,521 | 256,049 | 10,641 | 507,489 | 269,674 | 108,603 | 189,581 | 1,864,688 |
| Supplies and other expendables | 620,564 | 156,689 | 315,547 | 32,423 | 115,128 | 40,208 | 25,433 | 71,169 | 1,377,161 |
| Postage, shipping, and courier | 19,478 | 10,475 | 5,613 | 4,794 | 152,204 | 53,069 | 4,246 | 12,113 | 261,992 |
| Information technology and telecommunications | 7,790 | 4,150 | 52,879 | 1,398 | 27,026 | 5,622 | 2,189 | 229,264 | 330,318 |
| Printing and publishing | 367 | 25,684 | 3,290 | — | 95,930 | 306,935 | 775 | 1,188 | 434,169 |
| Advertising, promotions, and public relations | — | 64,286 | — | — | 1,605 | 3,035,696 | 300 | 2,782 | 3,104,669 |
| Travel, meals, and training | 12,912 | 42,655 | 7,204 | 173 | 21,040 | 4,150 | 4,402 | 22,840 | 115,376 |
| Other | — | 2,025 | 264,270 | 56,646 | 338,196 | 287,232 | — | 144,658 | 1,093,027 |
| Operating expenses before other changes | 5,881,722 | 2,428,833 | 3,508,528 | 2,646,676 | 2,190,186 | 4,995,166 | 545,905 | 2,174,799 | 24,371,815 |
| Other changes: | | | | | | | | | |
| Net rent to the City of Long Beach (note 3) | 1,245,719 | 998,330 | 1,059,446 | 67,017 | — | 8,140 | 18,993 | 20,943 | 3,418,588 |
| Amounts received from bond related reserves (note 3) | 155,481 | 124,604 | 132,232 | 8,365 | — | 1,016 | 2,371 | 2,613 | 426,682 |
| Depreciation and amortization | 756,030 | 158,434 | 275,908 | 16,693 | 14,308 | 35,771 | 14,308 | 152,975 | 1,424,427 |
| Total operating expenses | <u>\$ 8,038,952</u> | <u>3,710,201</u> | <u>4,976,114</u> | <u>2,738,751</u> | <u>2,204,494</u> | <u>5,040,093</u> | <u>581,577</u> | <u>2,351,330</u> | <u>29,641,512</u> |

See accompanying notes to financial statements.

**AQUARIUM OF THE
PACIFIC CORPORATION**

Statement of Functional Expenses

Year ended December 31, 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 | \$ 3,074,242 | 1,644,541 | 2,769,114 | 908,443 | 824,386 | 916,682 | 483,824 | 1,315,523 | 11,936,755 |
| Cost of goods sold | — | — | — | 1,750,787 | — | — | — | — | 1,750,787 |
| Insurance | 48,004 | 74,826 | 70,279 | 22,612 | 743 | 900 | 469 | 71,216 | 289,049 |
| Permits, maintenance, and construction | 379,180 | 2,297 | 34,179 | 4,244 | 30 | — | — | 10,821 | 430,751 |
| Occupancy | 10,668 | 60,538 | 47,087 | 96,182 | 44,755 | 42,396 | 33,161 | 146,214 | 481,001 |
| Utilities | 1,830,787 | 121 | — | 5,134 | — | — | — | — | 1,836,042 |
| Husbandry/animals and collecting | 296,408 | — | — | — | — | — | — | — | 296,408 |
| Services | 244,470 | 494,438 | 221,008 | 13,448 | 609,462 | 323,161 | 115,409 | 321,678 | 2,343,074 |
| Supplies and other expendables | 958,957 | 227,477 | 391,465 | 76,890 | 316,444 | 48,513 | 57,112 | 94,654 | 2,171,512 |
| Postage, shipping, and courier | 12,685 | 15,716 | 17,896 | 5,715 | 108,502 | 80,227 | 4,997 | 19,083 | 264,821 |
| Information technology and telecommunications | 10,077 | 3,464 | 52,425 | 3,517 | 24,616 | 9,694 | 3,001 | 225,594 | 332,388 |
| Printing and publishing | 1,074 | 65,891 | 2,036 | — | 220,526 | 380,858 | 3,788 | 1,681 | 675,854 |
| Advertising, promotions, and public relations | 77 | 80,734 | 802 | 548 | 3,650 | 2,389,329 | 2,249 | 10,806 | 2,488,195 |
| Travel, meals, and training | 60,488 | 45,936 | 23,767 | 1,731 | 31,449 | 17,207 | 75,985 | 22,516 | 279,079 |
| Other | — | 1,579 | 281,722 | 67,642 | 288,757 | 305,596 | — | 35,124 | 980,420 |
| Operating expenses before other changes | 6,927,117 | 2,717,558 | 3,911,780 | 2,956,893 | 2,473,320 | 4,514,563 | 779,995 | 2,274,910 | 26,556,136 |
| Other changes: | | | | | | | | | |
| Net rent to the City of Long Beach (note 3) | 1,065,710 | 854,069 | 906,354 | 57,333 | — | 6,964 | 16,249 | 17,916 | 2,924,595 |
| Amounts funded to bond related reserves (note 3) | (586,846) | (470,303) | (499,095) | (31,571) | — | (3,835) | (8,948) | (9,866) | (1,610,464) |
| Depreciation and amortization | 486,888 | 144,916 | 490,392 | 23,020 | 19,731 | 49,328 | 19,731 | 125,290 | 1,359,296 |
| Total operating expenses | <u>\$ 7,892,869</u> | <u>3,246,240</u> | <u>4,809,431</u> | <u>3,005,675</u> | <u>2,493,051</u> | <u>4,567,020</u> | <u>807,027</u> | <u>2,408,250</u> | <u>29,229,563</u> |

See accompanying notes to financial statements.

**AQUARIUM OF THE
PACIFIC CORPORATION**

Statements of Cash Flows

Years ended December 31, 2009 and 2008

| | 2009 | 2008 |
|---|--------------|-------------|
| Cash flows from operating activities: | | |
| Change in net assets | \$ 1,298,747 | 3,797,552 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | | |
| Depreciation | 1,424,427 | 1,359,296 |
| Contributions restricted for long-term purposes | (1,539,533) | (2,971,527) |
| (Increase) decrease in assets: | | |
| Accounts receivable, net | (105,702) | (716,645) |
| Contributions receivable | 1,635,057 | 763,974 |
| Prepaid expenses | (184,644) | 72,184 |
| Gift store inventory | 274,476 | (54,866) |
| Other assets | 41,126 | 41,127 |
| Increase (decrease) in liabilities: | | |
| Accounts payable | (90,652) | 276,362 |
| Accrued liabilities | 129,508 | 200,638 |
| Deferred revenue | 59,770 | 243,633 |
| Net cash provided by operating activities | 2,942,580 | 3,011,728 |
| Net cash used in investing activities – purchases of property and equipment | (4,389,675) | (4,264,466) |
| Net cash provided by financing activities – contributions restricted for long-term purposes | 1,539,533 | 2,971,527 |
| Net increase in cash and cash equivalents | 92,438 | 1,718,789 |
| Cash and cash equivalents, beginning of year | 4,661,587 | 2,942,798 |
| Cash and cash equivalents, end of year | \$ 4,754,025 | 4,661,587 |

See accompanying notes to financial statements.

**AQUARIUM OF THE
PACIFIC CORPORATION**

Notes to Financial Statements

December 31, 2009 and 2008

(1) Description of Business

Organization and Business Activity

The Aquarium of the Pacific Corporation (the Corporation) is a California not-for-profit benefit corporation, originally formed in October 1992 as the Genesis Long Beach Aquarium 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 educational sea life exhibit facility in the City of Long Beach (the City). The Corporation's sole objective is to manage the operations of the Aquarium of the Pacific (the Aquarium).

The Aquarium is located at the waterfront of downtown Long Beach, California. The mission of the Aquarium is to instill a sense of wonder, respect, and stewardship for the Pacific Ocean, its inhabitants, and ecosystems.

(2) Summary of Significant Accounting Policies

(a) Basis of Presentation

The accompanying financial statements depict the financial condition, results of operations, and cash flows of the Corporation and do not include any accounts maintained by the City that may be related to the operations of the Corporation (note 3).

The Corporation follows the requirements of Financial Accounting Standards Board's (FASB) Accounting Standards Codification (ASC) Topic 958, *Not-for-Profit Entities*. This standard requires the Corporation to report information regarding its financial position and change in net assets into the following classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted 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. When donor restrictions expire, that is, when the purpose restriction is fulfilled or the time restriction expires, the net assets are reclassified from temporarily restricted to unrestricted. The Corporation's policy is to record temporarily restricted contributions received and expended in the same accounting period as temporarily restricted contributions and net assets released from restrictions. For contributions restricted by donors for the acquisition of property or other long-lived assets, the restriction is considered to be met when the property or other long-lived asset is placed in service.
- 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.

**AQUARIUM OF THE
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Notes to Financial Statements

December 31, 2009 and 2008

(b) *New Accounting Pronouncements*

FASB ASC Topic 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 January 1, 2009, the Corporation implemented the provisions of FASB ASC 820. The implementation of the provisions of FASB ASC 820 resulted in additional financial statement disclosures and did not have an impact on the Corporation's change in net assets or financial position.

FASB ASC Topic 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 January 1, 2009, the Corporation implemented the provisions included in FASB ASC 958-205. See enhanced disclosures required by FASB ASC 958-205 at note 9.

(c) *Fair Value of Financial Instruments*

Fair Value Determination

The fair value of the Corporation's financial instruments as of December 31, 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 Corporation 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.

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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.

(d) Use of Estimates

The preparation of 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 statements of cash flows, the Corporation considers all unrestricted highly liquid investments with an original maturity of three months or less to be cash equivalents.

(f) Gift Store Inventory

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

Unconditional promises to give are recorded as contributions receivable, less an appropriate allowance for uncollectible amounts, at their estimated net realizable value. The Corporation discounts contributions that are expected to be collected after one year using a rate commensurate with the risks involved, and amortization of the discount is included in contribution revenue. Conditional promises to give are not included as support revenue until the conditions are substantially met.

(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.

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Notes to Financial Statements

December 31, 2009 and 2008

(j) Revenue Recognition

The Corporation records earned revenues on an accrual basis. In addition, the Corporation records as revenue the following types of contributions when they are received unconditionally at their estimated 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 Corporation records the sale of its consignment tickets as deferred revenue. Revenue is recognized in the period in which the tickets are redeemed for admission.

(k) Temporarily Restricted Contributions

The Corporation 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 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 Corporation.

(l) Donated Goods and Services

The Corporation 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 and are provided by individuals possessing those skills that 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 financial statements as donated goods and services are offset by like amounts included in expenses or property and equipment as appropriate. The Corporation recognized \$1,248,604 and \$726,790 of contributed services in the accompanying financial statements for the years ended December 31, 2009 and 2008, respectively.

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

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December 31, 2009 and 2008

(m) Functional Allocation of Expenses

The costs of providing the Aquarium's programs and the Corporation's administration have been summarized on a functional basis in the statements of functional expenses. Accordingly, costs have been allocated among the programs and supporting services benefited. Additionally, the development and membership expenses included as supporting services in the accompanying statements of functional expenses include the Corporation's fund-raising expenses that amount to \$1,709,392 and \$1,887,391 for the years ended December 31, 2009 and 2008, respectively.

(n) Income Taxes

The Corporation is a nonprofit organization as described in Section 501(c)(3) of the Internal Revenue Code (the Code) and is exempt from federal and state income taxes on related income pursuant to Section 501(a) of the 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 and, in the opinion of management, is not material to the 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 Corporation 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 Corporation's financial statements.

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

The Corporation 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 December 31, 2009 and 2008, there were no events or changes in circumstances indicating that the carrying amount of property and equipment may not be recoverable.

(q) Reclassifications

Certain reclassifications have been made to the 2008 financial data to conform to the 2009 presentation.

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Notes to Financial Statements

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(3) Business Activity

In October 1995, the Corporation sold \$117,545,000 in tax-exempt long-term bonds to the general public, guaranteed by specific funds (Tidelands and Hotel tax) of the city, to finance the construction of a 156,000-square-foot world-class aquarium. In October 1995, the Corporation also entered into a ground lease with the City. 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 any net revenues not to exceed \$1,500,000. The Aquarium opened to the general public in June 1998.

In April 2001, the parking agreement between the City and Corporation was included in a new lease between the City and the Corporation extending the term of the agreement to fiscal year 2031 (2001 Parking Agreement). In May 2001, the City finalized an agreement whereby the Corporation's 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).

Pursuant to the May 2001 agreement, a public/private partnership between the City and the Corporation was formed under a formal operating arrangement approved by the City Council of the City and the Corporation's board of directors, whereby the Aquarium's operations are carried out by the Corporation. Under the terms of this agreement, the City assumed ownership of all physical plant assets at that time and also assumed responsibility for the Corporation's then outstanding long-term indebtedness. Assets comprising investments held by trustee, capital assets, certain other assets, and net bonds payable were transferred to the City to be 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 501(c)(3) not-for-profit organization with a separate independent board of directors.

On March 1, 2006, an "Implementation Agreement" was entered into between the Corporation and the Authority, which clarified costs of operations within the definitions included in the 2001 Series Bond Indenture and certain operating policies and procedures between the entities and also incorporated the 2001 Parking Agreement. Included in the agreement is a stabilized rent payment to the City of \$3,528,000, net of revenue-sharing arrangements for operating funds available after operating expenses including operating capital, rent, and parking operations. Further, operating capital expenditure levels and parking garage revenue assumptions were predefined through 2031, and certain other review and control mechanisms were codified. Depending on the net revenues generated by the Corporation as defined in the 2001 Series Bond Indenture, amounts are due either to or from the City's bond related reserves at the end of each year.

As of December 31, 2009 and 2008, \$1,449,051 and \$1,362,660, respectively, is due from the City and is included in accounts receivable in the accompanying statements of financial position.

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Unrestricted funds relating to the Aquarium's operations are held by the City's designated trustee. Formal procedures are in place to deposit operating receipts and withdraw reimbursements 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 and public sources, remain the property of, and are held separately by, the Corporation.

(4) Fair Values of Financial Instruments

The following table presents assets that are measured at fair value on a recurring basis at December 31, 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 | \$ 4,754,025 | — | — | 4,754,025 |
| | <u>\$ 4,754,025</u> | <u>—</u> | <u>—</u> | <u>4,754,025</u> |

(5) Property and Equipment

A summary of the Corporation's property and equipment at December 31, 2009 and 2008 is as follows:

| | <u>2009</u> | <u>2008</u> |
|-------------------------------|----------------------|-------------------|
| Building | \$ 7,837,619 | 7,718,948 |
| Leasehold improvements | 24,712 | 20,678 |
| Furniture and fixtures | 774,941 | 767,981 |
| Equipment | 7,633,298 | 7,164,012 |
| Construction in progress | 4,917,210 | 1,356,070 |
| Total | 21,187,780 | 17,027,689 |
| Less accumulated depreciation | 6,783,697 | 5,588,854 |
| Property and equipment, net | <u>\$ 14,404,083</u> | <u>11,438,835</u> |

(6) Commitments and Contingencies

(a) Operating Leases

The Corporation leases various office space and equipment under noncancelable operating leases.

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Future minimum lease payments under operating leases that have initial or remaining lease terms in excess of one year are as follows:

| | | |
|------------|----|-----------|
| 2010 | \$ | 318,607 |
| 2011 | | 261,021 |
| 2012 | | 243,285 |
| 2013 | | 247,174 |
| 2014 | | 250,155 |
| Thereafter | | 495,851 |
| | \$ | 1,816,093 |

Office, warehouse, and equipment leases aggregating \$312,132 and \$298,715 were paid during the years ended December 31, 2009 and 2008, respectively.

(b) Professional Liability Coverage

The Corporation is insured for professional and general liability claims on a claim-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 auto liability, and is expensed as incurred. Management believes the deductibles to be immaterial and insurance adequate to cover losses incurred.

(c) Litigation

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

(7) Temporarily Restricted Net Assets

Temporarily restricted net assets as of December 31, 2009 and 2008 consist of the following:

| | | 2009 | 2008 |
|-------------------------------------|----|-------------|-------------|
| Marketing | \$ | 9,018 | 418 |
| Scholarships | | 169,645 | 143,261 |
| Equipment and construction | | 8,641,420 | 8,957,062 |
| Education and conservation projects | | 971,271 | 673,661 |
| | \$ | 9,791,354 | 9,774,402 |

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(8) Permanently Restricted Net Assets

Permanently restricted net assets as of December 31, 2009 and 2008 consist of \$340,525 and \$268,563, respectively, related to endowment activities.

(9) 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 Corporation's endowment consists of 7 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 Corporation 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 Corporation 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 Corporation in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Corporation 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 Corporation 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 Corporation
7. The investment policies of the Corporation

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(b) Return Objectives and Risk Parameters

The Corporation 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 Corporation 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.

Endowment net asset composition by type of fund as of December 31, 2009 is as follows:

| | <u>Unrestricted</u> | <u>Temporarily restricted</u> | <u>Permanently restricted</u> | <u>Total</u> |
|-----------------------------|---------------------|-----------------------------------|-----------------------------------|----------------|
| Donor-restricted endowments | \$ — | 27,111 | 340,525 | 367,636 |
| Board-designated endowments | — | — | — | — |
| Total | <u>\$ —</u> | <u>27,111</u> | <u>340,525</u> | <u>367,636</u> |

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Changes in endowment net assets for the fiscal year ended December 31, 2009 are as follows:

| | <u>Unrestricted</u> | <u>Temporarily restricted</u> | <u>Permanently restricted</u> | <u>Total</u> |
|---|---------------------|-----------------------------------|-----------------------------------|----------------|
| Net assets, beginning of year | \$ — | 21,259 | 268,563 | 289,822 |
| Reclassification due to change in accounting principle | <u>—</u> | <u>—</u> | <u>—</u> | <u>—</u> |
| Endowment net assets after reclassification | <u>—</u> | <u>21,259</u> | <u>268,563</u> | <u>289,822</u> |
| Investment return: | | | | |
| Investment income | — | 10,023 | — | 10,023 |
| Net depreciation (realized and unrealized) | <u>—</u> | <u>—</u> | <u>—</u> | <u>—</u> |
| Total investment return | <u>—</u> | <u>10,023</u> | <u>—</u> | <u>10,023</u> |
| Contributions | — | — | 71,962 | 71,962 |
| Appropriation for endowment spending | <u>—</u> | <u>(4,171)</u> | <u>—</u> | <u>(4,171)</u> |
| Net assets, end of year | <u>\$ —</u> | <u>27,111</u> | <u>340,525</u> | <u>367,636</u> |

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(10) Contributions Receivable

As of December 31, 2009 and 2008, contributions receivable are expected to be received as follows:

| | <u>2009</u> | <u>2008</u> |
|--|---------------------|------------------|
| Within one year | \$ 2,409,728 | 1,983,659 |
| Within two to five years | 2,268,100 | 4,518,350 |
| | <u>4,677,828</u> | <u>6,502,009</u> |
| Less discount to reflect contributions receivable at present value | <u>169,016</u> | <u>358,140</u> |
| Contributions receivable, net | <u>\$ 4,508,812</u> | <u>6,143,869</u> |

The Corporation discounts contributions that are expected to be collected after one year using a risk-free interest rate. The discount rate used during the years ended December 31, 2009 and 2008 was approximately 2.69% and 1.55%, respectively.

(11) Retirement Plan

The Corporation offers a 457 plan covering substantially all employees. For the years ended December 31, 2009 and 2008, participants in the plan could make contributions up to Internal Revenue Service maximums. The Corporation contributes an additional amount equal to 25% of the first 4% of each participant's plan contribution, once the participant has reached 500 hours of service. Total contributions to the plan, including employer match, may not exceed \$15,500 and \$15,500 for the years ended December 31, 2009 and 2008, respectively. Participants are 100% vested in all plan contributions plus actual earnings thereon. The Corporation's contribution was \$52,512 and \$50,214 for the years ended December 31, 2009 and 2008, respectively.

(12) Subsequent Events

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