



**AQUARIUM OF THE PACIFIC CORPORATION**

Financial Statements

December 31, 2012 and 2011

(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 financial statements of the Aquarium of the Pacific Corporation (the Corporation), which comprise the statements of financial position as of December 31, 2012 and 2011, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditors' Responsibility*

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Corporation's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### *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, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

**KPMG LLP**

April 15, 2013

**AQUARIUM OF THE PACIFIC CORPORATION**

Statements of Financial Position

December 31, 2012 and 2011

Assets	2012				2011			
	Unrestricted	Temporarily restricted	Permanently restricted	Total	Unrestricted	Temporarily restricted	Permanently restricted	Total
Cash and cash equivalents	\$ 2,316,100	4,238,450	390,909	6,945,459	1,521,897	4,082,715	364,884	5,969,496
Accounts receivable, net of allowance for doubtful accounts of \$157,299 and \$226,767 in 2012 and 2011, respectively (note 3)	2,209,770	—	—	2,209,770	2,229,370	—	—	2,229,370
Contributions receivable, net	—	3,822,986	—	3,822,986	25,000	985,963	—	1,010,963
Prepaid expenses and other	455,021	—	—	455,021	324,736	—	—	324,736
Gift store inventory	369,981	—	—	369,981	358,414	—	—	358,414
Other assets	25,407	—	—	25,407	66,533	—	—	66,533
Property and equipment, net (note 5)	17,905,035	2,058,184	—	19,963,219	17,014,218	1,093,103	—	18,107,321
Total assets	<u>\$ 23,281,314</u>	<u>10,119,620</u>	<u>390,909</u>	<u>33,791,843</u>	<u>21,540,168</u>	<u>6,161,781</u>	<u>364,884</u>	<u>28,066,833</u>
<b>Liabilities and Net Assets</b>								
Accounts payable	\$ 2,909,002	—	—	2,909,002	2,696,461	—	—	2,696,461
Accrued liabilities	1,349,050	—	—	1,349,050	1,197,581	—	—	1,197,581
Deferred revenue	498,501	—	—	498,501	669,509	—	—	669,509
Total liabilities	<u>4,756,553</u>	<u>—</u>	<u>—</u>	<u>4,756,553</u>	<u>4,563,551</u>	<u>—</u>	<u>—</u>	<u>4,563,551</u>
Net assets:								
Unrestricted	18,524,761	—	—	18,524,761	16,976,617	—	—	16,976,617
Temporarily restricted (note 7)	—	10,119,620	—	10,119,620	—	6,161,781	—	6,161,781
Permanently restricted (notes 8 and 9)	—	—	390,909	390,909	—	—	364,884	364,884
Total net assets	<u>18,524,761</u>	<u>10,119,620</u>	<u>390,909</u>	<u>29,035,290</u>	<u>16,976,617</u>	<u>6,161,781</u>	<u>364,884</u>	<u>23,503,282</u>
Commitments and contingencies								
Total liabilities and net assets	<u>\$ 23,281,314</u>	<u>10,119,620</u>	<u>390,909</u>	<u>33,791,843</u>	<u>21,540,168</u>	<u>6,161,781</u>	<u>364,884</u>	<u>28,066,833</u>

See accompanying notes to financial statements.

**AQUARIUM OF THE PACIFIC CORPORATION**

Statements of Activities

Years ended December 31, 2012 and 2011

	2012				2011			
	Unrestricted	Temporarily restricted	Permanently restricted	Total	Unrestricted	Temporarily restricted	Permanently restricted	Total
Operating revenues:								
Admissions	\$ 17,018,035	—	—	17,018,035	15,239,140	—	—	15,239,140
Memberships	3,897,826	—	—	3,897,826	3,245,176	—	—	3,245,176
Educational programs	1,109,634	—	—	1,109,634	952,885	—	—	952,885
Gift store	3,866,035	—	—	3,866,035	3,663,196	—	—	3,663,196
Contributions	1,652,703	7,047,751	26,025	8,726,479	1,161,821	2,993,321	18,389	4,173,531
Ancillary	688,425	—	—	688,425	654,728	—	—	654,728
Food service	601,043	—	—	601,043	485,157	—	—	485,157
Fund-raising events	272,925	—	—	272,925	414,203	—	—	414,203
Donated goods and services	385,675	—	—	385,675	772,588	—	—	772,588
Parking garage (note 3)	1,420,138	—	—	1,420,138	1,374,613	—	—	1,374,613
Other	164,952	—	—	164,952	130,640	10,796	—	141,436
Net assets released from restriction for operations	3,089,912	(3,089,912)	—	—	3,283,147	(3,283,147)	—	—
<b>Total operating revenues</b>	<b>34,167,303</b>	<b>3,957,839</b>	<b>26,025</b>	<b>38,151,167</b>	<b>31,377,294</b>	<b>(279,030)</b>	<b>18,389</b>	<b>31,116,653</b>
Operating expenses:								
Husbandry and facilities	6,655,822	—	—	6,655,822	6,471,683	—	—	6,471,683
Education, interpretation, and outreach	3,117,029	—	—	3,117,029	2,695,363	—	—	2,695,363
Guest services	4,047,417	—	—	4,047,417	3,736,476	—	—	3,736,476
Gift store	2,751,666	—	—	2,751,666	2,665,719	—	—	2,665,719
Development and membership	2,211,021	—	—	2,211,021	2,153,649	—	—	2,153,649
Marketing	3,835,811	—	—	3,835,811	4,037,988	—	—	4,037,988
Human resources	843,936	—	—	843,936	759,499	—	—	759,499
Finance and administration	2,205,564	—	—	2,205,564	2,186,870	—	—	2,186,870
<b>Total operating expenses before other changes</b>	<b>25,668,266</b>	<b>—</b>	<b>—</b>	<b>25,668,266</b>	<b>24,707,247</b>	<b>—</b>	<b>—</b>	<b>24,707,247</b>
<b>Earnings from operations before other changes</b>	<b>8,499,037</b>	<b>3,957,839</b>	<b>26,025</b>	<b>12,482,901</b>	<b>6,670,047</b>	<b>(279,030)</b>	<b>18,389</b>	<b>6,409,406</b>
Other operating expenses – other changes:								
Net rent to the City of Long Beach (note 3)	(3,528,000)	—	—	(3,528,000)	(3,528,000)	—	—	(3,528,000)
Amounts transferred to bond-related reserves (note 3)	(687,232)	—	—	(687,232)	(83,311)	—	—	(83,311)
Depreciation and amortization	(2,735,661)	—	—	(2,735,661)	(2,294,316)	—	—	(2,294,316)
<b>Change in net assets</b>	<b>1,548,144</b>	<b>3,957,839</b>	<b>26,025</b>	<b>5,532,008</b>	<b>764,420</b>	<b>(279,030)</b>	<b>18,389</b>	<b>503,779</b>
Net assets at beginning of year	16,976,617	6,161,781	364,884	23,503,282	16,212,197	6,440,811	346,495	22,999,503
<b>Net assets at end of year</b>	<b>\$ 18,524,761</b>	<b>10,119,620</b>	<b>390,909</b>	<b>29,035,290</b>	<b>16,976,617</b>	<b>6,161,781</b>	<b>364,884</b>	<b>23,503,282</b>

See accompanying notes to financial statements.

**AQUARIUM OF THE PACIFIC CORPORATION**

Statement of Functional Expenses

Year ended December 31, 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	\$ 3,523,296	1,788,845	2,893,350	887,573	1,050,826	1,041,970	576,026	1,305,442	13,067,328
Cost of goods sold	—	—	—	1,626,477	—	—	—	—	1,626,477
Insurance	60,888	65,482	64,997	22,473	916	1,110	578	53,810	270,254
Permits, maintenance, and construction	341,863	10,032	21,292	2,862	—	—	—	18,392	394,441
Occupancy	12,424	51,155	46,703	85,487	49,194	45,184	67,928	152,059	510,134
Utilities	1,240,709	—	—	4,039	—	—	—	—	1,244,748
Husbandry/animals and collecting	415,339	—	—	—	—	—	—	—	415,339
Services	212,011	840,213	321,219	14,654	496,105	251,136	147,431	321,011	2,603,780
Supplies and other expendables	760,901	228,608	384,135	44,018	98,583	36,325	25,952	99,011	1,677,533
Postage, shipping, and courier	40,517	7,929	4,582	6,044	121,398	70,441	2,339	5,313	258,563
Information technology and telecommunications	10,155	4,439	63,643	2,368	28,877	6,000	1,810	170,733	288,025
Printing and publishing	625	15,573	2,151	—	191,619	287,821	1,014	10,569	509,372
Advertising, promotions, and public relations	—	48,572	75	—	8,848	1,960,303	50	7,545	2,025,393
Travel, meals, and training	37,094	56,181	20,715	3,182	10,660	6,716	20,508	31,557	186,613
Other	—	—	224,555	52,489	153,995	128,805	300	30,122	590,266
Operating expenses before other changes	6,655,822	3,117,029	4,047,417	2,751,666	2,211,021	3,835,811	843,936	2,205,564	25,668,266
Other operating expenses – other changes:									
Net rent to the City of Long Beach (note 3)	1,285,588	1,030,281	1,093,353	69,162	—	8,401	19,601	21,614	3,528,000
Amounts transferred to bond-related reserves (note 3)	250,424	200,692	212,978	13,472	—	1,636	3,818	4,212	687,232
Depreciation and amortization	1,421,930	218,087	543,210	12,213	10,468	26,170	10,468	493,115	2,735,661
Total operating expenses	<u>\$ 9,613,764</u>	<u>4,566,089</u>	<u>5,896,958</u>	<u>2,846,513</u>	<u>2,221,489</u>	<u>3,872,018</u>	<u>877,823</u>	<u>2,724,505</u>	<u>32,619,159</u>

See accompanying notes to financial statements.

**AQUARIUM OF THE PACIFIC CORPORATION**

Statement of Functional Expenses

Year ended December 31, 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	\$ 3,254,658	1,530,316	2,755,413	875,921	1,081,736	1,011,762	494,727	1,480,737	12,485,270
Cost of goods sold	—	—	—	1,545,580	—	—	—	—	1,545,580
Insurance	55,272	61,507	61,046	21,127	864	1,046	545	51,174	252,581
Permits, maintenance, and construction	320,998	4,484	25,082	3,110	62	—	—	10,684	364,420
Occupancy	10,744	56,966	41,183	92,584	47,027	44,573	65,072	147,299	505,448
Utilities	1,381,452	937	—	4,217	—	—	—	—	1,386,606
Husbandry/animals and collecting Services	387,441	—	—	—	—	—	—	—	387,441
Supplies and other expendables	277,558	580,781	169,813	7,979	492,095	229,881	155,974	125,354	2,039,435
Postage, shipping, and courier	686,523	279,598	360,262	44,054	87,136	39,477	19,766	68,957	1,585,773
Information technology and telecommunications	53,242	11,807	7,755	4,758	116,095	101,206	2,433	5,455	302,751
Printing and publishing	9,284	2,975	55,577	9,206	27,983	6,245	1,407	198,776	311,453
Advertising, promotions, and public relations	719	37,279	2,553	—	63,973	284,521	954	4,062	394,061
Travel, meals, and training	—	21,262	575	—	8,394	2,103,481	25	7,935	2,141,672
Other	33,792	102,973	9,935	2,202	15,315	8,569	18,596	21,462	212,844
	—	4,478	247,282	54,981	212,969	207,227	—	64,975	791,912
Operating expenses before other changes	6,471,683	2,695,363	3,736,476	2,665,719	2,153,649	4,037,988	759,499	2,186,870	24,707,247
Other operating expenses – other changes:									
Net rent to the City of Long Beach (note 3)	1,285,588	1,030,281	1,093,353	69,162	—	8,401	19,601	21,614	3,528,000
Amounts transferred to bond-related reserves (note 3)	30,358	24,329	25,819	1,633	—	198	463	511	83,311
Depreciation and amortization	1,168,954	203,189	454,108	11,790	10,105	25,263	10,105	410,802	2,294,316
Total operating expenses	\$ 8,956,583	3,953,162	5,309,756	2,748,304	2,163,754	4,071,850	789,668	2,619,797	30,612,874

See accompanying notes to financial statements.

## AQUARIUM OF THE PACIFIC CORPORATION

### Statements of Cash Flows

Years ended December 31, 2012 and 2011

	<b>2012</b>	<b>2011</b>
Cash flows from operating activities:		
Change in net assets	\$ 5,532,008	503,779
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	2,735,661	2,294,316
Loss on disposal of fixed assets	—	1,485
Contributions restricted for long-term purposes	(2,773,789)	(2,329,327)
Decrease (increase) in assets:		
Accounts receivable, net	19,600	(115,549)
Contributions receivable	(2,812,023)	644,594
Prepaid expenses	(130,285)	(49,065)
Gift store inventory	(11,567)	(61,252)
Other assets	41,126	41,126
Increase (decrease) in liabilities:		
Accounts payable	212,541	693,780
Accrued liabilities	151,469	44,822
Deferred revenue	(171,008)	27,988
Net cash provided by operating activities	2,793,733	1,696,697
Net cash used in investing activity – purchases of property and equipment	(4,591,559)	(3,106,196)
Net cash provided by financing activity – contributions restricted for long-term purposes	2,773,789	2,329,327
Net increase in cash and cash equivalents	975,963	919,828
Cash and cash equivalents, beginning of year	5,969,496	5,049,668
Cash and cash equivalents, end of year	\$ 6,945,459	5,969,496

See accompanying notes to financial statements.

# AQUARIUM OF THE PACIFIC CORPORATION

Notes to Financial Statements

December 31, 2012 and 2011

## (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 PACIFIC CORPORATION

Notes to Financial Statements

December 31, 2012 and 2011

### (b) *Fair Value Measurements*

The Corporation implemented the provisions of FASB ASC Topic 820, *Fair Value Measurements and Disclosures*, 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 Corporation 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 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. The Corporation's money market accounts which totaled \$6,505,624 and \$5,513,284 at December 31, 2012 and 2011, respectively, are considered cash equivalents and use Level 1 inputs for valuation purposes.

### (c) *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.

### (d) *Cash Equivalents*

For purposes of the statements of cash flows, the Corporation considers all unrestricted highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

### (e) *Gift Store Inventory*

Inventory is valued at the lower of cost or market.

## AQUARIUM OF THE PACIFIC CORPORATION

Notes to Financial Statements

December 31, 2012 and 2011

**(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 Corporation discounts contributions that are expected to be collected after one year using credit-adjusted rates in accordance with ASC Topic 820. Conditional promises to give are not included as support revenue until the conditions are substantially met.

**(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.

**(i) *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.

**(j) *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.

**(k) *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

## AQUARIUM OF THE PACIFIC CORPORATION

### Notes to Financial Statements

December 31, 2012 and 2011

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 \$228,824 and \$573,515 of contributed services in the accompanying financial statements for the years ended December 31, 2012 and 2011, 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.

**(l) *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 \$226,037 and \$342,866 for the years ended December 31, 2012 and 2011, respectively.

**(m) *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.

The Corporation has adopted the provisions of ASC 740, *Income Taxes*, related to accounting for uncertainty in income taxes, 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. The interpretation requires that the entity account for and disclose in the financial statements the impact of a tax position if that position will more likely than not be substantiated upon examination, including resolution of any related appeals or litigation processes, based on the technical merits of the position. The Corporation has evaluated the financial statement impact of tax positions taken or expected to be taken and determined it has no uncertain tax positions that would require tax assets or liabilities to be recorded in accordance with accounting guidance.

The Corporation files income tax returns in the U.S. federal jurisdiction and State of California. With few exceptions, the Corporation is no longer subject to income tax examinations by U.S. federal income tax authorities for the years before 2009 and State of California tax authorities before 2008.

## AQUARIUM OF THE PACIFIC CORPORATION

Notes to Financial Statements

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**(n) *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, 2012 and 2011, there were no events or changes in circumstances indicating that the carrying amount of property and equipment may not be recoverable.

**(o) *Reclassifications***

Certain reclassifications have been made to the 2011 financial data to conform to the 2012 presentation.

**(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). 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 the \$102,580,000, plus an original issue premium of \$11,595,462 and less an underwriters' discount of \$445,429).

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

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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, 2012 and 2011, \$1,714,725 and \$1,615,996, respectively, is due from the City and is included in accounts receivable in the accompanying statements of financial position.

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) Property and Equipment

A summary of the Corporation's property and equipment at December 31, 2012 and 2011 is as follows:

	<u>2012</u>	<u>2011</u>
Building	\$ 12,672,350	11,840,587
Leasehold improvements	24,712	24,712
Furniture and fixtures	4,019,921	3,044,634
Equipment	14,020,945	11,888,639
Construction in progress	2,495,395	1,843,193
Total	<u>33,233,323</u>	<u>28,641,765</u>
Less accumulated depreciation	<u>(13,270,104)</u>	<u>(10,534,444)</u>
Property and equipment, net	<u>\$ 19,963,219</u>	<u>18,107,321</u>

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### (5) Commitments and Contingencies

#### (a) Operating Leases

The Corporation 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 are as follows:

2013	\$	537,079
2014		540,060
2015		527,840
2016		462,395
2017		212,897
Thereafter		600,000
	\$	2,880,271

Office, warehouse, and equipment leases aggregating \$563,649 and \$348,592 were paid during the years ended December 31, 2012 and 2011, respectively.

#### (b) Professional Liability Coverage

The Corporation is insured for professional and general liability claims on a claims-made basis up 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.

### (6) Temporarily Restricted Net Assets

Temporarily restricted net assets as of December 31, 2012 and 2011 consist of the following:

		<b>2012</b>	<b>2011</b>
Marketing	\$	242	245
Scholarships		333,786	300,152
Equipment and construction		9,031,143	5,332,117
Education and conservation projects		754,449	529,267
	\$	10,119,620	6,161,781

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### (7) Permanently Restricted Net Assets

Permanently restricted net assets as of December 31, 2012 and 2011 consist of \$390,909 and \$364,884, respectively, related to endowment activities.

### (8) Endowment

FASB ASC Subtopic 958-205, *Presentation of Financial Statements for Not-for-Profit Entities*, 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 Corporation's endowment consists of five 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 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, 2012 is as follows:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Donor-restricted endowments	\$ —	24,534	390,909	415,443
Board-designated endowments	—	—	—	—
Total	<u>\$ —</u>	<u>24,534</u>	<u>390,909</u>	<u>415,443</u>



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Changes in endowment net assets for the fiscal year ended December 31, 2012 are as follows:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Net assets, beginning of year	\$ —	25,559	364,884	390,443
Investment return:				
Investment income	—	520	—	520
Net depreciation (realized and unrealized)	—	—	—	—
Total investment return	—	520	—	520
Contributions	—	—	26,025	26,025
Appropriation for endowment spending	—	(1,545)	—	(1,545)
Net assets, end of year	<u>\$ —</u>	<u>24,534</u>	<u>390,909</u>	<u>415,443</u>

Endowment net asset composition by type of fund as of December 31, 2012 is as follows:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Donor-restricted endowments	\$ —	25,559	364,884	390,443
Board-designated endowments	—	—	—	—
Total	<u>\$ —</u>	<u>25,559</u>	<u>364,884</u>	<u>390,443</u>

Changes in endowment net assets for the fiscal year ended December 31, 2011 are as follows:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Net assets, beginning of year	\$ —	25,074	346,495	371,569
Investment return:				
Investment income	—	821	—	821
Net depreciation (realized and unrealized)	—	—	—	—
Total investment return	—	821	—	821
Contributions	—	—	18,389	18,389
Appropriation for endowment spending	—	(336)	—	(336)
Net assets, end of year	<u>\$ —</u>	<u>25,559</u>	<u>364,884</u>	<u>390,443</u>

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### (9) Contributions Receivable

As of December 31, 2012 and 2011, contributions receivable are expected to be received as follows:

	<u>2012</u>	<u>2011</u>
Within one year	\$ 1,055,201	644,323
Within two to five years	3,390,750	369,500
	4,445,951	1,013,823
Less discount at 7.25% to reflect contributions receivable at present value	<u>(622,965)</u>	<u>(2,860)</u>
Contributions receivable, net	<u>\$ 3,822,986</u>	<u>1,010,963</u>

### (10) Retirement Plan

The Corporation offers a 457 plan covering substantially all employees. For the years ended December 31, 2012 and 2011, 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 \$17,000 and \$16,500 for the years ended December 31, 2012 and 2011, respectively. Participants are 100% vested in all plan contributions plus actual earnings thereon. The Corporation's contribution was \$53,309 and \$54,665 for the years ended December 31, 2012 and 2011, respectively.

### (11) Subsequent Events

Subsequent events have been evaluated through April 15, 2013, which is the date the financial statements were issued.