



**AQUARIUM OF THE PACIFIC**

Financial Statements

December 31, 2014 and 2013

(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:

We have audited the accompanying financial statements of the Aquarium of the Pacific, which comprise the statements of financial position as of December 31, 2014 and 2013, 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 entity'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 entity'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 as of December 31, 2014 and 2013, 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**

Irvine, California  
April 29, 2015

**AQUARIUM OF THE PACIFIC**

Statements of Financial Position

December 31, 2014 and 2013

Assets	2014				2013			
	Unrestricted	Temporarily restricted	Permanently restricted	Total	Unrestricted	Temporarily restricted	Permanently restricted	Total
Cash and cash equivalents	\$ 3,170,915	7,523,511	398,332	11,092,758	2,294,425	6,605,111	396,632	9,296,168
Accounts receivable, net of allowance for doubtful accounts of \$207,203 and \$319,326 in 2014 and 2013, respectively (note 3)	832,470	—	—	832,470	531,422	—	—	531,422
Contributions receivable, net (note 4)	58,656	2,880,830	—	2,939,486	100,598	2,350,526	—	2,451,124
Prepaid expenses and other	369,173	—	—	369,173	410,764	—	—	410,764
Gift store inventory	515,032	—	—	515,032	417,220	—	—	417,220
Property and equipment, net (note 5)	20,864,669	3,060,431	—	23,925,100	20,763,356	1,256,948	—	22,020,304
Total assets	<u>\$ 25,810,915</u>	<u>13,464,772</u>	<u>398,332</u>	<u>39,674,019</u>	<u>24,517,785</u>	<u>10,212,585</u>	<u>396,632</u>	<u>35,127,002</u>
<b>Liabilities and Net Assets</b>								
Accounts payable	\$ 2,908,059	—	—	2,908,059	2,373,470	—	—	2,373,470
Accrued liabilities	1,940,100	—	—	1,940,100	1,510,607	—	—	1,510,607
Deferred revenue	638,355	—	—	638,355	608,600	—	—	608,600
Total liabilities	<u>5,486,514</u>	<u>—</u>	<u>—</u>	<u>5,486,514</u>	<u>4,492,677</u>	<u>—</u>	<u>—</u>	<u>4,492,677</u>
Net assets:								
Unrestricted	20,324,401	—	—	20,324,401	20,025,108	—	—	20,025,108
Temporarily restricted (note 7)	—	13,464,772	—	13,464,772	—	10,212,585	—	10,212,585
Permanently restricted (notes 8 and 9)	—	—	398,332	398,332	—	—	396,632	396,632
Total net assets	<u>20,324,401</u>	<u>13,464,772</u>	<u>398,332</u>	<u>34,187,505</u>	<u>20,025,108</u>	<u>10,212,585</u>	<u>396,632</u>	<u>30,634,325</u>
Commitments and contingencies (note 6)								
Total liabilities and net assets	<u>\$ 25,810,915</u>	<u>13,464,772</u>	<u>398,332</u>	<u>39,674,019</u>	<u>24,517,785</u>	<u>10,212,585</u>	<u>396,632</u>	<u>35,127,002</u>

See accompanying notes to financial statements.

**AQUARIUM OF THE PACIFIC**  
 Statements of Activities  
 Years ended December 31, 2014 and 2013

	2014			2013				
	Unrestricted	Temporarily restricted	Permanently restricted	Total	Unrestricted	Temporarily restricted	Permanently restricted	Total
Operating revenues:								
Admissions	\$ 17,745,896	—	—	17,745,896	17,122,783	—	—	17,122,783
Memberships	4,211,438	—	—	4,211,438	3,821,204	—	—	3,821,204
Educational programs	1,050,831	—	—	1,050,831	1,097,576	—	—	1,097,576
Gift store	4,103,958	—	—	4,103,958	3,792,937	—	—	3,792,937
Contributions	1,665,619	5,660,784	1,700	7,328,103	1,843,212	5,672,165	5,723	7,521,100
Ancillary	763,240	—	—	763,240	692,710	—	—	692,710
Food service	632,630	—	—	632,630	624,010	—	—	624,010
Fund-raising events	478,238	—	—	478,238	468,953	—	—	468,953
Donated goods and services	639,304	—	—	639,304	608,556	—	—	608,556
Other	211,074	8,351	—	219,425	254,840	8,337	—	263,177
Net assets released from restriction for operations	2,416,948	(2,416,948)	—	—	5,587,537	(5,587,537)	—	—
Total operating revenues	<u>33,919,176</u>	<u>3,252,187</u>	<u>1,700</u>	<u>37,173,063</u>	<u>35,914,318</u>	<u>92,965</u>	<u>5,723</u>	<u>36,013,006</u>
Operating expenses:								
Husbandry and facilities	7,592,779	—	—	7,592,779	7,170,194	—	—	7,170,194
Education, interpretation, and outreach	3,112,307	—	—	3,112,307	3,272,623	—	—	3,272,623
Guest services	4,839,399	—	—	4,839,399	4,138,041	—	—	4,138,041
Gift store	3,084,359	—	—	3,084,359	2,866,554	—	—	2,866,554
Development and membership	2,489,202	—	—	2,489,202	2,336,958	—	—	2,336,958
Marketing	4,199,760	—	—	4,199,760	4,315,535	—	—	4,315,535
Human resources	931,530	—	—	931,530	837,508	—	—	837,508
Finance and administration	2,242,267	—	—	2,242,267	2,738,118	—	—	2,738,118
Total operating expenses before other changes	<u>28,491,603</u>	<u>—</u>	<u>—</u>	<u>28,491,603</u>	<u>27,675,531</u>	<u>—</u>	<u>—</u>	<u>27,675,531</u>
Earnings from operations before other changes	5,427,573	3,252,187	1,700	8,681,460	8,238,787	92,965	5,723	8,337,475
Other operating expenses – other changes:								
Net rent to the City of Long Beach (note 3)	(2,186,903)	—	—	(2,186,903)	(3,528,000)	—	—	(3,528,000)
Amounts transferred to bond-related reserves (note 3)	—	—	—	—	(297,450)	—	—	(297,450)
Depreciation and amortization	(2,941,377)	—	—	(2,941,377)	(2,912,990)	—	—	(2,912,990)
Change in net assets	<u>299,293</u>	<u>3,252,187</u>	<u>1,700</u>	<u>3,553,180</u>	<u>1,500,347</u>	<u>92,965</u>	<u>5,723</u>	<u>1,599,035</u>
Net assets at beginning of year	<u>20,025,108</u>	<u>10,212,585</u>	<u>396,632</u>	<u>30,634,325</u>	<u>18,524,761</u>	<u>10,119,620</u>	<u>390,909</u>	<u>29,035,290</u>
Net assets at end of year	<u>\$ 20,324,401</u>	<u>13,464,772</u>	<u>398,332</u>	<u>34,187,505</u>	<u>20,025,108</u>	<u>10,212,585</u>	<u>396,632</u>	<u>30,634,325</u>

See accompanying notes to financial statements.

**AQUARIUM OF THE PACIFIC**

Statement of Functional Expenses

Year ended December 31, 2014

	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	\$ 3,943,007	2,045,805	3,395,332	998,133	1,126,774	1,090,370	627,163	1,187,772	14,414,356
Cost of goods sold	—	—	—	1,809,206	—	—	—	—	1,809,206
Insurance	58,709	67,612	68,894	24,014	1,000	1,211	631	56,087	278,158
Permits, maintenance, and construction	447,765	—	51,186	8,489	44	—	408	8,145	516,037
Occupancy	22,421	67,584	81,547	95,712	53,996	46,328	67,014	156,675	591,277
Utilities	1,532,320	—	—	4,457	—	—	—	—	1,536,777
Husbandry/animals and collecting	382,867	—	—	—	—	—	—	—	382,867
Services	250,523	681,206	365,054	10,319	624,028	277,547	150,784	183,498	2,542,959
Supplies and other expendables	844,984	170,090	511,813	62,334	161,275	30,549	41,338	133,374	1,955,757
Postage, shipping, and courier	19,620	6,249	10,146	5,661	140,414	75,328	2,104	4,878	264,400
Information technology and telecommunications	13,958	1,816	81,808	5,078	32,975	5,007	6,197	229,518	376,357
Printing and publishing	255	17,738	365	—	173,205	354,107	1,182	3,323	550,175
Advertising, promotions, and public relations	—	6,067	291	—	7,761	1,976,905	509	5,190	1,996,723
Travel, meals, and training	76,350	48,140	23,925	2,380	15,756	9,000	34,200	27,191	236,942
Other	—	—	249,038	58,576	151,974	333,408	—	246,616	1,039,612
Operating expenses before other changes	7,592,779	3,112,307	4,839,399	3,084,359	2,489,202	4,199,760	931,530	2,242,267	28,491,603
Commitments and contingencies (note 6)									
Net rent to the City of Long Beach (note 3)	796,898	638,641	677,738	42,872	—	5,207	12,150	13,397	2,186,903
Depreciation and amortization	1,425,856	293,869	557,545	8,779	7,525	18,813	7,525	621,465	2,941,377
Total operating expenses	\$ 9,815,533	4,044,817	6,074,682	3,136,010	2,496,727	4,223,780	951,205	2,877,129	33,619,883

See accompanying notes to financial statements.

**AQUARIUM OF THE PACIFIC**

Statement of Functional Expenses

Year ended December 31, 2013

	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	\$ 3,722,732	1,848,593	2,936,420	936,513	1,141,079	1,087,937	596,021	1,250,367	13,519,662
Cost of goods sold	—	—	—	1,670,331	—	—	—	—	1,670,331
Insurance	68,709	82,215	81,789	27,749	1,075	1,303	679	70,418	333,937
Permits, maintenance, and construction	453,613	11,115	23,429	9,858	128	—	15	10,027	508,185
Occupancy	13,407	57,618	56,323	89,080	48,879	45,019	61,598	154,193	526,117
Utilities	1,443,996	—	—	4,522	—	—	—	—	1,448,518
Husbandry/animals and collecting	431,580	—	—	—	—	—	—	—	431,580
Services	178,086	941,850	281,693	11,528	532,745	275,782	117,987	191,740	2,531,411
Supplies and other expendables	763,153	201,262	427,043	51,950	146,966	44,620	21,458	124,660	1,781,112
Postage, shipping, and courier	29,087	7,261	8,537	6,514	136,420	86,819	2,355	1,520	278,513
Information technology and telecommunications	12,424	2,730	58,929	1,678	27,924	6,006	1,907	188,439	300,037
Printing and publishing	419	35,239	473	—	100,064	339,580	51	39,165	514,991
Advertising, promotions, and public relations	154	22,897	75	—	6,883	2,161,904	150	7,351	2,199,414
Travel, meals, and training	52,834	61,843	17,210	2,035	30,114	9,409	35,287	18,026	226,758
Write-off of parking receivable	—	—	—	—	—	—	—	333,608	333,608
Loss on disposal of fixed assets	—	—	—	—	—	—	—	238,095	238,095
Other	—	—	246,120	54,796	164,681	257,156	—	110,509	833,262
Commitments Operating expenses before other changes	7,170,194	3,272,623	4,138,041	2,866,554	2,336,958	4,315,535	837,508	2,738,118	27,675,531
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)	108,390	86,864	92,182	5,831	—	708	1,653	1,822	297,450
Depreciation and amortization	1,472,146	256,728	547,427	9,333	7,999	19,998	7,999	591,360	2,912,990
Total operating expenses	\$ 10,036,318	4,646,496	5,871,003	2,950,880	2,344,957	4,344,642	866,761	3,352,914	34,413,971

See accompanying notes to financial statements.

## AQUARIUM OF THE PACIFIC

### Statements of Cash Flows

Years ended December 31, 2014 and 2013

	2014	2013
Cash flows from operating activities:		
Change in net assets	\$ 3,553,180	1,599,035
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	2,941,377	2,912,990
Loss on disposal of fixed assets	—	238,095
Contributions restricted for long-term purposes	(3,356,204)	(5,120,486)
Decrease (increase) in assets:		
Accounts receivable, net	(301,048)	1,678,348
Contributions receivable	(488,362)	1,371,862
Prepaid expenses	41,591	44,257
Gift store inventory	(97,812)	(47,239)
Other assets	—	25,407
Increase (decrease) in liabilities:		
Accounts payable	534,589	(535,532)
Accrued liabilities	429,493	161,557
Deferred revenue	29,755	110,099
Net cash provided by operating activities	3,286,559	2,438,393
Net cash used in investing activity – purchases of property and equipment	(4,846,173)	(5,208,170)
Commitments and contingencies (note 6) restricted for long-term purposes	3,356,204	5,120,486
Net increase in cash and cash equivalents	1,796,590	2,350,709
Cash and cash equivalents, beginning of year	9,296,168	6,945,459
Cash and cash equivalents, end of year	\$ 11,092,758	9,296,168

See accompanying notes to financial statements.

## AQUARIUM OF THE PACIFIC

Notes to Financial Statements

December 31, 2014 and 2013

### (1) Description of Business

#### *Organization and Business Activity*

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

#### (b) *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.



## AQUARIUM OF THE PACIFIC

### Notes to Financial Statements

December 31, 2014 and 2013

(c) ***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.

(d) ***Gift Store Inventory***

Inventories are valued based on average costs and at the lower of cost or market value.

(e) ***Live Animal Inventory***

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

(f) ***Contributions Receivable***

Contributions receivable, less an appropriate allowance for estimated uncollectible amounts, are recorded at their estimated net realizable value. Contributions that are expected to be collected in future years are recorded as contributions receivable at the present value of their estimated cash flows. The 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.

(g) ***Property and Equipment***

Buildings 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.

(h) ***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.

(i) ***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

## AQUARIUM OF THE PACIFIC

### Notes to Financial Statements

December 31, 2014 and 2013

are reported as temporarily restricted net assets until such time as the long-lived assets are placed in service by the Corporation.

**(j) *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 \$474,393 and \$457,717 of contributed services in the accompanying financial statements for the years ended December 31, 2014 and 2013, 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.

**(k) *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 \$285,079 and \$328,661 for the years ended December 31, 2014 and 2013, respectively.

**(l) *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 Topic 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

## AQUARIUM OF THE PACIFIC

### Notes to Financial Statements

December 31, 2014 and 2013

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.

**(m) *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, 2014 and 2013, there were no events or changes in circumstances indicating that the carrying amount of property and equipment may not be recoverable.

**(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 2013 Refunding Revenue Bonds (Aquarium of the Pacific Project) (the Series 2012 Bonds) were 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 was \$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

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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.

On January 24, 2014, an Amendment to Implementation Agreement was made and entered by and between the Corporation and the Authority. In the amendment, the City's obligation under the Implementation Agreement and any other document (including but not limited to, the Parking Agreement, the Indenture, and Lease Agreement) to pay to the Corporation any parking garage revenue was fully extinguished and canceled. The stabilized rent payment to the City in each fiscal year was reduced from \$3,528,000 to \$2,154,000. Further, operating capital expenditure levels, and certain other review and control mechanisms were restated.

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) Contributions Receivable

As of December 31, 2014 and 2013, contributions receivable are expected to be received as follows:

	<b>2014</b>	<b>2013</b>
Within one year	\$ 1,003,902	1,120,877
Within two to five years	2,364,069	1,828,949
	3,367,971	2,949,826
Less discount at 7.25% to reflect contributions receivable at present value	(428,485)	(498,702)
Contributions receivable, net	\$ 2,939,486	2,451,124

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### (5) Property and Equipment

A summary of the Corporation's property and equipment at December 31, 2014 and 2013 is as follows:

	<u>2014</u>	<u>2013</u>
Building	\$ 16,841,779	16,841,779
Leasehold improvements	24,712	24,712
Furniture and fixtures	4,927,888	4,375,090
Equipment	17,399,826	14,811,739
Construction in progress	3,349,488	1,827,468
Total	<u>42,543,693</u>	<u>37,880,788</u>
Less accumulated depreciation	<u>(18,618,593)</u>	<u>(15,860,484)</u>
Property and equipment, net	<u>\$ 23,925,100</u>	<u>22,020,304</u>

### (6) 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:

<u>Year ending December 31:</u>	
2015	\$ 542,761
2016	479,376
2017	231,419
2018	168,522
2019	150,000
Thereafter	<u>450,000</u>
	<u>\$ 2,022,078</u>

Office, warehouse, and equipment leases aggregating \$540,246 and \$537,079 were paid during the years ended December 31, 2014 and 2013, 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.

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(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, 2014 and 2013 consist of the following:

	<u>2014</u>	<u>2013</u>
Marketing	\$ 242	242
Scholarships	301,519	341,354
Equipment and construction	12,628,630	8,981,065
Education and conservation projects	534,381	889,924
	<u>\$ 13,464,772</u>	<u>10,212,585</u>

(8) **Permanently Restricted Net Assets**

Permanently restricted net assets as of December 31, 2014 and 2013 consist of \$398,332 and \$396,632, respectively, related to endowment activities.

(9) **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

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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.

**(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.

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Endowment net asset composition by type of fund as of December 31, 2014 is as follows:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Donor-restricted endowments	\$ —	25,158	398,332	423,490
Board-designated endowments	—	—	—	—
Total	<u>\$ —</u>	<u>25,158</u>	<u>398,332</u>	<u>423,490</u>

Changes in endowment net assets for the fiscal year ended December 31, 2014 are as follows:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Net assets, beginning of year	\$ —	24,876	396,632	421,508
Investment return:				
Investment income	—	431	—	431
Net depreciation (realized and unrealized)	—	—	—	—
Total investment return	—	431	—	431
Contributions	—	—	1,700	1,700
Appropriation for endowment spending	—	(149)	—	(149)
Net assets, end of year	<u>\$ —</u>	<u>25,158</u>	<u>398,332</u>	<u>423,490</u>

Endowment net asset composition by type of fund as of December 31, 2013 is as follows:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Donor-restricted endowments	\$ —	24,876	396,632	421,508
Board-designated endowments	—	—	—	—
Total	<u>\$ —</u>	<u>24,876</u>	<u>396,632</u>	<u>421,508</u>



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Changes in endowment net assets for the fiscal year ended December 31, 2013 are as follows:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Net assets, beginning of year	\$ —	24,534	390,909	415,443
Investment return:				
Investment income	—	430	—	430
Net depreciation (realized and unrealized)	—	—	—	—
Total investment return	—	430	—	430
Contributions	—	—	5,723	5,723
Appropriation for endowment spending	—	(88)	—	(88)
Net assets, end of year	\$ —	24,876	396,632	421,508

#### (10) Retirement Plan

The Corporation offers a 457 plan covering substantially all employees. For the years ended December 31, 2014 and 2013, 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 \$17,500 for the years ended December 31, 2014 and 2013. Participants are 100% vested in all plan contributions plus actual earnings thereon. The Corporation's contribution was \$67,577 and \$53,869 for the years ended December 31, 2014 and 2013, respectively.

#### (11) Subsequent Events

Subsequent events have been evaluated through April 29, 2015, which is the date the financial statements were issued.