



**AQUARIUM OF THE PACIFIC**  
(A Public/Private Partnership of the City of Long Beach, California,  
and the Aquarium of the Pacific Corporation)

Consolidating Financial Statements

September 30, 2007 and 2006

(With Independent Auditors' Report Thereon)



**KPMG LLP**  
Suite 2000  
355 South Grand Avenue  
Los Angeles, CA 90071-1568

## **Independent Auditors' Report**

The Honorable City Council  
City of Long Beach, California

The Board of Directors  
Aquarium of the Pacific Corporation:

We have audited the accompanying consolidating statements of financial position of the Aquarium of the Pacific (the Aquarium), a public/private partnership of the City of Long Beach, California (the City) and the Aquarium of the Pacific Corporation (the Corporation), collectively the Aquarium of the Pacific, as of September 30, 2007 and 2006, and the related consolidating statements of activities, functional expenses, and cash flows for the years then ended. These consolidating financial statements are the responsibility of the Corporation and the City managements. Our responsibility is to express opinions on the consolidating financial statements based on our audits.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Aquarium's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinions.

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

In our opinion, the consolidating financial statements referred to above present fairly, in all material respects, the consolidated and individual financial position of the Aquarium of the Pacific as of September 30, 2007 and 2006, and the consolidated and individual changes in its net assets and its consolidated and individual cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 20, 2008 on our consideration of the Aquarium of the Pacific's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over

financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

This report is intended solely for the information and use of the City's Council, the Board of Directors of the Corporation, the managements of the City and the Corporation, the Long Beach Bond Financing Authority, the Redevelopment Agency of the City of Long Beach, and the U.S. Bank Trust National Association and is not intended to be, and should not be used by anyone other than these specified parties.

KPMG LLP

February 20, 2008

**AQUARIUM OF THE PACIFIC**  
(A Public/Private Partnership of the City of Long Beach, California,  
and the Aquarium of the Pacific Corporation)  
Consolidating Statement of Financial Position  
September 30, 2007

Assets	<u>Aquarium of the Pacific Corporation</u>			City of Long Beach	Eliminations (note 1)	Consolidated total
	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Total</u>			
Cash and cash equivalents	\$ 1,649,714	2,267,628	3,917,342	—	—	3,917,342
Accrued interest receivable	—	—	—	252,755	—	252,755
Accounts receivable, net of allowance for doubtful accounts of \$328,246 (note 10)	954,284	—	954,284	—	—	954,284
Contributions receivable, net (note 8)	999,619	4,344,890	5,344,509	—	—	5,344,509
Prepaid expenses and other assets	286,688	—	286,688	—	—	286,688
Gift store inventory	407,383	—	407,383	—	—	407,383
Restricted investments held by trustee (notes 3 and 5)	—	—	—	15,915,040	—	15,915,040
Other assets	241,320	—	241,320	—	—	241,320
Deferred financing costs, net	—	—	—	2,520,456	—	2,520,456
Property and equipment, net (note 4)	8,227,632	—	8,227,632	72,940,915	(8,860,317)	72,308,230
Total assets	<u>\$ 12,766,640</u>	<u>6,612,518</u>	<u>19,379,158</u>	<u>91,629,166</u>	<u>(8,860,317)</u>	<u>102,148,007</u>
<b>Liabilities and Net Assets</b>						
Accounts payable	\$ 2,486,638	—	2,486,638	—	—	2,486,638
Accrued interest payable	—	—	—	2,687,820	—	2,687,820
Accrued liabilities	1,061,569	—	1,061,569	—	—	1,061,569
Deferred revenue	413,121	—	413,121	—	—	413,121
Bonds payable, net of unamortized discounts/deferred amount on refunding aggregating \$9,271,114 (note 5)	—	—	—	117,483,886	—	117,483,886
Total liabilities	<u>3,961,328</u>	<u>—</u>	<u>3,961,328</u>	<u>120,171,706</u>	<u>—</u>	<u>124,133,034</u>
Net assets (deficit):						
Unrestricted	8,805,312	—	8,805,312	(28,542,540)	(8,860,317)	(28,597,545)
Temporarily restricted (note 7)	—	6,612,518	6,612,518	—	—	6,612,518
Total net assets (deficit)	<u>8,805,312</u>	<u>6,612,518</u>	<u>15,417,830</u>	<u>(28,542,540)</u>	<u>(8,860,317)</u>	<u>(21,985,027)</u>
Commitments and contingencies (notes 6 and 9)						
Total liabilities and net assets	<u>\$ 12,766,640</u>	<u>6,612,518</u>	<u>19,379,158</u>	<u>91,629,166</u>	<u>(8,860,317)</u>	<u>102,148,007</u>

See accompanying notes to consolidating financial statements.

**AQUARIUM OF THE PACIFIC**  
(A Public/Private Partnership of the City of Long Beach, California,  
and the Aquarium of the Pacific Corporation)  
Consolidating Statement of Financial Position  
September 30, 2006

Assets	Aquarium of the Pacific Corporation			City of Long Beach	Eliminations (note 1)	Consolidated total
	Unrestricted	Temporarily restricted	Total			
Cash and cash equivalents	\$ 395,001	1,597,490	1,992,491	—	—	1,992,491
Accrued interest receivable	—	—	—	252,478	—	252,478
Accounts receivable, net of allowance for doubtful accounts of \$1,084,948 (note 10)	1,916,743	—	1,916,743	—	—	1,916,743
Contributions receivable, net (note 8)	4,650	417,267	421,917	—	—	421,917
Prepaid expenses and other assets	241,833	—	241,833	—	—	241,833
Gift store inventory	279,362	—	279,362	—	—	279,362
Restricted investments held by trustee (notes 3 and 5)	—	—	—	15,279,335	—	15,279,335
Other assets	282,447	—	282,447	—	—	282,447
Deferred financing costs, net	—	—	—	2,737,698	—	2,737,698
Property and equipment, net (note 4)	8,012,798	—	8,012,798	76,474,312	(9,236,020)	75,251,090
<b>Total assets</b>	<b>\$ 11,132,834</b>	<b>2,014,757</b>	<b>13,147,591</b>	<b>94,743,823</b>	<b>(9,236,020)</b>	<b>98,655,394</b>
<b>Liabilities and Net Assets</b>						
Accounts payable	\$ 2,099,776	—	2,099,776	—	—	2,099,776
Accrued interest payable	—	—	—	2,732,464	—	2,732,464
Accrued liabilities	911,496	—	911,496	—	—	911,496
Deferred revenue	519,317	—	519,317	—	—	519,317
Bonds payable, net of unamortized discounts/deferred amount on refunding aggregating \$9,883,102 (note 5)	—	—	—	119,636,898	—	119,636,898
<b>Total liabilities</b>	<b>3,530,589</b>	<b>—</b>	<b>3,530,589</b>	<b>122,369,362</b>	<b>—</b>	<b>125,899,951</b>
Net assets (deficit):						
Unrestricted	7,602,245	—	7,602,245	(27,625,539)	(9,236,020)	(29,259,314)
Temporarily restricted (note 7)	—	2,014,757	2,014,757	—	—	2,014,757
<b>Total net assets (deficit)</b>	<b>7,602,245</b>	<b>2,014,757</b>	<b>9,617,002</b>	<b>(27,625,539)</b>	<b>(9,236,020)</b>	<b>(27,244,557)</b>
Commitments and contingencies (notes 6 and 9)	—	—	—	—	—	—
<b>Total liabilities and net assets</b>	<b>\$ 11,132,834</b>	<b>2,014,757</b>	<b>13,147,591</b>	<b>94,743,823</b>	<b>(9,236,020)</b>	<b>98,655,394</b>

See accompanying notes to consolidating financial statements.

**AQUARIUM OF THE PACIFIC**  
(A Public/Private Partnership of the City of Long Beach, California,  
and the Aquarium of the Pacific Corporation)

Consolidating Statement of Activities

Year ended September 30, 2007

	<u>Aquarium of the Pacific Corporation</u>			<u>City of Long Beach</u>	<u>Eliminations</u>	<u>Consolidated total</u>
	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Total</u>			
Operating revenues (note 5):						
Admissions	\$ 15,258,380	—	15,258,380	—	—	15,258,380
Facility rental	—	—	—	30,538,464	(30,538,464)	—
Memberships	3,289,664	—	3,289,664	—	—	3,289,664
Educational programs	1,354,874	—	1,354,874	—	—	1,354,874
Gift store	4,169,097	—	4,169,097	—	—	4,169,097
Contributions	2,421,175	6,212,788	8,633,963	—	—	8,633,963
Ancillary	650,844	—	650,844	—	—	650,844
Food service	821,994	—	821,994	—	—	821,994
Fund-raising events	516,362	—	516,362	—	—	516,362
Donated goods and services	2,293,573	—	2,293,573	—	—	2,293,573
Parking garage	399,298	—	399,298	—	—	399,298
Grants and other income	130,911	28,804	159,715	—	—	159,715
Net assets released from restriction for operations (note 7)	1,643,831	(1,643,831)	—	—	—	—
Total operating revenues	<u>32,950,003</u>	<u>4,597,761</u>	<u>37,547,764</u>	<u>30,538,464</u>	<u>(30,538,464)</u>	<u>37,547,764</u>
Operating expenses:						
Husbandry and facilities	6,374,211	—	6,374,211	—	—	6,374,211
Education, interpretation, and outreach	2,731,423	—	2,731,423	—	—	2,731,423
Guest services	3,514,234	—	3,514,234	—	—	3,514,234
Gift store	2,834,937	—	2,834,937	—	—	2,834,937
Facility operating expense	—	—	—	26,075,000	(26,075,000)	—
Development and membership	1,816,187	—	1,816,187	—	—	1,816,187
Marketing	5,898,626	—	5,898,626	—	—	5,898,626
Human resources	659,772	—	659,772	—	—	659,772
Finance and administration	2,189,586	—	2,189,586	—	—	2,189,586
Net operating transfer to the City of Long Beach	4,463,464	—	4,463,464	—	(4,463,464)	—
Total operating expenses	<u>30,482,440</u>	<u>—</u>	<u>30,482,440</u>	<u>26,075,000</u>	<u>(30,538,464)</u>	<u>26,018,976</u>
Earnings before interest, taxes, depreciation, and amortization from operations	2,467,563	4,597,761	7,065,324	4,463,464	—	11,528,788
Transient occupancy tax transfer from City of Long Beach (note 5)	—	—	—	2,451,694	—	2,451,694
Depreciation and amortization	(1,264,496)	—	(1,264,496)	(4,362,626)	375,703	(5,251,419)
Interest expense, net of bond interest income	—	—	—	(3,469,533)	—	(3,469,533)
Change in net assets (deficit)	1,203,067	4,597,761	5,800,828	(917,001)	375,703	5,259,530
Net assets (deficit) at beginning of year	7,602,245	2,014,757	9,617,002	(27,625,539)	(9,236,020)	(27,244,557)
Net assets (deficit) at end of year	<u>\$ 8,805,312</u>	<u>6,612,518</u>	<u>15,417,830</u>	<u>(28,542,540)</u>	<u>(8,860,317)</u>	<u>(21,985,027)</u>

See accompanying notes to consolidating financial statements.

**AQUARIUM OF THE PACIFIC**  
(A Public/Private Partnership of the City of Long Beach, California,  
and the Aquarium of the Pacific Corporation)

Consolidating Statement of Activities

Year ended September 30, 2006

	<u>Aquarium of the Pacific Corporation</u>			<u>City of Long Beach</u>	<u>Eliminations</u>	<u>Consolidated total</u>
	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Total</u>			
Operating revenues (note 5):						
Admissions	\$ 14,457,695	—	14,457,695	—	—	14,457,695
Facility rental	—	—	—	28,875,887	(28,875,887)	—
Memberships	3,539,775	—	3,539,775	—	—	3,539,775
Educational programs	1,316,528	—	1,316,528	—	—	1,316,528
Gift store	3,996,539	—	3,996,539	—	—	3,996,539
Contributions	1,021,532	1,867,596	2,889,128	—	—	2,889,128
Ancillary	604,365	—	604,365	—	—	604,365
Food service	656,892	—	656,892	—	—	656,892
Fund-raising events	462,833	—	462,833	—	—	462,833
Donated goods and services	987,055	—	987,055	—	—	987,055
Parking garage	1,499,200	—	1,499,200	—	—	1,499,200
Grants and other income	58,874	4,335	63,209	—	—	63,209
Net assets released from restriction for operations (note 7)	863,981	(863,981)	—	—	—	—
Total operating revenues	<u>29,465,269</u>	<u>1,007,950</u>	<u>30,473,219</u>	<u>28,875,887</u>	<u>(28,875,887)</u>	<u>30,473,219</u>
Operating expenses:						
Husbandry and facilities	6,833,353	—	6,833,353	—	—	6,833,353
Education, interpretation, and outreach	2,567,321	—	2,567,321	—	—	2,567,321
Guest services	3,428,278	—	3,428,278	—	—	3,428,278
Gift store	2,596,177	—	2,596,177	—	—	2,596,177
Facility operating expense	—	—	—	25,922,000	(25,922,000)	—
Development and membership	2,148,085	—	2,148,085	—	—	2,148,085
Marketing	4,322,834	—	4,322,834	—	—	4,322,834
Human resources	581,627	—	581,627	—	—	581,627
Finance and administration	2,338,574	—	2,338,574	—	—	2,338,574
Net operating transfer to the City of Long Beach	2,953,887	—	2,953,887	—	(2,953,887)	—
Total operating expenses	<u>27,770,136</u>	<u>—</u>	<u>27,770,136</u>	<u>25,922,000</u>	<u>(28,875,887)</u>	<u>24,816,249</u>
Earnings before interest, taxes, depreciation, and amortization from operations	1,695,133	1,007,950	2,703,083	2,953,887	—	5,656,970
Transient occupancy tax transfer from City of Long Beach (note 5)	—	—	—	3,018,762	—	3,018,762
Depreciation and amortization	(1,055,793)	—	(1,055,793)	(4,055,379)	375,702	(4,735,470)
Interest expense, net of bond interest income	—	—	—	(5,485,219)	—	(5,485,219)
Change in net assets (deficit)	639,340	1,007,950	1,647,290	(3,567,949)	375,702	(1,544,957)
Net assets (deficit) at beginning of year	6,962,905	1,006,807	7,969,712	(24,057,590)	(9,611,722)	(25,699,600)
Net assets (deficit) at end of year	<u>\$ 7,602,245</u>	<u>2,014,757</u>	<u>9,617,002</u>	<u>(27,625,539)</u>	<u>(9,236,020)</u>	<u>(27,244,557)</u>

See accompanying notes to consolidating financial statements.

**AQUARIUM OF THE PACIFIC**  
(A Public/Private Partnership of the City of Long Beach, California,  
and the Aquarium of the Pacific Corporation)

Consolidating Statement of Functional Expenses

Year ended September 30, 2007

	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 (note 9)	\$ 2,836,447	1,466,588	2,440,142	840,677	766,303	876,744	487,452	1,222,943	10,937,296
Cost of goods sold	—	—	—	1,715,347	—	—	—	—	1,715,347
Insurance	60,210	80,238	79,607	26,035	903	1,094	570	77,949	326,606
Permits, maintenance, and construction	356,843	9,814	15,265	1,442	30	—	2,606	18,074	404,074
Occupancy (note 6)	1,079	27,290	4,205	67,476	45,044	40,950	708	146,282	333,034
Utilities	1,719,745	—	—	3,614	—	—	—	52	1,723,411
Husbandry/animals and collecting	285,349	12,000	—	—	—	—	—	68	297,417
Services	252,072	567,096	257,830	13,121	440,564	312,341	73,332	338,906	2,255,262
Supplies and other expendables	775,643	452,298	364,740	87,446	(111,054)	55,516	39,819	106,407	1,770,815
Postage, shipping, and courier	14,451	12,070	20,940	3,479	212,820	89,885	3,413	13,372	370,430
Information technology and telecommunications	13,139	6,261	31,419	2,944	21,506	8,852	4,187	214,820	303,128
Printing and publishing	1,304	35,952	4,308	267	173,044	370,915	3,963	2,155	591,908
Advertising, promotions, and public relations	—	13,085	3,329	—	7,539	3,510,874	—	4,953	3,539,780
Travel, meals, and training	57,876	48,517	27,535	1,933	25,047	22,067	43,722	45,342	272,039
Other	53	214	264,914	71,156	234,441	609,388	—	(1,737)	1,178,429
Operating expenses before transient occupancy tax transfer, depreciation and amortization and interest	6,374,211	2,731,423	3,514,234	2,834,937	1,816,187	5,898,626	659,772	2,189,586	26,018,976
Transient occupancy tax transfer	—	—	—	—	—	—	—	(2,451,694)	(2,451,694)
Depreciation and amortization	580,855	1,512,641	2,106,349	21,102	18,088	45,220	18,088	949,076	5,251,419
Interest expense, net of bond interest income	—	—	—	—	—	—	—	3,469,533	3,469,533
Total expenses	\$ 6,955,066	4,244,064	5,620,583	2,856,039	1,834,275	5,943,846	677,860	4,156,501	32,288,234

See accompanying notes to consolidating financial statements.



**AQUARIUM OF THE PACIFIC**  
(A Public/Private Partnership of the City of Long Beach, California,  
and the Aquarium of the Pacific Corporation)

Consolidating Statement of Functional Expenses

Year ended September 30, 2006

	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 (note 9)	\$ 2,560,255	1,645,902	2,382,732	732,744	758,014	764,748	416,464	1,194,878	10,455,737
Cost of goods sold	—	—	—	1,648,707	—	—	—	—	1,648,707
Insurance	57,952	76,814	76,268	24,836	850	1,029	536	74,688	312,973
Permits, maintenance, and construction	299,147	30,491	20,169	3,132	52	269	377	50,551	404,188
Occupancy (note 6)	—	24,795	1,147	62,154	39,366	40,813	982	140,779	310,036
Utilities	2,374,599	71	—	3,825	—	—	—	—	2,378,495
Husbandry/animals and collecting	311,047	—	—	—	—	—	—	—	311,047
Services	245,406	420,197	302,579	7,030	461,297	401,096	55,825	524,728	2,418,158
Supplies and other expendables	893,491	252,573	356,145	37,633	346,916	55,487	41,101	111,397	2,094,743
Postage, shipping, and courier	12,781	15,240	5,790	2,906	143,546	93,119	1,696	9,673	284,751
Information technology and telecommunications	9,021	5,531	39,771	6,930	1,428	39,322	3,288	142,038	247,329
Printing and publishing	586	19,990	7,741	205	198,075	478,137	2,474	3,634	710,842
Advertising, promotions, and public relations	50	5,055	981	954	3,220	2,208,184	385	9,743	2,228,572
Travel, meals, and training	68,884	69,429	26,556	3,747	26,925	25,190	58,496	34,585	313,812
Other	134	1,233	208,399	61,374	168,396	215,440	3	41,880	696,859
Operating expenses before transient occupancy tax transfer, depreciation and amortization and interest	6,833,353	2,567,321	3,428,278	2,596,177	2,148,085	4,322,834	581,627	2,338,574	24,816,249
Transient occupancy tax transfer	—	—	—	—	—	—	—	(3,018,762)	(3,018,762)
Depreciation and amortization	511,952	1,507,071	2,042,413	15,601	13,372	33,431	13,372	598,258	4,735,470
Interest expense, net of bond interest income	—	—	—	—	—	—	—	5,485,219	5,485,219
Total expenses	\$ <u>7,345,305</u>	<u>4,074,392</u>	<u>5,470,691</u>	<u>2,611,778</u>	<u>2,161,457</u>	<u>4,356,265</u>	<u>594,999</u>	<u>5,403,289</u>	<u>32,018,176</u>

See accompanying notes to consolidating financial statements.

**AQUARIUM OF THE PACIFIC**  
(A Public/Private Partnership of the City of Long Beach, California,  
and the Aquarium of the Pacific Corporation)

Consolidating Statement of Cash Flows

Year ended September 30, 2007

	Aquarium of the Pacific Corporation	City of Long Beach	Eliminations (note 1)	Consolidated total
Cash flows from operating activities and nonoperating revenue:				
Change in net assets (deficit)	\$ 5,800,828	(917,001)	375,703	5,259,530
Adjustments to reconcile change in net assets (deficit) to net cash provided by operating activities and nonoperating revenue:				
Depreciation and amortization	1,264,496	4,362,626	(375,703)	5,251,419
(Increase) decrease in assets:				
Accrued interest receivable	—	(276)	—	(276)
Accounts receivable, net	962,459	—	—	962,459
Contributions receivable	(4,922,592)	—	—	(4,922,592)
Prepaid expenses and other assets	(3,728)	—	—	(3,728)
Gift store inventory	(128,021)	—	—	(128,021)
Increase (decrease) in liabilities:				
Accounts payable	386,862	(44,644)	—	342,218
Accrued liabilities	150,073	—	—	150,073
Deferred revenue	(106,196)	—	—	(106,196)
Contributions restricted for long-term purposes	(1,287,955)	—	—	(1,287,955)
Net cash provided by operating activities and nonoperating revenue	<u>2,116,226</u>	<u>3,400,705</u>	<u>—</u>	<u>5,516,931</u>
Cash flows from investing activities:				
Capital expenditures	(1,479,330)	—	—	(1,479,330)
Proceeds from sale of investments held by trustee	—	(635,705)	—	(635,705)
Net cash used in investing activities	<u>(1,479,330)</u>	<u>(635,705)</u>	<u>—</u>	<u>(2,115,035)</u>
Cash flows from financing activities:				
Contributions restricted for long-term purposes	1,287,955	—	—	1,287,955
Payment on long-term debt	—	(2,765,000)	—	(2,765,000)
Net cash provided by (used in) financing activities	<u>1,287,955</u>	<u>(2,765,000)</u>	<u>—</u>	<u>(1,477,045)</u>
Net increase in cash and cash equivalents	1,924,851	—	—	1,924,851
Cash and cash equivalents, beginning of year	<u>1,992,491</u>	<u>—</u>	<u>—</u>	<u>1,992,491</u>
Cash and cash equivalents, end of year	<u>\$ 3,917,342</u>	<u>—</u>	<u>—</u>	<u>3,917,342</u>

See accompanying notes to consolidating financial statements.

**AQUARIUM OF THE PACIFIC**  
(A Public/Private Partnership of the City of Long Beach, California,  
and the Aquarium of the Pacific Corporation)

Consolidating Statement of Cash Flows

Year ended September 30, 2006

	<u>Aquarium of the Pacific Corporation</u>	<u>City of Long Beach</u>	<u>Eliminations (note 1)</u>	<u>Consolidated total</u>
Cash flows from operating activities and nonoperating revenue:				
Change in net assets (deficit)	\$ 1,647,290	(3,567,949)	375,702	(1,544,957)
Adjustments to reconcile change in net assets (deficit) to net cash provided by operating activities and nonoperating revenue:				
Depreciation and amortization	1,055,793	4,055,379	(375,702)	4,735,470
(Increase) decrease in assets:				
Accrued interest receivable	—	(3,867)	—	(3,867)
Accounts receivable, net	(201,836)	—	—	(201,836)
Contributions receivable	202,593	—	—	202,593
Prepaid expenses and other assets	29,288	—	—	29,288
Gift store inventory	(33,788)	—	—	(33,788)
Increase (decrease) in liabilities:				
Accounts payable	503,420	—	—	503,420
Accrued liabilities	(189,870)	—	—	(189,870)
Deferred revenue	(412,938)	—	—	(412,938)
Contributions restricted for long-term purposes	(1,038,210)	—	—	(1,038,210)
Net cash provided by operating activities and nonoperating revenue	<u>1,561,742</u>	<u>483,563</u>	<u>—</u>	<u>2,045,305</u>
Cash flows from investing activities:				
Capital expenditures	(1,714,821)	—	—	(1,714,821)
Proceeds from sale of investments held by trustee	—	(483,563)	—	(483,563)
Net cash used in investing activities	<u>(1,714,821)</u>	<u>(483,563)</u>	<u>—</u>	<u>(2,198,384)</u>
Cash flows from financing activities:				
Contributions restricted for long-term purposes	1,038,210	—	—	1,038,210
Net cash provided by financing activities	<u>1,038,210</u>	<u>—</u>	<u>—</u>	<u>1,038,210</u>
Net increase in cash and cash equivalents	885,131	—	—	885,131
Cash and cash equivalents, beginning of year	<u>1,107,360</u>	<u>—</u>	<u>—</u>	<u>1,107,360</u>
Cash and cash equivalents, end of year	<u>\$ 1,992,491</u>	<u>—</u>	<u>—</u>	<u>1,992,491</u>

See accompanying notes to consolidating financial statements.

**AQUARIUM OF THE PACIFIC**  
(A Public/Private Partnership of the City of Long Beach, California,  
and the Aquarium of the Pacific Corporation)  
Notes to Consolidating Financial Statements  
September 30, 2007 and 2006

**(1) Description of Business**

***Organization and Business Activity***

The accompanying consolidating financial statements present the financial condition and results of operations and cash flows of the Aquarium of the Pacific (the Aquarium) as of and for the years ended September 30, 2007 and 2006. Such financial statements depict a public/private partnership between the City of Long Beach, California (the City) and the Aquarium of the Pacific Corporation (the Corporation), a California nonprofit public benefit corporation organized as a nonprofit organization under Section 501(c)(3) of the Internal Revenue Code.

Under a formal operating arrangement approved by the City Council of the City and the Corporation's board of directors, the Aquarium's operations are carried out by the Corporation.

In October 1992, the Corporation was organized under the provisions of Internal Revenue Code Section 501(c)(3) as a California nonprofit public benefit corporation. Under its articles of incorporation, the Corporation was organized for the benefit of the general public to promote educational, scientific, and charitable purposes relative to the design, construction, and subsequent operation of a public aquarium and sea life exhibit facility in the City. The Corporation's sole objective is to manage the operations of the Aquarium.

In May 2001, the City finalized an agreement whereby the Corporation's original outstanding tax-exempt debt would be defeased from funds generated by the sale of \$129,520,000 of Lease Revenue Refunding Bonds (Aquarium of the Pacific Project), Series 2001 (Series 2001 Refunding Bonds) issued by the Long Beach Bond Finance Authority (the Authority). In conjunction with the issuance of the 2001 Series Refunding Bonds, a Continuing Disclosure Agreement was also entered into by the City, the Corporation, the Authority, and the Redevelopment Agency of the City of Long Beach (the Agreement), dated as of April 1, 2001.

The Authority was created by the exercise of a joint powers agreement between the City and its affiliated entity, the Redevelopment Agency of the City of Long Beach. The Authority's sole purpose is to act as a vehicle to obtain long-term financing for the City and its Redevelopment Agency. Under the terms of this agreement, the City assumed ownership of all physical plant assets at that time as well as responsibility for the Corporation's then outstanding long-term indebtedness.

For their participation in the partnership, the City receives rent for the use of the Aquarium facility. Under the operating agreement currently in force, such rent is applied to debt service on the outstanding long-term indebtedness. Pursuant to the Implementation Agreement as adopted on March 1, 2006, rent includes a stabilized payment of \$3,528,000 and revenue sharing arrangements for operating funds available after operating expenses including operating capital, and rent.

Unrestricted funds relating to Aquarium operations are held by the City's designated trustee. Formal procedures are in place relating to deposit of operating receipts and withdrawals for operating expenses, including operating capital, from these trustee-maintained accounts. Restricted funds generated by the Corporation's fund-raising activities, including grants and donations from private or public sources, remain

**AQUARIUM OF THE PACIFIC**  
(A Public/Private Partnership of the City of Long Beach, California,  
and the Aquarium of the Pacific Corporation)

Notes to Consolidating Financial Statements

September 30, 2007 and 2006

the property of the Corporation. Assets comprising investments held by trustee, fixed assets as of May 2001, certain other assets, and net bonds payable are accounted for in the City's Tidelands Operating Fund, a nonexpendable trust fund of the City. The remaining net assets, including asset acquisitions subsequent to May 2001, remain with the Corporation. The Corporation operates as a separate legal 501(c)(3) not-for-profit organization with a separate independent board of directors.

**(2) Summary of Significant Accounting Policies**

**(a) Basis of Presentation**

The accompanying consolidating financial statements of the Aquarium include the accounts maintained by the Corporation and the City, which, in the aggregate, depict the financial condition and results of operations and cash flows of the Aquarium using the accrual basis of accounting. The accompanying consolidating statements of financial position of the Aquarium as of September 30, 2007 and 2006, and the related consolidating statements of activities, functional expenses, and cash flows for the years then ended were prepared to present financial information for the public/private partnership between the City and the Corporation to comply with the reporting requirements pursuant to the Continuing Disclosure Agreement entered into by the City, the Corporation, the Authority, and the Redevelopment Agency of the City of Long Beach. These consolidating financial statements are not intended to be a complete presentation of the City's individual financial statements. Although the Corporation's fiscal year ends December 31, the accompanying consolidating financial statements reflect the 12-month activity for the Aquarium as of and for the years ended September 30, 2007 and 2006. All significant intercompany transactions and accounts have been eliminated in consolidation.

Funds that have similar characteristics have been combined for the accompanying financial statement presentation into these net asset categories for the Corporation: temporarily restricted and unrestricted net assets. Unrestricted net assets are not restricted by donors or the donor-imposed restrictions have expired. Temporarily restricted net assets contain donor-imposed restrictions that require the Corporation to use or expend the assets as specified. The restrictions are satisfied either by the passage of time or by actions of the Corporation's management.

**(b) Use of Estimates**

The preparation of consolidating financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates.

**(c) Cash Equivalents**

For purposes of the consolidating statements of cash flows, the Aquarium considers all unrestricted highly liquid investments with an original maturity of three months or less to be cash equivalents.

**AQUARIUM OF THE PACIFIC**  
(A Public/Private Partnership of the City of Long Beach, California,  
and the Aquarium of the Pacific Corporation)  
Notes to Consolidating Financial Statements  
September 30, 2007 and 2006

**(d) Gift Store Inventory**

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

**(e) Live Animal Inventory**

The costs of purchasing or collecting live animals are expensed as incurred. Donated specimens are not valued and, therefore, are not reflected in the consolidating financial statements.

**(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 Aquarium discounts contributions that are expected to be collected after one year using a risk-free interest rate. Amortization of the discounts is included in contribution revenue.

**(g) Property and Equipment**

Building and equipment are recorded at cost and are depreciated using the straight-line method over the following estimated useful lives: buildings – 27.5 years and equipment, furniture, and fixtures – 3 to 7 years. Leasehold improvements are amortized over the shorter of the period of the lease or the estimated useful life. Expenditures for repairs and maintenance are charged to expense as incurred. Physical assets as of May 2001 were recorded as the City assets, and assets acquired after May 2001 are recorded as the Corporation assets.

**(h) Revenue Recognition**

The Aquarium records its revenues on the accrual basis. In addition, the Aquarium records as revenue the following types of contributions, when they are received unconditionally, at their fair value: cash, promises to give (pledges), and gifts of long-lived and other assets. Conditional contributions are recognized as revenue when the conditions on which they depend have been substantially met.

The Aquarium records the sale of its consignment tickets as deferred revenue. Revenue is recognized in the period in which the tickets are redeemed for admission.

**(i) Temporarily Restricted Contributions**

The Aquarium records contributions as temporarily restricted if they are received with donor restrictions that limit their use either through purpose or time restrictions. Unconditional promises to give cash and other assets are reported at fair value at the date the promise is received, rather than when the assets are received. The gifts are reported as temporarily or permanently restricted net assets if they are received with donor stipulations that limit the use of the donated assets. When donor restrictions expire, that is, when a purpose restriction is fulfilled or a time restriction ends, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidating statement of activities as net assets released from restrictions.

**AQUARIUM OF THE PACIFIC**  
(A Public/Private Partnership of the City of Long Beach, California,  
and the Aquarium of the Pacific Corporation)

Notes to Consolidating Financial Statements

September 30, 2007 and 2006

**(j) *Donated Goods and Services***

The Aquarium records various types of in-kind support, including donated professional services and supplies. Contributed professional services are recognized if the services received (a) create or enhance long-lived assets or (b) require specialized skills that are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation or receipt of operating goods or services that would otherwise require additional cash expenditures. Contributions of tangible assets are recognized at fair market value when received. The amounts reflected in the accompanying consolidating financial statements as in-kind support are offset by like amounts included in expenses or property, plant, and equipment as appropriate.

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

**(k) *Functional Allocation of Expenses***

The costs of providing the Aquarium's programs and administration have been summarized on a functional basis in the accompanying consolidating statements of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Program and fundraising expenses were \$19,675,752 and \$1,834,275, respectively, for the year ended September 30, 2007. Program and fundraising expenses were \$19,502,166 and \$2,161,457, respectively, for the year ended September 30, 2006.

**(l) *Income Taxes***

As a nonprofit organization, the Corporation is exempt from federal and state income taxes on related income pursuant to Section 501(a) of the Internal Revenue Code and Section 23701d of the California Revenue and Taxation Code and is generally not subject to federal or state income taxes. However, the Corporation is subject to income taxes on any net income that is derived from a trade or business, regularly carried on and not in furtherance of the purpose for which it was granted exemption. No income tax provision has been recorded as the net income, if any, from any unrelated trade or business, in the opinion of management, is not material to the consolidating financial statements taken as a whole.

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

The Aquarium reviews property and equipment for impairment whenever events or changes in circumstances indicate that the carrying value of the property and equipment may not be recoverable. Recoverability is measured by a comparison of the carrying amount of the asset to future net cash flows, undiscounted and without interest, expected to be generated by the asset. If such asset is considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the asset exceeds fair value of the asset. During the years ended September 30, 2007 and 2006, there were no events or changes in circumstances indicating that the carrying amount of property and equipment may not be recoverable.

**AQUARIUM OF THE PACIFIC**  
(A Public/Private Partnership of the City of Long Beach, California,  
and the Aquarium of the Pacific Corporation)

Notes to Consolidating Financial Statements

September 30, 2007 and 2006

**(n) Reclassifications**

Certain reclassifications have been made to the 2006 financial statements to conform to the 2007 presentation. Such reclassifications had no effect on previously reported change in net assets.

**(3) Restricted Investments Held by Trustees**

Certain assets held by the City are entrusted to third-party trustees and restricted for the operating and capital expenditures of the Aquarium and for the payment of principal and interest on the outstanding Series 2001 Refunding Bonds. Such restricted invested assets consist of money market accounts and guaranteed investment contracts, which are recorded at fair value, based on market and contract values, respectively.

The composition of such restricted invested assets, stated at fair value, at September 30, 2007 and 2006 is as follows:

	<b>2007</b>	<b>2006</b>
U.S. Bank Trust National Association money market accounts	\$ 6,592,127	5,956,422
AMBAC guaranteed investment contract, 6.4% per annum through November 1, 2030	9,322,913	9,322,913
	\$ 15,915,040	15,279,335

**(4) Property and Equipment**

A summary of the Aquarium physical plant assets, including the Corporation and the City assets, at September 30, 2007 and 2006 is as follows:

	<b>2007</b>	<b>2006</b>
Land	\$ 9,900,000	9,900,000
Building	92,056,999	91,933,074
Leasehold improvements	140,503	140,503
Furniture and fixtures	964,846	948,218
Equipment	7,725,934	6,901,619
Construction in progress	979,662	465,201
Total	111,767,944	110,288,615
Less accumulated depreciation and amortization	(39,459,714)	(35,037,525)
Property and equipment, net	\$ 72,308,230	75,251,090

In connection with the issuance of the Series 2001 Refunding Bonds (notes 1 and 5), the 1995 ground lease with the City was terminated and the City reassumed rights of ownership. With the reversion of the ground



**AQUARIUM OF THE PACIFIC**  
(A Public/Private Partnership of the City of Long Beach, California,  
and the Aquarium of the Pacific Corporation)

Notes to Consolidating Financial Statements

September 30, 2007 and 2006

lease back to the City, the City recorded the value of the reacquired property at the lease's remaining fair market value consistent with the provisions of Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements — and Management's Discussion and Analysis — for State and Local Governments*.

**(5) Long-Term Debt**

***Lease Revenue Refunding Bonds (Series 2001 Refunding Bonds)***

In May 2001, the Authority issued its Series 2001 Refunding Bonds totaling \$129,520,000 to refund the Corporation's outstanding 1995 Series A and B Long Beach Aquarium Revenue Bonds. Such term bonds require annual mandatory sinking fund payments in varying installments prior to maturity. The following is a summary of long-term debt at September 30, 2007 and 2006:

	<b>2007</b>	<b>2006</b>
2001 Lease revenue refunding tax-exempt serial bonds, maturing on November 1, 2007 through November 1, 2019, interest ranging from 3.875% to 5.500%	\$ 49,945,000	52,710,000
2001 Lease revenue refunding tax-exempt term bonds, maturing on November 1, 2026, 5.000% interest	43,950,000	43,950,000
2001 Lease revenue refunding tax-exempt term bonds, maturing on November 1, 2030, 5.250% interest	<u>32,860,000</u>	<u>32,860,000</u>
	126,755,000	129,520,000
Less unamortized discount on bonds and deferred amount on refunding	<u>(9,271,114)</u>	<u>(9,883,102)</u>
Total long-term debt outstanding, net	<u>\$ 117,483,886</u>	<u>119,636,898</u>

Interest on the Series 2001 Refunding Bonds is payable semiannually. The original issue discount and other costs of issuance totaled approximately \$5,619,957 for the Series 2001 Refunding Bonds, of which approximately \$2,071,043 and \$1,765,157 were amortized as of September 30, 2007 and 2006, respectively.

The gross revenues of the Corporation, as defined, investments held by the trustee, and related earnings are pledged as collateral for debt service. Also pledged are Agency Hotel Taxes as defined in the Owner Participation Agreement and City Available Tidelands Revenues as defined in the City Pledge Agreement, which are used to fund the difference between total debt service and rent paid by the Corporation. On March 1, 2006, an Implementation Agreement was entered into between the Corporation and the Authority, which clarified costs of operating within the definitions included in the 2001 Series Bond Indenture. The Implementation Agreement provided a framework by which the Corporation could execute long-term expansion and renewal of the facility and maximize bondholder security. The intent of the agreement is to facilitate the success of future capital projects by codifying current practices, within the structure of the bonds. Included in the agreement is a stabilized rent payment to the City of \$3,528,000,

**AQUARIUM OF THE PACIFIC**  
(A Public/Private Partnership of the City of Long Beach, California,  
and the Aquarium of the Pacific Corporation)

Notes to Consolidating Financial Statements

September 30, 2007 and 2006

and a revenue sharing arrangement for operating funds available after operating expenses including operating capital, and rent. Further, operating capital expenditure levels and parking garage revenue assumptions were pre-defined through 2031, and certain other review and control mechanisms were codified. The bond insurer reviewed and did not object to the agreement, and nonadverse opinions of bond counsel were obtained regarding the consistency of the agreement with the governing bond documents.

Under the terms of the Series 2001 Bond Indenture, the Aquarium of the Pacific Project was required to establish and maintain various funds and accounts with the trustee. Such required funds have been classified in the accompanying consolidating financial statements as investments held by trustee. The refunding bond indenture also places limits on the incurrence of additional borrowings the Corporation's and the City's Tidelands Operating Funds requiring that certain measures of compliance and financial performance are satisfied as long as the bonds are outstanding.

The total remaining principal payments of long-term debt amount to \$126,755,000 and \$129,520,000 as of September 30, 2007 and 2006 respectively. Pursuant to the chart below, principal payments are scheduled to commence in fiscal year ending 2008:

	<b>Annual debt service requirements</b>		
	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
Fiscal year ending September 30:			
2008	\$ 2,870,000	6,504,341	9,374,341
2009	2,985,000	6,393,369	9,378,369
2010	3,105,000	6,274,403	9,379,403
2011	3,240,000	6,146,856	9,386,856
2012 – 2016	18,730,000	28,332,150	47,062,150
2017 – 2021	24,415,000	22,818,913	47,233,913
2022 – 2026	31,315,000	16,030,375	47,345,375
2027 – 2031	40,095,000	7,493,281	47,588,281
2032 – 2036	—	232,444	232,444
Total	\$ 126,755,000	100,226,132	226,981,132

With the issuance of the Series 2001 Refunding Bonds, the City increased its aggregate debt service payments by approximately \$49,176,000 over the life of the newly issued bonds compared to the Aquarium's original 1995 Series A and B bonds. The payment stream was effectively increased 7½ years from July 2023 to November 2030. The refunding resulted in the recognition of an accounting loss of \$11,600,777, which, in accordance with U.S. generally accepted accounting principles applicable to governmental units, has been capitalized and will be amortized over the debt service payment stream of the defeased bonds. Although such termination resulted in a loss for financial reporting purposes of \$11,600,777, the net present value of the corresponding economic loss (difference between the aggregate debt service payments of the refunding and refunded issues) aggregated approximately \$2,800,000.

**AQUARIUM OF THE PACIFIC**  
(A Public/Private Partnership of the City of Long Beach, California,  
and the Aquarium of the Pacific Corporation)

Notes to Consolidating Financial Statements

September 30, 2007 and 2006

**(6) Commitments and Contingencies**

**(a) Operating Leases**

The Aquarium leases various office space and equipment under noncancelable operating leases. Future minimum lease payments under operating leases that have initial or remaining lease terms in excess of one year as of September 30, 2007 are as follows:

2008	\$	344,701
2009		394,193
2010		402,508
2011		396,430
2012		200,216
		200,216
	\$	1,738,048

Rent aggregating \$253,748 and \$247,317 was paid during the years ended September 30, 2007 and 2006, respectively.

**(b) Professional Liability Coverage**

The Aquarium is insured for professional and general liability claims on a claims made basis to \$20,000,000, with certain sublimits, through the Special Liability Insurance Program, a California public entity sponsored insurance pool. The deductible amount is \$1,000 per claim, except \$5,000 for automobile liability, and is expensed as incurred. Management believes the deductibles to be immaterial and insurance adequate to cover losses incurred.

**(c) Litigation**

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

**(7) Temporarily Restricted Net Assets**

Temporarily restricted net assets as of September 30, 2007 and 2006 consist of the following:

	<b>2007</b>	<b>2006</b>
Marketing	\$ 26,643	37,490
Scholarships	177,759	248,422
Equipment and construction projects	6,011,551	1,261,285
Education and conservation projects	396,565	467,560
	\$ 6,612,518	2,014,757

**AQUARIUM OF THE PACIFIC**  
(A Public/Private Partnership of the City of Long Beach, California,  
and the Aquarium of the Pacific Corporation)

Notes to Consolidating Financial Statements

September 30, 2007 and 2006

During the years ended September 30, 2007 and 2006, net assets were released either by the passage of time or from donor restrictions by incurring expenses as follows:

	<b>2007</b>	<b>2006</b>
Marketing	\$ 10,847	12,510
Scholarships	277,985	248,557
Equipment and construction projects	930,129	298,792
Education and conservation projects	424,870	304,122
	\$ 1,643,831	863,981

**(8) Contributions Receivable**

As of September 30, 2007 and 2006, contributions receivable are expected to be received as follows:

	<b>2007</b>	<b>2006</b>
Within one year	\$ 1,392,794	339,428
Within two to five years	4,426,250	100,000
	5,819,044	439,428
Less discount to reflect contributions receivable at present value	(474,535)	(17,511)
Contributions receivable, net	\$ 5,344,509	421,917

The Aquarium discounts contributions that are expected to be collected after one year using a risk-free interest rate. The interest-free rate used during the years ended September 30, 2007 and 2006 was approximately 4.23% and approximately 8.25%, respectively.

**(9) Retirement Plan**

The Corporation offers a 457 plan covering all regular employees who have completed 500 hours of service. For the years ended September 30, 2007 and 2006, participants in the plan may make contributions of up to 15% of their base salary. The Aquarium contributes an additional amount equal to 25% of the first 4% of each participant's plan contribution. Total contributions to the plan, including employer match, may not exceed \$15,500 and \$15,000 for the years ended September 30, 2007 and 2006, respectively. Participants are 100% vested in all plan contributions plus actual earnings thereon. The Aquarium's contribution was \$48,542 and \$43,492 for the years ended September 30, 2007 and 2006, respectively.

**AQUARIUM OF THE PACIFIC**  
(A Public/Private Partnership of the City of Long Beach, California,  
and the Aquarium of the Pacific Corporation)

Notes to Consolidating Financial Statements

September 30, 2007 and 2006

**(10) Related Parties**

In May 1997, the City and the Corporation terminated a portion of the October 1995 ground lease between the Corporation and the City described as the "Parking Parcel." The City agreed to construct, operate, and maintain a Public Parking Facility. The Corporation transferred the sum of \$1,500,000 to be applied toward the construction of such Public Parking Facility. The City further agreed during the term of the lease to pay to the Corporation an annual amount of net revenues not to exceed \$1,500,000. The Parking Agreement was included in the new lease between the City and the Corporation dated April 1, 2001, extending the term of the agreement to fiscal year 2031.

The annual revenue due to the Corporation for the years ended September 30, 2007 and 2006 was \$399,298 and \$1,500,000, respectively, and is included in accounts receivable for each respective year in the accompanying consolidating statements of financial position.