KPMG

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, 2010 and 2009

(With Independent Auditors' Report Thereon)

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

Independent Auditors' Report

The Honorable City Council
City of Long Beach, California

The Board of Directors
Aquarium of the Pacific Corporation:

We have audited the accompanying consolidating statements of financial position of the Aquarium of the Pacific (the Aquarium), a public/private partnership of the City of Long Beach, California (the City) and the Aquarium of the Pacific Corporation (the Corporation) as of September 30, 2010 and 2009, and the related consolidating statements of activities, functional expenses, and cash flows for the years then ended. These consolidating financial statements are the responsibility of the Corporation and the City managements. Our responsibility is to express opinions on the consolidating financial statements based on our audits.

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

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

In our opinion, the consolidating financial statements referred to above present fairly, in all material respects, the financial position of the Aquarium of the Pacific as of September 30, 2010 and 2009, and the changes in its net assets and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

This report is intended solely for the information and use of the City's Council, the board of directors of the Corporation, the managements of the City and the Corporation, the Long Beach Bond Finance Authority, 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

March 31, 2011

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, 2010

	Aquarium of the Pacific Corporation						
Assets	**Unrestricted**	**Temporarily restricted**	**Permanently restricted**	**Total**	**City of Long Beach**	**Eliminations (note 1)**	**Consolidated total**
Cash and cash equivalents	$ 1,142,461	3,368,655	345,411	4,856,527	—	—	4,856,527
Accrued interest receivable	—	—	—	—	48,415	—	48,415
Accounts receivable, net of allowance for doubtful accounts of $414,914	1,799,134	—	—	1,799,134	—	—	1,799,134
Contributions receivable, net	57,985	2,756,775	—	2,814,760	—	—	2,814,760
Prepaid expenses and other assets	267,562	—	—	267,562	—	—	267,562
Gift store inventory	260,116	—	—	260,116	—	—	260,116
Restricted investments held by trustee	—	—	—	—	15,698,123	—	15,698,123
Investments	—	—	—	—	—	—	—
Other assets	117,941	—	—	117,941	—	—	117,941
Deferred financing costs, net	—	—	—	—	1,946,120	—	1,946,120
Property and equipment, net	11,604,725	4,738,949	—	16,343,674	62,570,322	(7,733,208)	71,180,788
Total assets	$ 15,249,924	10,864,379	345,411	26,459,714	80,262,980	(7,733,208)	98,989,486
Liabilities and Net Assets							
Accounts payable	$ 1,810,341	—	—	1,810,341	—	—	1,810,341
Accrued interest payable	—	—	—	—	2,533,698	—	2,533,698
Accrued liabilities	899,497	—	—	899,497	—	—	899,497
Deferred revenue	583,745	—	—	583,745	—	—	583,745
Bonds payable, net of unamortized discounts/deferred amount on refunding aggregating $7,466,726	—	—	—	—	110,328,274	—	110,328,274
Total liabilities	3,293,583	—	—	3,293,583	112,861,972	—	116,155,555
Net assets (deficit):							
Unrestricted	11,956,341	—	—	11,956,341	(32,598,992)	(7,733,208)	(28,375,859)
Temporarily restricted	—	10,864,379	—	10,864,379	—	—	10,864,379
Permanently restricted	—	—	345,411	345,411	—	—	345,411
Total net assets (deficit)	11,956,341	10,864,379	345,411	23,166,131	(32,598,992)	(7,733,208)	(17,166,069)
Commitments and contingencies							
Total liabilities and net assets	$ 15,249,924	10,864,379	345,411	26,459,714	80,262,980	(7,733,208)	98,989,486

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, 2010

		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)	$	1,603,563	(1,676,479)	375,703	302,787
Adjustments to reconcile change in net assets (deficit) to net cash provided by operating activities and nonoperating revenue:					
Depreciation and amortization		1,366,182	4,209,705	(375,703)	5,200,184
Contributions restricted for long-term purposes		(2,063,235)	—	—	(2,063,235)
(Increase) decrease in assets:					
Accrued interest receivable		—	(48,415)	—	(48,415)
Accounts receivable, net		144,641	—	—	144,641
Contributions receivable		2,030,618	—	—	2,030,618
Prepaid expenses and other assets		172,893	—	—	172,893
Gift store inventory		(22,817)	—	—	(22,817)
Increase (decrease) in liabilities:					
Accounts payable		(579,938)	(54,984)	—	(634,922)
Accrued liabilities		(478,141)	—	—	(478,141)
Deferred revenue		40,051	—	—	40,051
Net cash provided by operating activities and nonoperating revenue		2,213,817	2,429,827	—	4,643,644
Cash flows from investing activities:					
Capital expenditures		(4,437,674)	—	—	(4,437,674)
Sales of investments held by trustee		—	675,173	—	675,173
Sales of investments		215,915	—	—	215,915
Net cash provided by (used in) investing activities		(4,221,759)	675,173	—	(3,546,586)
Cash flows from financing activities:					
Contributions restricted for long-term purposes		2,063,235	—	—	2,063,235
Payment on long-term debt		—	(3,105,000)	—	(3,105,000)
Net cash provided by (used in) financing activities		2,063,235	(3,105,000)	—	(1,041,765)
Net increase in cash and cash equivalents		55,293	—	—	55,293
Cash and cash equivalents, beginning of year		4,801,234	—	—	4,801,234
Cash and cash equivalents, end of year	$	4,856,527	—	—	4,856,527

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, 2009

	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)	$ 2,457,128	(1,102,947)	375,703	1,729,884
Adjustments to reconcile change in net assets (deficit) to net cash provided by operating activities and nonoperating revenue:				
Depreciation and amortization	1,539,567	4,225,675	(375,703)	5,389,539
Contributions restricted for long-term purposes	(1,979,940)	—	—	(1,979,940)
(Increase) decrease in assets:				
Accrued interest receivable	—	249,992	—	249,992
Accounts receivable, net	(340,695)	—	—	(340,695)
Contributions receivable	1,592,486	—	—	1,592,486
Prepaid expenses and other assets	(78,822)	—	—	(78,822)
Gift store inventory	257,298	—	—	257,298
Increase (decrease) in liabilities:				
Accounts payable	(742,903)	(51,305)	—	(794,208)
Accrued liabilities	81,640	—	—	81,640
Deferred revenue	12,114	—	—	12,114
Net cash provided by operating activities and nonoperating revenue	2,797,873	3,321,415	—	6,119,288
Cash flows from investing activities:				
Capital expenditures	(3,608,645)	—	—	(3,608,645)
Purchase of investments held by trustee	—	(336,415)	—	(336,415)
Net cash used in investing activities	(3,608,645)	(336,415)	—	(3,945,060)
Cash flows from financing activities:				
Contributions restricted for long-term purposes	1,979,940	—	—	1,979,940
Payment on long-term debt	—	(2,985,000)	—	(2,985,000)
Net cash provided by (used in) financing activities	1,979,940	(2,985,000)	—	(1,005,060)
Net increase in cash and cash equivalents	1,169,168	—	—	1,169,168
Cash and cash equivalents, beginning of year	3,632,066	—	—	3,632,066
Cash and cash equivalents, end of year	$ 4,801,234	—	—	4,801,234

See accompanying notes to consolidating financial statements.

(b) Fair Value of Financial Instruments

The Aquarium adopted the provisions of Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 820, *Fair Value Measurements and Disclosures*, on July 1, 2008, for fair value measurements of financial assets and financial liabilities and for fair value measurements of nonfinancial items that are recognized or disclosed at fair value in the financial statements on a recurring basis. In accordance with ASC Topic 820, fair value is defined as the price that the Aquarium would receive upon selling an investment in an orderly transaction to a market participant in the principal or most advantageous market of the investment. ASC Topic 820 also establishes a framework for measuring fair value and expands disclosures about fair value measurements. ASC Topic 820 also prioritizes, within the measurement of fair value, the use of market-based information over entity-specific information. ASC Topic 820 established a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level I measurements) and lowest priority to measurements involving significant unobservable inputs (Level III measurements). The three levels of the fair value hierarchy are as follows:

- Level I inputs are quoted prices (unadjusted) in active markets for identical assets that the entity has the ability to access at the measurement date.
- Level II inputs are inputs other than quoted prices included within Level I that are observable for the assets, either directly or indirectly, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other observable inputs that can be corroborated by observable market data.
- Level III inputs are unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets.

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

(c) Use of Estimates

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

(d) Cash Equivalents

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

(e) Gift Store Inventory

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

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

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

(g) ***Contributions Receivable***

Contributions receivable, less an appropriate allowance for estimated uncollectible amounts, are recorded at their estimated net realizable value. Contributions that are expected to be collected in future years are recorded as contributions receivable at the present value of their estimated cash flows. The Aquarium discounts contributions that are expected to be collected after one year using a risk-free interest rate. Amortization of the discounts is included in contribution revenue.

(h) ***Property and Equipment***

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

(i) ***Revenue Recognition***

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

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

(j) ***Temporarily Restricted Contributions***

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

(Continued)

(k) Donated Goods and Services

The Aquarium records various types of in-kind support, including donated professional services and supplies. Contributed professional services are recognized if the services received (a) create or enhance long-lived assets or (b) require specialized skills that are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation or receipt of operating goods or services such as advertising 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.

(l) Functional Allocation of Expenses

The costs of providing the Aquarium's programs and administration have been summarized on a functional basis in the accompanying consolidating statements of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Program and fund-raising expenses were $19,103,275 and $1,975,903, respectively, for the year ended September 30, 2010. Program and fund-raising expenses were $18,981,763 and $2,239,655, respectively, for the year ended September 30, 2009.

(m) Income Taxes

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

The Corporation has applied the provisions of ASC Topic 740-10, *Income Taxes – Overall*, which prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return, and provides guidance on derecognition, classification, interest and penalties, disclosure, and transition. The management of the Corporation believes that no such uncertain tax positions exist at September 30, 2010 and 2009, respectively.

(Continued)

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

The Aquarium reviews property and equipment for impairment whenever events or changes in circumstances indicate that the carrying value of the property and equipment may not be recoverable. Recoverability is measured by a comparison of the carrying amount of the asset to future net cash flows, undiscounted and without interest, expected to be generated by the asset. If such asset is considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the asset exceeds fair value of the asset. During the years ended September 30, 2010 and 2009, there were no events or changes in circumstances indicating that the carrying amount of property and equipment may not be recoverable.

(3) Restricted Investments Held by Trustees

Certain assets held by the City are entrusted to third-party trustees and restricted for the operating and capital expenditures of the Aquarium and for the payment of principal and interest on the outstanding Series 2001 Refunding Bonds. The composition of such restricted invested assets, stated at fair value, at September 30, 2010 and 2009 is as follows:

	2010	2009
Cash and cash equivalents	$ 6,275,034	7,157,957
U.S. government obligations	9,423,089	9,215,339
	$ 15,698,123	16,373,296

(4) Fair Values of Financial Instruments

The following table presents assets that are measured at fair value on a recurring basis at September 30, 2010:

Assets	Quoted prices in active markets for identical assets (Level I)	Significant other observable inputs (Level II)	Significant unobservable inputs (Level III)	2010
Cash and cash equivalents	$ 11,131,561	—	—	11,131,561
U.S. government obligations	—	9,423,089	—	9,423,089
	$ 11,131,561	9,423,089	—	20,554,650

The following table presents assets that are measured at fair value on a recurring basis at September 30, 2009:

Assets	Quoted prices in active markets for identical assets (Level I)	Significant other observable inputs (Level II)	Significant unobservable inputs (Level III)	2009
Cash and cash equivalents	$ 11,959,191	—	—	11,959,191
U.S. government obligations	—	9,431,254	—	9,431,254
	$ 11,959,191	9,431,254	—	21,390,445

(5) Property and Equipment

A summary of the Aquarium capital assets, including the Corporation and the City assets, at September 30, 2010 and 2009 is as follows:

	2010	2009
Land	$ 9,900,000	9,900,000
Building	93,764,524	93,720,649
Leasehold improvements	144,537	144,537
Furniture and fixtures	2,629,523	1,227,129
Equipment	11,526,791	10,425,181
Construction in progress	5,849,616	3,959,818
Total	123,814,991	119,377,314
Less accumulated depreciation and amortization	(52,634,203)	(48,210,470)
Property and equipment, net	$ 71,180,788	71,166,844

In connection with the issuance of the Series 2001 Refunding Bonds (notes 1 and 5), the 1995 ground lease with the City was terminated and the City reassumed rights of ownership. With the reversion of the ground lease back to the City, the City recorded the value of the reacquired property at the lease's remaining fair market value consistent with the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*.

(6) 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, 2010 and 2009:

		2010	2009
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%	$	40,985,000	44,090,000
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		32,860,000	32,860,000
		117,795,000	120,900,000
Less unamortized discount on bonds and deferred amount on refunding		(7,466,726)	(8,063,420)
Total long-term debt outstanding, net	$	110,328,274	112,836,580

Interest on the Series 2001 Refunding Bonds is payable semiannually. The original issue discount and other costs of issuance totaled approximately $5,619,657 for the Series 2001 Refunding Bonds, of which approximately $2,879,738 and $2,626,628 were amortized as of September 30, 2010 and 2009, respectively.

The gross revenues of the Corporation, as defined, investments held by the trustee, and related earnings are pledged as collateral for debt service. Also pledged are Agency Hotel Taxes as defined in the Owner Participation Agreement and City Available Tidelands Revenues as defined in the City Pledge Agreement, which are used to fund the difference between total debt service and rent paid by the Corporation, and are reflected as transfers from City of Long Beach in the accompanying consolidating statements of activities. On March 1, 2006, an Implementation Agreement was entered into between the Corporation and the Authority, which clarified costs of operating within the definitions included in the 2001 Series Bond Indenture. The Implementation Agreement provided a framework by which the Corporation could execute long-term expansion and renewal of the facility and maximize bondholder security. The intent of the agreement is to facilitate the success of future capital projects by codifying current practices, within the structure of the bonds. Included in the agreement is a stabilized rent payment to the City of $3,528,000, and a revenue-sharing arrangement for operating funds available after operating expenses including operating capital, and rent. Further, operating capital expenditure levels and parking garage revenue assumptions were predefined through 2031, and certain other review and control mechanisms were codified. The bond insurer reviewed and did not object to the agreement, and nonadverse opinions of bond counsel were obtained regarding the consistency of the agreement with the governing bond documents.

Under the terms of the Series 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 $117,795,000 and $120,900,000 as of September 30, 2010 and 2009, respectively. Pursuant to the chart below, principal payments are scheduled as follows:

		Annual debt service requirements		
		Principal	**Interest**	**Total**
Fiscal year ending September 30:				
2011	$	3,240,000	6,080,875	9,320,875
2012		3,380,000	5,939,125	9,319,125
2013		3,535,000	5,787,025	9,322,025
2014		3,730,000	5,592,600	9,322,600
2015		3,935,000	5,387,450	9,322,450
2016 – 2020		23,165,000	23,443,100	46,608,100
2021 – 2025		29,825,000	16,776,000	46,601,000
2026 – 2030		38,130,000	8,476,537	46,606,537
2031 – 2035		8,855,000	464,888	9,319,888
Total	$	117,795,000	77,947,600	195,742,600

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.

(7) Commitments and Contingencies

(a) Operating Leases

The Aquarium leases various office space and equipment under noncancelable operating leases. Future minimum lease payments under operating leases that have initial or remaining lease terms in excess of one year as of September 30, 2010 are as follows:

2011	$	284,887
2012		247,106
2013		251,707
2014		249,565
2015		240,704
Thereafter		373,720
	$	1,647,689

Rent aggregating $289,420 and $279,236 was paid during the years ended September 30, 2010 and 2009, 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.

(8) Temporarily Restricted Net Assets

Temporarily restricted net assets as of September 30, 2010 and 2009 consist of the following:

		2010	2009
Marketing	$	1,297	10,073
Scholarships		270,431	208,131
Equipment and construction projects		10,058,135	9,247,081
Education and conservation projects		534,516	536,178
	$	10,864,379	10,001,463

(9) Permanently Restricted Net Assets

Permanently restricted net assets as of September 30, 2010 and 2009 consist of $345,411 and $295,944, respectively, related to endowment activities.

(10) Endowment

FASB ASC 958-205 provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA) and provides improved disclosures about an organization's endowment funds.

The Aquariums endowment consists of six donor-restricted funds primarily established to support scholarships. As required by U.S. generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

(a) Interpretation of Relevant Law

The Board of Directors of the Aquarium has interpreted UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Aquarium classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Aquarium in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Aquarium considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. The duration and preservation of the fund
2. The purposes of the Aquarium and the donor-restricted endowment fund
3. General economic conditions
4. The possible effect of inflation and deflation
5. The expected total return from income and the appreciation of investments
6. Other resources of the Aquarium
7. The investment policies of the Aquarium

(b) ***Return Objectives and Risk Parameters***

The Aquarium has adopted investment and prudent spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the corpus of the endowed assets. This policy shall provide for safety of principal when taking into consideration the current and expected market conditions. The overall rate of return objective for the endowment is a risk-free rate of return, or less than 1%. This objective was determined given the recent volatility in the equity and debt markets. Once the Board of Directors or its finance committee determines that a higher rate of return is worth the risk, the investments will be held in money-market accounts.

(c) ***Investment Strategy***

Consistent with the investment and prudent spending policies stated above, the investment strategy is as follows:

1. Preservation of Capital: to seek to minimize the probability of loss of principal over the investment horizon of the portfolio relative to the market.
2. Long-Term Growth of Capital: to seek long-term growth of principal.
3. Preservation of Purchasing Power: to seek returns in excess of the rate of inflation over the long-term investment horizon of the portfolio relative to the market.

(d) ***Spending Policy***

The Aquarium has a policy of appropriating for distribution each year only 80% of the net returns generated over the previous12 months from the its investments and endowment. In establishing this policy, the Board of Directors considered the size of the investment and endowment balance so that it could grow through new gifts and investment return.

Endowment net asset composition by type of fund as of September 30, 2010:

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowments	$ —	25,202	345,411	370,613
Board-designated endowments	—	—	—	—
Total	$ —	25,202	345,411	370,613

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, 2010 and 2009

Changes in endowment net assets for the fiscal year ended September 30, 2010:

		Unrestricted	Temporarily restricted	Permanently restricted	Total
Net assets, beginning of year	$	—	21,195	295,944	317,139
Investment return:					
Investment income		—	6,775	—	6,775
Net depreciation (realized and unrealized)		—	—	—	—
Total investment return		—	6,775	—	6,775
Contributions		—	—	49,467	49,467
Appropriation for endowment spending		—	(2,768)	—	(2,768)
Net assets, end of year	$	—	25,202	345,411	370,613

Endowment net asset composition by type of fund as of September 30, 2009:

		Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowments	$	—	21,195	295,944	317,139
Board-designated endowments		—	—	—	—
Total	$	—	21,195	295,944	317,139

Changes in endowment net assets for the fiscal year ended September 30, 2009:

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Net assets, beginning of year	$ —	16,967	268,563	285,530
Reclassification due to change in accounting principle	—	—	—	—
Endowment net assets after reclassification	—	16,967	268,563	285,530
Investment return:				
Investment income	—	8,329	—	8,329
Net depreciation (realized and unrealized)	—	—	—	—
Total investment return	—	8,329	—	8,329
Contributions	—	—	27,381	27,381
Appropriation for endowment spending	—	(4,101)	—	(4,101)
Net assets, end of year	$ —	21,195	295,944	317,139

(11) Contributions Receivable

As of September 30, 2010 and 2009, contributions receivable are expected to be received as follows:

	2010	2009
Within one year	$ 1,232,627	2,105,200
Within two to five years	1,661,699	2,933,851
	2,894,326	5,039,051
Less discount to reflect contributions receivable at present value	(79,566)	(193,673)
Contributions receivable, net	$ 2,814,760	4,845,378

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, 2010 and 2009 was approximately 1.30% and 2.31%, respectively.

(12) Retirement Plan

The Corporation offers a 457 plan covering all regular employees who have completed 500 hours of service. For the years ended September 30, 2010 and 2009, 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 $16,500 for the years ended September 30, 2010 and 2009, respectively. Participants are 100% vested in all plan contributions plus actual earnings thereon. The Aquarium's contribution was $53,184 and $51,901 for the years ended September 30, 2010 and 2009, respectively.

(13) Related-Parties

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

The annual revenue due to the Corporation for the years ended September 30, 2010 and 2009 was $1,325,995 and $1,282,070, respectively, and is included in accounts receivable for each respective year in the accompanying consolidating statements of financial position.

(14) Subsequent Events

Subsequent events have been evaluated through March 31, 2011, which is the date the financial statements were available to be issued.