

AQUARIUM OF THE PACIFIC
FINANCIAL STATEMENTS
FOR THE YEARS ENDED
DECEMBER 31, 2016 AND 2015

AQUARIUM OF THE PACIFIC
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December 31, 2016 and 2015

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Aquarium of the Pacific

Report on the Financial Statements

We have audited the accompanying financial statements of the Aquarium of the Pacific (the "Corporation"), which comprise the statement of financial position as of December 31, 2016, the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements (collectively, 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 accounting principles generally accepted in the United States of America; 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit 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 auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Corporation's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Aquarium of the Pacific as of December 31, 2016, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

The financial statements of the Corporation, as of and for the year ended December 31, 2015, were audited by other auditors, whose report, dated June 1, 2016, expressed an unmodified opinion on those statements.

Singer Lewak LLP

April 26, 2017

AQUARIUM OF THE PACIFIC
STATEMENTS OF FINANCIAL POSITION
December 31, 2016 and 2015

	2016				2015			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
ASSETS								
Cash and cash equivalents, unrestricted	\$ 2,086,330	\$ 14,946,351	\$ 498,432	\$ 17,531,113	\$ 1,706,532	\$ 7,951,749	\$ 498,432	\$ 10,156,713
Accounts receivable, net of allowance for doubtful accounts of \$163,530 and \$188,636, respectively	956,122	-	-	956,122	816,222	-	-	816,222
Contributions receivable - current portion, net	20,850	11,785,707	-	11,806,557	39,257	2,359,240	-	2,398,497
Gift store inventory	570,360	-	-	570,360	595,883	-	-	595,883
Prepaid expenses and other assets	353,523	-	-	353,523	379,219	-	-	379,219
Property and equipment, net	20,213,520	5,203,926	-	25,417,446	19,511,697	4,810,181	-	24,321,878
Total assets	\$ 24,200,705	\$ 31,935,984	\$ 498,432	\$ 56,635,121	23,048,810	\$ 15,121,170	\$ 498,432	\$ 38,668,412
LIABILITIES AND NET ASSETS								
Liabilities								
Accounts payable	2,067,608	-	-	2,067,608	1,695,518	-	-	1,695,518
Accrued expenses	1,452,850	-	-	1,452,850	1,216,475	-	-	1,216,475
Deferred revenue	2,944,850	-	-	2,944,850	2,873,503	-	-	2,873,503
Total liabilities	6,465,308	-	-	6,465,308	5,785,496	-	-	5,785,496
Net assets								
Unrestricted	17,735,397	-	-	17,735,397	17,263,314	-	-	17,263,314
Temporarily restricted	-	31,935,984	-	31,935,984	-	15,121,170	-	15,121,170
Permanently restricted	-	-	498,432	498,432	-	-	498,432	498,432
Total net assets	17,735,397	31,935,984	498,432	50,169,813	17,263,314	15,121,170	498,432	32,882,916
Total liabilities and net assets	\$ 24,200,705	\$ 31,935,984	\$ 498,432	\$ 56,635,121	\$ 23,048,810	\$ 15,121,170	\$ 498,432	\$ 38,668,412

The accompanying notes are an integral part of these financial statements.

AQUARIUM OF THE PACIFIC
STATEMENTS OF ACTIVITIES
Years Ended December 31, 2016 and 2015

	2016				2015			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues and support								
Admissions	\$ 22,737,626	\$ -	\$ -	\$ 22,737,626	\$ 19,184,236	\$ -	\$ -	\$ 19,184,236
Memberships	4,584,970	-	-	4,584,970	4,288,090	-	-	4,288,090
Educational programs	937,093	-	-	937,093	895,632	-	-	895,632
Gift Store	4,964,706	-	-	4,964,706	4,550,473	-	-	4,550,473
Contributions	1,660,216	17,774,713	-	19,434,929	1,581,026	3,034,748	100,100	4,715,874
Ancillary revenues	879,697	-	-	879,697	767,667	-	-	767,667
Food service	847,607	-	-	847,607	746,139	-	-	746,139
Fund-raising events	452,851	-	-	452,851	522,939	-	-	522,939
Donated goods & services	557,519	-	-	557,519	522,478	-	-	522,478
Grants and other income	154,706	86,576	-	241,282	184,431	7,241	-	191,672
Net assets released from restrictions	1,046,475	(1,046,475)	-	-	1,385,591	(1,385,591)	-	-
Total revenues and support	38,823,466	16,814,814	-	55,638,280	34,628,702	1,656,398	100,100	36,385,200
Functional expenses								
Program services								
Husbandry and facilities	9,767,619	-	-	9,767,619	9,479,667	-	-	9,479,667
Education, interpretation, and outreach	3,492,989	-	-	3,492,989	3,364,687	-	-	3,364,687
Guest services	5,855,402	-	-	5,855,402	5,446,160	-	-	5,446,160
Gift store	3,607,767	-	-	3,607,767	3,271,305	-	-	3,271,305
Total program services	22,723,777	-	-	22,723,777	21,561,819	-	-	21,561,819
Support services								
Development and membership	2,117,689	-	-	2,117,689	2,491,756	-	-	2,491,756
Marketing	4,857,101	-	-	4,857,101	4,521,460	-	-	4,521,460
Human resources	991,203	-	-	991,203	936,015	-	-	936,015
Finance and administration	3,184,712	-	-	3,184,712	3,027,338	-	-	3,027,338
Total support services	11,150,705	-	-	11,150,705	10,976,569	-	-	10,976,569
Total operating expenses before other changes	33,874,482	-	-	33,874,482	32,538,388	-	-	32,538,388
Change in net assets before other changes	4,948,984	16,814,814	-	21,763,798	2,090,314	1,656,398	100,100	3,846,812
Other operating expenses								
Net rent to the City of Long Beach	(2,154,000)	-	-	(2,154,000)	(2,154,000)	-	-	(2,154,000)
Amounts transferred to reserves	(2,322,901)	-	-	(2,322,901)	(992,324)	-	-	(992,324)
Change in net assets	472,083	16,814,814	-	17,286,897	(1,056,010)	1,656,398	100,100	700,488
Net assets, beginning of year	17,263,314	15,121,170	498,432	32,882,916	18,319,324	13,464,772	398,332	32,182,428
Net assets, end of year	\$ 17,735,397	\$ 31,935,984	\$ 498,432	\$ 50,169,813	\$ 17,263,314	\$ 15,121,170	\$ 498,432	\$ 32,882,916

The accompanying notes are an integral part of these financial statements.

AQUARIUM OF THE PACIFIC
STATEMENT OF FUNCTIONAL EXPENSES
Year Ended December 31, 2016

	Program Services					Support Services					Total
	Husbandry & facilities	Education, interpretation, & outreach	Guest services	Gift store	Total program services	Development and membership	Marketing	Human resources	Finance and administration	Total support services	
Salaries, taxes, and benefits	\$ 4,287,339	\$ 2,248,965	\$ 3,921,944	\$ 1,141,106	\$ 11,599,354	\$ 987,603	\$ 1,233,799	\$ 652,709	\$ 1,419,967	\$ 4,294,078	\$ 15,893,432
Cost of goods sold	-	-	-	2,106,478	2,106,478	-	-	-	-	-	2,106,478
Insurance	69,590	81,823	83,188	28,025	262,626	1,064	1,290	672	71,620	74,646	337,272
Permits, maintenance, and construction	747,941	2,417	37,958	8,935	797,251	304	147	-	23,522	23,973	821,224
Occupancy	23,620	74,864	83,176	149,145	330,805	52,814	48,736	64,013	163,518	329,081	659,886
Utilities	1,380,172	-	-	5,054	1,385,226	-	-	-	-	-	1,385,226
Husbandry/animals and collecting Services	457,619	-	-	-	457,619	-	7,588	-	-	7,588	465,207
Supplies and other expendables	269,567	427,740	257,412	22,858	977,577	404,487	357,137	218,892	131,844	1,112,360	2,089,937
Postage, shipping, and courier	877,595	163,063	454,124	49,322	1,544,104	129,337	41,784	36,893	156,685	364,699	1,908,803
Information technology and telecommunications	26,273	5,066	9,631	5,359	46,329	76,547	85,314	1,947	4,925	168,733	215,062
Printing and publishing	12,266	2,479	89,536	1,383	105,664	3,249	6,090	2,927	277,710	289,976	395,640
Advertising, promotions, and public relations	260	15,780	459	-	16,499	209,269	356,071	1,164	7,459	573,963	590,462
Travel, meals, and training	581	47,294	4,340	-	52,215	6,594	2,218,309	-	12,766	2,237,669	2,289,884
Depreciation and amortization	117,598	65,830	31,728	339	215,495	36,244	11,445	1,817	43,812	93,318	308,813
Other	1,490,048	318,308	544,502	11,863	2,364,721	10,169	25,421	10,169	724,572	770,331	3,135,052
	7,150	39,360	337,404	77,900	461,814	200,008	463,970	-	146,312	810,290	1,272,104
Total functional expenses	\$ 9,767,619	\$ 3,492,989	\$ 5,855,402	\$ 3,607,767	\$ 22,723,777	\$ 2,117,689	\$ 4,857,101	\$ 991,203	\$ 3,184,712	\$ 11,150,705	\$ 33,874,482

The accompanying notes are an integral part of these financial statements.

AQUARIUM OF THE PACIFIC
STATEMENT OF FUNCTIONAL EXPENSES
Year Ended December 31, 2015

	Program Services					Support Services					Total
	Husbandry & facilities	Education, interpretation, & outreach	Guest services	Gift store	Total program services	Development and membership	Marketing	Human resources	Finance and administration	Total support services	
Salaries, taxes, and benefits	\$ 3,900,081	\$ 2,151,217	\$ 3,542,916	\$ 1,016,697	\$ 10,610,911	\$ 1,192,854	\$ 1,148,050	\$ 610,396	\$ 1,316,188	\$ 4,267,488	\$ 14,878,399
Cost of goods sold	-	-	-	1,954,975	1,954,975	-	-	-	-	-	1,954,975
Insurance	71,890	84,794	86,183	28,901	271,768	1,083	1,312	684	75,477	78,556	350,324
Permits, maintenance, and construction	508,932	899	52,789	2,277	564,897	128	-	-	51,220	51,348	616,245
Occupancy	23,342	75,776	83,470	97,846	280,434	55,210	48,886	70,632	159,234	333,962	614,396
Utilities	1,566,737	-	-	3,695	1,570,432	-	-	-	-	-	1,570,432
Husbandry/animals and collecting	408,588	-	-	-	408,588	-	-	-	-	-	408,588
Services	300,491	529,876	304,920	11,764	1,147,051	504,968	337,244	175,892	183,374	1,201,478	2,348,529
Supplies and other expendables	850,573	128,995	431,100	64,325	1,474,993	109,532	89,776	32,218	131,014	362,540	1,837,533
Postage, shipping, and courier	28,918	6,658	17,355	10,038	62,969	160,653	69,039	2,552	5,898	238,142	301,111
Information technology and telecommunications	11,874	2,361	53,591	1,452	69,278	31,090	4,511	1,692	213,091	250,384	319,662
Printing and publishing	-	20,492	1,395	-	21,887	211,073	343,276	1,077	1,619	557,045	578,932
Advertising, promotions, and public relations	-	886	1,043	-	1,929	16,178	2,147,623	15	3,300	2,167,116	2,169,045
Travel, meals, and training	67,067	55,910	29,061	2,219	154,257	26,787	12,014	31,891	30,561	101,253	255,510
Depreciation and amortization	1,741,174	303,175	568,496	10,460	2,623,305	8,966	22,415	8,966	690,470	730,817	3,354,122
Other	-	3,648	273,841	66,656	344,145	173,234	297,314	-	165,892	636,440	980,585
Total functional expenses	\$ 9,479,667	\$ 3,364,687	\$ 5,446,160	\$ 3,271,305	\$ 21,561,819	\$ 2,491,756	\$ 4,521,460	\$ 936,015	\$ 3,027,338	\$ 10,976,569	\$ 32,538,388

The accompanying notes are an integral part of these financial statements.

AQUARIUM OF THE PACIFIC
STATEMENTS OF CASH FLOWS
Years Ended December 31, 2016 and 2015

	2016	2015
Cash flows from operating activities		
Change in net assets	\$ 17,286,897	\$ 700,488
Adjustments to reconcile change in net assets to net change in cash from operating activities		
Depreciation and amortization expense	3,135,052	3,354,122
Provision for bad debts	(25,106)	(20,880)
Contributions restricted for long-term purposes	(7,739,200)	(2,850,241)
(Increase) decrease in		
Accounts receivable	(114,794)	37,128
Contributions receivable	(9,408,060)	540,989
Gift store inventory	25,523	(80,851)
Prepaid expenses and other assets	25,696	(10,046)
Increase (decrease) in		
Accounts payable	372,090	(1,212,541)
Accrued expenses	236,375	(723,625)
Deferred revenue	71,347	230,071
Net change in cash from operating activities	3,865,820	(35,386)
Cash flows from investing activities		
Purchases of equipment	(4,230,620)	(3,750,900)
Restricted for long-term purposes	7,739,200	2,850,241
Net change in cash from investing activities	3,508,580	(900,659)
Net change in cash and cash equivalents	7,374,400	(936,045)
Cash and cash equivalents, beginning of year	10,156,713	11,092,758
Cash and cash equivalents, end of year	\$ 17,531,113	\$ 10,156,713

The accompanying notes are an integral part of these financial statements.

AQUARIUM OF THE PACIFIC
NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

NOTE 1 – GENERAL

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.

In 2016, the significant increase in contribution revenue was primarily related to the Aquarium of the Pacific’s fund-raising effort for its first major expansion Pacific Visions is a \$53 million addition to the existing structure. It will include an art gallery, an orientation gallery, a culmination gallery, and the signature component of the expansion will be a 300 seat immersive theater. The expansion will include some live animal exhibits, but will emphasize media and technology to tell the story of the changing relationship of a growing human population with the Earth. Fundraising has been contributions from various sources including: individuals, major corporations and foundations, and the largest gift of \$15 million from the City of Long Beach as a challenge grant.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

The accompanying financial statements include statements of financial position that presents the amounts for each of the three classes of net assets: unrestricted, temporarily restricted, and permanently restricted. These net assets are classified based on the existence or absence of donor-imposed restrictions and a statement of activities that reflects the changes in those categories of net assets.

- Unrestricted net assets are not restricted by donors, or the donor-imposed restrictions have expired.
- Temporarily restricted net assets include those assets which have been limited by donors to later periods of time or for specified purposes. When a temporary restriction is fulfilled, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Contributions restricted for the acquisition of long-lived assets are reported as temporarily restricted net assets until such time as the long-lived assets are placed in service by the Corporation.

AQUARIUM OF THE PACIFIC
NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(a) Basis of Presentation (Continued)

- Permanently restricted net assets include those net assets that must be maintained in perpetuity; the investment return from such assets may be used for purposes as specified by the donor or, if the donor has not specified a purpose, for unrestricted purposes. If, subsequent to the period a restricted gift is made, a donor withdraws previously imposed restrictions, the related net assets are classified into the appropriate net asset category. Such reclassifications are reflected in net assets released from restrictions in the accompanying statement of activities when the restrictions are withdrawn.

(b) Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(c) Revenues and Support

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.

The Corporation provides an allowance, as necessary, for uncollectible receivables, based on management's evaluation of potential uncollectible receivable at year end. If amounts are deemed uncollectible at any point during the year, amounts are written off against the allowance.

Contributions, including endowment gifts and pledges, as well as any other unconditional promises to give, are recorded in the period pledged as unrestricted, temporarily restricted or permanently restricted support depending on the existence or nature of any donor restrictions. Amounts expected to be collected within one year are recorded at their net realizable value. Amounts expected to be collected in future years are recorded at the present value of estimated future cash flows discounted using credit-adjusted rates.

The Corporation provides an allowance, as necessary, for uncollectible promises, based on management's evaluation of potential uncollectible contributions receivable at year end. No allowance was recorded as of December 31, 2016 and 2015.

AQUARIUM OF THE PACIFIC
NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Contributed Goods and Services

The Corporation records various types of in kind support, including donated professional services and supplies. Contributed goods and services are reflected in the accompanying statements at their estimated fair market value in the period received. Contributions of tangible assets are recognized at fair value when received. Contributions of services are recognized if the services received create or enhance non-financial assets or require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. 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.

During the years ended December 31, 2016 and 2015, contributed services amounted to \$395,061 and \$391,006, respectively. During the years ended December 31, 2016 and 2015, contributions of goods amounted to \$162,458 and \$131,472, respectively.

(e) Cash and Cash Equivalents

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

(f) Gift Store Inventory

Store inventory consist of merchandise sold at the Corporation's gift store and are valued at the lower of cost (average cost method) or market. Market is determined by comparison with recent purchases or net realizable value.

(g) Live Animal Inventory

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

(h) Property and Equipment

Property and equipment are stated at cost, or if donated, at fair market value at the date of donation, less accumulated depreciation and amortization. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the various classes of property, as follows:

Buildings	27.5 years
Equipment, furniture and fixtures	3 to 7 years
Leasehold improvements	Shorter of estimated useful life or lease

Contributions received that are temporarily restricted for capital projects are classified as temporarily restricted net assets; those restrictions expire when the capital projects are placed in service by the Corporation.

Expenditures for major renewals and betterments that extend the useful lives of property and equipment are capitalized. Expenditures for maintenance and repairs are charged to expense as incurred. At the time of retirement or disposition of property and equipment, the cost and related accumulated depreciation and amortization are removed from the accounts and any resulting gain or loss is reflected in the change in net assets.

AQUARIUM OF THE PACIFIC
NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Impairment of Long-Lived Assets

The Corporation reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. Impairment losses, if any, are recognized when estimated future cash flows (undiscounted and without interest charges) derived from such assets are less than their carrying values. Management determined that no impairment existed as of December 31, 2016 and 2015.

(j) Functional Allocation of Expenses

The costs of providing the Corporation's various programs and the Corporation's administration have been summarized on a functional basis in the statement of activities. Accordingly, certain 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 \$361,016 and \$329,513 for the years ended December 31, 2016 and 2015, respectively.

(k) Advertising

Advertising expenses are charged to expense as incurred. For the years ended December 31, 2016 and 2015, advertising expenses totaled \$2,289,884 and \$2,169,045, 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. To date, the Corporation has not recorded any uncertain tax positions. The Corporation recognizes potential accrued interest and penalties related to uncertain tax positions in income tax expense. During the years ended December 31, 2016 and 2015, the Corporation did not recognize any amount in potential interest and penalties associated with uncertain tax positions and did not note any matters which may have an effect on its tax-exempt status.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(m) Estimated Fair Value of Financial Instruments

As defined in Financial Accounting Standards Board (“FASB”) Accounting Standards Codification Topic No. 820, *Fair Value Measurements and Disclosures* (“ASC 820”), fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In determining fair value, the Corporation uses the market or income approach. Based on this approach, the Corporation utilizes certain assumptions about risk and or the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market corroborated or generally unobservable inputs. The Corporation utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. Based on the observability of the inputs used in the valuation techniques, the Corporation is required to provide the following information according to the fair value hierarchy. The fair value hierarchy ranks the quality and the reliability of the information used to determine fair values.

As a basis for considering such assumptions, ASC 820 establishes a three-tier value hierarchy, which prioritizes the inputs used in the valuation methodologies in measuring fair value:

- Level 1 – Observable inputs that reflect quoted prices (unadjusted) for identical assets or liabilities in active markets.

- Level 2 – Include other inputs that are directly or indirectly observable in the marketplace such as:
 - Quoted prices for similar assets or liabilities in active markets;
 - Quoted prices for identical or similar assets or liabilities in inactive markets;
 - Inputs other than quoted prices that are observable for the asset or liability;
 - Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

- Level 3 – Unobservable inputs which are supported by little or no market activity.

The fair value hierarchy also requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. For the years ended December 31, 2016 and 2015, the application of valuation techniques applied to similar assets and liabilities has been consistent.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(n) Recently Issued Accounting Pronouncements

In May 2014, the FASB issued Accounting Standards Update (“ASU”) 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which supersedes the revenue recognition requirements in Revenue Recognition (Topic 605), and requires entities to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Additionally, this guidance requires that entities disclose the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. In May 2016, the FASB issued ASU 2016-12, *Revenue from Contracts with Customers - Narrow-Scope Improvements and Practical Expedients*, which provides narrow-scope improvements to the guidance on collectability, non-cash consideration, and completed contracts at transition. In December 2016, the FASB issued ASU 2016-20, *Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers*, which amended the guidance on performance obligation disclosures and makes technical corrections and improvements to the new revenue standard. The standard is effective for annual reporting periods beginning after December 15, 2018, including interim periods within that reporting period, and permits early adoption on a limited basis. The update permits the use of either the retrospective or cumulative effect transition method. The Corporation’s management is currently evaluating the new guidance to determine the impact of these rules on the Corporation’s financial statements as well as the expected adoption method.

In July 2015, the FASB issued ASU 2015-11, *Inventory (Topic 330): Simplifying the Measurement of Inventory*. Under the new guidance, subsequent measurement of inventory is to be valued at the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. ASU 2015-11 is effective for fiscal years beginning after December 15, 2016. The amendments in this Update should be applied prospectively with earlier application permitted as of the beginning of an interim or annual reporting period. This standard will not have a material impact on the Corporation’s results of operations or financial position.

In January 2016, the FASB issued ASU 2016-01, *Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*, which updates certain aspects of recognition, measurement, presentation and disclosure of financial instruments. ASU 2016-01 will be effective for the Corporation for fiscal years beginning after December 15, 2018. The Corporation does not believe the adoption of the new financial instruments standard will have a material impact on the Corporation’s financial statements. The Corporation elected to early adopt the amendment that no longer requires disclosure of the fair value of financial instruments that are not measured at fair value and as such, these disclosures are not included herein.

AQUARIUM OF THE PACIFIC
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December 31, 2016 and 2015

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(n) Recently Issued Accounting Pronouncements (Continued)

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, which revises the accounting related to lessee accounting. Under the new guidance, lessees will be required to recognize a lease liability and a right-of-use (“ROU”) asset for all leases. For finance leases the lessee would recognize interest expense and amortization of the ROU asset and for operating leases the lessee would recognize a straight-line total lease expense. The new lease guidance also simplified the accounting for sale and leaseback transactions primarily because lessees must recognize lease assets and lease liabilities. ASU 2016-02 is effective for annual and interim reporting periods within those years beginning after December 15, 2018 and early adoption is permitted. This update should be applied through a modified retrospective transition approach for leases existing at, or entered into after evaluating, the beginning of the earliest comparative period presented in the financial statements. The Corporation’s management is in the process of evaluating the impact of these rules on the Corporation’s financial statements.

In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, which simplifies and improves how a not-for-profit organization classifies its net assets, as well as the information it presents in financial statements and notes about its liquidity, financial performance, and cash flows. Among other changes, the ASU replaces the three current classes of net assets with two new classes, “net assets with donor restrictions” and “net assets without donor restrictions”, and expands disclosures about the nature and amount of any donor restrictions. ASU 2016-14 is effective for annual periods beginning after December 15, 2017 and interim periods within fiscal years beginning after December 15, 2018, with early adoption permitted. ASU 2016-14 should be applied on a retrospective basis in the year that it is first applied. The Corporation’s management is currently evaluating the impact the adoption of this guidance will have on its financial statements.

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*. ASU 2016-15 provides guidance on how certain cash receipts and cash payments should be presented and classified in the statement of cash flows with the objective of reducing existing diversity in practice with respect to these items. ASU 2016-15 will be effective for the Corporation on January 1, 2019. Early adoption is permitted. ASU 2016-15 requires a retrospective transition method. However, if it is impracticable to apply the amendments retrospectively for some of the issues, the amendments for those issues would be applied prospectively as of the earliest date practicable. The Corporation’s management is currently evaluating the impact the adoption of this guidance will have on its financial statements.

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash (a consensus of the FASB Emerging Issues Task Force)*, which provides guidance on the presentation of restricted cash or restricted cash equivalents in the statement of cash flows. ASU 2016-18 will be effective for the Corporation beginning on January 1, 2019. ASU 2016-18 must be applied using a retrospective transition method with early adoption permitted. The Corporation’s management is currently evaluating the impact the adoption of this guidance will have on its financial statements.

AQUARIUM OF THE PACIFIC
NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(o) Concentration of Credit and Market Risk

Certain financial instruments held by the Corporation potentially subject the Corporation to concentrations of credit risk. Financial instruments which potentially subject the Corporation to concentrations of credit and market risk consist primarily of cash and cash equivalents, contribution receivables, and contribution revenues.

Cash and Cash Equivalents

The Corporation maintains its cash and cash equivalents in one financial institution that, from time to time, exceed amounts insured by the Federal Deposit Insurance Corporation (“FDIC”). Deposits held in non-interest-bearing transaction accounts are aggregated with any interest-bearing deposits the owner may hold in the same ownership category, and the combined total insured up to \$250,000. As of December 31, 2016 and 2015, Corporation deposits exceeded insured amounts by \$633,080 and \$499,080, respectively. The Corporation has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents.

Contributions Receivables

For the year ended December 31, 2016, there were four donors that accounted for 68% of contribution receivables. For the year ended December 31, 2015, there were four donors that accounted for 56% of contribution receivables.

Contribution Revenues

For the year ended December 31, 2016, there were three donors that accounted for 45% of contribution revenues. For the year ended December 31, 2015, there were no donors that accounted for more than 10% of contribution revenues.

NOTE 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.

AQUARIUM OF THE PACIFIC
NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

NOTE 3 – BUSINESS ACTIVITY (Continued)

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

Pursuant to the May 2001 agreement, a public/private partnership between the City and the Corporation was formed under a formal operating arrangement approved by the City Council of the City and the Corporation's board of directors, whereby the Aquarium's operations are carried out by the Corporation. Under the terms of this agreement, the City assumed ownership of all physical plant assets at that time and 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 Series 2001 Refunding Bonds 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, 2015, 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.

AQUARIUM OF THE PACIFIC
NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

NOTE 3 – BUSINESS ACTIVITY (Continued)

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.

NOTE 4 – CONTRIBUTIONS RECEIVABLE

At December 31, 2016 and 2015, the Corporation had the following contributions receivable:

	2016	2015
Due within one year	\$ 8,099,706	\$ 1,587,283
Due between one to five years	4,517,500	975,502
Total	12,617,206	2,562,785
 Present value discount	 (810,649)	 (164,288)
Total contributions receivable, net	\$ 11,806,557	\$ 2,398,497

The Corporation uses a credit-adjusted discount rate of 7.25% to calculate the present value discount for contributions receivable.

As of December 31, 2016 and 2015, contributions receivable due from Board Members amounted to \$4,050,200 and \$238,980, respectively. During the years ended December 31, 2016 and 2015, contribution revenues from Board Members amounted to \$6,393,452 and \$654,104, respectively.

AQUARIUM OF THE PACIFIC
NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

NOTE 5 – PROPERTY AND EQUIPMENT

Property and equipment at December 31, 2016 and 2015 consisted of the following:

	2016	2015
Equipment	\$ 20,462,069	\$ 18,381,385
Building	16,841,779	16,841,779
Furniture and fixtures	5,664,712	5,515,675
Leasehold Improvements	24,712	24,712
Construction in progress	7,531,941	5,531,042
	50,525,213	46,294,593
Less accumulated depreciation and amortization	(25,107,767)	(21,972,715)
Property and equipment, net	\$ 25,417,446	\$ 24,321,878

For the years ended December 31, 2016 and 2015, depreciation and amortization expense amounted to \$3,135,052 and \$3,354,122, respectively.

NOTE 6 – NET ASSETS

Temporarily Restricted Net Assets

The change in temporarily restricted net assets by fund for the year ended December 31, 2016 is summarized as follows:

	Balance at January 1, 2016	Contributions and Grants	Released from Restriction	Balance at December 31, 2016
Marketing	\$ 242	\$ -	\$ -	\$ 242
Scholarship	236,140	284,000	371,489	148,651
Equipment and construction	14,460,631	17,165,667	255,291	31,371,007
Education and conservation	424,157	411,622	419,695	416,084
Total	\$ 15,121,170	\$ 17,861,289	\$ 1,046,475	\$ 31,935,984

AQUARIUM OF THE PACIFIC
NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

NOTE 6 – NET ASSETS (Continued)

The change in temporarily restricted net assets by fund for the year ended December 31, 2015 is summarized as follows:

	Balance at January 1, 2015	Contributions and Grants	Released from Restriction	Balance at December 31, 2015
Marketing	\$ 242	\$ -	\$ -	\$ 242
Scholarship	301,519	204,257	269,636	236,140
Equipment and construction	12,628,630	2,351,929	519,928	14,460,631
Education and conservation	<u>534,381</u>	<u>485,803</u>	<u>596,027</u>	<u>424,157</u>
Total	<u>\$ 13,464,772</u>	<u>\$ 3,041,989</u>	<u>\$ 1,385,591</u>	<u>\$ 15,121,170</u>

Permanently Restricted Net Assets

As of December 31, 2016 and 2015, permanently restricted net assets consists of endowments amounting to \$498,432.

NOTE 7 – ENDOWMENT

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.

Investment income on the Corporation's endowment is recorded as temporarily restricted net assets until those amounts are appropriated for expenditure by the Corporation.

At December 31, 2016, the Corporation's endowment net asset composition by type of fund was as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	-	26,007	498,432	524,439
Total endowment funds	<u>\$ -</u>	<u>\$ 26,007</u>	<u>\$ 498,432</u>	<u>\$ 524,439</u>

AQUARIUM OF THE PACIFIC
NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

NOTE 7 – ENDOWMENT (Continued)

For the year ended December 31, 2016, the Corporation’s endowment net assets changed as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Beginning balance at December 31, 2015	\$ -	\$ 25,571	\$ 498,432	\$ 524,003
Investment return				
Investment income	-	535	-	535
Total investment return	-	535	-	535
Other changes				
Appropriations of amounts for expenditure	-	(99)	-	(99)
Total endowment funds	<u>\$ -</u>	<u>\$ 26,007</u>	<u>\$ 498,432</u>	<u>\$ 524,439</u>

At December 31, 2015, the Corporation’s endowment net asset composition by type of fund was as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 25,571	\$ 498,432	\$ 524,003
Total endowment funds	<u>\$ -</u>	<u>\$ 25,571</u>	<u>\$ 498,432</u>	<u>\$ 524,003</u>

AQUARIUM OF THE PACIFIC
NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

NOTE 7 – ENDOWMENT (Continued)

For the year ended December 31, 2015, the Corporation’s endowment net assets changed as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Beginning balance at December 31, 2014	\$ -	\$ 25,158	\$ 398,332	\$ 423,490
Investment return				
Investment income	-	484	-	484
Total investment return	-	484	-	484
Contributions	-	-	100,100	100,100
Other changes				
Appropriations of amounts for expenditure	-	(71)	-	(71)
Total endowment funds	\$ -	\$ 25,571	\$ 498,432	\$ 524,003

(a) 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.

Effective January 1, 2009, the State of California adopted the Uniform Prudent Management of Institutional Funds Act (“UPMIFA”).

From time to time, the fair value of assets associated with endowment funds may fall below the level that the donor or UPMIFA requires the Corporation to retain as a fund of perpetual duration. Deficiencies of this nature are reported in unrestricted net assets. As of December 31, 2016 and 2015, there were no deficiencies of this nature.

NOTE 7 – ENDOWMENT (Continued)

(b) Investment Strategy

Consistent with the investment and prudent spending policies, 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.

(c) Spending Policy

The Corporation has a policy of appropriating for distribution each year 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.

NOTE 8 – RETIREMENT PLAN

The Corporation offers a 457 plan covering substantially all employees. For the years ended December 31, 2016 and 2015, 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 \$18,000 for the years ended December 31, 2016 and 2015. Participants are 100% vested in all plan contributions plus actual earnings thereon. The Corporation's contribution was \$76,608 and \$67,908 for the years ended December 31, 2016 and 2015, respectively.

AQUARIUM OF THE PACIFIC
NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

NOTE 9 – COMMITMENTS AND CONTINGENCIES

(a) Operating Leases

The Corporation leases certain office space, warehouse space and equipment under cancellable and non-cancellable operating leases that expire at varying dates through March 2024 and require minimum monthly payments of \$50,615. Total rent expense under these lease agreements for the years ended December 31, 2016 and 2015 was \$659,886 and \$542,761, respectively.

The following is a schedule by years of future minimum lease payments under non-cancellable operating leases:

<u>Year Ending</u> <u>December 31,</u>	<u>Total</u>
2017	\$ 437,346
2018	610,261
2019	612,315
2020	626,184
2021	552,376
Thereafter	<u>804,773</u>
Total	<u>\$ 3,643,255</u>

(b) Legal Matters

In the normal course of business, the Corporation may become a party to litigation. Management believes they are adequately insured for potential losses that may arise related to such litigation. Management believes there are no asserted or unasserted claims or contingencies that would have a significant impact on the financial statements of the Corporation as of December 31, 2016 and 2015.

NOTE 10 – SUBSEQUENT EVENTS

Management evaluated all activity through April 26, 2017 (the issue date of the financial statements) and concluded that no subsequent events have occurred that would require recognition in the financial statements or disclosure in the notes to the financial statements.