AQUARIUM OF THE PACIFIC

FINANCIAL STATEMENTS
FOR THE YEARS ENDED
DECEMBER 31, 2018 AND 2017

AQUARIUM OF THE PACIFIC
CONTENTS
December 31, 2018 and 2017

SingerLewak
Accountants & Consultants

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 statements of financial position as of December 31, 2018 and 2017, the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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Emphasis of Matter

As described in Note 2 to the financial statements, the Corporation adopted Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)*, and also adopted ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to this matter.

Singer Lewak LLP

April 26, 2019

AQUARIUM OF THE PACIFIC
STATEMENTS OF FINANCIAL POSITION
December 31, 2018 and 2017

	2018			2017		
ASSETS	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Cash, cash equivalents, and restricted cash	$ 5,881,284	$ 13,003,095	$ 18,884,379	$ 2,947,899	$ 18,068,105	$ 21,016,004
Accounts receivable, net of allowance for doubtful accounts of $332,214 and $198,180, respectively	766,421	-	766,421	850,235	309,792	1,160,027
Contributions receivable	-	3,812,826	3,812,826	75,000	5,601,820	5,676,820
Gift store inventory	634,459	-	634,459	571,653	-	571,653
Prepaid expenses and other assets	418,171	-	418,171	520,229	-	520,229
Property and equipment, net	31,962,913	22,665,816	54,628,729	21,827,925	10,842,403	32,670,328
Total assets	**$ 39,663,248**	**$ 39,481,737**	**$ 79,144,985**	**$ 26,792,941**	**$ 34,822,120**	**$ 61,615,061**
LIABILITIES AND NET ASSETS						
Liabilities						
Accounts payable	$ 3,536,872	$ -	$ 3,536,872	$ 2,394,847	$ -	$ 2,394,847
Accrued expenses	1,757,412	-	1,757,412	1,550,641	-	1,550,641
Deferred revenue	3,009,732	-	3,009,732	2,880,099	-	2,880,099
Note payable	10,000,000	-	10,000,000	-	-	-
Total liabilities	18,304,016	-	18,304,016	6,825,587	-	6,825,587
Net assets						
Without donor restrictions	21,359,232	-	21,359,232	19,967,354	-	19,967,354
With donor restrictions	-	39,481,737	39,481,737	-	34,822,120	34,822,120
Total net assets	21,359,232	39,481,737	60,840,969	19,967,354	34,822,120	54,789,474
Total liabilities and net assets	**$ 39,663,248**	**$ 39,481,737**	**$ 79,144,985**	**$ 26,792,941**	**$ 34,822,120**	**$ 61,615,061**

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

AQUARIUM OF THE PACIFIC
STATEMENTS OF ACTIVITIES
Years Ended December 31, 2018 and 2017

	2018			2017		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Revenues and support						
Admissions	$ 22,670,423	$ -	$ 22,670,423	$ 23,571,340	$ -	$ 23,571,340
Memberships	4,432,636	-	4,432,636	4,587,870	-	4,587,870
Educational programs	1,038,532	-	1,038,532	994,136	-	994,136
Gift Store	5,271,176	-	5,271,176	5,110,078	-	5,110,078
Contributions and Grants	1,701,411	5,189,489	6,890,900	1,606,016	3,432,691	5,038,707
Ancillary revenues	1,048,580	-	1,048,580	988,900	-	988,900
Food service	750,302	-	750,302	810,253	-	810,253
Fund-raising events	504,393	-	504,393	449,433	-	449,433
Donated goods & services	487,254	-	487,254	554,072	-	554,072
Other income	154,199	219,672	373,871	187,591	26,544	214,135
Net assets released from restrictions	749,544	(749,544)	-	1,071,531	(1,071,531)	-
Total revenues and support	38,808,450	4,659,617	43,468,067	39,931,220	2,387,704	42,318,924
Functional expenses						
Program services						
Husbandry and facilities	10,213,688	-	10,213,688	10,074,203	-	10,074,203
Education, interpretation, and outreach	4,122,449	-	4,122,449	3,529,173	-	3,529,173
Guest services	6,291,313	-	6,291,313	6,295,413	-	6,295,413
Gift store	4,121,147	-	4,121,147	3,863,483	-	3,863,483
Total program services	24,748,597	-	24,748,597	23,762,272	-	23,762,272
Support services						
Development and membership	2,418,237	-	2,418,237	2,200,619	-	2,200,619
Marketing	4,727,596	-	4,727,596	4,626,487	-	4,626,487
Human resources	1,131,289	-	1,131,289	1,114,947	-	1,114,947
Finance and administration	2,955,071	-	2,955,071	3,508,979	-	3,508,979
Total support services	11,232,193	-	11,232,193	11,451,032	-	11,451,032
Total operating expenses before other changes	35,980,790	-	35,980,790	35,213,304	-	35,213,304
Change in net assets before other changes	2,827,660	4,659,617	7,487,277	4,717,916	2,387,704	7,105,620
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 from (to) reserves	718,218	-	718,218	(331,959)	-	(331,959)
Change in net assets	1,391,878	4,659,617	6,051,495	2,231,957	2,387,704	4,619,661
Net assets, beginning of year	19,967,354	34,822,120	54,789,474	17,735,397	32,434,416	50,169,813
Net assets, end of year	**$ 21,359,232**	**$ 39,481,737**	**$ 60,840,969**	**$ 19,967,354**	**$ 34,822,120**	**$ 54,789,474**

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

AQUARIUM OF THE PACIFIC
STATEMENT OF FUNCTIONAL EXPENSES
Year Ended December 31, 2018

	Program Services					Support Services					
	Husbandry & facilities	Education, interpretation, & outreach	Guest services	Gift store	Total program services	Development and membership	Marketing	Human resources	Finance and administration	Total support services	Total
Salaries, taxes, and benefits	$ 4,602,717	$ 2,671,452	$ 4,403,578	$ 1,383,936	$ 13,061,683	$ 1,253,631	$ 1,366,235	$ 767,447	$ 1,167,758	$ 4,555,071	$ 17,616,754
Cost of goods sold	-	-	-	2,320,731	2,320,731	-	-	-	-	-	2,320,731
Insurance	115,353	139,910	121,649	39,402	416,314	1,324	1,604	836	109,768	113,532	529,846
Permits, maintenance, and construction	536,932	4,187	50,707	2,860	594,686	84	-	506	16,921	17,511	612,197
Occupancy	28,221	86,466	92,679	160,948	368,314	66,464	59,950	89,577	213,351	429,342	797,656
Utilities	1,530,698	-	-	5,053	1,535,751	-	-	811	-	811	1,536,562
Husbandry/animals and collecting	442,609	-	-	-	442,609	-	-	-	-	-	442,609
Services	297,710	516,756	260,765	19,012	1,094,243	414,467	451,800	142,703	253,386	1,262,356	2,356,599
Supplies and other expendables	982,742	202,251	443,954	87,113	1,716,060	133,154	25,106	40,767	114,428	313,455	2,029,515
Postage, shipping, and courier	32,784	5,316	10,152	5,371	53,623	62,184	65,752	345	1,586	129,867	183,490
Information technology and telecommunications	18,206	3,622	93,222	1,545	116,595	2,287	9,286	3,719	315,984	331,276	447,871
Printing and publishing	303	43,860	1,694	-	45,857	237,451	345,231	639	1,733	585,054	630,911
Advertising, promotions, and public relations	918	28,045	6,893	414	36,270	30,497	2,002,623	787	3,126	2,037,033	2,073,303
Travel, meals, and training	110,252	163,002	31,761	187	305,202	31,175	15,518	68,363	47,282	162,338	467,540
Depreciation and amortization	1,504,316	257,582	430,701	7,112	2,199,711	6,096	15,241	6,096	476,275	503,708	2,703,419
Other	9,927	-	343,558	87,463	440,948	179,423	369,250	8,693	233,473	790,839	1,231,787
Total functional expenses	**$ 10,213,688**	**$ 4,122,449**	**$ 6,291,313**	**$ 4,121,147**	**$ 24,748,597**	**$ 2,418,237**	**$ 4,727,596**	**$ 1,131,289**	**$ 2,955,071**	**$ 11,232,193**	**$ 35,980,790**

AQUARIUM OF THE PACIFIC
STATEMENT OF FUNCTIONAL EXPENSES
Year Ended December 31, 2017

	Program Services					Support Services					
	Husbandry & facilities	Education, interpretation, & outreach	Guest services	Gift store	Total program services	Development and membership	Marketing	Human resources	Finance and administration	Total support services	Total
Salaries, taxes, and benefits	$ 4,431,097	$ 2,240,108	$ 4,355,412	$ 1,296,677	$ 12,323,294	$ 1,015,684	$ 1,369,476	$ 737,320	$ 1,816,016	$ 4,938,496	$ 17,261,790
Cost of goods sold	-	-	-	2,184,132	2,184,132	-	-	-	-	-	2,184,132
Insurance	78,318	111,784	113,218	35,893	339,213	1,118	1,354	705	116,675	119,852	459,065
Permits, maintenance, and construction	601,386	3,046	33,336	5,617	643,385	84	-	-	29,380	29,464	672,849
Occupancy	25,042	67,585	107,379	157,742	357,748	37,981	35,609	72,419	109,796	255,805	613,553
Utilities	1,453,101	-	-	4,907	1,458,008	-	-	-	-	-	1,458,008
Husbandry/animals and collecting	373,406	-	-	-	373,406	-	-	-	-	-	373,406
Services	299,890	487,547	213,123	15,582	1,016,142	394,679	391,647	205,722	146,598	1,138,646	2,154,788
Supplies and other expendables	970,930	155,194	452,548	61,620	1,640,292	173,365	38,445	33,650	161,773	407,233	2,047,525
Postage, shipping, and courier	36,497	5,775	7,204	4,486	53,962	119,253	69,376	1,860	4,466	194,955	248,917
Information technology and telecommunications	15,489	4,437	96,439	1,753	118,118	1,759	8,900	3,216	238,511	252,386	370,504
Printing and publishing	-	19,277	-	-	19,277	244,890	359,449	3,157	2,444	609,940	629,217
Advertising, promotions, and public relations	843	20,271	4,442	89	25,645	7,948	1,928,208	-	3,626	1,939,782	1,965,427
Travel, meals, and training	113,798	93,103	21,653	-	228,554	20,420	15,293	45,895	52,278	133,886	362,440
Depreciation and amortization	1,628,445	321,046	528,415	11,210	2,489,116	9,609	24,022	9,609	711,814	755,054	3,244,170
Other	45,961	-	362,244	83,775	491,980	173,829	384,708	1,394	115,602	675,533	1,167,513
Total functional expenses	**$ 10,074,203**	**$ 3,529,173**	**$ 6,295,413**	**$ 3,863,483**	**$ 23,762,272**	**$ 2,200,619**	**$ 4,626,487**	**$ 1,114,947**	**$ 3,508,979**	**$ 11,451,032**	**$ 35,213,304**

AQUARIUM OF THE PACIFIC

STATEMENTS OF CASH FLOWS

Years Ended December 31, 2018 and 2017

	2018	2017
Cash flows from operating activities		
Change in net assets	$ 6,051,495	$ 4,619,661
Adjustments to reconcile change in net assets to net change in cash from operating activities:		
Depreciation and amortization expense	2,703,419	3,244,170
Loss on disposal of equipment	93,013	-
Provision for bad debts	134,034	34,650
Contributions restricted for long-term purposes	(4,693,694)	(2,587,365)
(Increase) decrease in:		
Accounts receivable	259,572	(238,555)
Contributions receivable	15,000	(46,000)
Gift store inventory	(62,806)	(1,293)
Prepaid expenses and other assets	102,058	(166,706)
Increase (decrease) in:		
Accounts payable	1,142,025	327,239
Accrued expenses	206,771	97,791
Deferred revenue	129,633	(64,751)
Net change in cash from operating activities	6,080,520	5,218,841
Cash flows from investing activities		
Purchases of equipment	(24,754,833)	(10,497,052)
Contributions restricted for long-term purposes	6,542,688	8,763,102
Net change in cash from investing activities	(18,212,145)	(1,733,950)
Cash flows from financing activities		
Proceeds from issuance of note payable	10,000,000	-
Net change in cash, cash equivalents, and restricted cash	(2,131,625)	3,484,891
Cash, cash equivalents, and restricted cash, beginning of year	21,016,004	17,531,113
Cash, cash equivalents, and restricted cash, end of year	**$ 18,884,379**	**$ 21,016,004**
Cash and cash equivalents	6,814,198	3,925,272
Restricted cash included in assets restricted to investment in buildings and equipment	12,070,181	17,090,732
Cash, cash equivalents, and restricted cash	**$ 18,884,379**	**$ 21,016,004**

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

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. The Aquarium's vision is to create an aquarium dedicated to conserving and building Natural Capital (Nature and Nature's services) by building Social Capital (the interactions between and among peoples).

In 2018, the Aquarium's increase in contribution revenue is related to the continued fund-raising efforts to complete its first major expansion. Pacific Visions is a $53 million addition to the existing structure. The grand opening will be in May 2019 and will include an art gallery, an orientation gallery, a culmination gallery and the signature component of the expansion will be a 314-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 includes contributions from various sources including: individuals, major corporations and foundations, and the largest gift from the City of Long Beach in the form of a challenge grant.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Presentation
The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

The accompanying financial statements include statements of financial position that present the amounts for each of the two classes of net assets: without donor restrictions and with donor restrictions. 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.

- Net assets without donor restrictions are not restricted by donors, or the donor-imposed restrictions have expired.

- Net assets with donor restrictions include those assets which have been limited by donors to later periods of time or for specified purposes. When a donor restriction is fulfilled, donor restricted net assets are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from net assets with donor restrictions. Contributions restricted for the acquisition of long-lived assets are reported as donor restricted net assets until such time as the long-lived assets are placed in service by the Corporation.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Use of Estimates
The preparation of financial statements in conformity with U.S. GAAP 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, Support and Change in Accounting Principle
On January 1, 2018, the Corporation adopted Financial Accounting Standards Board (FASB) ASC 606, *Revenue from Contracts with Customers (Topic 606)*, using the modified retrospective method applied to those contracts which were not completed as of January 1, 2018. The adoption of ASC 606 did not have a material impact on the Corporation's Statements of Financial Position and Statements of Activities; therefore, no cumulative adjustment to beginning retained earnings was required as a result of adoption. Prior years have not been restated.

The Corporation recognizes revenue for admission, merchandise and all other ancillary spending the day the transaction occurs when purchased onsite. Advanced admission sales products (which include offsite, web and third-party sales) and education revenue are carefully analyzed and considered for deferral treatment. Admission and education sales that are initially classified as deferred revenue are recognized once presented for redemption at the facility. Membership revenue is recognized over the related term of the agreement (typically 12 months) resulting in deferred revenue for contracts not completed at year end.

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

The Corporation records as revenue the following types of contributions under FASB ASC 958-605 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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Revenues, Support and Change in Accounting Principle (Continued)
Contributions, including endowment gifts and pledges, as well as any other unconditional promises to give, are recorded in the period pledged as unrestricted or donor 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, 2018 and 2017.

(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, 2018 and 2017, contributed services amounted to $355,532 and $385,148, respectively. During the years ended December 31, 2018 and 2017, contributions of goods amounted to $131,722 and $168,924, respectively.

(e) Cash, Cash Equivalents, and Restricted Cash
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. Cash and cash equivalents restricted for long-term purposes consists of amounts in demand deposit accounts.

(f) Gift Store Inventory
Gift store inventory consists of merchandise sold at the Corporation's gift store and are valued at the lower of cost (average cost method) or net realizable value. Net realizable value is defined as estimated selling price in the ordinary course of business less reasonably predictable costs of completion, disposal and transportation.

(g) Live Animal Inventory
The costs of purchasing or collecting live animals are expensed as incurred.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(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 term remaining

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

(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, 2018 and 2017.

(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, the financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include occupancy, depreciation, amortization, and property insurance which are allocated on a square footage basis, as well as general office expenses, information technology, interest, insurance, and other expenses, are allocated on the basis of estimates of time and effort. 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 $372,884 and $357,490 for the years ended December 31, 2018 and 2017, respectively. These fund-raising activities consist of ongoing annual campaigns and, as such, related revenues are not presented net of direct benefits to donors.

(k) Advertising

Advertising expenses are charged to expense as incurred. For the years ended December 31, 2018 and 2017, advertising expenses totaled $2,073,303 and $1,965,427, respectively.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(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 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, 2018 and 2017, 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.

(m) Estimated Fair Value of Financial Instruments

As defined in FASB ASC Topic 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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(m) Estimated Fair Value of Financial Instruments (Continued)

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, 2018 and 2017, the application of valuation techniques applied to similar assets and liabilities has been consistent.

(n) Changes in Accounting Principles
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 March 2016, the FASB issued ASU 2016-08, *Revenue from Contracts with Customers—Principal versus Agent Considerations (Reporting Revenue Gross Versus Net)*, which clarifies gross versus net revenue reporting when another party is involved in the transaction. In April 2016, the FASB issued ASU 2016-10, *Revenue from Contracts with Customers—Identifying Performance Obligations and Licensing*, which amends the revenue guidance on identifying performance obligations and accounting for licenses of intellectual property. 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 amends the guidance on performance obligation disclosures and makes technical corrections and improvements to the new revenue standard. Effective January 1, 2018, the Corporation adopted Topic 606 using the modified retrospective transition method. The adoption of Topic 606 did not have a material impact on the Corporation's results of operations or financial position.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(n) Changes in Accounting Principles (Continued)
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. The Corporation has adopted ASU 2016-01 for the year ended December 31, 2018, using a retrospective transition method. The adoption of ASU 2016-01 did not have a material impact on the Corporation's results of operations or financial position.

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. The Corporation has adopted ASU 2016-14 for the year ended December 31, 2018, using a retrospective transition method. As part of the adoption of ASU 2016-14, the Corporation changed its presentation of net asset classes and expanded the footnote disclosures as required by the ASU. A recap of the net asset reclassifications driven by the adoption of ASU 2016-14 as of December 31, 2017 follows:

	ASU 2016-14 Classifications		
	Without Donor Restrictions	With Restrictions	Total Net Assets
Net assets classifications, as previously presented			
Unrestricted	$ 19,967,354	$ -	$ 19,967,354
Temporarily restricted	-	34,323,688	34,323,688
Permanently restricted	-	498,432	498,432
Net assets, as reclassified	$ 19,967,354	$ 34,822,120	$ 54,789,474

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. The Corporation has adopted ASU 2016-15 for the year ended December 31, 2018 using a retrospective transition method. The adoption of ASU 2016-15 did not have a material impact on the Corporation's results of operations or financial position.

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*, which provides guidance on the presentation of restricted cash or restricted cash equivalents in the statement of cash flows. The Corporation has adopted ASU 2016-18 for the year ended December 31, 2018, using a retrospective transition method. The adoption of ASU 2016-18 did not have a material impact on the Corporation's results of operations or financial position.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(o) Recent Accounting Pronouncements
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. In July 2018, the FASB issued ASU 2018-10, *Codification Improvements to Topic 842, Leases*, which provides clarity on various narrow aspects of the original guidance. Also, in July 2018, the FASB issued ASU 2018-11, *Leases (Topic 842): Targeted Improvements*, which amends the lease guidance on separating components of a contract. In December 2018, the FASB issued ASU 2018-20, *Leases (Topic 842): Narrow-Scope Improvements for Lessors*, which provides an accounting policy election for lessors. In March 2019, the FASB issued ASU 2019-01, *Leases (Topic 842): Codification Improvements*, which clarifies the lease codification surrounding fair value determination, presentation on the cash flow statement, and transition disclosure. The standards are effective for annual and interim reporting periods within those years beginning after December 15, 2018, and early adoption is permitted. This ASU should be applied through a modified, retrospective transition approach for leases existing at—or entered into after—evaluation, at 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 June 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. ASU 2018-08 clarifies the guidance for evaluating whether a transaction is reciprocal (i.e., an exchange transaction) or nonreciprocal (i.e., a contribution) and for distinguishing between conditional and unconditional contributions. The ASU also clarifies the guidance used by entities other than not-for-profits to identify and account for contributions made. ASU 2018-08 is effective for annual and interim reporting periods within those years beginning after June 15, 2018. The Corporation's management is in the process of evaluating the impact of these rules on the Corporation's financial statements.

Other accounting standards updates not effective until after December 31, 2018 are not expected to have a material effect on the Company's financial position or results of operations.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(p) 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, 2018 and 2017, the Corporation's deposits exceeded insured amounts by $0 and $673,240, respectively. The remainder of cash and cash equivalents held at December 31, 2018 and 2017 is uninsured and amounts to $18,520,919 and $20,337,684, 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.

Contribution Receivables
For the year ended December 31, 2018, there were four donors that accounted for 86% of contribution receivables. For the year ended December 31, 2017, there were two donors that accounted for 76% of contribution receivables.

Contribution Revenues
For the year ended December 31, 2018, there were two donors that accounted for 30% of contribution revenues. For the year ended December 31, 2017, there was one donor that accounted for 20% of contribution revenues.

NOTE 3 – BUSINESS ACTIVITY AND NOTE PAYABLE

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.

NOTE 3 – BUSINESS ACTIVITY AND NOTE PAYABLE (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 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.

NOTE 3 – BUSINESS ACTIVITY AND NOTE PAYABLE (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. Donor-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.

On November 15, 2017, an Amended and Restated Implementation Agreement was made and entered by and between the Corporation and the Authority. In the amendment, the City agreed to make a loan to the Corporation in an amount equal to $10,190,000 for the purposes of bridging capital campaign expansion pledges due (to the Corporation in future years) with construction payments due to complete facility expansion. In order to provide funds for the note payable, the City issued Tidelands Revenue Bonds, Series 2017A (Aquarium of the Pacific Project). Of the $10,190,000, $10,000,000 is available to be drawn on. Additional reporting of the construction costs and pledged and collection of funds due to the Corporation are requirements to the Authority under the Amended and Restated Implementation Agreement. As of December 31, 2018, the Corporation has drawn all funds from the City of Long Beach and expended them on the expansion project under the agreement resulting in $10,000,000 outstanding on the note payable under the agreement. The agreement requires interest payments ranging from 2.5% to 3.0% due annually through the maturity date of October 15, 2027. As of December 31, 2018 and 2017, accrued interest was $53,027 and $40,763, respectively, which is included in accrued expenses in the accompanying statements of financial position.

As of December 31, 2018, scheduled principle payments of the debt were as follows:

Year Ending December 31,	
2019	$ -
2020	1,200,000
2021	1,215,000
2022	1,235,000
2023	1,255,000
Thereafter	5,095,000
Total	**$ 10,000,000**

NOTE 4 – CONTRIBUTIONS RECEIVABLE

At December 31, 2018 and 2017, the Corporation had the following contributions receivable:

	2018	2017
Due within one year	$ 2,430,160	$ 3,739,500
Due between one to five years	1,570,000	2,235,000
Total	4,000,160	5,974,500
Present value discount	(187,334)	(297,680)
Total contributions receivable, net	**$ 3,812,826**	**$ 5,676,820**

The Corporation uses a credit-adjusted discount rate of 8.00% to calculate the present value discount for contributions receivable.

As of December 31, 2018 and 2017, contributions receivable due from Board Members amounted to $525,000 and $2,087,500, respectively. During the years ended December 31, 2018 and 2017, contribution revenues from Board Members amounted to $1,294,490 and $372,996, respectively.

NOTE 5 – PROPERTY AND EQUIPMENT

Property and equipment at December 31, 2018 and 2017 consisted of the following:

	2018	2017
Equipment	$ 22,633,484	$ 22,480,776
Building	16,841,732	16,841,779
Furniture and fixtures	6,461,139	6,249,088
Leasehold improvements	24,712	24,712
Construction in progress	39,366,256	15,425,910
	85,327,323	61,022,265
Less accumulated depreciation and amortization	(30,698,594)	(28,351,937)
Property and equipment, net	**$ 54,628,729**	**$ 32,670,328**

The Corporation capitalizes interest as a component of the cost of property and equipment constructed for its own use. During the year ended December 31, 2018, total interest incurred and capitalized was $256,895. During the year ended December 31, 2017, total interest incurred and capitalized was $40,763.

NOTE 6 – NET ASSETS WITH DONOR RESTRICTIONS

As of December 31, 2018 and 2017, net assets with donor restrictions are restricted for the following purposes:

	2018	2017
Subject to expenditure for specified purposes:		
Marketing	$ 242	$ 242
Scholarship	216,650	99,660
Education and conservation	245,089	343,361
Equipment and construction	38,494,055	33,853,943
Total	38,956,036	34,297,206
Gifts subject to restrictions in perpetuity:		
Education and conservation	498,432	498,432
Unappropriated endowment earnings	27,269	26,482
Total assets with donor restrictions	**$ 39,481,737**	**$ 34,822,120**

During the years ended December 31, 2018 and 2017, net assets are released from donor restrictions by incurring expenses satisfying the restricted purposes as follows:

	2018	2017
Satisfaction of purpose restrictions:		
Education and Conservation	$ 438,275	$ 336,093
Equipment and Construction	58,974	458,216
Scholarship	252,295	277,222
Total	**$ 749,544**	**$ 1,071,531**

NOTE 7 – ENDOWMENT FUNDS

The Corporation's endowment consists of five donor restricted funds primarily established to support education and conservation programs. As required by U.S. GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor imposed restrictions.

As of December 31, 2018 and 2017, the Corporation had the following endowment net asset composition by type of fund:

	2018	2017
Original donor-restricted gift amount and Amounts required to be maintained in Perpetuity by donor	$ 498,432	$ 498,432
Accumulated investment gains	27,269	26,482
Balance, end of the year	**$ 525,701**	**$ 524,914**

During the years ended December 31, 2018 and 2017, the donor restricted endowment funds had the following activity:

	2018	2017
Balance, beginning of the year	$ 524,914	$ 524,439
Endowment Expenditures (if any)	-	(60)
Total gains, net of change in valuation allowance	787	535
Balance, end of the year	**$ 525,701**	**$ 524,914**

(a) Return Objectives and Risk Parameters
Effective January 1, 2009, the State of California adopted the Uniform Prudent Management of Institutional Funds Act (UPMIFA).

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.

NOTE 7 – ENDOWMENT FUNDS (Continued)

(a) Return Objectives and Risk Parameters (Continued)
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, 2018 and 2017, there were no deficiencies of this nature.

(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 - AVAILABLE RESOURCES AND LIQUIDITY

The following table reflects the Corporation's financial assets as of December 31, 2018 and 2017 that are without donor or other contractual restrictions limiting their use and are available to meet general expenditures within one year of the date of the statement of financial position.

	2018	2017
Cash and cash equivalents	$ 5,881,284	$ 2,947,899
Accounts receivable, net	766,421	850,235
Contributions receivable	-	75,000
Financial assets available to meet cash needs for general expenditures within one year	**$ 6,647,705**	**$ 3,873,134**

In addition, the Corporation has access to a cash balance which exceeds $5.3 million that is held with US Bank (the trust which manages the City/Corporation relationship as disclosed through the implementation agreement in Note 3). This account is titled operating reserve and is specifically designated to facilitate meeting any cash obligations that the Corporation may need in the short term. Since inception of this operating reserve account in 2006, the Corporation has never needed to utilize these funds and carefully manages cash flow in accordance with the annual budget approved by the Board of Directors.

NOTE 8 - AVAILABLE RESOURCES AND LIQUIDITY (Continued)

When establishing the business plan and annual budget each year, the Corporation's management and directors evaluate financial assets available to meet general expenditures over the year and predictable sources of earned revenue. When determining available resources for a year, the Corporation supplements the financial assets available in the next year with revenues from certain earned income sources:

- Admission Sales - expected ticket sales are estimated based on assumptions of seasonality and attendance.

- Membership and Ancillary Sales - expected annual membership sales and other components of revenue such as retail sales, food and beverage commissions, and special encounters/behind the scene tour income are estimated based on historical capture rates on attendance.

- Contributions - expected gifts and contributions are reasonably predicted based on invitations for proposals, annual giving programs and history and on site giving (based on attendance per capita budgeted).

Comparing these cash inflow sources to budgeted expenses reveals funding that may or may not be required to be raised to meet the budget year to achieve a balance budget.

NOTE 9 – RETIREMENT PLAN

The Corporation offers a 457 plan covering substantially all employees. For the years ended December 31, 2018 and 2017, participants in the plan could make contributions up to Internal Revenue Service maximums. For the years ended December 31, 2018 and 2017, the Corporation contributed an additional amount equal to 50% and 25%, respectively, 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 $18,500 and $18,000, respectively, for the years ended December 31, 2018 and 2017. Participants are 100% vested in all plan contributions plus actual earnings thereon. The Corporation's contribution was $170,357 and $87,465 for the years ended December 31, 2018 and 2017, respectively.

NOTE 10 – 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 $51,937. Total rent expense under these lease agreements for the years ended December 31, 2018 and 2017 was $797,656 and $610,214, respectively.

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

Year Ending December 31,	Total
2019	$ 632,739
2020	646,608
2021	572,800
2022	363,437
2023	362,069
Thereafter	91,181
Total	**$ 2,668,834**

(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, 2018 and 2017.

(c) Construction Project
As part of the Pacific Visions construction project which broke ground in 2017, the Corporation entered into a construction agreement. As of December 31, 2018, the Corporation still owes $1,338,712 to complete the project, which will become due as work is completed on the project.

NOTE 11 – SUBSEQUENT EVENTS

Management evaluated all activity through April 26, 2019 (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.