

THE FLORIDA AQUARIUM, INC.

Basic Financial Statements and Schedules
as Required by the *Rules of the Auditor General*

September 30, 2003

(With Independent Auditors' Report Thereon)

THE FLORIDA AQUARIUM, INC.

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KPMG LLP
Suite 1700
100 North Tampa Street
Tampa, FL 33602

Independent Auditors' Report

Board of Directors
The Florida Aquarium, Inc.:

We have audited the accompanying balance sheet of The Florida Aquarium, Inc., a component unit of the City of Tampa, Florida, as of September 30, 2003, and the related statements of revenues, expenses, and changes in net assets, and cash flows for the year then ended. These financial statements are the responsibility of The Florida Aquarium, Inc.'s management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from The Florida Aquarium, Inc.'s 2002 financial statements which were audited by other auditors whose report thereon dated November 18, 2002, on those statements included an explanatory paragraph that described the adoption of new financial reporting standards discussed in note 1 to the financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Florida Aquarium, Inc. as of September 30, 2003, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 17, 2003 on our consideration of The Florida Aquarium, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis on pages 3 through 10 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.



Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental schedule of state financial assistance is presented for purposes of additional analysis as required by Chapter 10.650, *Rules of the Auditor General* and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

KPMG LLP

November 17, 2003

THE FLORIDA AQUARIUM, INC.

Management's Discussion and Analysis

September 30, 2003

This annual financial report consists of three parts: management's discussion and analysis, the basic financial statements, and reports and schedules as required by *Rules of the Auditor General*. The basic financial statements also include notes that explain in more detail some of the information in the basic financial statements.

This section of The Florida Aquarium, Inc.'s (the Aquarium) annual financial report presents management's analysis of the Aquarium's financial performance during the fiscal year ended September 30, 2003. Please read it in conjunction with the basic financial statements, which follow this section.

Financial Highlights

	2003		
	Actual	Versus budget	Versus last year
Attendance	582,199	(1)%	0%
Turnstile revenues	\$ 6.7 million	0%	6%
Operating contributions, memberships, and grants	2.2 million	1%	2%
Operating expenses	8.9 million	0%	6%

	2002		
	Actual	Versus budget	Versus last year
Attendance	582,415	2%	(6)%
Turnstile revenues	\$ 6.3 million	0%	(3)%
Operating contributions, memberships, and grants	2.2 million	0%	0%
Operating expenses	8.4 million	0%	0%

In fiscal 2001, the Aquarium realized its second highest attendance year with the opening of the "SeaHunt" exhibit, the new DolphinQuest program and events related to Superbowl XXXV. In contrast, fiscal 2002 began just after the terrorist events of September 11th. The Aquarium was able to adjust its fiscal 2002 budget to reflect the impact of these events on tourism, the economic markets, philanthropic giving and discretionary spending; therefore, actual financial results were within budgeted expectations, but below fiscal 2001 results. In fiscal 2003, the Aquarium continued to adjust to external factors such as a sluggish economy, low tourism, and the war in Iraq. Despite these negative economic indicators, the Aquarium was able to generate over \$400,000 more in turnstile revenues than in fiscal 2002. Even though attendance was flat in relation to fiscal 2002, admission revenue exceeded budgets and community programs, grant revenues and membership revenues were at their highest ever. The Aquarium introduced new revenue-generating programs in fiscal 2003: behind-the-scenes tours and guest dive experiences ("Dive With the Sharks" and "Swim With the Fishes"). These programs generated operating surpluses during their first year, even after absorbing start-up costs. The Aquarium received its AZA (American Zoo and Aquarium Association) re-accreditation in fiscal 2003, after an extensive application and physical inspection process. Approximately \$50,000 was spent in labor, supplies, exhibit enhancements, repairs and maintenance related to the AZA accreditation. As a result, fiscal years 2003 and 2002 produced operating income (before depreciation, nonoperating revenues and expenses, and capital contributions) of \$37,000 and \$55,000, respectively.

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Management's Discussion and Analysis

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Required Financial Statements

The basic financial statements of the Aquarium report information about the Aquarium using accounting methods similar to those used by private sector companies. These statements offer short and long-term financial information about its activities. The balance sheet includes all of the Aquarium's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and obligations to Aquarium creditors (liabilities). The assets and liabilities are presented in a classified format, which distinguishes between current and long-term assets and liabilities. It also provides the basis for computing rate of return, evaluating the capital structure of the Aquarium and assessing the liquidity and financial flexibility of the Aquarium. All of the current year's revenues and expenses are accounted for in the statement of revenues, expenses and changes in net assets. This statement measures the success of the Aquarium's operations over the past year and can be used to determine whether the Aquarium has successfully recovered all its costs through its activities, as well as its profitability and credit worthiness. The final required financial statement is the statement of cash flows. The primary purpose of this statement is to provide information about the Aquarium's cash receipts and cash payments during the reporting period. The statement reports cash receipts, cash payments and net changes in cash resulting from operating, investing and capital and related financing activities and provides answers to such questions as where did cash come from, what was cash used for, and what was the change in the cash balance during the reporting period.

Financial Analysis of the Aquarium

Our analysis of the Aquarium begins with the balance sheet. One of the most important questions asked about the Aquarium's finances is, "Is the Aquarium as a whole better off or worse off as a result of the year's activities?" The balance sheet and the statement of revenues, expenses and changes in net assets report information about the Aquarium's activities in a way that will help answer this question. These two statements report the net assets of the Aquarium and changes in net assets. You can think of the Aquarium's net assets – the difference between assets and liabilities – as one way to measure financial health or financial position. Over time, increases or decreases in the Aquarium's net assets are one indicator of whether its financial health is improving or deteriorating. However, you will need to consider other nonfinancial factors such as changes in economic conditions, the tourism industry, population growth, regulation, and new or changed government legislation.

THE FLORIDA AQUARIUM, INC.

Management's Discussion and Analysis

September 30, 2003

Net Assets (Balance Sheet)

To begin our analysis, a summary of the Aquarium's net assets (balance sheet) is presented in Table A-1.

Table A – 1
Summary of Net Assets (Balance Sheet)

(Dollars in thousands)

	<u>FY 2003</u>	<u>FY 2002</u>	<u>Dollar change</u>	<u>Total percent change</u>
Current assets	\$ 1,915	1,289	626	49%
Noncurrent assets:				
Capital assets, net	374	447	(73)	(16)%
Restricted investments in endowment funds	<u>264</u>	<u>199</u>	<u>65</u>	33%
Total assets	<u>2,553</u>	<u>1,935</u>	<u>618</u>	32%
Current liabilities	2,923	2,153	770	36%
Noncurrent liabilities	<u>220</u>	<u>320</u>	<u>(100)</u>	(31)%
Total liabilities	<u>3,143</u>	<u>2,473</u>	<u>670</u>	27%
Net assets (deficit):				
Invested in capital assets, net of related debt	54	38	16	42%
Restricted	264	199	65	33%
Unrestricted deficit	<u>(908)</u>	<u>(775)</u>	<u>(133)</u>	(17)%
Total net deficit	<u><u>\$ (590)</u></u>	<u><u>(538)</u></u>	<u><u>(52)</u></u>	(10)%

The fiscal 2003 increase in current assets and current liabilities is primarily the result of an increase in restricted cash and the related accounts payable and deferred revenue. This restricted cash is for master planning purposes and the new "Explore A Shore" exhibit which will open in the spring of 2004.

Total net assets (deficit) decreased by \$52,000 and \$202,000 to a net deficit of \$590,000 and \$538,000 in 2003 and 2002, respectively. As discussed earlier, operations realized a \$37,000 and \$55,000 surplus and nonoperating revenues and expenses plus contributions netted a \$76,000 and \$12,000 surplus in 2003 and 2002, respectively. The remaining item included in the change in net assets is \$166,000 and \$270,000 in 2003 and 2002, respectively, for depreciation expense – a noncash item.

Net assets "invested in capital assets, net of related debt" is \$54,000 at September 30, 2003. During fiscal 2003, there were \$93,000 of capital asset additions, consisting primarily of a new gift store retail computer system, education van, and a husbandry truck. The depreciation expense referred to above is reflected in this net asset class. A phone system was acquired in fiscal year 2002 with a capital lease, so the outstanding balance of that lease, is reflected in this net asset class. The outstanding balance on the bank note related to the Eco-tour boat also is reflected in this net asset class.

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Management's Discussion and Analysis

September 30, 2003

“Restricted” net assets are \$264,000 at September 30, 2003. This net asset class represents the total fair value of the Aquarium’s endowment funds. Contributions totaling \$17,500 were received and recognized in fiscal 2003. During fiscal year 2003, a \$47,000 increase in the fair value of restricted investments was recorded.

The remaining net asset balance is “unrestricted.” The balance actually shows a deficit of (\$908,000) at September 30, 2003. The Aquarium’s early financial history was unstable. Through 1997, operating expenses exceeded revenues, and prior to the City of Tampa’s (the City) acquisition of the assets and assumption of debt, the Aquarium was strapped with significant debt and interest payments. Business and organizational restructuring occurred in 1997 and 1998 to help stabilize the yearly budget, and from 1999 through the present, the Aquarium has managed to achieve breakeven or slightly better results against the operating budget. However, until the Aquarium can achieve significant operating surpluses that also covers depreciation and reduces the accounts payable and accrued expenses balances that were created during its early history, the Aquarium’s long-term stability may not improve.

Capital Assets

The Aquarium’s capital assets, net of accumulated depreciation at September 30, 2003, were \$374,000 compared to \$447,000 last year. The net decrease of \$73,000 was primarily related to the fiscal year 2003 depreciation expense of \$166,000 offset by capital asset additions of \$93,000. Please refer to note 5 in the accompanying financial statements for additional information on the Aquarium’s fiscal year 2003 capital asset activities.

Debt Administration

The Aquarium’s noncurrent liabilities at September 30, 2003 were \$220,000 compared to \$320,000 last year. Noncurrent liabilities include a capital lease obligation and note payable. Please refer to notes 5 and 7 in the accompanying financial statements for additional information on the Aquarium’s noncurrent liability activities.

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Table A – 2
Summary of Revenues, Expenses, and Changes in Net Assets

(Dollars in thousands)

	<u>FY 2003</u>	<u>FY 2002</u>	<u>Dollar change</u>	<u>Total percent change</u>
Operating revenues:				
Admissions	\$ 4,613	4,240	373	9%
Contributions, memberships, and grants	2,228	2,181	47	2%
Gift shop sales	1,088	1,109	(21)	(2)%
Other	1,018	959	59	6%
	<u>8,947</u>	<u>8,489</u>	<u>458</u>	<u>5%</u>
Operating expenses:				
Salaries and benefits	4,592	4,419	173	4%
Advertising and promotions	623	586	37	6%
Gift shop cost of goods sold	547	545	2	0%
Occupancy-related	1,347	1,236	111	9%
Insurance	556	384	172	45%
Other	1,245	1,264	(19)	(2)%
	<u>8,910</u>	<u>8,434</u>	<u>476</u>	<u>6%</u>
Operating income before depreciation	37	55	(18)	(33)%
Depreciation	(166)	(270)	104	39%
Operating loss	(129)	(215)	86	40%
Nonoperating revenues	58	10	48	480%
Nonoperating expenses	(832)	(316)	(516)	(163)%
Loss before capital contributions	(903)	(521)	(382)	(74)%
Capital contributions	851	319	532	167%
Change in net assets	(52)	(202)	150	74%
Beginning net assets (deficit)	(538)	(336)	(202)	(60)%
Ending net assets (deficit)	<u>\$ (590)</u>	<u>(538)</u>	<u>(52)</u>	<u>(10)%</u>

Operating Turnstile Revenues

Attendance and related turnstile revenues reflect a shift in the Aquarium's customer base from fiscal 2001 and prior to fiscal 2002 and fiscal 2003. Due to the sluggish economic environment, the Aquarium's guests generally

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sought out discounted admissions and spent less when inside the building at the gift shop and in the cafeteria than in prior years. Fortunately, main gate price increases, the reduction of discount programs and promotions, and the most successful evening event admissions revenues in Aquarium history helped offset these shortfalls. During fiscal 2002, the Aquarium's parking lot was impaired by construction in the surrounding area by the Tampa Port Authority (the Port) and the City. The new construction has permanently reduced the Aquarium's parking lot by 45%. The fiscal 2003 budget included \$200,000 from the City to compensate the Aquarium for lost parking revenues. Due to positive financial results, only \$150,000 was actually needed from the City. The Aquarium's fiscal 2004 budget does not anticipate needing any City assistance regarding parking revenues. Following is a table of guest's average per capita spending for each turnstile revenue category:

	<u>FY 2003</u>	<u>FY 2002</u>
Admissions	\$ 7.22	6.79
Gift shop	1.87	1.90
Restaurant	3.25	3.29
Parking	0.85	0.67
Miscellaneous	0.08	0.08
Total	<u>\$ 13.27</u>	<u>12.73</u>

Operating Contributions, Memberships, and Grants

Operating contributions, memberships, and grants include donations to the Aquarium's annual fund by individuals and corporations; grants from state and local governments, agencies and foundations; annual memberships; and special fundraising events. This category also includes the annual contributions from the City to balance the Aquarium's cash flow operating budget per contractual agreement. In fiscal 2003, the Aquarium was awarded a \$112,500 Institute of Museum and Learning Services operating grant for the first time. The Aquarium received the entire \$112,500 in fiscal 2003. The Aquarium recorded \$56,250 in grant revenues and deferred the remaining \$56,250 as it is restricted for 2004 activities. The Aquarium's household membership base increased from 11,000 in fiscal 2002 to 13,000 in fiscal 2003. In fiscal 2002, due to the losses experienced in the stock market and overall economic downturn, the Aquarium experienced significant shortfalls in gifts and sponsorships from corporations. Several foundations were unable to repeat annual gifts due to stock market losses. One foundation, that also happened to be the Aquarium's most supportive donor since inception, liquidated in fiscal 2002. Fortunately, a \$2 million gift to be received by the City from this foundation in fiscal 2006 was paid in fiscal 2002 upon liquidation. Of this \$2 million, the Aquarium received \$300,000 in fiscal 2002, which is reflected in operating contributions, memberships, and grants in the accompanying statement of revenues, expenses and changes in net assets. In fiscal 2003, an additional \$300,000 was received to be used for master planning purposes. As of September 30, 2003, this amount is reflected in restricted cash and cash equivalents and deferred revenue related to restricted assets until eligibility requirements have been met, including expenditure of funds for eligible costs. The remaining \$1.4 million is being held by the City to be distributed to the Aquarium, subject to City Council approval, upon the satisfaction of certain contingencies,

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including the completion of various expansion projects. Following is a detail of operating contributions, memberships, and grants:

	<u>FY 2003</u>	<u>FY 2002</u>
Annual fund – individual	\$ 136,730	77,956
Annual fund – corporate	36,725	52,250
Grants	409,314	605,336
Memberships	656,890	632,169
Special events	139,095	113,047
City of Tampa	850,000	700,000
Total	<u>\$ 2,228,754</u>	<u>2,180,758</u>

Operating Expenses

The Aquarium's most significant operating expense is salaries and related taxes, insurance, and benefits. The 4% increase in salaries and benefits from fiscal 2002 to 2003 is attributed to the addition of divers to conduct the new guest dive experiences and increases in health insurance premiums. No salary/merit increases were given in fiscal 2003.

Significant premium increases in property insurance occurred during the Aquarium's third quarter in fiscal 2002. A 400% premium increase occurred (\$300,000), but it was not related to the Aquarium's claims history. In fact, the Aquarium has never had a property claim during its existence. The increase was attributed to losses suffered by the re-insurance companies related to September 11th events; the Aquarium's proximity to the Port (a terrorist risk); a tourist attraction (also a terrorist risk); and its location on the water (a hurricane – wind and flood risk). This is why the City contribution increased by \$150,000 in fiscal 2003.

Another unexpected expense during fiscal 2002 was approximately \$100,000 in executive search firm fees and expenses related to filling the President/CEO position at the Aquarium. This fee is included in professional services in the accompanying statement of revenues, expenses and changes in net assets. The decrease in this balance for fiscal 2003 is directly related to this item.

Nonoperating Revenues and Expenses and Capital Contributions

Aquarium management's primary focus is on operations; however, the following information is useful in understanding the Aquarium's overall financial position.

Besides raising funds to support operations, the Aquarium's development team also raises funds for capital improvements and exhibit enhancements. During fiscal 2003, approximately \$851,000 of capital contributions were raised, including \$17,500 of endowment contributions. Almost \$795,000 was spent on exhibit enhancements, which are improvements to the Aquarium facility or new exhibitry. Since the City owns the actual land and building, any improvements to their assets that are funded by the Aquarium are reflected in the statement of revenues, expenses and changes in net assets as nonoperating expenses. In fiscal 2003, over \$670,000 has been spent on the new "Explore A Shore" children's outdoor play area, scheduled to open in Spring 2004. This exhibit is funded through private contributions and a \$500,000 Cultural Facilities grant from the State of Florida.

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Fiscal 2004 Outlook

Tourism and the economy are expected to remain slow during fiscal 2004. As such, the fiscal 2004 budgeting process has followed fiscal 2003 results. Attendance has been projected at 595,000, just 13,000 visits more than fiscal 2003. Similar visitor patterns observed in fiscal 2003 are expected to repeat. Turnstile revenue and attendance growth is dependent on the successful opening of "Explore A Shore" in Spring 2004. This exhibit is expected to increase visitor attendance, length-of-stay, per capita spending and membership sales. An additional \$100,000 in marketing and advertising expenses are planned to promote the new exhibit. Additional staffing and operating expenses are also expected. Contributions from individuals, grants and corporations are also expected to improve towards the end of the year.

The City's budgeted contribution has remained the same at \$850,000. All other expense items are budgeted to remain consistent with fiscal 2003. Another breakeven year is budgeted. A ten-year master planning process will begin in fiscal 2004. Once the master plan is finished, it is the intention of management, with City Council approval, to draw upon the \$1.4 million the City is holding on behalf of the Aquarium to help fund the capital campaign feasibility study.

Requests for Information

This financial report is designed to provide a general overview of The Florida Aquarium, Inc.'s finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Chief Financial Officer, The Florida Aquarium, Inc., 701 Channelside Drive, Tampa, Florida, 33602.

THE FLORIDA AQUARIUM, INC.

Balance Sheet

September 30, 2003

(With comparative amounts for 2002)

Assets	2003	2002
Current assets:		
Cash and cash equivalents	\$ 146,181	69,453
Restricted cash and cash equivalents	1,114,045	394,504
Accounts receivable, net of allowance for doubtful accounts of \$12,500 in 2003 and \$7,500 in 2002	301,263	424,489
Inventories	316,195	362,804
Other current assets	36,847	37,468
Total current assets	1,914,531	1,288,718
Noncurrent assets:		
Capital assets, net	374,594	447,485
Restricted investments in endowment funds	263,716	199,152
Total noncurrent assets	638,310	646,637
Total assets	\$ 2,552,841	1,935,355
Liabilities and Net Assets (Deficit)		
Current liabilities:		
Accounts payable and accrued expenses	\$ 1,266,389	1,275,591
Accounts payable from restricted assets	245,067	9,050
Current maturities of note payable	76,048	69,247
Current maturities of capital lease obligation	24,252	20,284
Deferred revenue	442,483	393,717
Deferred revenue related to restricted assets	868,978	385,454
Total current liabilities	2,923,217	2,153,343
Noncurrent liabilities:		
Note payable, net of current maturities	218,117	293,727
Capital lease obligation, net of current maturities	2,223	26,475
Total noncurrent liabilities	220,340	320,202
Total liabilities	3,143,557	2,473,545
Net assets (deficit):		
Invested in capital assets, net of related debt	53,954	37,752
Restricted net assets:		
Unrealized increase in fair value of investments	90,116	43,052
Endowment funds corpus	173,600	156,100
Unrestricted deficit	(908,386)	(775,094)
Total net deficit	(590,716)	(538,190)
Total liabilities and net assets (deficit)	\$ 2,552,841	1,935,355

See accompanying notes to basic financial statements.

THE FLORIDA AQUARIUM, INC.

Statement of Revenues, Expenses, and Changes in Net Assets

Year ended September 30, 2003
(With comparative amounts for 2002)

	<u>2003</u>	<u>2002</u>
Operating revenues:		
Turnstile revenues:		
Admissions	\$ 4,613,369	4,240,089
Gift shop sales	1,087,982	1,109,433
Restaurant sales, net of direct expenses	264,033	299,931
Parking revenue	494,133	389,881
Community programs revenue	222,783	222,276
Miscellaneous revenue	35,822	46,354
Total turnstile revenues	<u>6,718,122</u>	<u>6,307,964</u>
Contributions, memberships, and grants	2,228,754	2,180,758
Total operating revenues	<u>8,946,876</u>	<u>8,488,722</u>
Operating expenses:		
Salaries and benefits	4,592,457	4,419,041
Advertising and promotions	622,681	585,659
Gift shop cost of goods sold	547,136	544,876
Occupancy-related	1,347,193	1,236,293
Insurance	556,182	384,336
Professional services	269,613	409,754
Animals, plants, and food	179,032	168,961
Other operating expenses	795,404	684,547
Total operating expenses	<u>8,909,698</u>	<u>8,433,467</u>
Operating income before depreciation	37,178	55,255
Depreciation	<u>(165,738)</u>	<u>(270,033)</u>
Operating loss	<u>(128,560)</u>	<u>(214,778)</u>
Nonoperating revenues (expenses):		
Exhibit enhancements	(794,360)	(249,361)
Interest income	11,116	9,546
Interest expense	(38,796)	(47,190)
Net increase (decrease) in fair value of restricted investments	47,064	(19,742)
Net nonoperating expenses	<u>(774,976)</u>	<u>(306,747)</u>
Loss before capital contributions	<u>(903,536)</u>	<u>(521,525)</u>
Capital contributions	<u>851,010</u>	<u>318,959</u>
Change in net assets	<u>(52,526)</u>	<u>(202,566)</u>
Net assets (deficit), beginning of year	<u>(538,190)</u>	<u>(335,624)</u>
Net assets (deficit), end of year	<u>\$ (590,716)</u>	<u>(538,190)</u>

See accompanying notes to basic financial statements.

THE FLORIDA AQUARIUM, INC.

Statement of Cash Flows

Year ended September 30, 2003
(With comparative amounts for 2002)

	<u>2003</u>	<u>2002</u>
Cash flows from operating activities:		
Cash received from turnstile operations	\$ 7,514,099	6,818,740
Cash received from contributions, memberships, and grants	2,314,202	1,973,737
Cash paid to employees	(3,909,045)	(3,811,436)
Cash paid to vendors	(4,952,517)	(4,978,941)
Net cash provided by operating activities	<u>966,739</u>	<u>2,100</u>
Cash flows from capital and related financing activities:		
Capital contributions	851,010	318,959
Capital expenditures	(92,847)	(39,645)
Exhibit enhancements	(794,360)	(249,361)
Repayments of note payable	(68,809)	(37,026)
Interest paid on note payable	(31,999)	(38,030)
Repayments of capital lease	(20,284)	(22,601)
Interest paid on capital lease	(6,797)	(9,160)
Net cash used in capital and related financing activities	<u>(164,086)</u>	<u>(76,864)</u>
Cash flows from investing activities:		
Purchase of investments	(17,500)	(19,300)
Interest received	11,116	9,546
Net cash used in investing activities	<u>(6,384)</u>	<u>(9,754)</u>
Net increase (decrease) in cash and cash equivalents	796,269	(84,518)
Cash and cash equivalents, beginning of year	<u>463,957</u>	<u>548,475</u>
Cash and cash equivalents, end of year	<u>\$ 1,260,226</u>	<u>463,957</u>
Reconciliation of operating loss to net cash provided by operating activities:		
Operating loss	\$ (128,560)	(214,778)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation	165,738	270,033
Provision for uncollectible accounts receivable	5,000	3,375
Changes in operating assets and liabilities:		
Accounts receivable	118,226	54,733
Inventories	46,609	(61,866)
Other current assets	621	(24,308)
Accounts payable and accrued expenses	226,815	(83,318)
Deferred revenue	532,290	58,229
Net cash provided by operating activities	<u>\$ 966,739</u>	<u>2,100</u>
Noncash items:		
Acquisition of capital asset through capital lease	\$ —	69,360
Net increase (decrease) in fair value of investments	<u>\$ 47,064</u>	<u>(19,742)</u>

See accompanying notes to basic financial statements.

THE FLORIDA AQUARIUM, INC.

Notes to Basic Financial Statements

September 30, 2003

(1) Reporting Entity

The Florida Aquarium, Inc. (the Aquarium) was incorporated December 12, 1986, in the State of Florida, as a not-for-profit organization. Construction of an aquarium (the Facility) was completed and opened to the public in March 1995. In October 1996, the Aquarium sold the Facility and related assets to the City of Tampa, Florida, (the City) and entered into an agreement with the City for management of the Facility (the Management Agreement). The Management Agreement defines the rights and obligations of both the City and Aquarium management, and expires September 30, 2005. Under the Management Agreement, after the City has approved the Aquarium's annual budget, the City is responsible for reimbursing the Aquarium for any deficiency of revenues and support received over expenses incurred, if the expenses were included in the annual budget approved by the City. The City approved the Aquarium's annual plan for the year ending September 30, 2004, on September 25, 2003. The Aquarium's mission is to entertain, educate and inspire stewardship about our natural environment.

The Florida Aquarium Foundation, Inc. (the Foundation) was incorporated October 10, 1996 in the State of Florida, as a not-for-profit organization. The Foundation was created exclusively to solicit and receive contributions to be disbursed and used for charitable, education, and specific purposes, including the making of distributions for such purposes to organizations that qualify as exempt organizations under Section 501(c)(3) of the Internal Revenue Code of 1986, as amended. Unless otherwise determined by the Foundation's Board of Directors, the recipient of such distributions shall be the Aquarium. The financial activities of the Foundation began in October 2002 and, while immaterial for fiscal 2003, are combined with the activities of the Aquarium in these financial statements.

The Aquarium is reported as a discretely presented component unit in the City's basic financial statements. The Aquarium's financial statements are presented in accordance with the provisions of the Governmental Accounting Standards Board (GASB) as an enterprise fund, as they are considered a special purpose government engaged solely in business-type activities.

(2) Summary of Significant Accounting Policies and Practices

(a) Basis of Accounting

The financial statements of the Aquarium are accounted for on the flow of economic resources measurement focus and uses the accrual basis of accounting, whereby revenues are recognized when earned and expenses are recognized when incurred. The accounting and reporting policies of the Aquarium conform with the accounting rules prescribed by GASB. The Aquarium has elected under GASB Statement No. 20, Paragraph 7, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, to apply all applicable Financial Accounting Standards Board (FASB) Statements and Interpretations issued after November 30, 1989, except for those that conflict with or contradict GASB pronouncements.

In the statement of revenues, expenses and changes in net assets, revenues and expenses are distinguished between operating and nonoperating items. Operating revenues and expenses generally result from providing services in connection with the Aquarium's ongoing operations, including contributions from the City for operating needs. Operating revenues are shown at their gross amounts with the exception of the operations of the restaurant by Sodexo which are shown net of direct expenses of \$1,626,121 for the year ended September 30, 2003. Operating expenses include the costs

THE FLORIDA AQUARIUM, INC.

Notes to Basic Financial Statements

September 30, 2003

of providing goods and services, including operation and maintenance of the facilities. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the Aquarium's policy to use restricted resources first, then unrestricted sources as they are needed.

(b) Cash and Cash Equivalents

Cash and cash equivalents include cash, cash held in money market accounts and commercial paper with original maturities of 90 days or less.

(c) Investments

Investments include mutual funds reported at fair value based on quoted market rates, plus accrued interest and dividends; a beneficial interest in the assets of The Community Foundation of Tampa Bay that is valued at fair value; and cash that is held for long-term endowment purposes. The net increase (decrease) in the fair value of investments is reflected in the accompanying statement of revenues, expenses, and changes in net assets as a nonoperating activity.

(d) Inventories

Inventories consist primarily of gift shop merchandise. Inventories are valued at the lower of cost (first-in, first-out method) or market. The cost of purchasing or collecting live specimens is expensed as incurred.

(e) Capital Assets

The Aquarium capitalizes assets with an original cost of \$5,000. Capital assets are carried at cost, if purchased, or at estimated fair value at date of receipt if acquired by gift. Depreciation is computed on a straight-line basis over the estimated useful lives of the assets or the lease terms, as follows:

Vehicles	5 years
Eco-tour boat	5 years
Furniture and equipment	2-5 years

Exhibit enhancements include improvements to the Facility or new exhibitry. As the City owns the Facility, exhibit enhancements are not included in the capital assets of the Aquarium, rather they are recorded as nonoperating expenses of the Aquarium and are capitalized in the basic financial statements of the City.

(f) Impairment or Disposal of Long-Lived Assets

The Aquarium accounts for long-lived assets in accordance with the provisions of SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*. This Statement requires that long-lived assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future

THE FLORIDA AQUARIUM, INC.

Notes to Basic Financial Statements

September 30, 2003

cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

(g) Contributions

Unrestricted contributions are recognized within unrestricted net assets at fair value when received. Restricted contributions are deemed to be earned and reported as contributions when eligibility requirements have been met, typically expending funds according to the donor's restrictions. Such amounts, received but not earned, are reported as restricted cash and deferred revenue. Contributions to the endowment funds are also reflected in restricted net assets when received. Contributions and pledges are recorded in accordance with GASB Statement 33 when all eligibility requirements are met.

Total fundraising expenses incurred by the Aquarium during the year ended September 30, 2003 were approximately \$680,000.

(h) Deferred Revenue

Deferred revenue in the accompanying balance sheet consists of amounts collected from customers as deposits on future events at the Aquarium; contributions from members for annual memberships; and unspent restricted contributions received from donors. Deposits for future events are recognized as revenue when the events take place; amounts collected for annual memberships are recognized as contributions ratably over the membership period; and restricted contributions are recognized as revenues when amounts received have been expended according to the donor's restrictions.

(i) Compensated Absences

It is the Aquarium's policy to permit employees to accumulate a limited amount of earned but unused vacation and sick-pay benefits, which will be paid to employees upon separation from Aquarium service. Compensated absences are accrued when earned and are included in accounts payable and accrued expenses in the balance sheet.

(j) Tax Status

The Aquarium and the Foundation have received favorable determination letters from the Internal Revenue Service, and are generally exempt from federal income taxes under Internal Revenue Code (IRC) Section 501(a) as an organization described in Section 501(c)(3).

(k) 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 and the reported amounts of revenues and support and expenses during the reporting period. Actual results could differ from those estimates.

THE FLORIDA AQUARIUM, INC.

Notes to Basic Financial Statements

September 30, 2003

(1) Comparative Data

The financial statements include certain prior year summarized comparative information in total but not at the level of detail required for a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Aquarium's financial statements for the year ended September 30, 2002, from which the summarized information was derived.

(3) Cash and Investments

At September 30, 2003, the Aquarium's cash deposits were entirely covered by federal depository insurance or by collateral pledged with the State Treasurer pursuant to Chapter 280, *Florida Statutes*. Under this Chapter, in the event of default by a participating financial institution (a qualified public depository), all participating institutions are obligated to reimburse the governmental entity for the loss. The bank balances and book balances were \$1,480,518 and \$1,233,744, respectively, at September 30, 2003. Cash on hand for ticketing, parking, gift store, and petty cash needs at year-end was \$26,482.

The bank balances of the Aquarium include overnight repurchase agreements in the amount of \$1,472,000. The repurchase agreements are uninsured and unregistered, and are collateralized by securities held by a third-party financial institution in the name of the qualified public depository and the Aquarium. The repurchase agreements are carried at cost which approximates fair value.

Additionally, at September 30, 2003, the Aquarium held the following investments:

Mutual funds	\$	212,929
Beneficial interest in The Community Foundation of Tampa Bay		50,787
	\$	<u>263,716</u>

These investments are not classified as to credit risk as they are not evidenced by securities that exist in book or entry form.

(4) Accounts Receivable

Accounts receivable at September 30, 2003, include amounts due from others as follows:

Customers	\$	125,986
Sodexo		187,777
		<u>313,763</u>
Less allowance for doubtful accounts		(12,500)
	\$	<u>301,263</u>

THE FLORIDA AQUARIUM, INC.

Notes to Basic Financial Statements

September 30, 2003

(5) Capital Assets

The following is a summary of changes in capital assets for the fiscal year ended September 30, 2003:

	<u>Balance October 1, 2002</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance September 30, 2003</u>
Capital assets, depreciable:				
Vehicles	\$ 157,320	35,647	—	192,967
Eco-tour boat	460,395	—	—	460,395
Equipment under capital lease	69,360	—	—	69,360
Furniture and equipment	<u>2,946,068</u>	<u>57,200</u>	<u>(309,758)</u>	<u>2,693,510</u>
Total depreciable capital assets	<u>3,633,143</u>	<u>92,847</u>	<u>(309,758)</u>	<u>3,416,232</u>
Less accumulated depreciation:				
Vehicles	151,815	6,692	—	158,507
Eco-tour boat	130,445	92,079	—	222,524
Equipment under capital lease	13,812	23,120	—	36,932
Furniture and equipment	<u>2,889,586</u>	<u>43,847</u>	<u>(309,758)</u>	<u>2,623,675</u>
Total accumulated depreciation	<u>3,185,658</u>	<u>165,738</u>	<u>(309,758)</u>	<u>3,041,638</u>
Total capital assets, net	<u>\$ 447,485</u>	<u>(72,891)</u>	<u>—</u>	<u>374,594</u>

Future minimum lease payments under the capital lease as of September 30, 2003, are as follows:

Year ending September 30:	
2004	\$ 27,081
2005	<u>2,257</u>
Total minimum lease payments	29,338
Less amount representing interest at 18%	<u>(2,863)</u>
Present value of minimum capital lease payments	26,475
Less current maturities	<u>(24,252)</u>
Long-term capital lease	<u>\$ 2,223</u>

THE FLORIDA AQUARIUM, INC.

Notes to Basic Financial Statements

September 30, 2003

Changes in the capital lease obligation for the year ended September 30, 2003 are as follows:

October 1, 2002	Additions	Deletions	September 30, 2003
\$ 46,759	—	(20,284)	26,475

(6) Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses at September 30, 2003 consist of amounts owed for operating and payroll expenses as follows:

Accounts payable	\$ 917,407
Accrued payroll expenses (including compensated absences)	348,982
	\$ 1,266,389

(7) Note Payable

The note payable consists of a \$400,000 loan, bearing interest at 9.5%, principal and interest are payable in monthly installments of \$8,400. A balloon payment of \$148,940 will be due August 31, 2005. The note is collateralized by the Eco-tour boat. Additionally, one-half of the outstanding principal is guaranteed by the Tampa Port Authority (the Port). Future maturities of the note payable as of September 30, 2003, are as follows:

	Principal	Interest
Year ending September 30:		
2004	\$ 76,048	24,752
2005	218,117	5,006
	\$ 294,165	29,758

A schedule of changes in the note payable for the year ended September 30, 2003 follows:

October 1, 2002	Additions	Deletions	September 30, 2003
\$ 362,974	—	(68,809)	294,165

(8) Related-Party Transactions

Included in contributions is approximately \$405,000 received from members or entities affiliated with certain members of the board of directors and trustees (the Board). Additionally, contributions include \$850,000 received from the City.

THE FLORIDA AQUARIUM, INC.

Notes to Basic Financial Statements

September 30, 2003

(9) Retirement Savings Plan

Effective January 1, 1994, a retirement savings plan was established pursuant to IRC Section 403(b). Substantially all employees are eligible to participate in the plan. Contributions are made at the discretion of the Board. Contributions totaling approximately \$11,000, included in salaries and benefits in the accompanying statement of revenues, expenses and changes in net assets, were made for the year ended September 30, 2003.

(10) Restaurant Management Agreement

The Aquarium maintains an agreement (the Agreement) with Sodexo to manage food operations. Sodexo is paid a management fee equal to the lesser of 4% of sales, or \$120,000. Profits and losses are allocated 75% and 25% to the Aquarium and Sodexo, respectively. As of September 30, 2003, the Aquarium recorded restaurant sales of \$1,890,154, direct expenses of \$1,626,121 to net to \$264,033. As of September 30, 2003, for the Aquarium had a receivable from Sodexo related to restaurant sales of \$187,777 which is included in the accompanying balance sheet. The Agreement expires August 9, 2006.

(11) Tampa Port Authority License Agreement

In April 2000, the Aquarium signed a five-year agreement with the Port concerning the use and care of the Eco-tour boat. The agreement states that the Port will compensate the Aquarium in the form of rent payments, covering principal and interest on the note, for use of 50% of the Eco-tour boat's available time. Additionally, the Port will reimburse the Aquarium for half of all operating costs, up to a maximum of \$90,000 per year. In fiscal 2003, the Aquarium recorded \$121,000 as an offset to expense for costs reimbursable from the Port for rent and operating costs. At September 30, 2003, the Aquarium has approximately \$26,000 of the \$121,000 recorded in accounts receivable due from the Port.

(12) Contingencies

(a) Assets Held by City of Tampa

During 2002, one of the Aquarium's donors liquidated. Upon liquidation, a \$2 million gift was received by the City. Of this amount, the City contributed \$300,000 to the Aquarium in 2003 and 2002, respectively. The remaining \$1.4 million is being held by the City to be distributed to the Aquarium, subject to City Council approval, in the future upon the satisfaction of certain contingencies, including completion of various expansion projects. The 2003 contribution of \$300,000 is recorded in deferred revenue at September 30, 2003 as the Aquarium has not spent the funds for the designated purpose prior to year end.

(b) Grant Expenditures Subject to Audit

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies. Any disallowed claims, including amounts already collected, may constitute a liability. The amount, if any, of expenditures which may be disallowed by the grantor, cannot be determined at this time although the Aquarium expects such amounts not to be significant.

THE FLORIDA AQUARIUM, INC.

Notes to Basic Financial Statements

September 30, 2003

(c) *Litigation*

The Aquarium is a defendant in a lawsuit occurring in the normal course of business. The Aquarium is fully covered by insurance and the insurer is vigorously contesting the claim. In the opinion of the Aquarium and legal counsel, the range of potential recoveries or liabilities will not materially affect the financial position of the Aquarium. Sufficient insurance coverage is in place to cover any potential exposure.

(d) *Risk of Loss*

The Aquarium is exposed to various risks of loss from general, auto, property and other liabilities and has purchased commercial insurance policies to cover these risks. There have been no significant reductions in insurance coverage during the current or previous two fiscal years.



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**Independent Auditors' Report on Compliance and on Internal Control
Over Financial Reporting Based on an Audit of the Financial Statements
Performed in Accordance With *Government Auditing Standards***

The Board of Directors
The Florida Aquarium, Inc.:

We have audited the basic financial statements of The Florida Aquarium, Inc., a component unit of the City of Tampa, as of and for the year ended September 30, 2003, and have issued our report thereon dated November 17, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether The Florida Aquarium, Inc.'s basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered The Florida Aquarium, Inc.'s internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting which we have reported to management of The Florida Aquarium, Inc. in a separate letter dated November 17, 2003.



This report is intended solely for the information and use of the board of directors, management, and the Auditor General of the State of Florida and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

November 17, 2003



KPMG LLP
Suite 1700
100 North Tampa Street
Tampa, FL 33602

Independent Auditors' Report on Compliance With Requirements Applicable to Each Major State Financial Assistance Project and on Internal Control Over Compliance in Accordance With Chapter 10.650, Rules of the Auditor General

The Board of Directors
The Florida Aquarium, Inc.:

Compliance

We have audited the compliance of The Florida Aquarium, Inc. with the types of compliance requirements described in the *Executive Office of the Governor's State Projects Compliance Supplement*, that are applicable to its major state project for the year ended September 30, 2003. The Florida Aquarium, Inc.'s major state project is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major state project is the responsibility of The Florida Aquarium, Inc.'s management. Our responsibility is to express an opinion on The Florida Aquarium, Inc.'s compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Chapter 10.650, *Rules of the Auditor General*. Those standards and Chapter 10.650, *Rules of the Auditor General*, require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major state project occurred. An audit includes examining, on a test basis, evidence about The Florida Aquarium, Inc.'s compliance with those requirements and performing such other procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of The Florida Aquarium, Inc.'s compliance with those requirements.

In our opinion, The Florida Aquarium, Inc. complied, in all material respects, with the requirements referred to above that are applicable to its major state project for the year ended September 30, 2003.

Internal Control Over Compliance

The management of The Florida Aquarium, Inc. is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to state projects. In planning and performing our audit, we considered The Florida Aquarium, Inc.'s internal control over compliance with requirements that could have a direct and material effect on a major state project in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with Chapter 10.650, *Rules of the Auditor General*.



Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major state project being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the board of directors, management, and the Auditor General of the State of Florida and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

November 17, 2003

THE FLORIDA AQUARIUM, INC.

Schedule of State Financial Assistance

Year ended September 30, 2003

<u>State grantor/pass-through grantor program title</u>	<u>CSFA #</u>	<u>Grant or contract number</u>	<u>Expenditures</u>
Florida Department of State, Division of Cultural Affairs			
Direct programs:			
Cultural facilities	45.014	03-9024	\$ <u>299,946</u>
Science museums	45.003	03-7013	49,355
Cultural support	45.003	04-7013	<u>6,263</u>
Total program 45.003			<u>55,618</u>
Total Expenditures of State Financial Assistance			\$ <u><u>355,564</u></u>

See accompanying notes to schedule of state financial assistance.

THE FLORIDA AQUARIUM, INC.

Notes to Schedule of State Financial Assistance

Year ended September 30, 2003

Basis of Presentation

The accompanying schedule of state financial assistance (Schedule) includes the state financial assistance activity of The Florida Aquarium, Inc., and is presented on the accrual basis of accounting. The information in this Schedule is presented in accordance with the requirements of Department of Banking and Finance Rule 3A-5.003. Therefore, some amounts presented in this Schedule may differ from amounts presented in, or used in the preparation of the financial statements.

THE FLORIDA AQUARIUM, INC.

Schedule of Findings and Questioned Costs

Year ended September 30, 2003

(1) Summary of Auditors' Results

- (a) An unqualified opinion was issued on the basic financial statements.
- (b) There were no reportable conditions or material weaknesses in internal control disclosed by the audit of the basic financial statements.
- (c) There was no noncompliance which is material to the basic financial statements.
- (d) There were no reportable conditions or material weaknesses in internal control over the major state project.
- (e) An unqualified opinion was issued on compliance for the major state project.
- (f) There were no audit findings relative to the major state project.
- (g) Major state project:

Cultural Facilities Grant Program

CFSA #45.014

- (h) A \$106,669 threshold was used to distinguish between Type A and Type B programs for state projects.

(2) Findings Relating to the Financial Statements Reported in Accordance With *Government Auditing Standards*

None.

(3) Findings and Questioned Costs Relating to State Projects

None.



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Suite 1700
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Management Letter

The Board of Directors
The Florida Aquarium, Inc.:

We have audited the basic financial statements of The Florida Aquarium, Inc., as of and for the year ended September 30, 2003, and have issued our report thereon dated November 17, 2003.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. We have also issued our report dated November 17, 2003, on our consideration of The Florida Aquarium, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. Disclosures in that report, if any, should be considered in conjunction with this management letter.

Additionally, our audit was conducted in accordance with Chapter 10.650, *Rules of the Auditor General*. The *Rules of the Auditor General* (Section 10.654(1)(d)) require disclosure in the management letter of the following matters if not already addressed in the auditors' reports on compliance and internal controls or schedule of findings and questioned costs: (1) violations of laws, rules, regulations, and contractual provisions that have occurred, or are likely to have occurred, and were discovered within the scope of the audit; (2) improper or illegal expenditures discovered within the scope of the audit that may or may not materially affect the financial statements; (3) other matters requiring correction that may or may not materially affect the financial statements reported on, including: (a) improper or inadequate accounting procedures (e.g., the omission of required disclosures from the financial statements); (b) failures to properly record financial transactions; and (c) other inaccuracies, shortages, defalcations, and instances of fraud discovered by, or that come to the attention of, the auditor. Our audit identified no matters that are required to be disclosed.

This management letter is intended solely for the information of the board of directors, management, and the Auditor General of the State of Florida, and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

November 17, 2003

