



THE FLORIDA AQUARIUM, INC.
(A Component Unit of the City of Tampa)

Basic Financial Statements

September 30, 2004 and 2003

(With Independent Auditors' Report Thereon)

THE FLORIDA AQUARIUM, INC.

Table of Contents

| | Page |
|---|-------------|
| Independent Auditors' Report on the Financial Statements | 1 |
| Management's Discussion and Analysis | 2 |
| Basic Financial Statements: | |
| Balance Sheets | 10 |
| Statements of Revenues, Expenses, and Changes in Net Assets | 11 |
| Statements of Cash Flows | 12 |
| Notes to Basic Financial Statements | 13 |
| Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> | 22 |



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

Independent Auditors' Report on the Financial Statements

The Board of Directors
The Florida Aquarium, Inc.:

We have audited the accompanying balance sheets of The Florida Aquarium, Inc., a component unit of the City of Tampa, Florida as of September 30, 2004 and 2003, and the related statements of revenues, expenses, and changes in net assets, and cash flows for the years 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 audits.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes 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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide 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, 2004 and 2003, and the changes in its net assets and its cash flows for the years 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 24, 2004 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 grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 2 through 9 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.

KPMG LLP

November 24, 2004

THE FLORIDA AQUARIUM, INC.

Management's Discussion and Analysis

September 30, 2004 and 2003

This annual financial report consists of two parts: management's discussion and analysis and the basic financial statements. 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 years ended September 30, 2004 and 2003. Please read it in conjunction with the basic financial statements, which follow this section.

Financial Highlights

| | | FY 2004 | |
|--|----------------|---------------|------------------|
| | Actual | Versus budget | Versus last year |
| Attendance | 607,570 | 2% | 4% |
| Turnstile revenues | \$ 7.2 million | 5% | 8% |
| Operating contributions, memberships, and grants | 2.5 million | 2% | 11% |
| Operating expenses | 9.8 million | (1)% | 10% |

| | | FY 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% |

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 budget and community programs, grant revenues and membership revenues were at their highest to that point. 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.

"Explore A Shore", an outdoor children's wet play area, opened in the spring of 2004, and is primarily responsible for the growth in attendance, turnstile revenues, and operating expenses in fiscal 2004. This 2.2 acre aquatic discovery zone transformed an underutilized area at the Aquarium into a vibrant, Caribbean themed family-friendly exhibit that has extended the guest length-of-stay to over 3 hours. Guest spending has also increased at the front gate, the gift shop, and the restaurant, while memberships have increased as well.

THE FLORIDA AQUARIUM, INC.

Management's Discussion and Analysis

September 30, 2004 and 2003

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, 2004 and 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 2004</u> | <u>FY 2003</u> | <u>FY 2002</u> |
|--|-----------------|----------------|----------------|
| Current assets | \$ 1,269 | 1,915 | 1,289 |
| Noncurrent assets: | | | |
| Capital assets, net | 414 | 374 | 447 |
| Restricted investments in endowment funds | 295 | 264 | 199 |
| Pledges receivable | 90 | — | — |
| Total assets | <u>2,068</u> | <u>2,553</u> | <u>1,935</u> |
| Current liabilities | 2,681 | 2,923 | 2,153 |
| Noncurrent liabilities | 138 | 220 | 320 |
| Total liabilities | <u>2,819</u> | <u>3,143</u> | <u>2,473</u> |
| Net assets (deficit): | | | |
| Invested in capital assets, net of related debt | 193 | 54 | 38 |
| Restricted | 295 | 264 | 199 |
| Unrestricted deficit | (1,239) | (908) | (775) |
| Total net deficit | <u>\$ (751)</u> | <u>(590)</u> | <u>(538)</u> |

The fiscal 2003 increase in current assets and current liabilities was primarily the result of an increase in restricted cash and the related accounts payable and deferred revenue. This restricted cash was for master planning purposes and the new "Explore A Shore" exhibit which was under construction at the end of fiscal 2003. The associated decrease in these categories in fiscal 2004 reflects the completion and opening of "Explore A Shore" in the spring of 2004. Noncurrent assets consist of the net book value of the Aquarium's capital assets (vehicles, Eco-tour boat, furniture and equipment) and the fair market value of restricted endowment accounts. Changes in these balances between fiscal 2003 and 2004 are explained below.

Total deficit in net assets increased by \$161,000 and \$52,000 to a net deficit of \$751,000 and \$590,000 in fiscal 2004 and 2003, respectively. This increase is comprised of three components of net assets (deficit): "invested in capital assets, net of related debt", "restricted" and "unrestricted".

Net assets "invested in capital assets, net of related debt" is \$193,000 at September 30, 2004. During fiscal 2004, there were \$225,000 of capital asset additions, consisting primarily of new photo processing and computer equipment, Eco-tour boat improvements, turtle rehabilitation tanks, an outdoor tent pavilion, and a husbandry truck. A new security system is in the process of being installed at September 30, 2004. During fiscal 2003, \$93,000 of capital expenditures were made. Depreciation expense, a noncash item, of \$186,000 and \$166,000 in

THE FLORIDA AQUARIUM, INC.

Management's Discussion and Analysis

September 30, 2004 and 2003

fiscal 2004 and 2003, respectively, 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. The capital lease and bank note were reduced \$100,000 and \$89,000 in fiscal 2004 and 2003, respectively.

“Restricted” net assets are \$295,000 and \$264,000 at September 30, 2004 and 2003, respectively. This net asset class represents the total fair value of the Aquarium’s endowment funds. During fiscal year 2004, a \$31,000 increase in the fair value of restricted investments was recorded. No additional contributions were received in fiscal 2004. In fiscal 2003, contributions totaling \$17,500 were received, and a \$47,000 increase in the fair value of the restricted investments was recorded.

The remaining net asset balance is “unrestricted.” The balance actually reflects a deficit of \$1,239,000 and a deficit of \$908,000 at September 30, 2004 and 2003, respectively. 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, 2004, were \$414,000 compared to \$374,000 last year. The net increase of \$40,000 was primarily related to the fiscal year 2004 capital asset additions of \$225,000 offset by depreciation expense of \$186,000. In fiscal 2003, the depreciation expense of \$166,000 exceeded the capital asset additions of \$93,000 thus resulting in the net \$73,000 decrease in capital assets, net from fiscal 2002. Please refer to note 5 in the accompanying financial statements for additional information on the Aquarium’s capital asset activities.

Debt Administration

The Aquarium’s noncurrent liabilities at September 30, 2004 were \$138,000 compared to \$220,000 last year. Noncurrent liabilities include a capital lease obligation (in fiscal 2003) and a note payable. Please refer to notes 5, 7, and 13 in the accompanying financial statements for additional information on the Aquarium’s noncurrent liability activities.

THE FLORIDA AQUARIUM, INC.

Management's Discussion and Analysis

September 30, 2004 and 2003

Table A – 2
Summary of Revenues, Expenses, and Changes in Net Assets
(Dollars in thousands)

| | FY 2004 | FY 2003 | FY 2002 |
|--|-----------------|----------------|----------------|
| Operating revenues: | | | |
| Turnstile revenues | \$ 7,242 | 6,718 | 6,308 |
| Contributions, memberships, and grants | 2,484 | 2,229 | 2,181 |
| | <u>9,726</u> | <u>8,947</u> | <u>8,489</u> |
| Operating expenses: | | | |
| Salaries and benefits | 5,037 | 4,592 | 4,419 |
| Advertising and promotions | 789 | 623 | 586 |
| Gift shop cost of goods sold | 621 | 547 | 545 |
| Occupancy-related | 1,380 | 1,347 | 1,236 |
| Insurance | 516 | 556 | 384 |
| Other | 1,431 | 1,245 | 1,264 |
| | <u>9,774</u> | <u>8,910</u> | <u>8,434</u> |
| Operating income (loss) before depreciation | (48) | 37 | 55 |
| Depreciation | (186) | (166) | (270) |
| Operating loss | (234) | (129) | (215) |
| Nonoperating revenues | 41 | 58 | 10 |
| Nonoperating expenses | (1,543) | (832) | (316) |
| Loss before capital contributions | (1,736) | (903) | (521) |
| Capital contributions | 1,575 | 851 | 319 |
| Decrease in net assets | (161) | (52) | (202) |
| Beginning net assets (deficit) | (590) | (538) | (336) |
| Ending net assets (deficit) | <u>\$ (751)</u> | <u>(590)</u> | <u>(538)</u> |

THE FLORIDA AQUARIUM, INC.

Management's Discussion and Analysis

September 30, 2004 and 2003

Operating Turnstile Revenues

In fiscal 2002 and fiscal 2003, attendance and related turnstile revenues reflect a shift in the Aquarium's customer base from fiscal 2001 and prior. Due to the sluggish economic environment, the Aquarium's guests generally sought out discounted admissions and spent less when inside the building at the gift shop and in the restaurant 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 in fiscal 2003. Fiscal 2004 guest patterns switched back towards the fiscal 2001 and prior trends. Tourism increased in Florida despite four hurricanes coming ashore in August and September at which time tourism decreased significantly; discount programs were reduced; and the new "Explore A Shore" exhibit enabled main gate price increases. "Explore A Shore" has extended the guests length-of-stay at the Aquarium to over 3 hours. This has resulted in higher guest spending in the gift shop and restaurant. The new Caribbean Cantina, a table-service dining and bar area at "Explore A Shore", has also increased guest spending. 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 and actual results did not include any City assistance regarding parking revenues. Following is a table of guest's average per capita spending for each turnstile revenue category:

| | <u>FY 2004</u> | <u>FY 2003</u> | <u>FY 2002</u> |
|---------------|-----------------|----------------|----------------|
| Admissions | \$ 7.86 | 7.22 | 6.79 |
| Gift shop | 2.11 | 1.87 | 1.90 |
| Restaurant | 3.53 | 3.25 | 3.29 |
| Parking | 0.70 | 0.85 | 0.67 |
| Miscellaneous | 0.12 | 0.08 | 0.08 |
| Total | <u>\$ 14.32</u> | <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 recorded \$56,250 in grant revenues in both fiscal 2003 and 2004. The Aquarium's household membership base has steadily increased from 11,000 in fiscal 2002 to 13,000 in fiscal 2003 to 16,000 in fiscal 2004. The fiscal 2004 increase is due to the opening of "Explore A Shore". Almost \$1 million in membership sales occurred in 2004. After adjusting for deferred revenue, \$830,000 in revenues was recognized for fiscal 2004. Three new special fundraising events occurred in fiscal 2004: "Surf and Turf Golf Classic", "Dragon Boat Race", and "13 Ugly Men". A special event that was not financially successful, "Freedom Fest" was eliminated in fiscal 2004. 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

THE FLORIDA AQUARIUM, INC.

Management’s Discussion and Analysis

September 30, 2004 and 2003

received by the City from this foundation in fiscal 2006 was paid to the City in fiscal 2002 upon liquidation. Of this \$2 million, the Aquarium received \$300,000 in both fiscal 2002 and 2003. An additional \$150,000 was received in fiscal 2004 to help construct “Explore A Shore”. This amount was matched by Hillsborough County. The remaining \$1.25 million is being held by the City to be distributed to the Aquarium, subject to City Council approval, upon the satisfaction of certain contingencies, including the completion of various expansion projects.

Following is a detail of operating contributions, memberships, and grants (dollars in thousands):

| | <u>FY 2004</u> | <u>FY 2003</u> | <u>FY 2002</u> |
|--------------------------|-----------------|----------------|----------------|
| Annual fund – individual | \$ 153 | 137 | 78 |
| Annual fund – corporate | 72 | 37 | 52 |
| Grants | 351 | 409 | 606 |
| Memberships | 830 | 657 | 632 |
| Special events | 228 | 139 | 113 |
| City of Tampa | 850 | 850 | 700 |
| Total | <u>\$ 2,484</u> | <u>2,229</u> | <u>2,181</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 was 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. The 10% increase in salaries and benefits from fiscal 2003 to 2004 reflects an average merit increase of 3.5% for staff. Additional staff (9 full-time equivalent positions) were added in fiscal 2004 to operate and maintain the new “Explore A Shore” exhibit.

The 27% increase in advertising and promotions expense in fiscal 2004 is related to the “Explore A Shore” grand-opening campaign. The Aquarium created and aired a television commercial for the first time in 5 years. Related radio, print, and membership campaign advertising also occurred to promote “Explore A Shore”.

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. Stabilization in the insurance market occurred in fiscal 2004 – the Aquarium received a 10% decrease in the property premium.

Other operating expenses increased 15% in fiscal 2004. This category includes postage and printing associated with communications to the larger membership base; supplies and materials associated with operating “Explore A Shore” and travel associated with expanded statewide Aquarium awareness efforts.

Nonoperating Revenues and Expenses and Capital Contributions

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

THE FLORIDA AQUARIUM, INC.

Management's Discussion and Analysis

September 30, 2004 and 2003

Besides raising funds to support operations, the Aquarium's development team also raises funds for capital improvements and exhibit enhancements. During fiscal 2004 and 2003, approximately \$1,575,000 and \$851,000 of capital contributions were raised, including \$17,500 of endowment contributions in 2003. Almost \$1,515,000 and \$795,000 was spent on exhibit enhancements in fiscal 2004 and 2003, 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 statements of revenues, expenses and changes in net assets as nonoperating expenses. Over fiscal 2003 and 2004, almost \$1.9 million was spent on the new "Explore A Shore" children's outdoor play area. This exhibit was funded through private contributions, \$150,000 each from the City and Hillsborough County, and a \$500,000 Cultural Facilities grant from the State of Florida.

Fiscal 2005 Outlook

The fiscal 2005 operating budget was prepared assuming that the economy and tourism will show gradual improvements during the second and third quarters of the fiscal year. The first quarter is expected to be slow due to lingering hurricane season effects. "Explore A Shore" opened in March 2004, and has had a significant, positive impact on visits and membership sales. This trend is expected to continue, but as with most second-year attractions, sales and visits are expected to be lower. Improvements are scheduled to be made in "Explore A Shore", most notably, new animal shows will be presented. These improvements are budgeted to cost \$450,000, with \$250,000 already committed by donors. Finally, the Aquarium is celebrating its 10th Anniversary on March 31, 2005. Marketing promotions, which will drive attendance and awareness, are planned to celebrate this milestone throughout 2005.

Total operations is budgeted at \$12.5 million in fiscal 2005, with attendance projected at 605,000. The City's budgeted contribution will decrease by \$100,000 to \$750,000 for fiscal 2005. Another breakeven year is budgeted. A ten-year master planning process will be completed in fiscal 2005. Once the master plan is finished, it is the intention of management, with City Council approval, to draw upon the \$1.25 million the City is holding on behalf of the Aquarium to help fund the capital campaign.

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 Sheets

September 30, 2004 and 2003

| Assets | 2004 | 2003 |
|---|--------------|-------------|
| | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 162,876 | 146,181 |
| Restricted cash and cash equivalents | 325,541 | 1,114,045 |
| Accounts receivable, net of allowance for doubtful accounts of \$18,400 in 2004 and \$12,500 in 2003 | 161,668 | 301,263 |
| Pledges receivable | 148,334 | — |
| Inventories | 406,305 | 316,195 |
| Other current assets | 64,723 | 36,847 |
| Total current assets | 1,269,447 | 1,914,531 |
| Noncurrent assets: | | |
| Capital assets, net | 413,633 | 374,594 |
| Restricted investments in endowment funds | 295,264 | 263,716 |
| Pledges receivable | 90,000 | — |
| Total noncurrent assets | 798,897 | 638,310 |
| Total assets | \$ 2,068,344 | 2,552,841 |
| Liabilities and Net Assets (Deficit) | | |
| Current liabilities: | | |
| Accounts payable and accrued expenses | \$ 1,665,706 | 1,266,389 |
| Accounts payable from restricted assets | 38,904 | 245,067 |
| Current maturities of note payable | 79,943 | 76,048 |
| Current maturities of capital lease obligation | 2,223 | 24,252 |
| Deferred revenue | 607,868 | 442,483 |
| Deferred revenue related to restricted assets | 286,637 | 868,978 |
| Total current liabilities | 2,681,281 | 2,923,217 |
| Noncurrent liabilities: | | |
| Note payable, net of current maturities | 138,564 | 218,117 |
| Capital lease obligation, net of current maturities | — | 2,223 |
| Total noncurrent liabilities | 138,564 | 220,340 |
| Total liabilities | 2,819,845 | 3,143,557 |
| Net assets (deficit): | | |
| Invested in capital assets, net of related debt | 192,903 | 53,954 |
| Restricted net assets: | | |
| Unrealized increase in fair value of investments | 121,664 | 90,116 |
| Endowment funds corpus | 173,600 | 173,600 |
| Unrestricted deficit | (1,239,668) | (908,386) |
| Total net deficit | (751,501) | (590,716) |
| Total liabilities and net assets (deficit) | \$ 2,068,344 | 2,552,841 |

See accompanying notes to basic financial statements.

THE FLORIDA AQUARIUM, INC.

Statements of Revenues, Expenses, and Changes in Net Assets

Years ended September 30, 2004 and 2003

| | 2004 | 2003 |
|--|--------------|-------------|
| Operating revenues: | | |
| Turnstile revenues: | | |
| Admissions | \$ 5,112,017 | 4,613,369 |
| Gift shop sales | 1,282,695 | 1,087,982 |
| Restaurant sales, net of direct expenses | 74,106 | 264,033 |
| Parking revenue | 424,029 | 494,133 |
| Community programs revenue | 291,724 | 222,783 |
| Miscellaneous revenue | 57,602 | 35,822 |
| Total turnstile revenues | 7,242,173 | 6,718,122 |
| Contributions, memberships, and grants | 2,484,174 | 2,228,754 |
| Total operating revenues | 9,726,347 | 8,946,876 |
| Operating expenses: | | |
| Salaries and benefits | 5,036,663 | 4,592,457 |
| Advertising and promotions | 789,092 | 622,681 |
| Gift shop cost of goods sold | 621,109 | 547,136 |
| Occupancy-related | 1,380,216 | 1,347,193 |
| Insurance | 516,449 | 556,182 |
| Professional services | 287,428 | 269,613 |
| Animals, plants, and food | 189,584 | 179,032 |
| Other operating expenses | 953,667 | 795,404 |
| Total operating expenses | 9,774,208 | 8,909,698 |
| Operating income (loss) before depreciation | (47,859) | 37,178 |
| Depreciation | (185,918) | (165,738) |
| Operating loss | (233,777) | (128,560) |
| Nonoperating revenues (expenses): | | |
| Exhibit enhancements | (1,514,747) | (794,360) |
| Interest income | 7,455 | 11,116 |
| Interest expense | (27,980) | (38,796) |
| Gain on sale of capital assets | 1,800 | — |
| Net increase in fair value of restricted investments | 31,548 | 47,064 |
| Net nonoperating expenses | (1,501,924) | (774,976) |
| Loss before capital contributions | (1,735,701) | (903,536) |
| Capital contributions | 1,574,916 | 851,010 |
| Decrease in net assets | (160,785) | (52,526) |
| Net assets (deficit), beginning of year | (590,716) | (538,190) |
| Net assets (deficit), end of year | \$ (751,501) | (590,716) |

See accompanying notes to basic financial statements.

THE FLORIDA AQUARIUM, INC.

Statements of Cash Flows

Years ended September 30, 2004 and 2003

| | 2004 | 2003 |
|---|--------------|-------------|
| Cash flows from operating activities: | | |
| Cash received from turnstile operations | \$ 7,945,506 | 7,514,099 |
| Cash received from contributions, memberships, and grants | 1,378,925 | 2,314,202 |
| Cash paid to employees | (4,323,329) | (3,909,045) |
| Cash paid to vendors | (5,489,488) | (4,952,517) |
| Net cash provided by (used in) operating activities | (488,386) | 966,739 |
| Cash flows from capital and related financing activities: | | |
| Capital contributions | 1,574,916 | 851,010 |
| Capital expenditures | (224,957) | (92,847) |
| Proceeds from sale of capital assets | 1,800 | — |
| Exhibit enhancements | (1,514,747) | (794,360) |
| Repayments of note payable | (75,658) | (68,809) |
| Interest paid on note payable | (25,151) | (31,999) |
| Repayments of capital lease | (24,252) | (20,284) |
| Interest paid on capital lease | (2,829) | (6,797) |
| Net cash used in capital and related financing activities | (290,878) | (164,086) |
| Cash flows from investing activities: | | |
| Purchase of investments | — | (17,500) |
| Interest received | 7,455 | 11,116 |
| Net cash provided by (used in) investing activities | 7,455 | (6,384) |
| Net increase (decrease) in cash and cash equivalents | (771,809) | 796,269 |
| Cash and cash equivalents, beginning of year | 1,260,226 | 463,957 |
| Cash and cash equivalents, end of year | \$ 488,417 | 1,260,226 |
| Reconciliation of operating loss to net cash provided by (used in) operating activities: | | |
| Operating loss | \$ (233,777) | (128,560) |
| Adjustments to reconcile operating loss to net cash provided by (used in) operating activities: | | |
| Depreciation | 185,918 | 165,738 |
| Provision for uncollectible accounts receivable | 5,900 | 5,000 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | 133,695 | 118,226 |
| Pledges receivable | (238,334) | — |
| Inventories | (90,110) | 46,609 |
| Other current assets | (27,876) | 621 |
| Accounts payable and accrued expenses | 193,154 | 226,815 |
| Deferred revenue | (416,956) | 532,290 |
| Net cash provided by (used in) operating activities | \$ (488,386) | 966,739 |
| Noncash items: | | |
| Net increase in fair value of investments | \$ 31,548 | 47,064 |

See accompanying notes to basic financial statements.

THE FLORIDA AQUARIUM, INC.

Notes to Basic Financial Statements

September 30, 2004 and 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. The Aquarium's ability to continue is dependent on renewal of the Management Agreement and related funding from the City. 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 budget for the year ending September 30, 2005, on November 4, 2004. 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. Management has applied the requirement of Governmental Accounting Standards Board (GASB) Statement No. 39 and has determined that the Foundation is considered a component unit of the Aquarium. The financial activities of the Foundation are blended 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 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 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 statements 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, Inc. (Sodexo) which are shown

THE FLORIDA AQUARIUM, INC.

Notes to Basic Financial Statements

September 30, 2004 and 2003

net of direct expenses. Operating expenses include the costs 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 in the fair value of investments is reflected in the accompanying statements 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, 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.

(f) 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

THE FLORIDA AQUARIUM, INC.

Notes to Basic Financial Statements

September 30, 2004 and 2003

pledges are recorded in accordance with GASB Statement 33 when all eligibility requirements are met.

Contributions received which are restricted for capital items are recognized in the same manner as other contributions, however, are considered nonoperating and are shown separately in the statements of revenues, expenses and changes in net assets.

Total fundraising expenses incurred by the Aquarium were approximately \$839,000 and \$680,000 during the year ended September 30, 2004 and 2003, respectively.

(g) *Deferred Revenue*

Deferred revenue in the accompanying balance sheets 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.

(h) *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 accompanying balance sheets.

(i) *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).

(j) *Use of Estimates*

The preparation of financial statements requires management of the Aquarium to make a number of estimates and assumptions relating to the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates.

(3) *Cash, Cash Equivalents and Restricted Investments*

At September 30, 2004 and 2003, the Aquarium's cash deposits were partially covered by federal depository insurance. The bank balances and book balances were \$528,099 and \$458,597, respectively, at September 30, 2004. At September 30, 2003, the bank balances and book balances were \$1,480,518 and \$1,233,744, respectively. Cash on hand for ticketing, parking, gift store, and petty cash needs was \$29,820 and \$26,482 at September 30, 2004 and 2003, respectively.

The bank balances of the Aquarium include overnight repurchase agreements in the amount of \$517,000 and \$1,472,000 at September 30, 2004 and 2003, respectively. The repurchase agreements are uninsured

THE FLORIDA AQUARIUM, INC.

Notes to Basic Financial Statements

September 30, 2004 and 2003

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, 2004 and 2003, the Aquarium held the following restricted investments:

| | <u>2004</u> | <u>2003</u> |
|---|-------------------|----------------|
| Mutual funds | \$ 239,582 | 212,929 |
| Beneficial interest in The Community Foundation of Tampa Bay | <u>55,682</u> | <u>50,787</u> |
| | <u>\$ 295,264</u> | <u>263,716</u> |

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

(4) Accounts Receivable

Accounts receivable at September 30, 2004 and 2003, include amounts due from others as follows:

| | <u>2004</u> | <u>2003</u> |
|--------------------------------------|-------------------|-----------------|
| Customers | \$ 180,068 | 125,986 |
| Sodexo | — | 187,777 |
| Less allowance for doubtful accounts | <u>(18,400)</u> | <u>(12,500)</u> |
| | <u>\$ 161,668</u> | <u>301,263</u> |

THE FLORIDA AQUARIUM, INC.

Notes to Basic Financial Statements

September 30, 2004 and 2003

(5) Capital Assets

The following is a summary of changes in capital assets for the fiscal years ended September 30, 2004 and 2003:

| | Balance October 1, 2003 | Additions | Deletions | Balance September 30, 2004 |
|--|--|------------------|------------------|---|
| Capital assets, non depreciable: | | | | |
| Construction in progress | \$ — | 18,860 | — | 18,860 |
| Capital assets, depreciable: | | | | |
| Vehicles | 192,967 | 32,653 | (55,818) | 169,802 |
| Eco-tour boat | 460,395 | 26,877 | — | 487,272 |
| Equipment under capital lease | 69,360 | — | — | 69,360 |
| Furniture and equipment | 2,693,510 | 146,567 | — | 2,840,077 |
| Total depreciable capital assets | <u>3,416,232</u> | <u>206,097</u> | <u>(55,818)</u> | <u>3,566,511</u> |
| Less accumulated depreciation: | | | | |
| Vehicles | 158,507 | 7,674 | (55,818) | 110,363 |
| Eco-tour boat | 222,524 | 97,432 | — | 319,956 |
| Equipment under capital lease | 36,932 | 23,120 | — | 60,052 |
| Furniture and equipment | 2,623,675 | 57,692 | — | 2,681,367 |
| Total accumulated depreciation | <u>3,041,638</u> | <u>185,918</u> | <u>(55,818)</u> | <u>3,171,738</u> |
| Total depreciable capital assets, net | <u>374,594</u> | <u>20,179</u> | <u>—</u> | <u>394,773</u> |
| Total capital assets, net | <u>\$ 374,594</u> | <u>39,039</u> | <u>—</u> | <u>413,633</u> |

THE FLORIDA AQUARIUM, INC.

Notes to Basic Financial Statements

September 30, 2004 and 2003

| | Balance October 1, 2002 | Additions | Deletions | Balance September 30, 2003 |
|----------------------------------|--|------------------------|-------------------|---|
| | <u> </u> | <u> </u> | <u> </u> | <u> </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><u>447,485</u></u> | <u><u>(72,891)</u></u> | <u><u>—</u></u> | <u><u>374,594</u></u> |

Future minimum lease payments under the capital lease as of September 30, 2004, are as follows:

| | | |
|---|----|-----------------|
| Year ending September 30: | | |
| 2005 | \$ | <u>2,257</u> |
| Total minimum lease payments | | 2,257 |
| Less amount representing interest at 18% | | <u>(34)</u> |
| Present value of minimum capital lease payments | | 2,223 |
| Less current maturities | | <u>(2,223)</u> |
| Long-term capital lease | \$ | <u><u>—</u></u> |

THE FLORIDA AQUARIUM, INC.

Notes to Basic Financial Statements

September 30, 2004 and 2003

Changes in the capital lease obligation for the years ended September 30, 2004 and 2003 are as follows:

| <u>October 1, 2003</u> | <u>Additions</u> | <u>Deletions</u> | <u>September 30, 2004</u> |
|----------------------------|------------------|------------------|-------------------------------|
| \$ 26,475 | — | (24,252) | 2,223 |

| <u>October 1, 2002</u> | <u>Additions</u> | <u>Deletions</u> | <u>September 30, 2003</u> |
|----------------------------|------------------|------------------|-------------------------------|
| \$ 46,759 | — | (20,284) | 26,475 |

(6) Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses at September 30, 2004 and 2003 consist of amounts owed for operating and payroll expenses as follows:

| | <u>2004</u> | <u>2003</u> |
|---|---------------------|------------------|
| Accounts payable | \$ 1,234,799 | 882,614 |
| Accrued expenses | 23,000 | 34,793 |
| Accrued payroll expenses (including compensated absences) | 407,907 | 348,982 |
| | <u>\$ 1,665,706</u> | <u>1,266,389</u> |

(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 is 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). On October 14, 2004, the Aquarium refinanced the loan to include the following terms: \$218,507 loan, bearing interest at 7%, principal and interest in monthly installments of \$8,400, maturing on April 1, 2007. Future maturities of the note payable as of September 30, 2004, given the refinanced terms, are as follows:

| | <u>Principal</u> | <u>Interest</u> |
|---------------------------|-------------------|-----------------|
| Year ending September 30: | | |
| 2005 | \$ 79,943 | 13,214 |
| 2006 | 94,091 | 6,718 |
| 2007 | 44,473 | 842 |
| | <u>\$ 218,507</u> | <u>20,774</u> |

THE FLORIDA AQUARIUM, INC.

Notes to Basic Financial Statements

September 30, 2004 and 2003

A schedule of changes in the note payable for the years ended September 30, 2004 and 2003 follows:

| <u>October 1, 2003</u> | <u>Additions</u> | <u>Deletions</u> | <u>September 30, 2004</u> |
|----------------------------|------------------|------------------|-------------------------------|
| \$ 294,165 | — | (75,658) | 218,507 |

| <u>October 1, 2002</u> | <u>Additions</u> | <u>Deletions</u> | <u>September 30, 2003</u> |
|----------------------------|------------------|------------------|-------------------------------|
| \$ 362,974 | — | (68,809) | 294,165 |

(8) Related-Party Transactions

Contributions, memberships and grants, and capital contributions for the years ended September 30, 2004 and 2003 include the following:

| | <u>2004</u> | <u>2003</u> |
|---------------------------------|---------------------|------------------|
| Board of Directors and Trustees | \$ 870,000 | 405,000 |
| City of Tampa | 850,000 | 850,000 |
| Hillsborough County | 150,000 | — |
| | \$ <u>1,870,000</u> | <u>1,255,000</u> |

Additionally, parking revenues for the year ended September 30, 2003 include \$150,000 received from the City.

(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 \$10,700 and \$11,000, included in salaries and benefits in the accompanying statements of revenues, expenses and changes in net assets, were made for the years ended September 30, 2004 and 2003, respectively.

(10) Restaurant Management Agreement

The Aquarium maintains an agreement (the Agreement) with Sodexho to manage food operations. Sodexho 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 Sodexho, respectively. For the year ended September 30, 2004, the Aquarium recorded restaurant sales of \$2,144,841 and direct expenses of \$2,070,735 to net \$74,106. For the year ended September 30, 2003, restaurant sales of \$1,890,154 were reduced by direct expenses of \$1,626,121 to reflect net restaurant sales of \$264,033. As of September 30, 2004, the Aquarium had a payable to Sodexho related to restaurant sales and catering charges of \$35,628 which is

THE FLORIDA AQUARIUM, INC.

Notes to Basic Financial Statements

September 30, 2004 and 2003

included in accounts payable and accrued expenses. At September 30, 2003, the Aquarium had a receivable from Sodexo of \$187,777 which is included in accounts receivable. 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 years 2004 and 2003, the Aquarium recorded \$141,000 and \$121,000, respectively as an offset to expense for costs reimbursable from the Port for rent and operating costs. At September 30, 2004 and 2003, the Aquarium has approximately \$38,000 and \$26,000, respectively 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. An additional \$150,000 was received in 2004. The remaining \$1,250,000 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.

(b) Grants and Contracts

The Aquarium participates in various federal and state assisted grant programs that are subject to review and audit by grantor agencies. Entitlements to these resources is generally conditional upon compliance with the terms and conditions of grant agreements and applicable federal and state regulations, including the expenditure of resources for allowable purposes. Any disallowance resulting from a federal or state audit may become a liability of the Aquarium. It is believed that the ultimate disallowance pertaining to these regulations, if any, would be immaterial to the overall financial condition of the Aquarium.

(c) 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.

(13) Subsequent Event

On October 14, 2004, the Aquarium entered into a \$228,000 revolving line of credit promissory note with a financial institution. The entire balance was subsequently drawn upon. The note is secured by pledges receivable. Interest is due monthly with principal payments due upon receipt of pledge payments.



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

**Independent Auditors' Report on Internal Control Over Financial Reporting
and on Compliance and Other Matters 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. as of and for the year ended September 30, 2004, and have issued our report thereon dated November 24, 2004. 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.

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 financial statements and not to provide an opinion 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 that might be material weaknesses. A material weakness is a reportable 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 caused by error or fraud 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether The Florida Aquarium, Inc.'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, 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 or other matters that are required to be reported under *Government Auditing Standards*.

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

KPMG LLP

November 24, 2004