



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

Basic Financial Statements

September 30, 2006 and 2005

(With Independent Auditors' Report Thereon)

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

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KPMG LLP
Suite 1700
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Tampa, FL 33602

Independent Auditors' Report

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, 2006 and 2005, 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 audits 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of The Florida Aquarium, Inc.'s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall 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., a component unit of the City of Tampa, Florida, as of September 30, 2006 and 2005, and the changes in its net assets and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report, dated November 10, 2006, 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 audits.



The management's discussion and analysis on pages 3 through 13 is not a required part of the basic financial statements but is supplementary information required by U.S. generally accepted accounting principles. 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 10, 2006
Certified Public Accountants

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Management's Discussion and Analysis
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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, 2006 and 2005. Please read it in conjunction with the basic financial statements, which follow this section.

Financial Highlights

	FY 2006		
	Actual	Versus budget	Versus last year
Attendance	608,729	(2)%	(2)%
Turnstile revenues	\$ 7.0 million	—	1
Operating contributions, memberships, and grants	2.7 million	(2)	1
Operating expenses	9.4 million	(2)	1

	FY 2005		
	Actual	Versus budget	Versus last year
Attendance	620,907	3%	2%
Turnstile revenues	\$ 6.9 million	2	8
Operating contributions, memberships, and grants	2.6 million	(11)	4
Operating expenses	9.3 million	(3)	5

The Aquarium began its second decade of operations by expanding on the positive growth trends established as of the end of last year. Although attendance did not achieve budgeted or last year's levels, both turnstile revenues and contributions grew. This was possible because of a strong attendance mix (proportion of guests paying full price, versus discounted and/or free admission); high average guest per capita spending (per caps); and positive developments in partnerships with outsourced contracts and donors. The Aquarium and its guests continue to enjoy the popular "Explore A Shore" outdoor children's wet play area. Over the Memorial Day weekend, the Aquarium opened its newest exhibit, "AquariuMania", which highlights the home aquarium hobby and the tropical fish/aquaculture and pet product industries, which made the exhibit possible. The Aquarium began a long-term relationship with the Tampa Bay Devil Rays baseball team, by constructing and maintaining a stingray touch tank inside Tropicana Field. The outsourced contracts for the gift shop (Event Network, Inc.) and food service operations (Sodexo, Inc. and now Aramark, Inc.) have proven to be very beneficial. Several conservation/research projects which enhance the Aquarium's mission were conducted in fiscal 2006, such as sea turtle drug studies, coral propagation, and underwater archeology. Education programs completed another strong year with school field trips, outreach, camps, and teacher workshops tied in with the new "AquariuMania" exhibit. Efforts continue in Tallahassee and Washington, D.C. to get state and federal funding for the biological and educational programs conducted by the Aquarium. Fiscal 2006 ended with the introduction of two of the

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Aquarium's newest residents – Sunny and Sandy, the African black-footed penguins. The Aquarium has budgeted for them to help carry on the marketing and financial momentum into fiscal 2007.

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 sheets include all of the Aquarium's assets and liabilities and provide 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 statements 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 statements 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 sheets. 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 sheets and the statements 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.

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Net Assets (Balance Sheets)

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

Table A – 1
Summary of Net Assets (Deficit) (Balance Sheet)
(Dollars in thousands)

	<u>FY 2006</u>	<u>FY 2005</u>	<u>FY 2004</u>
Current assets	\$ 1,159	1,093	1,269
Noncurrent assets:			
Capital assets, net	730	231	414
Restricted investments in endowment funds	362	331	295
Pledges receivable	40	60	90
Total assets	<u>2,291</u>	<u>1,715</u>	<u>2,068</u>
Current liabilities	2,465	2,383	2,681
Noncurrent liabilities	30	105	138
Total liabilities	<u>2,495</u>	<u>2,488</u>	<u>2,819</u>
Net assets (deficit):			
Invested in capital assets, net of related debt	684	92	193
Restricted	362	331	295
Unrestricted deficit	(1,250)	(1,196)	(1,239)
Total net deficit	<u>\$ (204)</u>	<u>(773)</u>	<u>(751)</u>

The Aquarium's current assets and current liabilities are closely related and typically trend together. The primary components of each category are operating cash and operating accounts payable and accrued expenses; and restricted cash and the related restricted accounts payable and deferred revenue. Accounts and pledges receivable; inventories; and prepaid insurance are also included in current assets, and other deferred revenues are included in current liabilities. In fiscal 2006, current assets increased by \$66,000 to \$1,159,000 due to improved operating income (before depreciation). This resulted in higher cash and prepaid balances, especially with the conversion of inventory into cash payments made by Event Network during fiscal 2006. Due to the positive cash balances and timing of payments, accounts payable balances were reduced in fiscal 2006. The \$82,000 increase in current liabilities to \$2,465,000 is related to increases in accrued payroll expenses and other deferred revenue at September 30, 2006. The decrease in current assets and current liabilities between fiscal 2005 and fiscal 2004 were primarily the result of a decrease in restricted cash and the related accounts payable and deferred revenue. The restricted cash was for master planning purposes and the new "Explore A Shore" exhibit which was completed and opened in the spring of 2004. Enhancements and additions to the "Explore A Shore" area also occurred in fiscal 2006 and fiscal 2005, including an animal holding facility for animal shows, changing cabanas, gardens, and additional children's play components. The Aquarium's newest exhibit, "AquariuMania" opened

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Memorial Day weekend in fiscal 2006. Restricted cash and deferred revenue held at the end of fiscal 2005 were used to construct this exhibit. Pledges receivable on the "Explore A Shore" project were collected as scheduled during fiscal 2006 and fiscal 2005, further reducing the current asset balance. Balances related to the gift shop and restaurant outsourced operations are also included in current assets and current liabilities. Due to the outsourcing of the gift shop operation at the end of September 2005, gift shop inventory balances were reduced and exchanged for a \$200,000 account receivable from the new outsourcing partner, Event Network. This receivable was collected in full during fiscal 2006. A receivable of \$36,000 at September 30, 2006 does exist from Event Network, representing the contracted amount owed the Aquarium for September activities. The other outsourced operation, food service with Sodexo and now Aramark, reflected improved performance in fiscal 2006. An \$81,000 receivable from Aramark is included in current assets this year, representing the first 6 weeks of operations with them. For fiscal 2005, a \$103,000 receivable from Sodexo was included in current assets, rather than the \$36,000 payable included in current liabilities in fiscal 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. Noncurrent liabilities consist of the long-term balances due on the Aquarium's two notes payable obligations. Changes in the noncurrent assets and liabilities balances between fiscal 2006 and 2005 are explained below.

Total deficit in net assets decreased by \$569,000 in fiscal 2006, after increases of \$22,000 and \$161,000 occurred in fiscal 2005 and 2004, respectively. The net deficit is now \$204,000 and \$773,000 in fiscal 2006 and 2005, respectively. The ending balances are 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 \$684,000 at September 30, 2006. During fiscal 2006, there were \$680,000 of capital asset additions and additions in progress, consisting primarily of new office and public space furniture; desktop computers and turnstile operation system upgrades; a new parking lot access control system; diving equipment; a step van; and two new engines for the Eco-tour boat. A \$400,000 contribution was received to purchase the new furniture; and the step van was donated and capitalized for \$27,500. During fiscal 2005, \$32,000 of capital expenditures were made. Depreciation expense, a noncash item, of \$173,000 and \$215,000 in fiscal 2006 and 2005, respectively, is reflected in this net asset class. The outstanding balance on the bank note related to the Eco-tour boat is also reflected in this net asset class. The bank note and the small remaining balance of a capital lease were reduced \$94,000 and \$81,000 in fiscal 2006 and 2005, respectively.

"Restricted" net assets are \$362,000 and \$331,000 at September 30, 2006 and 2005, respectively. This net asset class represents the total fair value of the Aquarium's endowment funds. During fiscal years 2006 and 2005, an increase of \$31,000 and \$33,000, respectively, in the fair value of restricted investments was recorded. No additional contributions occurred in fiscal 2006. A \$3,000 contribution was received in fiscal 2005.

The remaining net asset balance is "unrestricted." The balance actually reflects a deficit of \$1,250,000 and a deficit of \$1,196,000 at September 30, 2006 and 2005, 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

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budget, and from 1999 through the present, the Aquarium has managed to achieve breakeven or slightly better results against the operating budget which includes annual contributions from the City. However, until the Aquarium can achieve significant operating surpluses that also cover depreciation and reduce 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, 2006 were \$730,000 compared to \$231,000 last year. The net increase of \$499,000 was primarily related to the fiscal year 2006 capital additions of \$680,000, offset by depreciation expense of \$173,000 and asset disposals. In fiscal 2005, the depreciation expense of \$215,000 offset the capital asset additions of \$32,000, resulting in the net \$183,000 decrease of capital assets, net of accumulated depreciation at September 30, 2005. Please refer to note 5 to the accompanying basic financial statements for additional information on the Aquarium's capital asset activities.

Debt Administration

The Aquarium's current and noncurrent liabilities include balances due on two notes payable: one for the Eco-tour boat, and a revolving line of credit promissory note for "Explore A Shore". At September 30, 2006, noncurrent liabilities were \$30,000 compared to \$105,000 last year. The Eco-tour boat loan matures on April 1, 2007; therefore, the remaining \$45,000 balance of the loan is included in current liabilities at September 30, 2006. The \$228,333 revolving line of credit promissory note for "Explore A Shore" was originated in October 2004. This note is secured by pledges receivable for the "Explore A Shore" project. In fiscal 2006 and 2005, \$30,000 and \$138,333 of the pledges were collected, respectively, and the note was reduced. Please refer to notes 5 and 7 in the accompanying financial statements for additional information on the Aquarium's debt administration activities.

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

	<u>FY 2006</u>	<u>FY 2005</u>	<u>FY 2004</u>
Operating revenues:			
Turnstile revenues	\$ 7,046	6,885	6,352
Contributions, memberships, and grants	2,671	2,611	2,484
	<u>9,717</u>	<u>9,496</u>	<u>8,836</u>
Operating expenses:			
Salaries and benefits	5,230	5,047	4,809
Advertising and promotions	679	761	784
Occupancy-related	1,583	1,496	1,378
Insurance	433	477	516
Other	1,523	1,554	1,397
	<u>9,448</u>	<u>9,335</u>	<u>8,884</u>
Operating income (loss) before depreciation	269	161	(48)
Depreciation	(173)	(215)	(186)
Operating income (loss)	96	(54)	(234)
Nonoperating revenues	57	42	41
Nonoperating expenses	(823)	(396)	(1,543)
Loss before capital contributions	(670)	(408)	(1,736)
Capital contributions	1,239	386	1,575
Increase (decrease) in net assets	569	(22)	(161)
Beginning net assets (deficit)	(773)	(751)	(590)
Ending net assets (deficit)	<u>\$ (204)</u>	<u>(773)</u>	<u>(751)</u>

Operating Turnstile Revenues

Despite a decrease in attendance in fiscal 2006 from fiscal 2005 and fiscal 2004 levels, turnstile revenues continue to grow. This growth is attributed to a strong attendance mix resulting in higher guest per capita spending. Typically, guests who pay full price to enter the Aquarium will spend more on ancillary services such as the gift shop, food service, and eco-tours. The addition of "Explore A Shore" in the spring of 2004 triggered the beginning of this revenue growth. When that addition opened, the Aquarium implemented main gate price

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increases and reduced the number of discount programs and promotions to produce higher admissions per caps. Tourism increased in Florida despite hurricanes coming ashore in 2004 and 2005; although 2006 summer tourism was slower than usual. “Explore A Shore” continued to drive attendance and revenue growth through fiscal 2005, with the additional marketing and promotions campaign celebrating the Aquarium’s 10th Anniversary. In fiscal 2006, the Aquarium opened its newest exhibit, “AquariuMania” to help drive summer attendance. This exhibit highlights the home aquarium hobby and related tropical fish/aquaculture industries. To end fiscal 2006, a marketing campaign was conducted to introduce the Aquarium’s newest residents – two African black-footed penguins. Instead of a penguin exhibit, the penguins conduct daily promenades in the lobby, where children and guests of all ages interact directly with them.

The gift shop operation, which was outsourced to Event Network at the end of fiscal 2005, has been a financial and operational success. Event Network exceeded its net minimum annual financial guarantee to the Aquarium; per caps have gone up; the store has been remodeled; and the Aquarium’s inventory balances have been converted to cash. The conversion of the food service operation from outsourced partner Sodexho to Aramark also occurred seamlessly in August 2006. The total restaurant per cap decreased from fiscal 2005 levels due to a slow catered event holiday season, and smaller catered events during the transition period. Per cap growth and higher financial returns are budgeted from Aramark in fiscal 2007.

After three years of a steady decrease in parking revenues, growth occurred in fiscal 2006. Back in 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 permanently reduced the Aquarium’s parking lot by 45%. The Aquarium also experienced lost parking revenue to the Port’s covered parking garage that is directly across the street from the Aquarium’s entrance. Due to the recent growth in Channelside, parking is now becoming a valued commodity. To capitalize on the parking space shortfall, the Aquarium installed a parking lot access control system in August to reduce the amount of free parking, and control parking at night.

Educational programs, including school field trips, outreach, sleepovers, birthday parties, and summer camps have experienced record growth in fiscal 2006 and fiscal 2005. Summer camps were at capacity each year. Teacher workshops related to the new “AquariuMania” exhibit, Bayside Field Studies on Fantasy Island, the Jason Project, and SEAS continue to grow and create stewardship opportunities for the Aquarium.

Following is a table of guest’s average per capita spending (per caps) for each turnstile revenue category:

	<u>FY 2006</u>	<u>FY 2005</u>	<u>FY 2004</u>
Admissions	\$ 9.27	8.81	7.86
Gift shop	2.21	2.16	2.11
Restaurant	3.77	4.04	3.53
Parking	0.72	0.65	0.70
Miscellaneous	0.71	0.80	0.57
Total	<u>\$ 16.68</u>	<u>16.46</u>	<u>14.77</u>

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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 contribution from the City to balance the Aquarium's cash flow operating budget per contractual agreement.

Operating grants reflected 3 years of decreases until the increase occurred in fiscal 2006. The decreases were primarily related to a few large grants that were not repeatable in the following year. In fiscal 2003, the Aquarium was awarded an \$112,500 Institute of Museum and Learning Services (IMLS) operating grant for the first time. The Aquarium recorded \$56,250 in grant revenues in both fiscal 2003 and 2004. This specific IMLS grant was not available to be rewarded in fiscal 2005. Another significant \$30,000 grant was received in fiscal 2004, but the Foundation no longer existed in fiscal 2005. Finally, some operating grant sources were converted to larger capital contributions in fiscal 2006 and fiscal 2005. New operating grants in fiscal 2006 relate to biological conservation/research projects related to sea turtle drug studies, coral propagation, and underwater archeology. The primary and ongoing operating grant sources in fiscal 2006 included the State of Florida – Division of Cultural Affairs, the Arts Council of Hillsborough County, and the Tourist Development Council of Hillsborough County. Each of these grants has grown in the amounts awarded over the past three years.

The Aquarium's household membership base has steadily increased to a level of 16,000 households. This growth was due to the opening of "Explore A Shore" in 2004. Despite fiscal 2005 being the second year of operations for "Explore A Shore", there was not a reduction in new memberships or renewals of existing members. To maintain the membership base in fiscal 2006, incentive packages were marketed to coincide with the opening of "AquariumMania"; and the "swaptember" reciprocal membership program with Lowry Park Zoo and MOSI was extended into August this year. For the first time in Aquarium history, over \$1 million in membership sales occurred in fiscal 2005, which was again exceeded in fiscal 2006.

Special events at the Aquarium rely on sponsorship funding and ticket sales to generate net revenues. Two nonrecurring special fundraising events occurred in fiscal 2005, which helps explain the decrease in revenues from 2005 to 2006: the "10th Anniversary Seahorse Celebration" and the "Coastal Living Idea House." One new annual event was added in 2005 – "New Year's Eve Party at the Fish Bowl" and one event was eliminated in fiscal 2006 – "Sushi Showdown." To replace "Sushi Showdown," the Aquarium added a new fishing tournament to the mix, "Fishin' for the Mission." These special events joined in with the other annual events: "Nauti-Night," "SeaGrapes," "Surf and Turf Golf Classic," and "Dragon Boat Race." These events are intended as fundraisers for the Aquarium's educational and veterinary programs.

Since fiscal 2002, due to the losses experienced in the stock market and overall economic downturn, combined with two years of natural disasters (hurricanes and tsunami), the war in Iraq and Afghanistan, and the oil and insurance crisis during the summer of 2006, the Aquarium's annual fundraising efforts with individuals, corporations, and foundations have not experienced significant growth. During this time, 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 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

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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 2006</u>	<u>FY 2005</u>	<u>FY 2004</u>
Annual fund – individual	\$ 135	135	153
Annual fund – corporate	96	54	72
Grants	363	335	351
Memberships	1,051	1,003	830
Special events	276	334	228
City of Tampa	750	750	850
Total	<u>\$ 2,671</u>	<u>2,611</u>	<u>2,484</u>

Operating Expenses

The Aquarium's most significant operating expenses are salaries and related taxes, insurance, and benefits. Salaries and benefits grew by 4% in fiscal 2006, and 5% in fiscal 2005. For both years, an average merit increase of 3.5% was distributed for staff, and a slight increase in health insurance premiums occurred. New positions were added in education, biological operations, and life support/engineering to support the new exhibits ("AquariuMania," the stingrays at Tropicana Field, and the penguins), and to help maintain the aging facilities.

Advertising and promotions expense decreased 11% in fiscal 2006, after a 3% decrease in fiscal 2005. The fiscal 2004 spending 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." These expenses did not recur in this magnitude in fiscal 2005, but instead, were enhanced with marketing and promotions related to the year-long 10th Anniversary celebrations. In fiscal 2006, marketing efforts were curtailed since there was no big, marketable new exhibit or message to promote. Instead, the marketing team used the year to re-evaluate long-standing publication and print contracts, advertising agencies, radio partnerships, print brokers, etc. to ensure that the advertising and promotion dollars spent were maximized to their full potential. An advertising campaign was conducted for "AquariuMania," and several Florida resident promotional campaigns were offered to help drive attendance during fiscal 2006.

Occupancy-related expenses include items such as life support equipment, repairs and maintenance, and utilities. As the Aquarium ages and saltwater intrusion occurs, more preventative repairs and maintenance occur, which explains the 6% and 9% increases in these expenses in fiscal 2006 and fiscal 2005, respectively. In January 2006, due to the oil crisis stemming from Hurricane Katrina and the war in Iraq, the Aquarium received a 6% increase in its electric rates. Aquarium facility maintenance also increased during the summer of 2006 in anticipation of hosting the Association of Zoos and Aquariums (AZA) annual conference in September. The AZA represents the professional accreditation group that oversees operations of zoos and aquariums. Over 1,800 delegates visited the Aquarium during the week of the conference.

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The Aquarium faced another potential property insurance crisis in fiscal 2006. Significant premium increases in property insurance for the Aquarium last occurred in fiscal 2002. At that time 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). Stabilization in the insurance market occurred in fiscal 2004 and continued in fiscal 2005, explaining the steady decrease in insurance expense over the past three years. Due to the losses suffered by the insurance industry related to Hurricane Katrina, the Aquarium's property insurance renewals in May 2006 reflected astronomical premiums and deductibles related to named windstorm damage. To secure adequate coverage and have some level of coverage for named windstorm damage, the Aquarium elected to be added to the City's insurance policies, since the City owns the Aquarium facility that would be covered. As such, the total premium for property insurance was decreased by \$50,000, but the level of coverage for windstorm damage has been substantially reduced.

Other operating expenses decreased by 2% in fiscal 2006, after an 11% increase in fiscal 2005. This category includes postage and printing associated with communications to the larger membership and educational programs base (offset by savings related to changes made with print brokers); supplies and materials associated with operating the Aquarium facility, and travel associated with expanded statewide Aquarium awareness efforts and maintenance trips to Tropicana Field.

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.

Besides raising funds to support operations, the Aquarium's development team also raises funds for capital improvements and exhibit enhancements. During fiscal 2006 and 2005, approximately \$1,239,000 and \$386,000, respectively, of capital contributions were raised. Almost \$812,000 and \$374,000 was spent on exhibit enhancements in fiscal 2006 and 2005, respectively, 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. From fiscal 2003 through fiscal 2006, over \$2.3 million was spent on the new "Explore A Shore" children's outdoor play area. This exhibit was funded through private contributions, \$150,000 from the City, \$300,000 from Hillsborough County, and a \$500,000 Cultural Facilities grant from the state of Florida. In fiscal 2006, an additional \$322,000 was spent to build "AquariuMania," which will eventually become a traveling exhibit. This exhibit was funded through private donations; contributions by the tropical fish farmer/aquaculture industry; the pet products industry; and Hillsborough County. The state of Florida also provided a \$250,000 Cultural Facilities grant to replace the ten-year old carpeting throughout the exhibit path and the canvas awnings above the coral reef and shark tanks.

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Fiscal 2007 Outlook

The fiscal 2007 operating budget was prepared knowing that there will not be an opening of a major new marketable exhibit. Instead, the Aquarium will focus on a "How Did It Change You?" marketing campaign that highlights the existing four Aquarium galleries each quarter. The campaign is geared at driving Aquarium awareness in order to sustain current attendance levels – not grow the attendance. All improvements are now complete for "Explore A Shore," and "AquariuMania" is now open. Continued marketing of these two exhibits, as well as the African black-footed penguins, is also included in the fiscal 2007 plan. Since attendance is budgeted to remain steady, revenue growth to cover the additional operating expenses will be derived through our new food and beverage concessionaire agreement and fundraising efforts.

Total operations are budgeted at \$12.9 million in fiscal 2007, with attendance projected at 600,000. The City's budgeted contribution was reduced by 10% to \$675,000 for fiscal 2007. Another breakeven year is budgeted. A long-term exhibit planning process will be completed in fiscal 2007. Once this 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.
(A Component Unit of the City of Tampa)

Balance Sheets

September 30, 2006 and 2005

Assets	2006	2005
Current assets:		
Cash and cash equivalents	\$ 328,605	185,191
Restricted cash and cash equivalents	306,000	214,076
Accounts receivable, net of allowance for doubtful accounts of \$10,000 in 2006 and \$21,500 in 2005	301,114	445,937
Pledges receivable	50,000	30,000
Inventories	44,172	162,035
Other current assets	129,414	55,736
Total current assets	1,159,305	1,092,975
Noncurrent assets:		
Capital assets, net	729,561	231,260
Restricted investments in endowment funds	362,015	330,800
Pledges receivable	40,000	60,000
Total noncurrent assets	1,131,576	622,060
Total assets	\$ 2,290,881	1,715,035
Liabilities and Net Assets (Deficit)		
Current liabilities:		
Accounts payable and accrued expenses	\$ 1,417,065	1,415,564
Accounts payable from restricted assets	6,997	6,467
Current maturities of notes payable	75,503	123,926
Deferred revenue	666,844	629,623
Deferred revenue related to restricted assets	299,003	207,609
Total current liabilities	2,465,412	2,383,189
Noncurrent liabilities:		
Notes payable, net of current maturities	30,000	105,560
Total liabilities	2,495,412	2,488,749
Net assets (deficit):		
Invested in capital assets, net of related debt	684,058	91,774
Restricted net assets:		
Unrealized increase in fair value of investments	185,415	154,200
Endowment funds corpus	176,600	176,600
Unrestricted deficit	(1,250,604)	(1,196,288)
Total net deficit	(204,531)	(773,714)
Total liabilities and net assets (deficit)	\$ 2,290,881	1,715,035

See accompanying notes to basic financial statements.

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

Statements of Revenues, Expenses, and Changes in Net Assets

Years ended September 30, 2006 and 2005

	2006	2005
Operating revenues:		
Turnstile revenues:		
Admissions	\$ 5,640,015	5,470,564
Gift shop sales, net of direct expenses	372,835	339,182
Restaurant sales, net of direct expenses	163,290	179,589
Parking revenue	438,707	400,804
Community programs revenue	372,255	382,916
Miscellaneous revenue	59,337	111,764
Total turnstile revenues	7,046,439	6,884,819
Contributions, memberships, and grants	2,670,980	2,611,470
Total operating revenues	9,717,419	9,496,289
Operating expenses:		
Salaries and benefits	5,230,005	5,046,924
Advertising and promotions	679,377	760,679
Occupancy-related	1,583,004	1,496,137
Insurance	432,588	477,312
Professional services	376,888	383,795
Animals, plants, and food	223,991	178,512
Other operating expenses	922,672	992,097
Total operating expenses	9,448,525	9,335,456
Operating income before depreciation	268,894	160,833
Depreciation	(172,656)	(215,030)
Operating income (loss)	96,238	(54,197)
Nonoperating revenues (expenses):		
Exhibit enhancements	(811,902)	(373,595)
Interest income	13,391	9,724
Interest expense	(11,882)	(22,658)
Gain on sale of capital assets	12,721	—
Net increase in fair value of restricted investments	31,215	32,536
Net nonoperating expenses	(766,457)	(353,993)
Loss before capital contributions	(670,219)	(408,190)
Capital contributions	1,239,402	385,977
Increase (decrease) in net assets	569,183	(22,213)
Net assets (deficit), beginning of year	(773,714)	(751,501)
Net assets (deficit), end of year	\$ (204,531)	(773,714)

See accompanying notes to basic financial statements.

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

Statements of Cash Flows

Years ended September 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Cash flows from operating activities:		
Cash received from turnstile operations	\$ 7,369,534	8,030,158
Cash received from contributions, memberships, and grants	2,777,220	2,626,006
Cash paid to employees	(4,485,232)	(4,519,659)
Cash paid to vendors	(5,072,974)	(6,198,202)
Net cash provided by (used in) operating activities	<u>588,548</u>	<u>(61,697)</u>
Cash flows from capital and related financing activities:		
Capital contributions	1,239,402	385,977
Capital expenditures	(679,553)	(32,657)
Proceeds from sale of capital assets	21,317	—
Exhibit enhancements	(811,902)	(373,595)
Issuance of note payable	—	228,333
Repayments of notes payable	(123,983)	(217,354)
Interest paid on notes payable	(11,882)	(22,624)
Repayments of capital lease	—	(2,223)
Interest paid on capital lease	—	(34)
Net cash used in capital and related financing activities	<u>(366,601)</u>	<u>(34,177)</u>
Cash flows from investing activities:		
Purchase of investments	—	(3,000)
Interest received	13,391	9,724
Net cash provided by investing activities	<u>13,391</u>	<u>6,724</u>
Net increase (decrease) in cash and cash equivalents	235,338	(89,150)
Cash and cash equivalents, beginning of year	<u>399,267</u>	<u>488,417</u>
Cash and cash equivalents, end of year	<u>\$ 634,605</u>	<u>399,267</u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:		
Operating income (loss)	\$ 96,238	(54,197)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:		
Depreciation	172,656	215,030
Provision for uncollectible accounts receivable	6,829	26,337
Write-off of uncollectible accounts receivable	(18,329)	(23,237)
Changes in operating assets and liabilities:		
Accounts receivable	156,323	(287,369)
Pledges receivable	—	148,334
Inventories	117,863	244,270
Other current assets	(73,678)	8,987
Accounts payable and accrued expenses	2,031	(282,579)
Deferred revenue	128,615	(57,273)
Net cash provided by (used in) operating activities	<u>\$ 588,548</u>	<u>(61,697)</u>
Noncash items:		
Net increase in fair value of investments	\$ 31,215	32,536

See accompanying notes to basic financial statements.

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

Notes to Basic Financial Statements

September 30, 2006 and 2005

(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. The Management Agreement expires on September 30, 2007, with the ability to renew the agreement for an additional one year period. 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, 2007 on October 26, 2006. 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, *Whether Certain Organizations are Component Units*, 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

(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, *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.

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

Notes to Basic Financial Statements

September 30, 2006 and 2005

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 gift shop and restaurant, which are shown net of direct expenses because they are outsourced. 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 and cash held in money market accounts 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 on consignment to Event Network, Inc. (Event Network), which operates the gift shop under contract on the Aquarium's behalf. 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.

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

Notes to Basic Financial Statements

September 30, 2006 and 2005

(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 pledges are recorded in accordance with GASB Statement 33, *Accounting and Financial Reporting for Nonexchange Transactions*, when all eligibility requirements are met.

Contributions received that are restricted for capital items are recognized in the same manner as other contributions, however, they 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 \$576,000 and \$806,000 during the years ended September 30, 2006 and 2005, 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 in conformity with U.S. generally accepted accounting principles requires management of the Aquarium to make a number of estimates and assumptions relating to the reported amounts of assets and liabilities and the disclosures 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.

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

Notes to Basic Financial Statements

September 30, 2006 and 2005

(k) Reclassifications

Certain reclassifications are reflected in the 2005 financial statements to conform with the 2006 presentation. These reclassifications had no effect on previously reported net assets.

(3) Cash, Cash Equivalents, and Restricted Investments

At September 30, 2006 and 2005, the Aquarium's cash deposits were partially covered by federal depository insurance. The bank balances and book balances were \$723,429 and \$610,442, respectively, at September 30, 2006. At September 30, 2005, the bank balances and book balances were \$526,796 and \$373,940, respectively. Cash on hand for ticketing, parking, gift store, and petty cash needs was \$24,163 and \$25,327 at September 30, 2006 and 2005, respectively.

The bank balances of the Aquarium include overnight repurchase agreements in the amount of \$715,000 and \$506,000 at September 30, 2006 and 2005, respectively. 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.

The Aquarium's investment policy authorizes investments in U.S. government obligations and direct obligations of U.S. government agencies, equities, and short-term money markets composed of certificates of deposit, money market funds, and repurchase agreements. The policy specifically prohibits investments in certain items such as derivatives, commodities, foreign securities listed solely outside the U.S., direct real estate or mortgages, and security loans.

At September 30, 2006 and 2005, the Aquarium held the following investments:

	2006	2005
Mutual funds	\$ 296,847	269,691
Beneficial interest in The Community Foundation of Tampa Bay	65,168	61,109
	\$ 362,015	330,800

Interest Rate Risk

The Aquarium does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk

The Aquarium's investment policy limits investments to an asset allocation of 50% fixed income. Fixed income securities must be rated "BBB" or better. Equity investments classified as preferred stocks must be rated "A" or better and be listed on a national exchange or, if traded over-the-counter, have a demonstrated record of liquidity.

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

Notes to Basic Financial Statements

September 30, 2006 and 2005

Custodial Credit Risk

The Aquarium does not have a formal investment policy that addresses custodial credit risk.

Concentration of Credit Risk

The Aquarium has a formal investment policy that limits fixed income securities and equity investments in any single issue, industry, or company to 10%, 15%, and 5% respectively, of the portfolio value.

Foreign Currency Risk

The Aquarium's investment policy prohibits investments in non-U.S. denominated securities.

(4) Accounts Receivable

Accounts receivable at September 30, 2006 and 2005, include amounts due from others as follows:

	<u>2006</u>	<u>2005</u>
Customers	\$ 193,587	164,008
Aramark	81,489	—
Sodexo	—	103,429
Event Network	36,038	200,000
Less allowance for doubtful accounts	<u>(10,000)</u>	<u>(21,500)</u>
	<u>\$ 301,114</u>	<u>445,937</u>

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

Notes to Basic Financial Statements

September 30, 2006 and 2005

(5) Capital Assets

The following is a summary of changes in capital assets for the fiscal years ended September 30, 2006 and 2005:

	Balance October 1, 2005	Additions	Deletions	Balance September 30, 2006
Capital assets, nondepreciable:				
Construction in progress	\$ —	67,115	—	67,115
Capital assets, depreciable:				
Vehicles	144,585	27,500	(19,836)	152,249
Eco-tour boat	487,272	30,000	—	517,272
Furniture and equipment	2,956,131	554,938	(616,530)	2,894,539
Total depreciable capital assets	<u>3,587,988</u>	<u>612,438</u>	<u>(636,366)</u>	<u>3,564,060</u>
Less accumulated depreciation:				
Vehicles	94,529	18,013	(11,240)	101,302
Eco-tour boat	425,629	66,642	—	492,271
Furniture and equipment	2,836,570	88,001	(616,530)	2,308,041
Total accumulated depreciation	<u>3,356,728</u>	<u>172,656</u>	<u>(627,770)</u>	<u>2,901,614</u>
Total depreciable capital assets, net	<u>231,260</u>	<u>439,782</u>	<u>(8,596)</u>	<u>662,446</u>
Total capital assets, net	<u>\$ 231,260</u>	<u>506,897</u>	<u>(8,596)</u>	<u>729,561</u>

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

Notes to Basic Financial Statements

September 30, 2006 and 2005

	Balance October 1, 2004	Additions	Deletions	Balance September 30, 2005
Capital assets, nondepreciable:				
Construction in progress	\$ 18,860	—	(18,860)	—
Capital assets, depreciable:				
Vehicles	169,802	4,823	(30,040)	144,585
Eco-tour boat	487,272	—	—	487,272
Equipment under capital lease	69,360	—	—	69,360
Furniture and equipment	2,840,077	46,694	—	2,886,771
Total depreciable capital assets	3,566,511	51,517	(30,040)	3,587,988
Less accumulated depreciation:				
Vehicles	110,363	14,206	(30,040)	94,529
Eco-tour boat	319,956	105,673	—	425,629
Equipment under capital lease	60,052	3,853	—	63,905
Furniture and equipment	2,681,367	91,298	—	2,772,665
Total accumulated depreciation	3,171,738	215,030	(30,040)	3,356,728
Total depreciable capital assets, net	394,773	(163,513)	—	231,260
Total capital assets, net	\$ 413,633	(163,513)	(18,860)	231,260

Changes in the capital lease obligation for the year ended September 30, 2005 are as follows:

	October 1, 2004	Additions	Deletions	September 30, 2005
\$	2,223	—	(2,223)	—

(6) Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses at September 30, 2006 and 2005 consist of amounts owed for operating and payroll expenses as follows:

	2006	2005
Accounts payable	\$ 810,535	946,490
Accrued expenses	45,268	21,500
Accrued payroll expenses (including compensated absences)	561,262	447,574
	\$ 1,417,065	1,415,564

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

Notes to Basic Financial Statements

September 30, 2006 and 2005

(7) Notes Payable

Notes payable consist of the Eco-tour boat loan and the “Explore A Shore” loan. The Eco-tour boat loan was \$400,000 when originally issued, bearing interest at 9.5%. It was refinanced on October 14, 2004 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. 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). The outstanding balance was \$45,503 and \$139,486 at September 30, 2006 and 2005, respectively.

The “Explore A Shore” \$228,333 revolving line of credit promissory note was issued on October 14, 2004. This loan was necessary to finance the completion of the construction of the Aquarium’s outdoor exhibit, “Explore A Shore”. The note is secured by pledges receivable for the exhibit. Interest is due monthly with principal payments due upon receipt of pledge payments. Regardless of pledge payments, the note must be reduced to \$60,000 on or before March 1, 2006 and to \$30,000 on or before March 1, 2007, with final maturity on March 1, 2008. The interest rate is variable, based on the LIBOR rate plus 225 basis points, and was 7.58% at September 30, 2006. During fiscal 2006, \$30,000 of pledges were collected and the loan was reduced to a balance of \$60,000 at September 30, 2006.

Future maturities of the notes payable as of September 30, 2006 are as follows:

	Principal	Interest
Year ending September 30:		
2007	\$ 75,503	4,149
2008	30,000	954
	\$ 105,503	5,103

Future interest payments on the revolving line of credit promissory note were calculated using the variable interest rate of 7.58% at September 30, 2006.

A schedule of changes in the notes payable for the years ended September 30, 2006 and 2005 follows:

October 1, 2005	Additions	Deletions	September 30, 2006
\$ 229,486	—	(123,983)	105,503
229,486		(123,983)	105,503
October 1, 2004	Additions	Deletions	September 30, 2005
\$ 218,507	228,333	(217,354)	229,486
218,507	228,333	(217,354)	229,486

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

Notes to Basic Financial Statements

September 30, 2006 and 2005

(8) Related-Party Transactions

Contributions, memberships and grants, and capital contributions for the years ended September 30, 2006 and 2005 include the following:

	2006	2005
Board of directors and trustees	\$ 331,193	240,199
City of Tampa	750,000	750,000
Hillsborough County	200,000	150,000
	\$ 1,281,193	1,140,199

(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 \$11,400 and \$11,600, 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, 2006 and 2005, respectively.

(10) Restaurant Management Agreements

The Aquarium outsources its food service operations. For the period since the Aquarium opened through August 9, 2006, an agreement with Sodexho, Inc. existed (the Sodexho Agreement). Under the Sodexho Agreement, Sodexho was paid a management fee equal to the lesser of 4% of sales, or \$120,000. Profits and losses were allocated 75% and 25% to the Aquarium and Sodexho, respectively. For the period October 1, 2005 through August 9, 2006, the Aquarium recorded restaurant sales of \$1,997,292 and direct expenses of \$1,879,143 to net \$118,149, under the Sodexho Agreement. Ending food service inventory balances of \$36,348 were written-off as direct expenses when Sodexho left. For the year ended September 30, 2005, the Aquarium recorded restaurant sales of \$2,506,867 and direct expenses of \$2,327,278 to net \$179,589. At September 30, 2005, the Aquarium had a receivable from Sodexho of \$103,429 related to restaurant sales, and catering charges of \$6,611 which was included in accounts payable and accrued expenses.

Effective August 10, 2006, a new agreement with Aramark, Inc. (the Aramark Agreement) began. Under the Aramark Agreement, Aramark will pay the Aquarium a percentage of monthly cafeteria and catering sales, with a minimum annual payment of \$500,000. Payments will be made by the 15th day of the following month. For the period August 10, 2006 through September 30, 2006, the Aquarium recorded restaurant sales of \$295,419 and direct expenses of \$213,930 to net \$81,489. At September 30, 2006, this amount is included in accounts receivable. A payable of \$4,337 for internal catering charges is included in accounts payable and accrued expenses at September 30, 2006. The agreement is effective for five years, with the ability by the Aquarium to extend the agreement for an additional five years.

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

Notes to Basic Financial Statements

September 30, 2006 and 2005

(11) Gift Shop Management Agreement

On September 15, 2005, the Aquarium entered into a five-year agreement with Event Network to manage the gift shop operations beginning on September 30, 2005. The agreement states that Event Network will pay the Aquarium a percentage of monthly gift shop sales, with a minimum annual payment of \$400,000. Payments will be made by the 15th day of the following month. For the year ended September 30, 2006, Event Network recorded gift shop sales of \$1,345,396 and direct expenses of \$934,086, to net \$411,310. For the year ended September 30, 2005, the Aquarium recorded gift shop sales of \$1,339,312 and direct expenses of \$1,000,130, to net \$339,182.

As part of the transition, Event Network agreed to purchase \$200,000 of the Aquarium's existing gift store inventory on a payment plan that concluded on September 1, 2006. This \$200,000 was included in accounts receivable as of September 30, 2005, but has been paid in full at September 30, 2006. Additionally, \$100,979 and \$116,396 of existing Aquarium inventory was being sold by Event Network on consignment as of September 30, 2006 and September 30, 2005, respectively. A reserve for obsolescence of \$61,754, and \$23,279 has been recorded as of September 30, 2006 and 2005, respectively. The increase of \$38,475 in the reserve for obsolescence is reflected as a direct expense of gift shop sales in the accompanying financial statements.

(12) Tampa Port Authority License Agreement

In April 2000, the Aquarium signed an agreement with the Port concerning the use and care of the Eco-tour boat. The agreement stated that the Port would 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 would reimburse the Aquarium for half of all operating costs, up to a maximum of \$90,000 per year. The license agreement expired on April 30, 2006. In fiscal years 2006 and 2005, the Aquarium recorded \$68,709 and \$144,822, respectively, as an offset to expense for costs reimbursable from the Port for rent and operating costs.

Effective May 1, 2006, the Port agreed to continue to use the Eco-tour boat for its port tours. In exchange, the Port would pay the Aquarium \$90,000 per year for these tours. The amount earned by the Aquarium from May 1, 2006 through September 30, 2006 was \$37,500. These fees are reflected in admissions revenue in the accompanying statements of revenues, expenses, and changes in net assets. At September 30, 2006 and 2005, the Aquarium has \$37,500 and \$45,612, respectively, recorded in accounts receivable due from the Port.

(13) Contingencies

(a) Assets Held by City of Tampa

During fiscal 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.

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

Notes to Basic Financial Statements

September 30, 2006 and 2005

(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 are 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, except for coverage related to named windstorm damage under the property insurance policy. The renewal premiums and deductibles related to named windstorm damage at the levels secured in prior years were cost prohibitive. Instead, the Aquarium elected to be added onto the City's property insurance policy and share in its windstorm coverage. In the case of damage occurring due to a named windstorm, the Aquarium would be subject to the City's \$30 million limit. All damage caused by other perils would be covered in full. The Aquarium paid \$158,589 to the City for premiums to be covered by these insurance policies. This expense is included in insurance on the accompanying statements of revenues, expenses, and changes in net assets.



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**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, 2006, and have issued our report thereon dated November 10, 2006. 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, audit committee, and management and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

November 10, 2006
Certified Public Accountants