



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

Basic Financial Statements

September 30, 2005 and 2004

(With Independent Auditors' Report Thereon)

THE FLORIDA AQUARIUM, INC.

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

Independent Auditors' Report 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, 2005 and 2004, 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., as of September 30, 2005 and 2004, 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 18, 2005, 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 3 through 11 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 18, 2005, except for note 14 which is as of February 2, 2006
Certified Public Accountants

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Management's Discussion and Analysis
(Unaudited)

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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, 2005 and 2004. Please read it in conjunction with the basic financial statements, which follow this section.

Financial Highlights

	FY 2005		
	Actual	Versus budget	Versus last year
Attendance	620,907	3%	2%
Turnstile revenues	\$ 7.9 million	2%	10%
Operating contributions, memberships, and grants	2.6 million	(11)%	4%
Operating expenses	10.3 million	(3)%	5%

	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%

The Aquarium celebrated its 10th Anniversary on March 31, 2005, and is proud to conclude its tenth year of operations with record attendance and turnstile revenues. "Explore A Shore", an outdoor children's wet play area combined with food service facilities, opened in the spring of 2004, and is primarily responsible for the growth in attendance, turnstile revenues, and operating expenses in fiscal 2004 and throughout fiscal 2005. 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 average per capita spending (per caps) has also increased at the front gate, the gift shop, and the restaurant, while memberships, including renewals, have increased as well.

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

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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.

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(Unaudited)

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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 (Deficit) (Balance Sheet)
(Dollars in thousands)

	FY 2005	FY 2004	FY 2003
Current assets	\$ 1,093	1,269	1,915
Noncurrent assets:			
Capital assets, net	231	414	374
Restricted investments in endowment funds	331	295	264
Pledges receivable	60	90	—
Total assets	<u>1,715</u>	<u>2,068</u>	<u>2,553</u>
Current liabilities	2,383	2,681	2,923
Noncurrent liabilities	105	138	220
Total liabilities	<u>2,488</u>	<u>2,819</u>	<u>3,143</u>
Net assets (deficit):			
Invested in capital assets, net of related debt	92	193	54
Restricted	331	295	264
Unrestricted deficit	(1,196)	(1,239)	(908)
Total net deficit	<u>\$ (773)</u>	<u>(751)</u>	<u>(590)</u>

The fiscal 2005 and fiscal 2004 decrease in current assets and current liabilities from fiscal 2003 levels was 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 2005, including an animal holding facility for animal shows, changing cabanas, gardens, and additional children's play components. Pledges receivable on the "Explore A Shore" project were collected as scheduled during fiscal 2005, further reducing the current asset balance. 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. The other outsourced operation, food service with Sodexho, reflected improved performance in fiscal 2005. A \$103,000 receivable from Sodexho is included in current assets this year, 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. Changes in these balances between fiscal 2004 and 2005 are explained below.

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Total deficit in net assets increased by \$22,000 and \$161,000 to a net deficit of \$773,000 and \$751,000 in fiscal 2005 and 2004, 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 \$92,000 at September 30, 2005. During fiscal 2005, there were \$32,000 of capital asset additions, consisting primarily of new desktop computers, veterinary equipment, and a new security system. During fiscal 2004, \$225,000 of capital expenditures were made. Depreciation expense, a noncash item, of \$215,000 and \$186,000 in fiscal 2005 and 2004, 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 \$81,000 and \$100,000 in fiscal 2005 and 2004, respectively.

"Restricted" net assets are \$331,000 and \$295,000 at September 30, 2005 and 2004, respectively. This net asset class represents the total fair value of the Aquarium's endowment funds. During fiscal year 2005, a \$33,000 increase in the fair value of restricted investments was recorded, and a \$3,000 contribution was received. There were no contributions received in fiscal 2004.

The remaining net asset balance is "unrestricted." The balance actually reflects a deficit of \$1,196,000 and a deficit of \$1,239,000 at September 30, 2005 and 2004, 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, 2005, were \$231,000 compared to \$414,000 last year. The net decrease of \$183,000 was primarily related to the fiscal year 2005 depreciation expense of \$215,000 offset by the capital asset additions of \$32,000. In fiscal 2004, there were capital additions of \$225,000, offset by depreciation expense of \$186,000 to result in the net \$40,000 increase in capital assets, net from fiscal 2003. 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, 2005 were \$105,000 compared to \$138,000 last year. Noncurrent liabilities include two notes payable in fiscal 2005: one for the Eco-tour boat, and a new note related to "Explore A Shore". In order to complete the construction of "Explore A Shore", the Aquarium entered into a \$228,333 revolving line of credit promissory note with a financial institution in October 2004. This note is secured by pledges receivable for the "Explore A Shore" project. In fiscal 2005, \$138,333 of the pledges were collected and the note was reduced. Please refer to notes 5 and 7 in the accompanying financial statements for additional information on the Aquarium's noncurrent liability activities.

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

	<u>FY 2005</u>	<u>FY 2004</u>	<u>FY 2003</u>
Operating revenues:			
Turnstile revenues	\$ 7,885	7,242	6,718
Contributions, memberships, and grants	2,611	2,484	2,229
	<u>10,496</u>	<u>9,726</u>	<u>8,947</u>
Operating expenses:			
Salaries and benefits	5,290	5,037	4,592
Advertising and promotions	766	789	623
Gift shop cost of goods sold	722	621	547
Occupancy-related	1,496	1,380	1,347
Insurance	477	516	556
Other	1,584	1,431	1,245
	<u>10,335</u>	<u>9,774</u>	<u>8,910</u>
Operating income (loss) before depreciation	161	(48)	37
Depreciation	(215)	(186)	(166)
Operating loss	(54)	(234)	(129)
Nonoperating revenues	42	41	58
Nonoperating expenses	(396)	(1,543)	(832)
Loss before capital contributions	(408)	(1,736)	(903)
Capital contributions	386	1,575	851
Decrease in net assets	(22)	(161)	(52)
Beginning net assets (deficit)	(751)	(590)	(538)
Ending net assets (deficit)	<u>\$ (773)</u>	<u>(751)</u>	<u>(590)</u>

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Operating Turnstile Revenues

The addition of “Explore A Shore” in the spring of 2004 continued to produce a full year of positive turnstile revenue growth in fiscal 2005. When that addition opened, the Aquarium implemented main gate price increases and reduced the number of discount programs and promotions to produce higher admissions per caps. Tourism increased in Florida despite four hurricanes coming ashore in August and September of 2004. It was anticipated that the first quarter of fiscal 2005 would reflect slower business and revenues due to the lingering hurricane effect, but this did not occur. Business during the Spring Break season in fiscal 2005 was stronger than the grand opening period of “Explore A Shore” in fiscal 2004. The Aquarium’s marketing and promotions campaign celebrating the Aquarium’s 10th Anniversary helped drive this growth in fiscal 2005. Educational programs and birthday parties hit record highs in fiscal 2005 and summer camps were at capacity.

“Explore A Shore” has extended the guest’s length-of-stay at the Aquarium to over 3 hours. This has resulted in higher guest spending in the gift shop and restaurant. Since “Explore A Shore” is an outside, wet play area, sales of towels, sunscreen, and swimsuits are now occurring. The new Caribbean Cantina, a table-service dining and bar area at “Explore A Shore”, provides the Aquarium with an additional catering event space and has also increased the average guest spending.

Parking revenues have shown a steady decrease over the past three years. 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 in fiscal 2003. The Aquarium’s fiscal 2004 and fiscal 2005 results did not include any City assistance for lost parking revenues. The Aquarium is also losing parking revenue to the Port’s covered parking garage that is directly across the street from the Aquarium’s entrance.

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

	<u>FY 2005</u>	<u>FY 2004</u>	<u>FY 2003</u>
Admissions	\$ 8.81	7.86	7.22
Gift shop	2.16	2.11	1.87
Restaurant	4.04	3.53	3.25
Parking	0.65	0.70	0.85
Miscellaneous	0.18	0.12	0.08
Total	<u>\$ 15.84</u>	<u>14.32</u>	<u>13.27</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 contribution from the City to balance the Aquarium’s cash flow operating budget per contractual agreement.

Operating grants have decreased over the past 3 years, primarily related to a few large grants that were not repeatable in the following year. In fiscal 2003, the Aquarium was awarded a \$112,500 Institute of Museum and

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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 2004 and fiscal 2005. The primary and ongoing operating grant sources in fiscal 2005 included the State of Florida - Division of Cultural Affairs, the Arts Council of Hillsborough County, and the Tourist Development Council of Hillsborough County.

The Aquarium's household membership base has steadily increased from 13,000 in fiscal 2003 to 16,000 in fiscal 2004 to 16,500 in fiscal 2005. The fiscal 2004 and 2005 increase is due to the opening of "Explore A Shore". 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. For the first time in Aquarium history, over \$1 million in membership sales occurred in fiscal 2005.

Special events at the Aquarium continued to grow in fiscal 2005. Two non-recurring special fundraising events occurred in fiscal 2005: the "10th Anniversary Seahorse Celebration", and the "Coastal Living Idea House". One new annual event was added – "New Year's Eve Party at the Fish Bowl." These special events joined in with the other annual events: "Nauti-Night", "SeaGrapes", "Surf and Turf Golf Classic", "Dragon Boat Race", and "Sushi Showdown". 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 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 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 2005</u>	<u>FY 2004</u>	<u>FY 2003</u>
Annual fund – individual	\$ 135	153	137
Annual fund – corporate	54	72	37
Grants	335	351	409
Memberships	1,003	830	657
Special events	334	228	139
City of Tampa	750	850	850
Total	<u>\$ 2,611</u>	<u>2,484</u>	<u>2,229</u>

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Operating Expenses

The Aquarium's most significant operating expense is salaries and related taxes, insurance, and benefits. The 5% increase in salaries and benefits from fiscal 2004 to 2005 reflected an average merit increase of 3.5% for staff, and a slight increase in health insurance premiums. In fiscal 2004, a similar merit increase was distributed, but the primary reason for the 10% increase in salaries and benefits from fiscal 2003 to 2004 was related to the 9 additional full-time equivalent positions which were added in fiscal 2004 to operate and maintain the new "Explore A Shore" exhibit. There were no merit increases given in fiscal 2003.

The 27% increase in advertising and promotions expense in fiscal 2004 was 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 re-occur in this magnitude in fiscal 2005, which explains the 3% decrease in advertising and promotions expense for fiscal 2005. Additional marketing and promotions did occur for the 10th Anniversary celebration.

The 16% increase in gift shop cost of goods sold in fiscal 2005 is directly related to the outsourcing of the gift shop operation in September 2005. As the contract with the new outsourcing partner, Event Network, was being negotiated, gross margin was being exchanged for liquidating slow-moving inventory on-hand which Event Network was not going to purchase in the transition. The cost of goods sold percentage was right on budget with projections and in-line with last year until that decision was made in July 2005.

Occupancy-related expenses include items such as life support equipment, repairs and maintenance, and utilities. As the Facility ages and saltwater intrusion occurs, more preventative repairs and maintenance occur, which explains the 8% increase in these expenses in fiscal 2005.

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 and continued in fiscal 2005, explaining the steady decrease in insurance expense over the past three years.

Other operating expenses increased 11% in fiscal 2005 and 15% in fiscal 2004. This category includes postage and printing associated with communications to the larger membership and educational programs base; supplies and materials associated with operating "Explore A Shore" and the Facility, and travel associated with expanded statewide Aquarium awareness efforts.

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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 2005 and 2004, approximately \$386,000 and \$1,575,000 of capital contributions were raised, including \$3,000 of endowment contributions in 2005. Almost \$374,000 and \$1,515,000 was spent on exhibit enhancements in fiscal 2005 and 2004, 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 2005, almost \$2.2 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.

Fiscal 2006 Outlook

The fiscal 2006 operating budget was prepared assuming similar economic conditions, local population growth and development, and tourism trends that were present in fiscal 2005. A new exhibit will be introduced around Memorial Day: "AquariuMania." This exhibit will replace the 4 year old "Invaders!" exhibit in the Wetlands Gallery. Although probably not as marketable as "Explore A Shore," this fully-funded exhibit does provide the opportunity to drive summer attendance and Aquarium awareness. Additions continue to be made in "Explore A Shore." Beginning Thanksgiving, a new animal show will be introduced, and for Spring Break, a new eel water element will be added. Attendance and membership sales did not slow down in fiscal 2005 despite "Explore A Shore" being in its second year. It has proven to be a repeatable experience – especially for members. The fiscal 2006 budget assumes that this will continue, especially given the enhancements being made.

Total operations is budgeted at \$12.8 million in fiscal 2006, with attendance projected at 620,000. The City's budgeted contribution remains the same at \$750,000 for fiscal 2006. Another breakeven year is budgeted. A ten-year master planning process will be completed in fiscal 2006. 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.
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Balance Sheets

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Assets	2005	2004
Current assets:		
Cash and cash equivalents	\$ 185,191	162,876
Restricted cash and cash equivalents	214,076	325,541
Accounts receivable, net of allowance for doubtful accounts of \$21,500 in 2005 and \$18,400 in 2004	445,937	161,668
Pledges receivable	30,000	148,334
Inventories	162,035	406,305
Other current assets	55,736	64,723
Total current assets	1,092,975	1,269,447
Noncurrent assets:		
Capital assets, net	231,260	413,633
Restricted investments in endowment funds	330,800	295,264
Pledges receivable	60,000	90,000
Total noncurrent assets	622,060	798,897
Total assets	\$ 1,715,035	2,068,344
Liabilities and Net Assets (Deficit)		
Current liabilities:		
Accounts payable and accrued expenses	\$ 1,415,564	1,665,706
Accounts payable from restricted assets	6,467	38,904
Current maturities of notes payable	123,926	79,943
Current maturities of capital lease obligation	—	2,223
Deferred revenue	629,623	607,868
Deferred revenue related to restricted assets	207,609	286,637
Total current liabilities	2,383,189	2,681,281
Noncurrent liabilities:		
Notes payable, net of current maturities	105,560	138,564
Total liabilities	2,488,749	2,819,845
Net assets (deficit):		
Invested in capital assets, net of related debt	91,774	192,903
Restricted net assets:		
Unrealized increase in fair value of investments	154,200	121,664
Endowment funds corpus	176,600	173,600
Unrestricted deficit	(1,196,288)	(1,239,668)
Total net deficit	(773,714)	(751,501)
Total liabilities and net assets (deficit)	\$ 1,715,035	2,068,344

See accompanying notes to basic financial statements.

THE FLORIDA AQUARIUM, INC.
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Statements of Revenues, Expenses, and Changes in Net Assets

Years ended September 30, 2005 and 2004

	2005	2004
Operating revenues:		
Turnstile revenues:		
Admissions	\$ 5,470,564	5,112,017
Gift shop sales	1,339,312	1,282,695
Restaurant sales, net of direct expenses	179,589	74,106
Parking revenue	400,804	424,029
Community programs revenue	382,916	291,724
Miscellaneous revenue	111,764	57,602
Total turnstile revenues	7,884,949	7,242,173
Contributions, memberships, and grants	2,611,470	2,484,174
Total operating revenues	10,496,419	9,726,347
Operating expenses:		
Salaries and benefits	5,290,402	5,036,663
Advertising and promotions	766,393	789,092
Gift shop cost of goods sold	721,759	621,109
Occupancy-related	1,496,137	1,380,216
Insurance	477,312	516,449
Professional services	390,689	287,428
Animals, plants, and food	178,512	189,584
Other operating expenses	1,014,382	953,667
Total operating expenses	10,335,586	9,774,208
Operating income (loss) before depreciation	160,833	(47,859)
Depreciation	(215,030)	(185,918)
Operating loss	(54,197)	(233,777)
Nonoperating revenues (expenses):		
Exhibit enhancements	(373,595)	(1,514,747)
Interest income	9,724	7,455
Interest expense	(22,658)	(27,980)
Gain on sale of capital assets	—	1,800
Net increase in fair value of restricted investments	32,536	31,548
Net nonoperating expenses	(353,993)	(1,501,924)
Loss before capital contributions	(408,190)	(1,735,701)
Capital contributions	385,977	1,574,916
Decrease in net assets	(22,213)	(160,785)
Net assets (deficit), beginning of year	(751,501)	(590,716)
Net assets (deficit), end of year	\$ (773,714)	(751,501)

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, 2005 and 2004

	2005	2004
Cash flows from operating activities:		
Cash received from turnstile operations	\$ 8,030,158	7,945,506
Cash received from contributions, memberships, and grants	2,626,006	1,378,925
Cash paid to employees	(4,519,659)	(4,323,329)
Cash paid to vendors	(6,198,202)	(5,489,488)
Net cash used in operating activities	(61,697)	(488,386)
Cash flows from capital and related financing activities:		
Capital contributions	385,977	1,574,916
Capital expenditures	(32,657)	(224,957)
Proceeds from sale of capital assets	—	1,800
Exhibit enhancements	(373,595)	(1,514,747)
Issuance of note payable	228,333	—
Repayments of notes payable	(217,354)	(75,658)
Interest paid on notes payable	(22,624)	(25,151)
Repayments of capital lease	(2,223)	(24,252)
Interest paid on capital lease	(34)	(2,829)
Net cash used in capital and related financing activities	(34,177)	(290,878)
Cash flows from investing activities:		
Purchase of investments	(3,000)	—
Interest received	9,724	7,455
Net cash provided by investing activities	6,724	7,455
Net decrease in cash and cash equivalents	(89,150)	(771,809)
Cash and cash equivalents, beginning of year	488,417	1,260,226
Cash and cash equivalents, end of year	\$ 399,267	488,417
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	\$ (54,197)	(233,777)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation	215,030	185,918
Provision for uncollectible accounts receivable	3,100	5,900
Changes in operating assets and liabilities:		
Accounts receivable	(287,369)	133,695
Pledges receivable	148,334	(238,334)
Inventories	244,270	(90,110)
Other current assets	8,987	(27,876)
Accounts payable and accrued expenses	(282,579)	193,154
Deferred revenue	(57,273)	(416,956)
Net cash used in operating activities	\$ (61,697)	(488,386)
Noncash items:		
Net increase in fair value of investments	\$ 32,536	31,548

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, 2005 and 2004

(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 actually expired on September 30, 2005. In the interim, the City has approved the Aquarium's annual budget for the year ending September 30, 2006, and has agreed to provide \$750,000 in funding towards that budget. 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, 2006, on October 20, 2005. 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.

THE FLORIDA AQUARIUM, INC.

(A Component Unit of the City of Tampa)

Notes to Basic Financial Statements

September 30, 2005 and 2004

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 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.

THE FLORIDA AQUARIUM, INC.
(A Component Unit of the City of Tampa)
Notes to Basic Financial Statements
September 30, 2005 and 2004

(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 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 \$806,000 and \$839,000 during the years ended September 30, 2005 and 2004, 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.

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

Notes to Basic Financial Statements

September 30, 2005 and 2004

(3) Cash, Cash Equivalents and Restricted Investments

At September 30, 2005 and 2004, the Aquarium’s cash deposits were partially covered by federal depository insurance. The bank balances and book balances were \$526,796 and \$373,940, respectively, at September 30, 2005. At September 30, 2004, the bank balances and book balances were \$528,099 and \$458,597, respectively. Cash on hand for ticketing, parking, gift store, and petty cash needs was \$25,327 and \$29,820 at September 30, 2005 and 2004, respectively.

The bank balances of the Aquarium include overnight repurchase agreements in the amount of \$506,000 and \$517,000 at September 30, 2005 and 2004, 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, repurchase agreements, and commercial paper. 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, 2005 and 2004, the Aquarium held the following investments:

	2005	2004
Mutual funds	\$ 269,691	239,582
Beneficial interest in The Community Foundation of Tampa Bay	61,109	55,682
	\$ 330,800	295,264

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.

Custodial Credit Risk

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

THE FLORIDA AQUARIUM, INC.
(A Component Unit of the City of Tampa)
Notes to Basic Financial Statements
September 30, 2005 and 2004

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, 2005 and 2004, include amounts due from others as follows:

	2005	2004
Customers	\$ 164,008	180,068
Sodexo	103,429	—
Event Network	200,000	—
Less allowance for doubtful accounts	(21,500)	(18,400)
	\$ 445,937	161,668

THE FLORIDA AQUARIUM, INC.
(A Component Unit of the City of Tampa)
Notes to Basic Financial Statements
September 30, 2005 and 2004

(5) Capital Assets

The following is a summary of changes in capital assets for the fiscal years ended September 30, 2005 and 2004:

	Balance October 1, 2004	Additions	Deletions	Balance September 30, 2005
Capital assets, non depreciable:				
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	<u>3,566,511</u>	<u>51,517</u>	<u>(30,040)</u>	<u>3,587,988</u>
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	<u>3,171,738</u>	<u>215,030</u>	<u>(30,040)</u>	<u>3,356,728</u>
Total depreciable capital assets, net	<u>394,773</u>	<u>(163,513)</u>	<u>—</u>	<u>231,260</u>
Total capital assets, net	<u>\$ 413,633</u>	<u>(163,513)</u>	<u>(18,860)</u>	<u>231,260</u>

THE FLORIDA AQUARIUM, INC.
(A Component Unit of the City of Tampa)
Notes to Basic Financial Statements
September 30, 2005 and 2004

	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.
(A Component Unit of the City of Tampa)
Notes to Basic Financial Statements
September 30, 2005 and 2004

Changes in the capital lease obligation for the years ended September 30, 2005 and 2004 are as follows:

October 1, 2004	Additions	Deletions	September 30, 2005
\$ 2,223	—	(2,223)	—
October 1, 2003	Additions	Deletions	September 30, 2004
\$ 26,475	—	(24,252)	2,223

(6) Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses at September 30, 2005 and 2004 consist of amounts owed for operating and payroll expenses as follows:

	2005	2004
Accounts payable	\$ 946,490	1,234,799
Accrued expenses	21,500	23,000
Accrued payroll expenses (including compensated absences)	447,574	407,907
	\$ 1,415,564	1,665,706

(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 \$139,486 and \$218,507 at September 30, 2005 and 2004, 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 newest 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 5.94% at September 30, 2005. During fiscal 2005, \$138,333 of pledges were collected and the loan was reduced to a balance of \$90,000 at September 30, 2005.

THE FLORIDA AQUARIUM, INC.
(A Component Unit of the City of Tampa)
Notes to Basic Financial Statements
September 30, 2005 and 2004

Future maturities of the notes payable as of September 30, 2005 are as follows:

	Principal	Interest
Year ending September 30:		
2006	\$ 123,926	11,636
2007	75,560	3,704
2008	30,000	823
	\$ 229,486	16,163

Future interest payments on the revolving line of credit promissory note were calculated using the variable interest rate of 5.94% at September 30, 2005.

A schedule of changes in the notes payable for the years ended September 30, 2005 and 2004 follows:

October 1, 2004	Additions	Deletions	September 30, 2005
\$ 218,507	228,333	(217,354)	229,486
October 1, 2003	Additions	Deletions	September 30, 2004
\$ 294,165	—	(75,658)	218,507

(8) Related-Party Transactions

Contributions, memberships and grants, and capital contributions for the years ended September 30, 2005 and 2004 include the following:

	2005	2004
Board of Directors and Trustees	\$ 240,199	870,000
City of Tampa	750,000	850,000
Hillsborough County	150,000	150,000
	\$ 1,140,199	1,870,000

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

Notes to Basic Financial Statements

September 30, 2005 and 2004

(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 \$11,600 and \$10,700, 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, 2005 and 2004, 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, 2005, the Aquarium recorded restaurant sales of \$2,506,867 and direct expenses of \$2,327,278 to net \$179,589. 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. As of September 30, 2005, the Aquarium had a receivable from Sodexho of \$103,429 related to the restaurant operation which is included in accounts receivable, and a payable to Sodexho for internal catering charges of \$6,611 which is included in accounts payable and accrued expenses. At September 30, 2004, the Aquarium had a payable to Sodexho related to restaurant sales and catering charges of \$35,628 which is included in accounts payable and accrued expenses. The Agreement with Sodexho expires August 9, 2006.

(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. 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 concludes on September 1, 2006. This \$200,000 is included in accounts receivable as of September 30, 2005. Additionally, \$116,000 of existing Aquarium inventory is being sold by Event Network on consignment.

(12) 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 2005 and 2004, the Aquarium recorded \$145,000 and \$141,000, respectively as an offset to expense for costs reimbursable from the Port for rent and operating costs. At September 30, 2005 and 2004, the Aquarium has approximately \$46,000 and \$38,000, respectively recorded in accounts receivable due from the Port.

THE FLORIDA AQUARIUM, INC.
(A Component Unit of the City of Tampa)
Notes to Basic Financial Statements
September 30, 2005 and 2004

(13) 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 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.

(14) Subsequent Event

On February 2, 2006 the Tampa City Council approved an amendment to the Management Agreement between the City and the Aquarium. Such amendment was retroactive to September 30, 2005 and extended the existing agreement through September 30, 2007, with the ability to renew the agreement for an additional one year period. No other changes were made to the original management agreement.



KPMG LLP
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**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, 2005, and have issued our report thereon dated November 18, 2005. 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 18, 2005
Certified Public Accountants