



**City Auditor**

# **Review of the Virginia Aquarium & Marine Science Center**

September 3, 2024

## Purpose and Scope

This review focused on the current operating agreement between the Aquarium and the Virginia Aquarium & Marine Science Center Foundation, Inc. (Foundation).



# This Audit is Part of the Scheduled Review Of City Assets

## FY 23

- Sports Center
- Convention Center
- Sandler Center



## FY 24

- VB National Golf Course



## FY25

- Virginia Aquarium
- Amphitheater

## Background

- The Aquarium opened June 14, 1986, and began as a 41,500 square-foot facility on a 9-acre site for a total cost of \$8 million and an 800-visitor capacity.
- The Aquarium is now 172,000 square feet, utilizing 48 acres, and has a daily visitor capacity of over 3,600.
- The City owns the Aquarium's buildings, grounds, and related facilities. Funding for the Aquarium comes from a combination of sources, including admission fees, retail store revenue, memberships, grants, and sponsorships.

## Aquarium's Mission

- **Education:** Educating the public about marine life and ecosystems through engaging exhibits, interactive displays, and educational programs.
- **Conservation:** Supporting and promoting marine conservation efforts, both locally and globally.
- **Research:** Conducting and supporting scientific research to advance knowledge about marine species and habitats.
- **Tourism:** Being an economic engine for the City.

# Table 1. City Revenue and Expenditures – FY22 Through FY24

	<i>Budget</i>	<i>Actual</i>	<i>Actual</i>	<i>Actual</i>
	<b>FY24</b>	<b>FY24</b>	<b>FY23</b>	<b>FY22</b>
<b>Revenue:</b>				
<b>Operating Revenue</b>	\$ 12,883,794	\$ 15,047,136	\$ 13,503,440	\$ 18,224,790
<b>Admissions Tax</b>	\$ 944,125	\$ 912,776	\$ 944,126	\$ 992,126
<b>Sales Tax (City Portion)</b>	\$ 147,523	\$ 159,019	\$ 147,524	\$ 151,773
<b>Total Revenue</b>	<b>\$ 13,975,442</b>	<b>\$ 16,118,931</b>	<b>\$ 14,595,090</b>	<b>\$ 19,368,689</b>
<b>Expenditures:</b>				
<b>Operating Expenditures</b>	\$ 16,021,491	\$ 15,420,007	\$ 14,075,348	\$ 12,598,950
<b>Utilities</b>	\$ 960,720	\$ 960,720	\$ 960,720	\$ 960,720
<b>CIP Appropriations</b>	\$ 2,818,840	\$ 2,818,840	\$ 2,034,540	\$ 2,034,540
<b>Debt Service (Estimated Principal)</b>	\$ 621,741	\$ 621,741	\$ 621,741	\$ 621,741
<b>Total Expenditures</b>	<b>\$ 20,422,792</b>	<b>\$ 19,821,308</b>	<b>\$ 17,692,349</b>	<b>\$ 16,215,951</b>
<b>Difference</b>	<b>\$ (6,447,350)</b>	<b>\$ (3,702,377)</b>	<b>\$ (3,097,259)</b>	<b>\$ 3,152,738</b>

Source: OFC, Budget, and MLT

# Foundation

The Foundation was formed and has functioned for many years for the purposes of:

- i. Supporting the Aquarium and its programs;
- ii. Acquiring, leasing or otherwise holding real estate necessary for the purposes of the Aquarium;
- iii. Assisting in the identification, acquisition and construction of exhibits, including the animals comprising such exhibits;
- iv. Providing financial support;
- v. Receiving gifts, bequests, monies, bonds, grants, scientific equipment, and objects of art in support of the Aquarium; and
- vi. Increasing public knowledge of the marine environment.

## Table 2. Foundation Revenue and Expenditures

	<i>Preliminary</i>	<i>Actual</i>	<i>Actual</i>
	<b>FY24</b>	<b>FY23</b>	<b>FY22</b>
<b>Operating Revenue:</b>			
Concessions*	\$ 729,182	\$ 743,570	\$ 839,642
Contributions - Cash	\$ 2,131,303	\$ 1,752,172	\$ 1,753,345
Contributions - Noncash	\$ 1,526,806	\$ 1,273,850	\$ 1,182,295
Facility Rental Income	\$ 97,441	\$ 77,041	\$ 48,396
Fundraising Events (Net)	\$ 208,232	\$ 217,091	\$ 171,357
Grant Revenue	\$ 179,221	\$ 169,047	\$ 177,588
Program Revenue**	\$ 1,191,288	\$ 1,119,551	\$ 996,595
Transfer of Board Reserves	\$ 12,359	\$ 6,627	\$ -
<b>Total Operating Revenue</b>	<b>\$ 6,075,832</b>	<b>\$ 5,358,949</b>	<b>\$ 5,169,218</b>
<b>Operating Expenditures:</b>			
Program Services			
Educational Programs	\$ 1,407,218	\$ 1,441,511	\$ 1,258,011
Exhibits	\$ 1,139,084	\$ 973,319	\$ 658,624
Research and Conservation	\$ 1,504,628	\$ 1,352,431	\$ 1,374,320
General and Administrative	\$ 670,163	\$ 586,053	\$ 559,657
Fundraising	\$ 527,696	\$ 536,982	\$ 491,624
<b>Total Operating Expenditures</b>	<b>\$ 5,248,789</b>	<b>\$ 4,890,296</b>	<b>\$ 4,342,236</b>
<b>Difference</b>	<b>\$ 827,043</b>	<b>\$ 468,653</b>	<b>\$ 826,982</b>

# Table 3. Combined Revenue and Expenditures – FY22 Through FY24

	<b>FY24</b>	<b>FY23</b>	<b>FY22</b>
<b>City</b>	<b>Actual</b>	<b>Actual</b>	<b>Actual</b>
Total Revenue	\$ 16,118,931	\$ 14,595,090	\$ 19,368,689
Total Expenditures	\$ 19,821,308	\$ 17,692,349	\$ 16,215,951
Net	\$ (3,702,377)	\$ (3,097,259)	\$ 3,152,738
Adjusted for one-time ARPA grant	\$ -	\$ -	\$ (4,486,715)
<b>Adjusted Net</b>	<b>\$ (3,702,377)</b>	<b>\$ (3,097,259)</b>	<b>\$ (1,333,977)</b>
<i>Sources: OFC and Budget</i>			
<b>Foundation</b>	<b>Preliminary</b>	<b>Actual</b>	<b>Actual</b>
Operating Revenue	\$ 6,075,832	\$ 5,358,949	\$ 5,169,218
Operating Expenditures	\$ 5,248,789	\$ 4,890,296	\$ 4,342,236
<b>Net</b>	<b>\$ 827,043</b>	<b>\$ 468,653</b>	<b>\$ 826,982</b>
<i>Sources: Preliminary unaudited financial information for FY24; Audited F/S for FY23 and FY22</i>			
<b>Combined</b>			
Total Revenue	\$ 22,194,763	\$ 19,954,039	\$ 20,051,192
Total Expenditures	\$ 25,070,097	\$ 22,582,645	\$ 20,558,187
<b>Net</b>	<b>\$ (2,875,334)</b>	<b>\$ (2,628,606)</b>	<b>\$ (506,995)</b>

# Finding 1. Operating Agreement Can Be Enhanced and Clarified

## ***I. Include the Required Right-to-Audit Clause in the Agreement***

While the Foundation provided us with the required documents as stated in the agreement, additional information requested such as detailed revenue/expense transactions was not provided. Since the required right-to-audit clause was not in the signed agreement, we could not require the Foundation to provide this additional information.

As a result, we could not review and test internal controls or determine the appropriateness of any Foundation revenue/expense. A review of these records would have been helpful because all activities of the Foundation impact the Aquarium, both directly and indirectly.

# Finding 1. Operating Agreement Can Be Enhanced and Clarified – *cont'd.*

## ***II. Review the Distribution of Concessions and Program Revenues and Expenditures Going Directly to the Foundation Instead of the City.***

Although the City is the operator, the agreement requires many operating activities to go directly to the Foundation, as opposed to the City.

The following revenues and related expenditures, per the agreement, go directly to the Foundation:

- Concessions: Café, vending, catering, Adventure Park, souvenir photos, penny smash machines, etc.
- Program Revenue: Revenue from temporary exhibits, boat tours, behind-the-scenes tours, classroom programs, and various specialty programs.
- The only operating revenue split between the Foundation and the City is facility rental income, which is one of the smaller revenue line items of the Foundation. The City's share for FY23 was \$25,680.

# Finding 1. Operating Agreement Can Be Enhanced and Clarified – *cont'd.*

## ***III. Serving in Dual Roles as Aquarium Director and Foundation Executive Director Presents Inherent Risk***

The agreement calls for the Director of the Aquarium to also serve as the Executive Director of the Foundation.

While the Director has successfully held both roles for many years this requirement inherently increases the risk, in fact, or appearance, of a conflict of interest.

# Finding 1. Operating Agreement Can Be Enhanced and Clarified – *cont'd.*

## ***IV. Accreditation Should Be Done Under the Name of the Aquarium and Not the Foundation***

The Aquarium is currently accredited by three professional organizations:

- Association of Zoos and Aquariums (AZA)
- Alliance of Marine Mammal Parks and Aquariums (AMMPA)
- World Association of Zoos and Aquariums (WAZA)



- The City is the owner and operator of the Aquarium and pays all insurance coverage for the Aquarium, yet the accreditations are under the name of the Foundation
- The Foundation covers all costs associated with the Aquarium's accreditations, including the fees for evaluation and the preparation of necessary documentation
- The Foundation receives and owns the accreditation reports and access to the reports by the City, as well as the public, is controlled by the Foundation

# Finding 1. Operating Agreement Can Be Enhanced and Clarified – *cont'd.*

## Recommendations:

City management should work with City Council and the Foundation to address all the issues specified in Finding 1 to include:

- Add City required audit clause (City Code Section 2-468) to the agreement so that the City Auditor can have access to all necessary information while ensuring the confidentiality of donors.
- Review the distribution of concessions and program revenue and expenditures.
- Review the pros/cons of the Aquarium Director and Foundation Executive Director serving in dual roles.
- Ensure accreditation of the Aquarium is done under the name of the Aquarium and not the Foundation.
- Make all necessary changes to update the agreement.

#	Operating Agreement Criteria	Finding
1	<b>Section 1</b>	No definitions are listed for "Exhibit", "Temporary Exhibit", and "Permanent Exhibit".
2	<b>Section 2 states "Subject to the approval of the City Manager and the Board of Trustees of the Foundation, the Director shall also serve as Executive Director of the Foundation but shall have no voting rights with respect to Foundation business or affairs."</b>	Section 13 contradicts this and states the Foundation is not subject to the control of the City.
3	<b>Section 4 states "With the City Manager's approval, the Director and City employees authorized by the Director may, at the request of the Foundation, solicit donations on behalf of the Foundation."</b>	Section 13 contradicts this and states the Foundation is not subject to the control of the City.
4	<b>Section 5 states "Revenues collected by the City in the Aquarium Store directly from the sale of Foundation merchandise, less any applicable taxes, shall be remitted by the City to the Foundation at the end of the fiscal year in which such revenue is received by the City."</b>	The section is no longer applicable. Foundation merchandise is no longer sold.
5	<b>Section 5 states "The portion of the revenue from Conservation Society purchases in excess of the cost of the corresponding Membership Level benefits included in Conservation Society memberships shall belong to the Foundation."</b>	The section is no longer applicable. All membership revenue belongs to the City.
6	<b>Section 5 states in part "The City shall operate the Aquarium admission facilities and sell admission tickets and theater tickets to the Aquarium and shall receive the revenue therefrom..."</b>	The section is no longer applicable. The IMAX theater is no longer in operation.
7	<b>Section 5 states "The Foundation shall be responsible for, and shall retain all revenues it receives from, Food and Beverage Services, boat trips, photo concession, and Adventure Park activities."</b>	These are common operational functions, yet the City neither operates nor receives revenue from these activities, despite owning the land.
8	<b>Section 5 states in part "The Foundation shall reimburse the City, no less frequently than quarterly, for the cost of the salaries paid through Budget Unit 27029, (Aquarium Foundation)..."</b>	The reimbursement is currently made through Program 28908 and not 27029.

9	<b>Section 7 states "The Foundation shall be responsible for the operation and maintenance of all Attractions and Concessions, or contracting for the same, except as may be specifically designated to be operated by the City in this Agreement or an amendment thereto."</b>	These are common operational functions, yet the City neither operates nor receives revenue from these activities, despite owning the land.
10	<b>Section 7 states in part "With the prior written permission of the City Manager, the Foundation shall be authorized to utilize such portion or portions of the Park and Entertainment Land and other property identified in Section 1 of this Agreement..."</b>	Section 13 contradicts this and states the Foundation is not subject to the control of the City.
11	<b>Section 7 states "The Foundation shall be responsible for the operation and maintenance of the Adventure Park as an Attraction, or contracting for the same, on so much of the Park and Entertainment Land or other property as shall be approved in writing by the City Manager."</b>	Section 13 contradicts this and states the Foundation is not subject to the control of the City.
12	<b>Section 8 states the City shall operate and maintain the Aquarium and shall repair and, as necessary, replace at its sole expense, any item, facility, or portion of the building occupied by the Aquarium that is part of the original or subsequent capital improvement projects to construct the buildings that constitute the Aquarium and are funded and constructed by the City.</b>	The Aquarium is not the accredited entity even though the City operates and maintains the Aquarium.
13	<b>Section 8 Location and Address of Stranding Center</b>	The property located at 1213 Southern Boulevard is no longer used. The property at 1008 Bells Road is now being used.
14	<b>Section 12 states the City shall provide liability insurance coverage for the Foundation.</b>	The Aquarium is not the accredited entity even though the City provides liability insurance coverage for the Foundation.
15	<b>Section 13 states "The City and the Foundation acknowledge that neither entity is the agent, employee, partner, joint venture or associate of the other."</b>	The City and the Foundation commonly refer to each other as "partners," this is contradictory to Section 13.

## **Finding 2: City Must Work with State/Federal Governments to Seek Additional Sources of Funding**

City has invested about half a million dollars annually in operating the DMACC. This building, which is not available for the public to visit, functions as a:

1. Rehabilitation center for injured marine animals
2. Provides crucial acquisition and quarantine space for all Aquarium animals
3. Serves as a hub for scientific research and education

## Table 4. Darden Marine Animal Conservation Center Operating Costs

	FY24	FY23	FY22
Animal Care, Veterinary Services & Related Equipment	18,414	30,990	20,669
Utilities	9,369	11,359	678
Supplies	28,355	76,143	39,949
Risk Management Internal Service Fund Charges	-	-	2,499
Permits & Fees	579	-	-
Payroll Expenses	427,721	400,560	499,390
<b>Total Expenses</b>	<b>484,438</b>	<b>519,052</b>	<b>563,185</b>

Although acquisition and quarantine make up the majority of operating costs, stranding response programs are vital and reach beyond the borders of Virginia Beach.

The Stranding Response Team's area of responsibility for stranded marine mammals and sea turtles encompasses over 7,200 miles of the state's coastal shorelines.

Stranding Response	FY23	FY22	FY21
Marine Mammal Stranding Response	92	113	79
Sea Turtle Stranding Response	333	156	213
Sea Turtles Rehabilitated and Released	79	45	27

**Recommendation:** City management should work with City Council to include an initiative in the next Legislative Agenda Package to seek Federal/State funding to further augment the City's cost of providing statewide education, conservation, stranding, and research efforts.

## Finding 3. Survey and Discussions Reveal Concerns About Morale, Condition of the Aquarium, and Communication

### Morale

- “Short staffed – can’t replace many staff as some won’t take jobs while unsure about future.”

### Physical Condition of Facility

- "From an infrastructure standpoint, the North Building is aging. Ceilings leak, guests comment on how "outdated" we are, and we have to take the criticism with little means to fix the situation."

### Communication

- While there are currently two City Council liaisons, this has not always been the case. This has led to a lack of communication and proper understanding of the status of the needs of the Aquarium.



# Recommendations

1. To address low morale stemming from concerns about the future of the aquarium, City leadership should engage in transparent communication, actively involve employees in strategic planning, and provide reassurance through clear, actionable steps that demonstrate a commitment to navigating challenges together.
2. To address concerns about the longevity of the building, leadership should proceed with obtaining a detailed assessment of the building's condition, outline any planned maintenance or upgrades, and ensure ongoing communication to reassure employees.
3. Continue to annually appoint City Council liaisons to the Foundation.

# THANK YOU

# COMMENTS OR QUESTIONS?



CITY OF VIRGINIA BEACH

**City  
Auditor**