

Report of
TEXAS STATE AQUARIUM ASSOCIATION
DECEMBER 31, 2012 AND 2011



Lovvorn & Kieschnick
CERTIFIED PUBLIC ACCOUNTANTS

LOVVORN & KIESCHNICK, LLP

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Lovvorn & Kieschnick

CERTIFIED PUBLIC ACCOUNTANTS

418 Peoples Street, Suite 308 tele 361-884-8897
Corpus Christi, TX 78401 fax 361-884-3457

Independent Auditor's Report

To the Board of Trustees
Texas State Aquarium Association
Corpus Christi, Texas

Members of the Board:

We have audited the accompanying statements of financial position of the Texas State Aquarium Association (a nonprofit organization), which comprise the statements of financial position as of December 31, 2012 and 2011, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statement that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness

of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Texas State Aquarium Association, as of December 31, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Lovvorn + Kieschnick, LLP

Lovvorn & Kieschnick, LLP
August 29, 2013

TEXAS STATE AQUARIUM ASSOCIATION
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2012 AND 2011

	2012	2011
<u>ASSETS</u>		
Current Assets:		
Cash and Cash Equivalents (Note 1)	\$2,365,884	\$2,779,318
Cash and Cash Equivalents-Temporarily Restricted (Note 1)	4,554,675	800,572
Investments (Note 1):		
Unrestricted	1,700,765	1,414,612
Trade and Other Receivables	86,675	192,694
Inventories (Note 1)	59,221	54,349
Prepaid Assets	134,466	138,714
Total Current Assets	8,901,686	5,380,259
Pledges Receivable, restricted to purchase of property and equipment, net (Note 1)	1,100,440	294,361
Endowment Assets (Note 1):		
Cash and Cash Equivalents	264,670	514,011
Investments	2,025,986	1,451,731
Total Endowment Assets	2,290,656	1,965,742
Property and Equipment (Note 5)	52,233,243	51,499,068
Less: Accumulated Depreciation	(34,578,805)	(33,132,066)
Total Property and Equipment, Net	17,654,438	18,367,002
Other Assets	18,596	24,162
TOTAL ASSETS	\$29,965,816	\$26,031,526
<u>LIABILITIES AND NET ASSETS</u>		
Current Liabilities:		
Accounts Payable	\$185,281	\$221,818
Accrued Expenses	405,495	271,026
Deferred Income	38,128	72,159
Notes Payable (Note 6)	300,831	276,708
Total Current Liabilities	929,735	841,711
Long-term Debt:		
Notes Payable (Note 6)	975,954	1,276,785
Total Liabilities	1,905,689	2,118,496
Net Assets:		
Unrestricted	18,600,076	18,148,447
Temporarily Restricted (Note 3)	7,893,851	4,198,533
Permanently Restricted (Note 3)	1,566,200	1,566,050
Total Net Assets	28,060,127	23,913,030
TOTAL LIABILITIES AND NET ASSETS	\$29,965,816	\$26,031,526

The accompanying notes are an integral part of these financial statements.

TEXAS STATE AQUARIUM ASSOCIATION
STATEMENT OF ACTIVITIES
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

	2012			Totals
	Unrestricted	Temporarily Restricted	Permanently Restricted	
SUPPORT AND REVENUE:				
Admissions	\$5,120,368	\$ -	\$ -	\$5,120,368
Gift Shop Sales	583,686	-	-	583,686
Donations and Grants	-	-	-	-
Special Event Revenue	379,105	-	-	-
Less: Costs of direct benefits to donors	<u>(205,742)</u>	173,363	-	173,363
Programs	682,171	-	-	682,171
Parking	470,089	-	-	470,089
Education Programs	1,072,080	-	-	1,072,080
Memberships	818,966	-	-	818,966
Concession	1,323,586	-	-	1,323,586
Other	323,288	-	-	323,288
Investment Income	16,391	72,652	-	89,043
Net Unrealized Gain/(Loss) in Investments	909	202,302	-	203,211
Restricted Donations:				
Education	-	426,876	150	427,026
Other	-	4,075,996	-	4,075,996
Net Assets Released from Restrictions (Note 4)	1,082,508	<u>(1,082,508)</u>	-	-
Total Support and Revenue	<u>11,667,405</u>	<u>3,695,318</u>	<u>150</u>	<u>15,362,873</u>
EXPENSES:				
Program Services:				
Education	1,253,940	-	-	1,253,940
Curatorial	1,768,823	-	-	1,768,823
Other Program Services	4,074,493	-	-	4,074,493
Total Program Services	<u>7,097,256</u>	<u>-</u>	<u>-</u>	<u>7,097,256</u>
Supporting Services:				
Management and General	1,247,279	-	-	1,247,279
Fundraising	418,367	-	-	418,367
Total Supporting Services	<u>1,665,646</u>	<u>-</u>	<u>-</u>	<u>1,665,646</u>
Cost of Sales:				
Gift Shop and Concessions	<u>399,893</u>	<u>-</u>	<u>-</u>	<u>399,893</u>
Total Operating Expenses (before Depreciation/Amortization)	<u>9,162,795</u>	<u>-</u>	<u>-</u>	<u>9,162,795</u>
Increase (Decrease) in Net Assets before Depreciation/Amortization	2,504,610	3,695,318	150	6,200,078
Depreciation and Amortization Expense (Note 5)	(2,048,198)	-	-	(2,048,198)
Loss on Disposal of Assets	(4,783)	-	-	(4,783)
Increase (Decrease) in Net Assets	<u>451,629</u>	<u>3,695,318</u>	<u>150</u>	<u>4,147,097</u>
NET ASSETS, beginning of year as restated	<u>\$18,148,447</u>	<u>\$4,198,533</u>	<u>\$1,566,050</u>	<u>\$23,913,030</u>
NET ASSETS, end of year	<u>\$18,600,076</u>	<u>\$7,893,851</u>	<u>\$1,566,200</u>	<u>\$28,060,127</u>

The accompanying notes are an integral part of these financial statements.

2011

Unrestricted	Temporarily Restricted	Permanently Restricted	Totals
\$4,851,508	\$ -	\$ -	\$4,851,508
1,059,355	-	-	1,059,355
662,809	-	-	662,809
127,077	-	-	127,077
605,968	-	-	605,968
425,097	-	-	425,097
768,337	-	-	768,337
759,895	-	-	759,895
1,024,691	-	-	1,024,691
312,050	-	-	312,050
27,590	59,562	-	87,152
1,128	(61,532)	-	(60,404)
-	342,183	100	342,283
-	95,152	-	95,152
696,791	(696,791)	-	-
<u>11,322,296</u>	<u>(261,426)</u>	<u>100</u>	<u>11,060,970</u>
992,309	-	-	666,791
1,404,953	-	-	1,248,738
4,297,733	-	-	4,115,340
<u>6,694,995</u>	<u>-</u>	<u>-</u>	<u>6,030,869</u>
1,067,978	-	-	1,067,978
517,503	-	-	517,503
<u>1,585,481</u>	<u>-</u>	<u>-</u>	<u>1,414,626</u>
619,494	-	-	619,494
<u>8,899,970</u>	<u>-</u>	<u>-</u>	<u>8,064,989</u>
2,422,326	(261,426)	100	2,161,000
(2,004,172)	-	-	(2,004,172)
(1,181)	-	-	(1,181)
<u>416,973</u>	<u>(261,426)</u>	<u>100</u>	<u>155,647</u>
<u>17,731,474</u>	<u>4,459,959</u>	<u>1,565,950</u>	<u>23,757,383</u>
<u>\$18,148,447</u>	<u>\$4,198,533</u>	<u>\$1,566,050</u>	<u>\$23,913,030</u>

TEXAS STATE AQUARIUM ASSOCIATION
STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase (Decrease) in Net Assets	\$4,147,097	\$159,647
Adjustments to Reconcile Decrease in Net Assets to Net Cash Provided by Operating Activities		
Contributions Restricted for Endowment	(150)	(100)
Investment Income Restricted For Endowment	(71,363)	(58,171)
Noncash Contribution Revenue - Donated Services	(79,790)	(87,460)
Noncash Contribution of Property and Equipment	(125,039)	-
Depreciation/Amortization	2,048,198	2,004,172
Net Unrealized (Gain)/Loss on Investments	(203,211)	60,404
Loss on Disposal of Assets	4,783	1,181
(Increase) Decrease in Operating Assets		
Pledge and Other Receivables, net	(700,060)	(367,985)
Other Current Assets	(624)	201,424
Increase (Decrease) in Operating Liabilities		
Accounts Payable and Accrued Expenses	97,932	(146,328)
Deferred Income	(34,031)	10,837
	<u>5,083,742</u>	<u>1,777,621</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Transfer to Endowment Assets	(74,574)	(65,576)
Proceeds from Sale of Investments	1,697,763	1,890,988
Purchase of Investments	(1,753,889)	(1,728,935)
Capital Expenditures	(1,335,665)	(1,512,012)
	<u>(1,466,365)</u>	<u>(1,415,535)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayments of Debt	(276,708)	(277,281)
	<u></u>	<u></u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	3,340,669	84,805
Cash and Cash Equivalents, beginning of year	3,579,890	3,495,085
Cash and Cash Equivalents, end of year	<u>\$6,920,559</u>	<u>\$3,579,890</u>
Supplemental Data:		
Interest paid	\$70,557	\$84,397
Noncash Investing Activities:		
Contribution of Property and Equipment	\$125,039	\$ -

The accompanying notes are an integral part of these financial statements.

TEXAS STATE AQUARIUM ASSOCIATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

NOTE 1 - NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

The Texas State Aquarium Association (the Aquarium) operates an aquarium facility located in Corpus Christi, Texas. The Aquarium is organized as a non-profit Texas corporation and qualifies as a tax exempt organization under Code Section 501(c)(3) of the Internal Revenue Service Code. In addition to live marine exhibits, the Aquarium provides educational programs concerning marine habitats of the Texas Gulf Coast area. The Aquarium's primary revenues include admission fees, retail sales, and program fees. Other revenue sources include grants, gifts, and parking fees.

Basis of Accounting

The financial statements are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Under the accrual basis of accounting, revenues are recorded as earned and expenses are recorded at the time liabilities are incurred.

Basis of Presentation

The Aquarium reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, which represents the expendable resources that are available for operations at management's discretion; temporarily restricted net assets, which represents resources restricted by donors as to purpose or by the passage of time; and permanently restricted net assets, which represents resources whose use by the Aquarium is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Aquarium.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Federal Income Taxes

The Aquarium is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. However, income from certain activities not directly related to the Aquarium's tax-exempt purpose is subject to taxation as unrelated business income. In addition, the Aquarium qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization other than a private foundation under Section 509(a)(2).

Cash and Cash Equivalents

Cash and cash equivalents include all monies in banks and highly liquid investments with maturity dates of less than three months.

TEXAS STATE AQUARIUM ASSOCIATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

NOTE 1 - NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(continued)

The Aquarium maintains its operating cash in four financial institutions. At December 31, 2012 the cash in bank balances exceeded the FDIC by \$102,997. At December 31, 2011, the cash in bank balances exceeded the FDIC by \$2,564,342. No losses were incurred during 2012 or 2011.

Investments

Investments are carried at fair value, which is based on quoted market prices at December 31.

	2012	2011
Unrestricted		
Cash / Money Accounts	621,780	320,867
Certificates of Deposit / Equivalents	1,078,985	1,093,745
	1,700,765	1,414,612
Endowment Assets		
Cash / Money Accounts	264,670	301,070
Certificates of Deposit / Equivalents	-	212,941
Stock Equities	497,893	420,894
Stock Funds	1,276,787	843,312
Bond Funds	251,306	187,525
Total	2,290,656	1,965,742

Contributions

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. All donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions.

Promises to Give

The Aquarium receives pledges, or promises to give, for contributions extending over several years. Contributions are recognized when the donor makes a promise to give to the Aquarium that is, in substance, unconditional. Donor-restricted promises to give are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and shown as net assets released from restrictions. The Aquarium uses the allowance method to determine uncollectible, unconditional pledges receivable. The allowance is based on prior years' experience and management's analysis of specific pledges made. Conditional promises to give are

TEXAS STATE AQUARIUM ASSOCIATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

NOTE 1 - NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

recognized only when the condition on which they depend are substantially met and the promises become unconditional.

Unconditional promises to give as of December 31, 2012 and 2011 are due as follows:

	2012	2011
Pledges receivable	1,248,633	308,390
Less: Allowance for Uncollectible Promises Receivable	(23,920)	(14,029)
Unamortized discount	(124,273)	-
	<hr/>	<hr/>
Total Unconditional Promises to Give, Net	1,100,440	294,361
	<hr/>	<hr/>
Amounts due in:		
Less than one year	411,295	294,361
One to four years, net of discount	689,145	-
	<hr/>	<hr/>
Total Unconditional Promises to Give, Net	1,100,440	294,361
	<hr/>	<hr/>

Unconditional promises to give receivable due in more than one year are discounted at six percent.

Use of Facilities Promises to Give:	Less than One Year	One to Five Years	More than Five Years
	<hr/>	<hr/>	<hr/>
Use of Facilities (classified as land and building)	425,595	1,702,381	1,134,921
	<hr/>	<hr/>	<hr/>

Contributed Services

The Aquarium received an estimated 22,996 hours of donated services during the year ended December 31, 2012 and 20,496 hours during the year ended December 31, 2011. A significant amount of those donated services are not reflected in the financial statements because they do not meet the criteria for recognition of such volunteer efforts under SFAS No. 116. Volunteer services of a specialized nature are valued at estimated market values and are recorded at the time of contribution. Other contributions of services or materials are recorded at estimated market value at the time of contribution. For the years ended December 31, 2012 and 2011, the Aquarium recognized \$79,790 and \$87,460 respectively, for donated services. The amounts are included in unrestricted support and expense.

Inventories

Inventories consist of gift shop and concession items and are stated at the lower of cost or market determined by the first-in, first-out method.

TEXAS STATE AQUARIUM ASSOCIATION
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

NOTE 1 - NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Membership Fees

The Aquarium sells annual memberships entitling the purchaser to unlimited admission during the year, as well as discounts on gifts and special events. Fees for memberships are recognized as revenue in the period to which they relate.

Property and Equipment

Property and equipment are recorded at cost as of the date of acquisition, except for certain donated items. Donations of property and equipment are recorded as support at their estimated fair value. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support. The Aquarium reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. At that time, the Aquarium reclassifies temporarily restricted net assets to unrestricted net assets. Property and equipment are depreciated using the straight-line method.

Reclassification

Certain reclassifications have been made to the December 31, 2011 financial statements to conform with the December 31, 2012 financial statement presentation.

NOTE 2 - FUNCTIONAL ALLOCATION OF EXPENSES

The costs of providing various programs and supporting services have been summarized on a functional basis. Accordingly, certain costs have been allocated among the program and supporting services benefited.

NOTE 3 - RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes:

	2012	2011
To provide educational activities	263,062	140,815
To support the Texas State Aquarium Library	3,109	3,114
Gloria Hicks Endowment (Interest)	9,197	9,182
Texas State Aquarium Endowment (Appreciation)	477,620	227,445
To provide for curatorial program services	3,877,966	129,485
Use of Land and Building	3,262,897	3,688,492
Total	<u>7,893,851</u>	<u>4,198,533</u>

TEXAS STATE AQUARIUM ASSOCIATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

NOTE 3 - RESTRICTED NET ASSETS (continued)

Aquarium's Endowment

The Aquarium's endowment consists of individual funds established for a variety of purposes. Its endowment includes both donor-restricted funds and funds designated by the Board of Trustees to function as endowments. As required by generally accepted accounting principles, net assets associated with endowment funds, including any funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Trustees of the Aquarium has interpreted the Texas Prudent Management of Institutional Funds Act (TPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Aquarium classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Aquarium in a manner consistent with the standard of prudence prescribed by TPMIFA. In accordance with TPMIFA, the Aquarium considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the various funds, (2) the purposes of the donor-restricted endowment funds, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of the Aquarium, and (7) the Aquarium's investment policies.

Investment Return Objectives, Risk Parameters and Strategies. The Aquarium has adopted investment policies, approved by the Board of Trustees, for endowment assets that can be used to provide a predictable stream of funding to programs supported by its endowment funds while also maintaining the purchasing power of those endowment assets over the long-term. Accordingly, the investment process seeks to achieve an after-cost total real rate of return, including investment income as well as capital appreciation, which exceeds an annual distribution with acceptable levels of risk. Endowment assets are invested in a well diversified asset mix, which includes equity and debt securities, that is intended to result in a consistent inflation-protected rate of return that has sufficient liquidity to make an annual distribution, while growing the funds if possible. Therefore, the Aquarium expects its endowment assets, over time, to produce an average rate of return. Actual returns in any given year may vary. Investment risk is measured in terms of the total endowment fund; investment assets and allocation between asset classes and strategies are managed to not expose the fund to unacceptable levels of risk.

Spending Policy. The nature of the endowment fund is that the corpus is to remain invested in perpetuity, and managed by the TSA Investment Committee, under the governance of the TSA Executive Committee. Based on the desire to increase the size of the endowment, every effort will be made to reinvest earned income until such time as the Trustees feel the endowment has reached a certain minimum level. Capital appreciation, or gain in the fund will remain as part of the fund corpus.

On an annual basis, the TSA staff and Executive Committee evaluates current needs and cash flow projections, and may make recommendations in terms of dispersal of earnings. A decision to utilize the annual earned income may be made by a majority vote of the Executive Committee. Any decision to use any of the fund in addition to a given years earned income needs the approval of the majority of the Trustee.

TEXAS STATE AQUARIUM ASSOCIATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

NOTE 3 - RESTRICTED NET ASSETS (continued)

Endowment Net Asset Composition by Type of Fund as of December 31, 2012 is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total Net Endowment Assets</u>
Donor-restricted endowment funds:				
TSA Endowment Fund	-	477,620	1,500,000	1,983,443
Gloria Hicks Endowment Fund	-	9,197	66,200	75,397
Board-designated Endowment Funds	<u>237,639</u>	<u>-</u>	<u>-</u>	<u>237,639</u>
Total Funds	<u>237,639</u>	<u>486,817</u>	<u>1,566,200</u>	<u>2,290,656</u>

Changes in endowment net assets as of December 31, 2012 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total Net Endowment Assets</u>
Endowment net assets, beginning of year	163,065	236,627	1,566,050	1,965,742
Contributions	74,574	-	150	74,724
Investment income	-	71,363	-	71,363
Investment expense	-	(23,425)	-	(23,425)
Net appreciation (depreciation)	-	202,302	-	202,302
Amounts appropriated for expenditure	<u>-</u>	<u>(50)</u>	<u>-</u>	<u>(50)</u>
Endowment net assets, end of year	<u>237,639</u>	<u>486,817</u>	<u>1,566,200</u>	<u>2,290,656</u>

During 2012, the Board of Trustees approved the allocation of 20% of unrestricted donations to an Endowment Fund. The endowment allocation for 2012 was \$74,574 and is reported as a Board-designated endowment fund.

Endowment Net Asset Composition by Type of Fund as of December 31, 2011 is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total Net Endowment Assets</u>
Donor-restricted endowment funds:				
TSA Endowment Fund	-	227,445	1,500,000	1,727,445
Gloria Hicks Endowment Fund	-	9,182	66,050	75,232
Board- designated Endowment Funds	<u>163,065</u>	<u>-</u>	<u>-</u>	<u>163,065</u>
Total Funds	<u>163,065</u>	<u>236,627</u>	<u>1,566,050</u>	<u>1,965,742</u>

TEXAS STATE AQUARIUM ASSOCIATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

NOTE 3 - RESTRICTED NET ASSETS (continued)

Changes in endowment net assets as of December 31, 2011 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total Net Endowment Assets
Endowment net assets, beginning of year	97,489	255,932	1,565,950	1,919,371
Contributions	65,576	-	100	65,676
Investment income	-	58,171	-	58,171
Investment expense	-	(18,376)	-	(18,376)
Net appreciation (depreciation)	-	(59,050)	-	(59,050)
Amounts appropriated for expenditure	-	(50)	-	(50)
Endowment net assets, end of year	<u>163,065</u>	<u>236,627</u>	<u>1,566,050</u>	<u>1,965,742</u>

During 2011, the Board of Trustees approved the allocation of 20% of unrestricted donations to an Endowment Fund. The endowment allocation for 2011 was \$65,576 and is reported as a Board-designated endowment fund.

Funds with Deficiencies From time to time, the fair value of assets associated with donor-restricted endowment funds may fall below the level that the donor or TPMIFA requires the Aquarium to retain as a fund of perpetual duration. Deficiencies of this nature are reported in unrestricted net assets. Deficiencies result from unfavorable market fluctuations. There were no deficiencies at December 31, 2012 or 2011.

NOTE 4 - NET ASSETS RELEASED FROM RESTRICTIONS

Net assets were released from donor restrictions by incurring expenses, satisfying the restricted purposes by donors as follows:

	2012	2011
Educational Activities	346,942	229,035
Texas State Aquarium Library	5	223
For Curatorial Program Services	286,491	23,482
Gloria Hicks Endowment	50	50
Texas State Aquarium Endowment (Investment Expense)	23,425	18,406
Use of Land and Building	425,595	425,595
Total	<u>1,082,508</u>	<u>696,791</u>

NOTE 5 - PROPERTY AND EQUIPMENT

Presentation of Building

The Aquarium constructed its primary operating facility for approximately \$24.2 million. The City of Corpus Christi, Texas (the City) provided approximately \$11 million of support to the Aquarium in exchange for title to the building. In addition, the City purchased land valued at approximately \$2 million from third parties for the benefit of the Aquarium. The City will

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NOTE 5 - PROPERTY AND EQUIPMENT (continued)

provide the facility to the Aquarium at no cost for a period of thirty years. The Aquarium is responsible for all expenses relating to operating, maintaining, and insuring the building. The Aquarium characterizes the \$13 million in support provided by the City as an unconditional promise to give the use of long-lived assets. The contribution made by the City is reported in the financial statements as land and building and amortized over thirty years with the net value treated as a temporarily restricted asset. The remaining value of the building is carried at original cost and is being depreciated over a thirty-year life.

Presentation of Certain Other Assets

On March 1, 1996, the City issued \$4,400,000 in Combination Tax and Texas State Aquarium Revenue Certificates of Obligation. In exchange for proceeds from the issue, the City assumed title to a portion of land, the Mobile Aquarium, the Sea Lab property, and the Turtle Exhibit. The Aquarium leased these items from the City and agreed to repay the bond amounts issued by the City, to continue to operate the exhibits and maintain the property.

The Aquarium characterizes the full amount of the bonds issued as a note payable to the City. The exchanged assets remain on the Aquarium's books as capital lease assets.

Presentation of Parking Facility

The Aquarium and City agreed to make improvements to land adjoining the Aquarium to provide parking for visitors. The Aquarium agreed to repay bonds issued by the City for improvements and entered into a 5-year lease agreement to operate the parking facilities. The lease provides for annual payments of principal and interest plus fifty percent of the revenues exceeding \$400,000. The Aquarium characterized the parking lot improvements as a note payable to the City. The parking lot improvements are carried on the Aquarium's books at original cost.

The following is a summary of property and equipment as of December 31, 2012 and 2011:

	2012	2011
Land	3,368,241	3,368,241
Building	38,371,220	38,326,365
Parking Facility	1,521,247	1,521,247
Furniture and Equipment	925,532	995,247
Machinery and Tanks	1,665,576	1,743,386
Exhibits	6,084,161	5,294,044
Animals	112,722	112,722
Construction in Progress	46,726	-
Other	137,816	137,816
Total	52,233,241	51,499,068
Less Accumulated Depreciation/Amortization	34,578,805	33,132,066
Total	17,654,436	18,367,002

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NOTE 5 - PROPERTY AND EQUIPMENT (continued)

Depreciation/Amortization expense is computed on a straight-line basis over the estimated useful lives or lease term of the assets and amount to \$2,048,198 and \$2,004,172 respectively, for 2012 and 2011. Useful lives/lease terms are as follows:

Land (Amortization)	30 years
Buildings	20 – 30 years
Parking Facility	19 years
Furniture and Equipment	10 years
Office Equipment	5 years
Machinery and Tanks	10 – 20 years
Exhibits	10 years
Animal and Other	5 years

NOTE 6 - NOTES PAYABLE AND LONG - TERM DEBT

A summary of notes payable and long-term debt as of December 31, 2012 and 2011 follows:

<u>Description:</u>	<u>2012</u>	<u>2011</u>
Note payable to City of Corpus Christi; due in 2016; interest and principal payable semi-annually; interest accrues at rates ranging from 4.46 to 5.5 percent	1,276,785	1,553,493
Current portion	300,831	276,708
Long-term portion	<u>975,954</u>	<u>1,276,785</u>

Total projected principal payments are as follows:

Year	Amount
2013	300,831
2014	300,574
2015	325,380
2016	350,000
Total	<u>1,276,785</u>

NOTE 7 - RETIREMENT PLAN

The Aquarium sponsors a Section 403(b) salary reduction retirement plan that covers all full-time employees employed on a regular basis and certain regular part-time employees. For those eligible employees who elect to contribute to the plan, the Aquarium will match 100% of the employee's contribution, up to a maximum of 5% of base earnings. Employees may contribute up to \$17,000 per year (\$22,500 per year if employee is age 50 or over).

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NOTES TO THE FINANCIAL STATEMENTS
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NOTE 7 - RETIREMENT PLAN (continued)

The vesting plan provides for 100% vesting after one year of regular full-time or eligible regular part-time employment. The vesting schedule applies only to the matching funds contributed by the Aquarium, and not to the employees' contributions. Contributions by the Aquarium to the plan amounted to \$114,657 and \$89,993 for 2012 and 2011, respectively.

NOTE 8 - LINE OF CREDIT

The Aquarium maintains a \$500,000 line-of-credit arrangement with a bank to provide for additional working capital requirements. Amounts borrowed on the line bear interest equal to the American Bank, N.A. Base Rate less 0.5%. At December 31, 2012 and 2011 no funds were drawn on the line-of-credit.

NOTE 9 - FAIR VALUE MEASUREMENTS

The Aquarium's assets and liabilities reported at fair value are valued using a hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy defines three levels of inputs, giving the highest priority to unadjusted quoted prices in active markets for identical assets and liabilities and the lowest priority to unobservable inputs.

The Aquarium uses the following hierarchical disclosure framework:

Level 1 – Measurement based upon quoted prices for identical assets in an active market as of the reporting date.

Level 2 – Measurement based upon marketplace inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices in active markets for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in inactive markets, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 – Measurement based on the Aquarium's assumptions about a hypothetical marketplace because observable market inputs are not available as of the reporting date.

The Aquarium uses appropriate valuation techniques based on the available inputs to measure the fair values of its assets and liabilities. When available, the Aquarium measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value. Level 3 inputs have the lowest priority.

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NOTE 9 - FAIR VALUE MEASUREMENTS (continued)

The following tables set forth by level within the fair value hierarchy, the Aquarium's assets measured at fair value on a recurring basis as of December 31, 2012 and 2011:

<u>INVESTMENTS</u>	2012			Total
	Level 1	Level 2	Level 3	
Unrestricted Investments:				
Cash / Money Accounts	621,780	-	-	621,780
Certificates of Deposit/Equivalent	1,078,985	-	-	1,078,985
Total Investments	1,700,765	-	-	1,700,765
Endowment Investments:				
Cash / Money Accounts	264,670	-	-	264,670
Certificates of Deposit/Equivalent	-	-	-	-
Stock Equities	497,893	-	-	497,893
Stock Funds	1,276,787	-	-	1,276,787
Bond Funds	251,306	-	-	251,306
Total Investments	2,290,656	-	-	2,290,656

<u>INVESTMENTS</u>	2011			Total
	Level 1	Level 2	Level 3	
Unrestricted Investments:				
Cash / Money Accounts	320,867	-	-	320,867
Certificates of Deposit/Equivalent	1,093,745	-	-	1,093,745
Total Investments	1,414,612	-	-	1,414,612
Endowment Investments:				
Cash / Money Accounts	301,070	-	-	301,070
Certificates of Deposit/Equivalent	212,941	-	-	212,941
Stock Equities	420,894	-	-	420,894
Stock Funds	843,312	-	-	843,312
Bond Funds	187,525	-	-	187,525
Total Investments	1,965,742	-	-	1,965,742

TEXAS STATE AQUARIUM ASSOCIATION
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NOTE 10 - RESTATEMENT OF NET ASSETS

During 2012, management determined that the 2011 pledge receivables had been overstated by \$4,000 and temporarily restricted net assets of \$42,314 were misclassified as unrestricted. Restatements follow:

	Net Assets			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
2011 Ending Net Assets, as Previously Reported	18,194,761	4,156,219	1,566,050	23,917,030
Pledge Receivable Restatement	(4,000)	-	-	(4,000)
Reclassification of Net Assets	(42,314)	42,314	-	-
 Total Funds	18,148,447	4,198,533	1,566,050	23,913,030

NOTE 11 - SUBSEQUENT EVENTS

Management has evaluated subsequent events through August 29, 2013, the date which the financial statements were available to be issued.