Texas State Aquarium Association

Consolidated Financial Statements & Independent Auditors' Report

For the Years Ended December 31, 2016 and 2015

Gowland, Strealy, Morales & Company, PLLC
Certified Public Accountants

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TABLE OF CONTENTS

CERTIFICATE OF BOARD

APPROVAL OR DISAPPROVAL OF AUDIT REPORT

TEXAS STATE AQUARIUM ASSOCIATION

I, Julie Buckley, Chairperson of the Finance Committee of the Board of Directors of Texas State Aquarium Association, do hereby certify that this accompanying audit report for fiscal year ended December 31, 2016 from Gowland, Strealy, Morales & Company, A Professional Limited Liability Company, was reviewed and ✓ approved / ______ disapproved at a meeting of the Finance Committee held on the 26 day of February, 2018.

Julie Buckley

Chairperson, Finance Committee

2/26/18

Date

GOWLAND, STREALY, MORALES & COMPANY, PLLC
Certified Public Accountants

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Texas State Aquarium
Corpus Christi, Texas

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Texas State Aquarium Association (a non-profit organization) and affiliates, which comprise the consolidated statements of financial position as of December 31, 2016 and 2015, and the related consolidated statements of activities and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about 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 consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Texas State Aquarium Association and affiliates as of December 31, 2016 and 2015, and the changes in net assets and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Gowland, Strealy, Morales & Company, PLLC
Certified Public Accountants

Corpus Christi, Texas
December 28, 2017

FINANCIAL SECTION

TEXAS STATE AQUARIUM ASSOCIATION
Consolidated Statements of Financial Position
December 31, 2016 and 2015

	2016	2015
ASSETS		
Current Assets		
Cash and Cash Equivalents	$ 1,094,444	$ 1,060,788
Cash and Cash Equivalents-Temporarily Restricted	3,069,968	12,969,970
Investments:		
Unrestricted	1,684,506	6,606,363
Trade and Other Receivables	245,481	161,044
Inventories	30,607	39,017
Prepaid Assets	146,413	203,098
Total Current Assets	6,271,419	21,040,280
Note Receivable	6,990,000	6,990,000
Pledges Receivable, restricted to purchase of property and equipment, net	4,812,166	5,539,122
Endowment Assets		
Cash and Cash Equivalents	36,153	302,414
Investments	2,884,052	2,557,320
Total Endowment Assets	2,920,205	2,859,734
Property and Equipment	103,743,990	71,056,920
Less: Accumulated Depreciation	(42,000,857)	(39,953,058)
Total Property and Equipment, Net	61,743,133	31,103,862
TOTAL ASSETS	$ 82,736,923	$ 67,532,998

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

TEXAS STATE AQUARIUM ASSOCIATION
Consolidated Statements of Financial Position
December 31, 2016 and 2015

	2016	2015
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts Payable	$ 310,807	$ 223,826
Accrued Payables	4,610,247	235,151
Deferred Income	35,712	30,816
Deposits	-	1,837
Notes Payable - Current	10,639,680	324,130
Total Current Liabilities	15,596,446	815,760
Long-Term Debt:		
Notes Payable	9,900,050	9,900,000
Total Liabilities	25,496,496	10,715,760
Net Assets:		
Unrestricted	49,752,965	35,011,967
Temporarily Restricted	5,921,012	20,238,821
Permanently Restricted	1,566,450	1,566,450
Total Net Assets	$ 57,240,427	$ 56,817,238
TOTAL LIABILITIES AND NET ASSETS	82,736,923	67,532,998

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

TEXAS STATE AQUARIUM ASSOCIATION
Consolidated Statements of Activities
For the Year Ended December 31, 2016
With Summarized Information for the Year Ended December 31, 2015

	2016				2015
	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals	Summarized Totals
SUPPORT AND REVENUE					
Admissions	$ 5,633,707	$	$	$ 5,633,707	4,974,612
Gift Shop Sales	616,463			616,463	581,945
Programs	1,300,035			1,300,035	949,590
Gifts and Donations	304,643			304,643	-
In-Kind Donations	136,852	76,897		213,749	-
Parking	473,125			473,125	425,988
Education Programs	825,730			825,730	642,529
Memberships	876,125			876,125	720,124
Concessions	1,674,545			1,674,545	1,451,748
Vending, Rentals & Other	258,031			258,031	615,070
Investment Income	147,295	69,900		217,195	194,517
Net Unrealized Gain/(Loss) in Investments	-	147,876		147,876	(174,423)
Restricted Donations		3,149,550		3,149,550	13,391,811
Net Assets Released From Restrictions	17,762,032	(17,762,032)		-	-
Total Support and Revenue	30,008,583	(14,317,809)	0	15,690,774	23,773,511
EXPENSES					
Program services					
Education	890,906	-	-	890,906	851,379
Curatorial	3,438,963	-	-	3,438,963	2,591,429
Other Program Services	5,415,421	-	-	5,415,421	4,747,041
Total Program Services	9,745,290	-	-	9,745,290	8,189,849
Supporting Services					
Management and General	2,027,204	-	-	2,027,204	1,695,555
Fundraising	1,148,395	-	-	1,148,395	1,707,323
Total Supporting Services	3,175,599	-	-	3,175,599	3,402,878
Total Operating Expenses (before Depreciation & Gains/Losses	12,920,889	-	-	12,920,889	11,592,727
Increase (Decrease) in Net Assets Before Depreciation & Gains/Losses	17,087,694	(14,317,809)	-	2,769,885	12,180,784
Depreciation Expense	(2,294,663)	-	-	(2,294,663)	(2,234,281)
Net gain (loss) on Disposal of Assets	(52,033)	-	-	(52,033)	992
Increase (Decrease) in Net Assets	14,740,998	(14,317,809)	-	423,189	9,947,495
NET ASSETS, beginning of year	35,011,967	20,238,821	1,566,450	56,817,238	46,869,743
NET ASSETS, end of year	$ 49,752,965	$ 5,921,012	$ 1,566,450	$ 57,240,427	56,817,238

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

TEXAS STATE AQUARIUM ASSOCIATION
Consolidated Statements of Cash Flows
For the Years Ended December 31, 2016 and 2015

	2016	2015
Cash Flows From Operating Activities:		
Net Increase (Decrease) in Total Net Assets	$ 423,189	$ 9,947,495
Adjustments to reconcile net increase in total net assets		
to cash provided (used) by operating activities:		
Noncash Revenues and Expenses Included in Net Income:		
Depreciation	2,294,165	2,234,281
Investment Income Restristed For Endowment	0	(115,799)
Noncash Contribution Revenue - Donated Services	0	(49,635)
Net Unrealized (Gain)/Loss on Investments	147,876	(13,391,811)
Net (Gain)/Loss on Disposal of Assets	59,783	174,423
Changes in Operating Assets & Liabilities:		
(Increase) Decrease in:		
Pledge and Other Receivables	642,519	(639,791)
Inventory	8,410	(992)
Other Current Assets	56,685	115,822
Increase (Decrease) in:		
Accounts Payable and Accrued	4,462,077	(238,683)
Deferred Income	4,896	(40,731)
Deposits	(1,837)	0
Net Cash Provided (Used) by operating activities	8,097,763	(2,005,421)
Cash Flows from Investing Activities:		
Advances of Notes Receivable	0	(6,990,000)
Proceeds from Notes Payable	0	9,900,000
Transfer to Endowment Assets	0	(42,921)
Proceeds from Sale of Investments	4,921,857	1,640,173
Purchase of Investments	(208,347)	(1,221,185)
Capital Expenditures	(32,993,219)	(17,437,069)
Net cash provided (used) by investing activities	(28,279,709)	(14,151,002)
Cash Flows from financing activities:		
Contributions Temporary Restricted	0	13,391,811
Proceeds from incurrance of Long Term Debt	10,639,680	0
Principal Payments on Debt	(324,080)	0
Net cash provided (used) in financing activities	10,315,600	13,391,811
Net increase (decrease) in cash	(9,866,346)	(2,764,612)
Cash and Cash Equirments - Beginning of Year	14,030,758	16,795,370
Cash and Cash Equirments - End of Year	$ 4,164,412	$ 14,030,758
Supplemental Data:		
Interest Paid	$ 30,215	$ 141,487

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

Note 1 - 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 Aquariums primary revenues include admission fees, retail sales, and program fees. Other revenue sources include grants, gifts, and parking fees. TSAA Beverage Services Association ("TSAABSA"), a wholly-owned subsidiary of the Aquarium, operates as a liquor catering company for patrons of the Aquarium as well as the general public.

Friends of the Texas State Aquarium (FTSA) was organized in December 2014 by the Aquarium as a Texas Nonprofit Corporation to facilitate the construction of a new facility for use by the Aquarium. Both organizations are under common control, since board members of the Aquarium comprise a majority of the Board of Trustees of FTSA and, accordingly, are combined in these financial statements.

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 Consolidation

The consolidated financial statements as of and for the year ended December 31, 2016 and 2015, include the accounts of The Aquarium, the TSAABSA and FTSA (collectively, "the Aquarium"). All significant inter-organizational transactions and balances have been eliminated.

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.

Capitalization Policy

Purchases of $2,500 and an estimated useful life span of greater than one year are capitalized. Any purchases of less than $2,500 are expensed.

Allowance for Doubtful Accounts

In the opinion of management, substantially all receivables are collectible in full; therefore, no allowance for doubtful accounts is provided.

Advertising Costs

Advertising costs are expensed as incurred. Total advertising expense for the years ended December 31, 2016 and 2015 was $573,651 and $558,463, respectively.

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, TSAABSA and FTSA are 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 and FTSA qualify for the charitable contribution deduction under Section 170(b)(1)(A) and have been classified as organizations other than a private foundation under Section 509(a)(2). As of December 31, 2016 and 2015, there were no material uncertain tax positions.

Cash and Cash Equivalents

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

Investments

Investments are carried at fair value, which is based on quoted market prices at December 31, 2016 and 2015.

		2016		2015
Unrestricted				
Cash/Money Accounts	$	1,672,006	$	1,589,034
Certificates of Deposit/ Equivalents		12,500		5,017,329
	$	1,684,506	$	6,606,363
Endowment Assets				
Cash/ Money Accounts	$	510,481	$	302,414
Stock Equities		785,810		667,575
Stock Funds		1,357,353		1,629,155
Bond Funds		266,561		260,590
Total	$	2,920,205	$	2,859,734

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 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, 2016 and 2015 are due as follows:

		2016		2015
Pledges receivable	$	5,065,437	$	5,828,269
Less: Allowance for Uncollectible Promises Receivable		(50,654)		(58,283)
Unamortized discount		(202,617)		(230,864)
Total Unconditional Promises to Give, Net	$	4,812,166	$	5,539,122
Amounts due in:				
Less than one year	$	1,581,392	$	1,777,182
One to four years, net of discount		3,230,774		3,761,940
Total Unconditional Promises to Give, Net	$	4,812,166	$	5,539,122

Unconditional promises to give receivable due in more than one year are discounted at 2.5% for 2016 and 2.5% for 2015.

Note Receivable

The note receivable, totaling $6,990,000 as of December 31, 2016 and 2015, is reported at its outstanding balance and is considered to be fully collectible. Accordingly, no allowance for doubtful accounts has been provided. In making that determination, management evaluated the financial condition of the borrower, the estimated value of the underlying collateral, and the economic conditions. Interest on the note receivable is recognized over the term of the note receivable and is calculated using the simple-interest method on principal amounts outstanding.

Contributed Services

The Aquarium received an estimated 31,345 hours of donated services during the year ended December 31, 2016 and 24,421 hours during the year ended December 31, 2015. 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, 2016 and 2015, the Aquarium recognized $111,620 and $49,635 respectively, for donated services. The amounts are included in unrestricted support and expense.

Inventories

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

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 over the estimated useful life of the asset.

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

Temporary restricted net assets are available for the following purposes:

	2016	2015
To provide educational activities	$ 621,035	$ 680,036
To support the Texas State Aquarium Library	7,864	5,664
Gloria Hicks Endowment (Interest)	5,647	6,629
Texas State Aquarium Endowment (Appreciation)	1,161,412	914,782
To provide for curatorial program services	(1,573,870)	95,976
Construction of Caribbean Project	5,746,759	16,549,622
Use of Land and Building	(344,360)	1,986,112
Total	$ 5,624,487	$ 20,238,821

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 Trustees.

Endowment Net Asset Composition by Type of fund as of December 31, 2016 is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total Net Endowment Assets
Donor-restricted endowment funds:				
TSA Endowment Fund	-	1,161,412	1,500,000	2,661,412
Gloria Hicks Endowment Fund	-	5,647	66,450	72,097
Board-designated Endowment Funds	392,221	-	-	392,221
Total Funds	392,221	1,167,059	1,566,450	3,125,730

Changes in endowment net assets as of December 31, 2016 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total Net Endowment Assets
Endowment net assets, beginning of year	$ 371,873	$ 921,411	$ 1,566,450	$ 2,859,734
Contributions	20,348		-	20,348
Investment income		133,953	-	133,953
Investment expense		(34,718)	-	(34,718)
Net appreciation (depreciation)		146,413	-	146,413
Amounts appropriated for expenditure			-	-
Endowment net assets, end of year	$ 392,221	$ 1,167,059	$ 1,566,450	$ 3,125,730

In 2009, the Board of Trustees approved yearly 20% allocations of unrestricted donations to an Endowment fund. The endowment allocation for 2016 was $20,348 and is reported as a Board-designated endowment fund.

Endowment Net Asset Composition by Type of Fund as of December 31, 2015 is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total Net Endowment Assets
Donor-restricted endowment funds:				
TSA Endowment Fund	$ -	$ 914,782	$ 1,500,000	$ 2,414,782
Gloria Hicks Endowment Fund	-	6,629	66,450	73,079
Board-designated Endowment Funds	371,873	-	-	371,873
Total Funds	$ 371,873	$ 921,411	$ 1,566,450	$ 2,859,734

Changes in endowment net assets as of December 31, 2015 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total Net Endowment Assets
Endowment net assets, beginning of year	$ 328,952	$ 1,009,403	$ 1,566,450	$ 2,904,805
Contributions	42,921	-	-	42,921
Investment income	-	115,799	-	115,799
Investment expense	-	(28,052)	-	(28,052)
Net appreciation (depreciation)	-	(174,727)	-	(174,727)
Amounts appropriated for expenditure	-	(1,012)	-	(1,012)
Endowment net assets, end of year	$ 371,873	$ 921,411	$ 1,566,450	$ 2,859,734

In 2009, the Board of Trustees approved yearly 20% allocations of unrestricted donations to an Endowment Fund. The endowment allocation for 2015 was $49,921 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, 2016 or 2015.

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:

	2016	2015
Educational Activities	$ 187,121	$ 168,693
Curatorial Program Services	599,400	1,311,803
Construction of Caribbean Project	16,838,548	16,875,271
Gloria Hicks Endowment	990	1,062
Texas State Aquarium Endowment (Invest. Exp.)	33,728	28,002
Use of Land and Building	102,245	425,595
Total	$ 17,762,032	$ 18,810,426

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 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, 2016 and 2015:

	2016	2015
Land	$ 3,556,740	$ 3,368,241
Building	39,569,921	39,573,092
Parking Facility	1,586,744	1,521,744
Furniture and Equipment	926,784	833,831
Machinery and Tanks	2,575,702	2,381,876
Exhibits	6,911,146	6,501,327
Animals	112,722	112,722
Construction in Progress	48,376,414	16,636,271
Other	127,817	127,816
Total	103,743,990	71,056,920
Less Accumulated Depreciation/Amortization	42,000,857	39,953,058
Total	$ 61,743,133	$ 31,103,862

Depreciation/Amortization expense is computed on a straight-line basis over the estimated useful lives or lease term of the assets amounted to $2,234,115 and $2,119,880 respectively, for 2016 and 2015. 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 - NOTE RECEIVABLE

In January, 2015, FTSA entered into an agreement to lend $6,990,000 to Twain Investment Fund 43, LLC (the "investment fund") owned by U.S. Bancorp Community Development Corporation (USBCDC), it's 100% member. The note is secured by USBCDC's equity interest in TMF Sub-CDE XXII, LLC, a community development entity which provides financing and monitoring for qualified low-income investments and related new markets tax credits ("NMTC") under Section 450 of the Internal Revenue Code of 1986, as amended.

The interest rate on the note is fixed at 1.0%. Interest is payable quarterly beginning March 2016. All principal and unpaid interest is due and payable on January 31, 2045. In the year ended December 31, 2016 and 2015, interest earned amounted to $69,900 and $65,046, respectively. There are no payments of principal due on the note until December 2021.

Note 7 - BRIDGE LOAN

The Aquarium has a construction bridge loan available with The Ed Rachal Foundation of up to $30,000,000 to provide financing for the construction, furniture, and fixtures including exhibits cost for the new Caribbean Wing construction project. As of December 31, 2016, $10,639,680 has been drawn on this line of credit. As of December 31, 2015, no amounts have been drawn or are outstanding on this loan.

Note 8 - NOTES PAYABLE AND LONG-TERM DEBT

Note Payable: City of Corpus Christi

	2016	2015
Note payable to City of Corpus Christi, due March 1, 2016 bearing interst rate of 3.00 percent	-	324,130
Current portion	-	324,130
Long-term portion	-	-

New Markets Tax Credits Notes Payable

In January 2015, the Aquarium, a Qualified Active Low-Income Community Business, executed secured loan agreements to borrow $6,990,000 and $2,900,000 from TMF Sub-COE XXII, LLC to finance the construction of a new Caribbean Wing expansion project. These loans are secured by, among other things, that certain Leasehold Deed of Trust (Security Agreement, Assignment of Rents and Leases and Financing Statement).

Under the terms of the loan agreement, each loan has an interest rate of 1.38% per annum, payable quarterly, beginning March 2016, and the principal balance is due in its entirety on the stated maturity dates. The Aquarium is not permitted to prepay any portion of the loans in whole or in part until the seventh anniversary of the loans.

The loan agreements are intended to be treated as a "qualified low-income community investment" and generate new markets tax credits for TMF Sub-COE XXII, LLC. Accordingly, in conjunction with the financing, the Aquarium entered into an indemnification agreement with USBCDC for costs incurred or valued lost as a result of a recapture event as defined in Section 45D (g) of the Internal Revenue Code of 1986, as amended.

Additionally, the FTSA entered into a put agreement (put) or fair value (call) with USBCDC to buy Twain Investment Fund 43, LLC (See Note 6 and Note 9) for $1,000 at the end of the seven-year NMTC investment period. Should such put be exercised, FTSA would also own TMF-Sub-CDE XXII, LLC and its primary assets, the secured notes from the Aquarium.

A summary of the New Market Tax Credit notes payable is as follows:

	2016	2015
Note payable to TMF sub-CDE XXII, LLC, matures of January 31, 2045, with principal payments commencing in December 2021.	$ 6,990,000	$ 6,990,000
Note payable to TMF Sub-CDE XXII, LLC, matures on January 31, 2045, with principal payment commencing in December 2021	2,910,000	2,910,000
Total New Markets Tax Credits (NMTC) Note Payable	$ 9,900,000	$ 9,900,000

There are no payments of principal due on the above notes until December 2021.

Note 9 - NEW MARKETS TAX CREDIT PROJECT

In the fiscal year 2016, the Aquarium began construction and development of a 65,000-square foot expansion of its existing building.

In connection with the Aquarium's efforts to construct the new addition, it determined that it would be financially beneficial to participate in a New Market Tax Credit (NMTC) program.

To facilitate utilizing the NMTC program, the Aquarium organized Friends of the Texas State Aquarium (FTSA), a Texas nonprofit corporation. Both organizations are under common control, since board members of the Aquarium comprise a majority of the Board of Trustees of FTSA. In January 2016, in connection with the Aquarium's efforts to obtain supplemental financing for the construction of the new facility, FTSA partnered with U.S. Bancorp Community Development Corporation (USBCDC) to obtain additional funding for the facility.

The NMTC program permits taxpayers to receive a credit against federal income taxes for making qualified equity investments in designated Community Development Entities (CDEs). Substantially all of the qualified equity investment must, in turn, be used by the CDE to provide investments in low-income communities. The credit provided to the investor totals 39% of the cost of the investment and the credit is claimed over a seven-year credit allowance period. In each of the first three years, the investor receives a credit equal to five percent of the total amount paid for the stock or capital interest at the time of purchase.

For the final four years, the value of the credit is six percent annually. Investors may not redeem their investments in CDEs prior to the conclusion of the seven-year period.

As part of the NMTC program, FTSA entered into an agreement on January 27, 2015 to lend $6,990,000 to the U.S. Bancorp Community Development Corporation Twain Investment Fund 43, LLC (the "Investment Fund"). The interest rate on the note is fixed at 1.000% per annum. USBCDC made a capital contribution of $3,315,000 to the Investment Fund as its 100% member. The Investment Fund then made an equity investment in the amount of $10,000,000 in TMF Sub-CDE XXII, LLC (CDE), a Texas limited liability company, which is intended to qualify as a "qualified equity investment" (a QEI). On January 27, 2016, substantially all of the proceeds received by CDE were then loaned to the Aquarium in the form of two promissory notes: Note A for $6,990,000 and Note B for $2,910,000 (to be used for construction and development of the new addition). Both notes have a fixed rate of 1.38235% per annum.

After a seven-year period, during which tax credits are earned and paid to the investor group, FTSA can then exercise its option to purchase the Investment Fund for $1,000. Once FTSA acquires the Investment Fund, FTSA can cancel the notes payable of $6,990,000 and $2,910,000 owed by the Aquarium.

Note 10 - 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 $18,000 per year (24,000 per year if employee is age 50 or over).

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 $177,495 and $157,226 for 2016 and 2015, respectively.

Note 11 - 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, 2016 and 2015 no funds were drawn on the line-of-credit.

Note 12 - 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.

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, 2016 and 2015:

	2016			
INVESTMENTS	Level 1	Level 2	Level 3	Total
Unrestricted Investments:				
Cash / Money Accounts	1,672,006	-	-	1,672,006
Certificates of Deposit/Equivalent	12,500	-	-	12,500
Total Investments	1,684,506	-	-	1,684,506
Endowment Investments:				
Cash / Money Accounts	510,481	-	-	510,481
Stock Equities	785,810	-	-	785,810
Stock Funds	1,357,353	-	-	1,357,353
Bond Funds	266,561	-	-	266,561
Total Investments	2,920,205	-	-	2,920,205

Note 13 - ACCOUNTING PRONOUNCEMENTS

In June 2009, The Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 168, The *FASB Accounting Standards Codification* (ASC) *and the Hierarchy of Generally Accepted Accounting Principles: a replacement of FASB Statement No. 162.* On July 1, 2009 *The Hierarchy of Generally Accepted Accounting Principles* was rendered irrelevant, and the FASB ASC became the source of authoritative U.S. Generally Accepted Accounting Principles (GAAP) recognized by the FASB to be applied by nongovernmental entities. On the effective date of this statement, the ASC will supersede all then-existing non-SEC accounting and reporting standards, effective for financial statements issued for annual periods ending after September 15, 2009.

The Organization adopted the provisions of FASB ASC 740-10-25 (formerly FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* ["FIN48"] on January 1, 2009. Under FIN 48, an organization must recognize the tax benefit associated with tax taken for tax return purposes when it is more likely than not the position will be sustained. The implementation of FIN 48 had no impact on the Organization's financial statements. The Organization does not believe there are any material uncertain tax positions and, accordingly, it will not recognize any liability for unrecognized tax benefits. No interest or penalties were accrued as of January 1, 2009, as a result of the adoption of FIN 48. For the years ended December 31, 2016 and 2015, there were no interest or penalties recorded or included in its consolidated financial statements.

Note 14 - SUBSEQUENT EVENTS

The organization has evaluated subsequent events through December 28, 2017 which is the date the financial statements were available to be issued.

Note 15 - CONCENTRATION OF CREDIT RISK

The Aquarium, TSAABSA and FTSA maintain operating cash in four financial institutions. The balances, at times, may exceed federally insured limits. At December 31, 2016 the cash in bank balances exceeded the FDIC by $3,798,613. At December 31, 2015, the cash in bank balances exceeded the FDIC by $15,464,720. Credit risk on financial assets with banking institutions is managed by dealing with institutions with good credit ratings. No losses were incurred during 2016 or 2015.

SUPPLEMENTARY INFORMATION

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GOWLAND, STREALY, MORALES & COMPANY, PLLC

Certified Public Accountants

INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION

Board of Directors
Texas State Aquarium
Corpus Christi, Texas

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary information on pages 26 through 28 is presented for purposes of additional analysis and is presented to highlight certain information in the consolidated financial statements, and is not a required part of those financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Gowland, Strealy, Morales & Co., PLLC

Gowland, Strealy, Morales & Company, PLLC
Certified Public Accountants

Corpus Christi, Texas
December 28, 2017

TEXAS STATE AQUARIUM ASSOCIATION
Consolidating Statements of Financial Position
December 31, 2016
With Summarized Information at December 31, 2015

	2016			
	Texas State Aquarium	Friends of TSA	TSAA Beverage Services	Elimination
ASSETS				
Current Assets				
Cash and Cash Equivalents	$ 1,032,889	$ 16	$ 61,539	$ -
Cash and Cash Equivalents-Temporarily Restricted	2,628,027	441,941	-	-
Investments:				
Unrestricted	1,672,006		12,500	-
Trade and Other Receivables	7,569,957		76	(7,324,552)
Inventories	27,892		2,715	-
Prepaid Assets	146,495		(82)	-
Total Current Assets	13,077,266	441,957	76,748	(7,324,552)
Note Receivable	-	6,990,000	-	-
Pledges Receivable, restricted to purchase of property and equipment, net	4,812,166	-	-	-
Endowment Assets				
Cash and Cash Equivalents	36,153	-	-	-
Investments	2,884,052	-	-	-
Total Endowment Assets	2,920,205	-	-	-
Property and Equipment	103,739,015	-	4,975	-
Less: Accumulated Depreciation	(42,000,194)	-	(663)	-
Total Property and Equipment, Net	61,738,821	-	4,312	-
TOTAL ASSETS	$ 82,548,458	$ 7,431,957	$ 81,060	$ (7,324,552)
LIABILITIES AND NET ASSETS				
Current Liabilities				
Accounts Payable	$ 278,886	$ -	$ 57,628	$ (25,707)
Accrued Payables	4,610,247	-	-	-
Deferred Income	35,712	-	-	-
Deposits	-	-	-	-
Notes Payable - Current	10,639,680	-	-	-
Total Current Liabilities	15,564,525	-	57,628	(25,707)
Long-Term Debt:				
Notes Payable	9,900,050	7,298,845	-	(7,298,845)
Total Liabilities	25,464,575	7,298,845	57,628	(7,324,552)
Net Assets:				
Unrestricted	49,752,965	-	-	-
Temporarily Restricted	5,764,468	133,112	23,432	-
Permanently Restricted	1,566,450	-	-	-
Total Net Assets	57,083,883	133,112	23,432	$ -
TOTAL LIABILITIES AND NET ASSETS	$ 82,548,458	$ 7,431,957	$ 81,060	$ (7,324,552)

See Independent Auditor's Report on Supplementary Information.

TEXAS STATE AQUARIUM ASSOCIATION
Consolidating Statement of Activities
For the Year Ended December 31, 2016
With Summarized Information for the Year Ended December 31, 2015

	2016			
	Texas State Aquarium	Friends of TSA	TSAA Beverage Services	Eliminations
SUPPORT AND REVENUE				
Admissions	$ 5,633,707	$ -	$ -	$ -
Gift Shop Sales	616,463	-	-	-
Programs	1,300,035	-	-	-
Gifts and Donations	304,643	-	-	-
In-Kind Donations	213,749	-	-	-
Parking	473,125	-	-	-
Education Programs	825,730	-	-	-
Memberships	876,125	-	-	-
Concessions	1,578,605	-	95,940	-
Vending, Rentals & Other	256,049	-	1,982	-
Investment Income	147,270	69,900	25	-
Net Unrealized Gain/(Loss) on Investments	147,876	-	-	-
Restricted Donations	3,149,550	-	-	-
Net Assets Released From Restrictions	-	-	-	-
Total Support and Revenue	15,522,927	69,900	97,947	-
EXPENSES				
Program services				
Education	890,906	-	-	-
Curatorial	3,438,963	-	-	-
Other Program Services	5,392,302	-	23,119	-
Total Program Services	9,722,171	-	23,119	-
Supporting Services				
Management and General	1,977,657	474	49,073	-
Fundraising	1,148,395	-	-	-
Total Supporting Services	3,126,052	474	49,073	-
Total Operating Expenses (before Depreciation & Gain/Loss)	12,848,223	474	72,192	
Increase (Decrease) in Net Assets Before Depreciation & Gain/Loss	2,674,704	69,426	25,755	-
Depreciation and Amortization Expense	(2,294,165)	-	(498)	-
Net gain (loss) on Disposal of Assets	(52,033)	-	-	-
Increase (Decrease) in Net Assets	328,506	69,426	25,257	-
NET ASSETS, beginning of year	56,755,375	63,686	(1,823)	-
NET ASSETS, end of year	$ 57,083,881	$ 133,112	$ 23,434	$ -

See Independent Auditor's Report on Supplementary Information.

	2016 Total	2015 Summarized Totals
$	1,094,444	1,060,788
	3,069,968	12,969,970
	1,684,506	6,606,363
	245,481	161,044
	30,607	39,017
	146,413	203,098
	6,271,419	21,040,280
	6,990,000	6,990,000
	4,812,166	5,539,122
	36,153	302,414
	2,884,052	2,557,320
	2,920,205	2,859,734
	103,743,990	71,056,920
	(42,000,857)	(39,953,058)
	61,743,133	31,103,862
$	82,736,923	67,532,998
$	310,807	223,826
	4,610,247	235,151
	35,712	30,816
	-	1,837
	10,639,680	324,130
	15,596,446	815,760
	9,900,050	9,900,000
	25,496,496	10,715,760
	49,752,965	35,011,967
	5,921,012	20,238,821
	1,566,450	1,566,450
	57,240,427	56,817,238
$	82,736,923	67,532,998

2016		2015	
	Total		Summarized Totals
$	5,633,707	$	4,974,612
	616,463		581,945
	1,300,035		949,590
	304,643		-
	213,749		-
	473,125		425,988
	825,730		642,529
	876,125		720,124
	1,674,545		1,451,748
	258,031		615,070
	217,195		194,517
	147,876		(174,423)
	3,149,550		13,391,811
	0		-
	15,690,774		23,773,511
	890,906		851,379
	3,438,963		2,591,429
	5,415,421		4,747,041
	9,745,290		8,189,849
	2,027,204		1,695,555
	1,148,395		1,707,323
	3,175,599		3,402,878
	12,920,889		11,592,727
	2,769,885		12,180,784
	(2,294,663)		(2,234,281)
	(52,033)		992
	423,189		9,947,495
	56,817,238		46,869,743
$	57,240,427	$	56,817,238