

The Toledo Zoological Society

Years Ended
December 31,
2016 and 2015

Consolidated
Financial
Statements
and
Supplementary
Information

THE TOLEDO ZOOLOGICAL SOCIETY

TABLE OF CONTENTS	PAGE
Independent Auditors' Report	1
Consolidated Financial Statements for the Years Ended December 31, 2016 and 2015	
Consolidated Statements of Financial Position	2
Consolidated Statements of Activities	3
Consolidated Statements of Cash Flows	4
Notes to Consolidated Financial Statements	5-17
Independent Auditors' Report on Supplementary Information	18
Supplementary Information for the Years Ended December 31, 2016 and 2015	
Consolidated Schedules of Park Operations	19
Consolidated Schedules of Expenses	20
Consolidating Statement of Financial Position - 2016	21
Consolidating Statement of Activities - 2016	22

INDEPENDENT AUDITORS' REPORT

April 12, 2017

Board of Directors
The Toledo Zoological Society
Toledo, Ohio

We have audited the accompanying consolidated financial statements of **The Toledo Zoological Society** (the "Organization"), a nonprofit organization, 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 years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Independent Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on auditor 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 Organization'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 Organization'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 consolidated financial position of **The Toledo Zoological Society** as of December 31, 2016 and 2015, and the consolidated changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.



THE TOLEDO ZOOLOGICAL SOCIETY

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

ASSETS	December 31	
	2016	2015
Assets		
Cash and cash equivalents	\$ 5,525,962	\$ 6,036,458
Contributions receivable	2,628,429	281,557
Accounts receivable	309,796	250,779
Inventory	409,356	483,996
Prepaid expenses and deposits	306,775	325,128
Investment securities	19,685,176	14,181,961
Beneficial interest in perpetual trusts	842,110	450,699
Property and equipment		
Land and improvements	15,852,891	15,814,570
Buildings and structures	171,249,527	170,457,186
Equipment	12,459,350	10,852,964
Construction in progress	2,616,178	858,130
	202,177,946	197,982,850
Less accumulated depreciation	76,373,982	71,398,572
Net property and equipment	125,803,964	126,584,278
Total assets	\$ 155,511,568	\$ 148,594,856
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable	\$ 1,358,289	\$ 1,380,047
Accrued payroll, vacation pay and payroll taxes	725,098	1,070,024
Deferred revenue	2,113,221	2,430,302
Total liabilities	4,196,608	4,880,373
Commitments (Note 12)		
Net assets		
Unrestricted	142,620,264	138,097,050
Temporarily restricted	7,391,402	4,705,550
Permanently restricted	1,303,294	911,883
Total net assets	151,314,960	143,714,483
Total liabilities and net assets	\$ 155,511,568	\$ 148,594,856

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

THE TOLEDO ZOOLOGICAL SOCIETY

CONSOLIDATED STATEMENTS OF ACTIVITIES

	Year Ended December 31							
	2016				2015			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, gains and other support								
Tax levies	\$ 12,705,151	\$ -	\$ -	\$ 12,705,151	\$ 12,785,015	\$ -	\$ -	\$ 12,785,015
Park operations	8,222,903	-	-	8,222,903	10,033,967	-	-	10,033,967
Admissions	5,821,372	-	-	5,821,372	7,029,944	-	-	7,029,944
Memberships	5,566,405	-	-	5,566,405	5,938,056	-	-	5,938,056
Special events and programs	1,226,041	-	-	1,226,041	1,058,359	-	-	1,058,359
Zoo pals	119,860	-	-	119,860	119,676	-	-	119,676
Net unrealized gains (losses) on investment securities	251,517	107,325	-	358,842	(677,189)	(318,834)	-	(996,023)
Investment income	522,275	267,371	-	789,646	602,103	308,900	-	911,003
Contributions and bequests	896,720	3,877,570	409,341	5,183,631	646,922	854,914	-	1,501,836
Grants and other revenue	30,277	108,116	-	138,393	25,968	1,089,163	-	1,115,131
Change in value of beneficial interest in perpetual trusts	-	-	(17,930)	(17,930)	-	-	(44,293)	(44,293)
Net assets released from restriction	1,674,530	(1,674,530)	-	-	1,916,006	(1,916,006)	-	-
Total revenues, gains and other support	37,037,051	2,685,852	391,411	40,114,314	39,478,827	18,137	(44,293)	39,452,671
Expenses								
Animal care and exhibitions	25,922,049	-	-	25,922,049	25,197,459	-	-	25,197,459
Marketing	1,028,795	-	-	1,028,795	1,875,887	-	-	1,875,887
Education	1,366,284	-	-	1,366,284	1,049,900	-	-	1,049,900
Membership services	614,675	-	-	614,675	657,202	-	-	657,202
General and administrative	3,012,353	-	-	3,012,353	2,784,585	-	-	2,784,585
Fundraising	569,681	-	-	569,681	614,459	-	-	614,459
Total expenses	32,513,837	-	-	32,513,837	32,179,492	-	-	32,179,492
Changes in net assets	4,523,214	2,685,852	391,411	7,600,477	7,299,335	18,137	(44,293)	7,273,179
Net assets, beginning of year	138,097,050	4,705,550	911,883	143,714,483	130,797,715	4,687,413	956,176	136,441,304
Net assets, end of year	\$ 142,620,264	\$ 7,391,402	\$ 1,303,294	\$ 151,314,960	\$ 138,097,050	\$ 4,705,550	\$ 911,883	\$ 143,714,483

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

THE TOLEDO ZOOLOGICAL SOCIETY

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31	
	2016	2015
Cash flows from operating activities		
Changes in net assets	\$ 7,600,477	\$ 7,273,179
Adjustments to reconcile changes in net assets to net cash provided by operating activities		
Tax levies and contributions designated for capital improvements	(9,159,723)	(6,910,691)
Depreciation	5,382,593	5,264,786
Net unrealized (gains) losses on investment securities	(358,842)	996,023
Net realized gains on investment securities	(419,782)	(438,885)
Amortization of bond origination costs	-	15,500
Contributions of beneficial interest in perpetual trusts	(409,341)	-
Change in value of beneficial interest in perpetual trusts	17,930	44,293
Change in fair value of interest rate swap agreements	-	(33,725)
Loss on disposal of property and equipment	42,275	722
Changes in operating assets and liabilities which provided (used) cash		
Accounts receivable	(59,017)	(56,173)
Inventory	74,640	(101,677)
Prepaid expenses and deposits	18,353	(59,540)
Accounts payable	(339,444)	(343,016)
Accrued payroll, vacation pay and payroll taxes	(344,926)	121,374
Deferred revenue	(317,081)	382,859
Net cash provided by operating activities	1,728,112	6,155,029
Cash flows from investing activities		
Purchases and construction of property and equipment	(4,330,427)	(4,735,324)
Purchases of investment securities	(9,915,303)	(2,931,859)
Sales of investment securities	5,190,712	2,613,497
Proceeds from disposal of property and equipment	6,000	21,809
Net cash used in investing activities	(9,049,018)	(5,031,877)
Cash flows from financing activities		
Bank revolving note payable repayments, net	-	(3,300,000)
Proceeds from tax levies and contributions designated for capital improvements	6,812,851	6,744,135
Repayments of bonds payable	-	(1,840,000)
Contractual payments on charitable gift annuity payable	(2,441)	(2,440)
Net cash provided by financing activities	6,810,410	1,601,695
(Decrease) increase in cash and cash equivalents	(510,496)	2,724,847
Cash and cash equivalents, beginning of year	6,036,458	3,311,611
Cash and cash equivalents, end of year	\$ 5,525,962	\$ 6,036,458
Supplemental disclosures of cash flows information		
Noncash capital financing activity	\$ 320,127	\$ 149,022
Interest paid	\$ 7,094	\$ 63,734

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

THE TOLEDO ZOOLOGICAL SOCIETY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Business

The consolidated financial statements include the accounts of **The Toledo Zoological Society** (the "Society"), the **Toledo Zoological Society Foundation** (the "Foundation") and **TZ Solar, Inc.** ("TZ Solar") (collectively, the "Organization"). All significant inter-organization balances and transactions have been eliminated in these consolidated financial statements.

The Society is a tax-exempt charitable organization. The Society's mission and program, which is functionally reported, is inspiring others to join in caring for animals and conserving the natural world. The Society's support comes primarily from tax levies, park operations, admissions, memberships, contributions from donors and the Foundation and grants.

The Foundation is a nonprofit organization that was formed in 2001 to receive, hold, invest and administer donor-restricted contributions, gifts, and grants from the general public for the benefit of the Society. The Society is the sole member of the Foundation. As the sole member of the Foundation, it has been determined that the Society is able to exercise significant control over the Foundation.

TZ Solar, a wholly-owned subsidiary of the Society, was formed as a "C" Corporation in February 2010 for the construction and operation of a solar array on Society property. The project is funded by a mix of a State of Ohio grant, a federal ITC grant, and cash from the Society. TZ Solar is a "C" Corporation for tax purposes.

Basis of Presentation

In accordance with accounting principles generally accepted in the United States of America ("GAAP"), the Organization reports information regarding its financial position and activities according to three classes of net assets.

Unrestricted: Unrestricted net assets are not restricted by donors, or the donor-imposed restrictions have expired. As described in Note 14, the Foundation's Board of Trustees has designated a portion of the unrestricted net assets as endowment.

Temporarily Restricted: Temporarily restricted net assets contain donor-imposed restrictions that permit the Organization to use or expend the assets as specified. The restrictions are satisfied either by the passage of time or by actions of the Organization, and are reported as reclassifications between the applicable classes of net assets.

Permanently Restricted: Permanently restricted net assets contain donor-imposed restrictions that stipulate the resources be maintained permanently, but permit the Organization to use or expend part or all of the income derived from the donated assets for either specified or unspecified purposes.

THE TOLEDO ZOOLOGICAL SOCIETY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Use of Estimates

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting year. Actual results could differ from those estimates.

Cash and Cash Equivalents

The Organization considers all investment instruments with maturities of three months or less from date of purchase to be cash equivalents.

The Organization maintains its checking and savings accounts at three commercial banks. Balances on deposits are insured by the Federal Deposit Insurance Corporation ("FDIC") up to specified limits; however, balances in excess of FDIC limits are uninsured. Management does not believe the Organization is exposed to any significant interest rate or other financial risk as a result of these deposits.

Fair Value Measurements

Fair value refers to the price that would be received to sell an asset or paid to transfer a liability (an exit price) in an orderly transaction between market participants in the market in which the reporting entity transacts such sales or transfers based on the assumptions market participants would use when pricing an asset or liability. Assumptions are developed based on prioritizing information within a fair value hierarchy that gives the highest priority to quoted prices in active markets (Level 1) and the lowest priority to unobservable data (Level 3).

A description of each category in the fair value hierarchy is as follows:

Level 1: Valuation is based upon quoted prices for identical instruments traded in active markets.

Level 2: Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all-significant assumptions are observable in the market.

Level 3: Valuation is generated from model-based techniques that use at least one significant assumption not observable in the market. These unobservable assumptions reflect the estimates of assumptions that market participants would use in pricing the asset or liability.

For a further discussion of fair value measurements, refer to Note 11 to these consolidated financial statements.

Investment Securities

Investment securities are carried at fair value. Fair value is determined based upon quoted market values, if available, or if not available, estimated amounts are provided by the bank trustee. Investment securities acquired by gift or bequest are recorded at fair value on the date of gift and such amount is considered the cost of the security. Any realized gain or loss on the sale of a security is determined using the cost basis of the security sold. Income from investments, including realized and unrealized gains and losses, is allocated among unrestricted and temporarily restricted net assets based on donor restrictions or the absence thereof.

THE TOLEDO ZOOLOGICAL SOCIETY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Contributions Receivable

Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using the Foundation's risk adjusted rate. Amortization of the discounts is included in contribution revenue. The Organization has concluded that an allowance for doubtful accounts related to balances outstanding at year-end is not necessary. Uncollectible amounts that are still outstanding after management has used reasonable collection efforts are written-off through a charge to bad debts and a credit to contributions receivable.

Conditional promises to give, for various capital projects and programs, are not included as support until the conditions are substantially met. Such promises amounted to approximately \$1,150,000 and \$1,500,000 at December 31, 2016 and 2015, respectively.

Inventory

Inventory is stated at the lower of cost or market with cost determined on the first-in, first-out ("FIFO") basis.

Property and Equipment and Depreciation

The Organization capitalizes major additions to property and equipment at cost or fair value if acquired by gift. Depreciation of property and equipment is provided using the straight-line method based on the estimated useful lives of the individual assets which range from ten to fifty years for land improvements and buildings and structures, and five to twenty years for equipment.

Upon retirement, disposal or abandonment of property and equipment, the related cost and accumulated depreciation are removed from the respective accounts and any gain or loss is reported in the consolidated statements of activities.

Accounting for Impairment of Long-Lived Assets

The Organization reviews its long-lived assets for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. Recoverability of assets held and used is measured by comparing the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. No impairment charges were recognized on long-lived assets during 2016 and 2015.

Beneficial Interest in Perpetual Trusts

The Organization is the income beneficiary of perpetual trusts held and administered by outside fiscal agents. Under the terms of the trusts, the Organization has the irrevocable right to receive the income earned on the trusts' assets in perpetuity, but will never receive the assets held in trust. The present value of the estimated future cash receipts from the trust is recognized as an asset and permanently restricted contributed support at the date the trust is established. Distributions from the trust are recorded as operating investment income, and the carrying value of the assets are adjusted annually for changes in the estimates of future receipts.

THE TOLEDO ZOOLOGICAL SOCIETY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Revenue Recognition

The Organization records appropriations (tax levies from Lucas County), grants and other revenues as earned. In addition, the Organization records as revenue the following types of contributions when they are received unconditionally, at their fair value: cash, promises to give, certain donated services and gifts of long-lived and other assets. Conditional contributions are recognized as revenue when the conditions on which they depend have been substantially met. Substantially all of the Society's grants and appropriations are considered to be exchange transactions for purposes of applying revenue recognition policies. The portion of membership fees considered to be an exchange transaction is deferred and reported as revenue when earned. Revenue from park operations and admissions is recognized at the time of sale.

Animal Collection

Purchases of animals are charged to expense and no value of the animal collection is reported in the consolidated statements of financial position. Additions to these collections acquired other than by purchases, are not assigned a value and are not accounted for in the accounts of the Society.

Advertising Costs

The cost of advertising and public relations are expensed as incurred. The Organization incurred \$1,200,165 and \$1,033,659 in advertising and public relations expense during 2016 and 2015, respectively.

Income Taxes

The Society is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code ("IRC"), except on net income derived from unrelated business activities from the operation of its gift shop, catering and rental of party space, and the Foundation is exempt under Section 501(a) of the IRC. The Society and the Foundation are also exempt from state and local taxes under the laws of the State of Ohio for nonprofit organizations. Accordingly, no provision for federal, state or local income taxes has been recorded in these consolidated financial statements for these entities.

TZ Solar is a "C" Corporation subject to federal, state and local taxation. No provision for federal or state income taxes was required in 2016 or 2015.

The Society, the Foundation and TZ Solar have evaluated uncertain income tax positions and believe there are no such positions of significance at December 31, 2016 and 2015, that are required to be recorded or disclosed in these consolidated financial statements. The Society and the Foundation's federal Exempt Organization Business Income Tax Returns (Forms 990T) and TZ Solar's tax returns for all open tax years (2013 through 2016) remain subject to examination by the Internal Revenue Service, generally for three years after they were filed.

THE TOLEDO ZOOLOGICAL SOCIETY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Subsequent Events

In preparing these consolidated financial statements, the Organization has evaluated, for potential recognition or disclosure, significant events or transactions that occurred during the period subsequent to December 31, 2016, the most recent consolidated statement of financial position presented herein, through April 12, 2017, the date these consolidated financial statements were available to be issued. No significant such events or transactions were identified.

2. INVESTMENT SECURITIES

Investment securities at fair value consisted of the following at December 31:

	2016	2015
Mutual funds		
Equity		
Small cap	\$ 1,126,090	\$ 967,631
Mid cap	1,081,388	970,370
Large cap	6,508,082	6,158,608
International	1,594,521	1,566,680
Fixed income	4,199,181	4,002,420
Real estate	684,586	516,252
Corporate Bonds	<u>4,491,328</u>	<u>-</u>
Total investment securities	<u>\$ 19,685,176</u>	<u>\$ 14,181,961</u>

Gross unrealized gains and losses of investment securities are as follows at December 31:

	2016	2015
Gross unrealized gains	\$ 1,726,251	\$ 1,514,773
Gross unrealized losses	<u>(258,812)</u>	<u>(406,176)</u>
	<u>\$ 1,467,439</u>	<u>\$ 1,108,597</u>

The gross unrealized losses are considered to be temporary.

THE TOLEDO ZOOLOGICAL SOCIETY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Net unrealized gains (losses) of investment securities amounted to \$358,842 in 2016 and \$(996,023) in 2015 and are included in the consolidated statements of activities.

Investment income, including income from cash equivalents, is as follows for the years ended December 31:

	2016	2015
Interest and dividends	\$ 407,066	\$ 509,626
Net realized gains	419,782	438,885
Investment fees	<u>(37,202)</u>	<u>(37,508)</u>
	<u>\$ 789,646</u>	<u>\$ 911,003</u>

3. CONTRIBUTIONS RECEIVABLE

The Organization is undergoing a capital campaign to obtain funds for the Master Plan of which \$3,350,000 is pledged and outstanding as of December 31, 2016. Campaign contributions of \$3,877,570 and \$854,914 were reported for the years ended December 31, 2016 and 2015, respectively, and are presented as temporarily restricted contributions in the consolidated statements of activities. Contributions receivable greater than one year are recognized at present value using a discount rate of 6%.

Contributions receivable, representing unconditional promises to give, are as follows at December 31:

	2016	2015
Gross amount due in		
Less than one year	\$ 610,000	\$ 80,000
One to four years	1,009,231	230,000
Over four years	<u>1,730,769</u>	<u>-</u>
	3,350,000	310,000
Less amount representing discount	<u>721,571</u>	<u>28,443</u>
Present value of promises to give	<u>\$ 2,628,429</u>	<u>\$ 281,557</u>

THE TOLEDO ZOOLOGICAL SOCIETY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4. INVENTORY

Inventory purchased for resale consisted of the following at December 31:

	2016	2015
Gifts and souvenirs	\$ 253,950	\$ 353,367
Concessions	<u>155,406</u>	<u>130,629</u>
Total	<u>\$ 409,356</u>	<u>\$ 483,996</u>

5. BANK REVOLVING NOTE PAYABLE

The Society has available an unsecured \$12,000,000 bank revolving note due June 4, 2017 to be used for capital improvements and operating purposes. Interest at LIBOR plus 1.05% is payable monthly. There were no borrowings under the revolving note at December 31, 2016 and December 31, 2015.

6. TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes at December 31:

	2016	2015
Care of animals	\$ 1,078,434	\$ 991,515
Capital projects	6,043,120	3,470,420
Works progress administration		
buildings maintenance	190,219	176,083
Charitable gift annuities, time restriction	27,282	25,020
Research and collaboration	<u>52,347</u>	<u>42,512</u>
Total	<u>\$ 7,391,402</u>	<u>\$ 4,705,550</u>

The net assets released from restriction in 2016 and 2015 amounted to \$1,674,530 and \$1,916,006, respectively. Such amounts related primarily to the satisfaction of property and equipment acquisitions.

Permanently restricted net assets consisted of the following at December 31:

	2016	2015
Beneficial interest in perpetual trusts	\$ 842,110	\$ 450,699
General endowment	300,000	300,000
Care of animals endowment	81,184	81,184
Research and collaboration endowment	<u>80,000</u>	<u>80,000</u>
Total	<u>\$ 1,303,294</u>	<u>\$ 911,883</u>

THE TOLEDO ZOOLOGICAL SOCIETY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

7. RETIREMENT PLANS

The Society maintains two defined contribution plans covering salaried and bargaining unit employees. The plans provide for both a basic contribution for all employees as well as matching contributions, up to limits defined in the plans. Retirement expense relating to these plans was \$454,959 in 2016 and \$420,381 in 2015 and is reported in general and administrative expenses.

8. LEVY SUPPORT AND CONCENTRATION

The Society is the recipient of two Lucas County real estate tax levies. One levy, under contractual arrangements with the Board of Lucas County Commissioners, is specifically designated for capital improvements and was passed in November 2015 and will be collected through 2026. The second levy, for current operations, was passed as a renewal levy in November 2016 for five years. The capital improvements levy generated revenue of \$6,812,851 in 2016 and \$6,910,691 in 2015. The operating levy generated revenue of \$5,892,300 in 2016 and \$5,874,324 in 2015. Approximately 32% in both 2016 and 2015 of the Society's consolidated revenues, gains and other support was obtained through Lucas County capital and operating real estate tax levies.

9. DONATED SERVICES

The recorded contributed value of donated services provided by doctors and paramedics to the Society's animals approximated \$31,550 in 2016 and \$64,700 in 2015. Additionally, approximately 66,548 hours in 2016 and 66,480 hours in 2015 were volunteered by non-specialized individuals for which no value has been assigned.

10. FAIR VALUE OF FINANCIAL INSTRUMENTS

The Organization's financial instruments other than investment securities and beneficial interest in perpetual trusts, consist primarily of cash and cash equivalents, receivables, accounts payable and gift annuities. There are no significant differences between the carrying value and fair value of any of these financial instruments.

11. FAIR VALUE MEASUREMENTS

The Organization utilizes fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. Mutual funds, corporate bonds and beneficial interest in perpetual trusts are recorded at fair value on a recurring basis.

THE TOLEDO ZOOLOGICAL SOCIETY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Following is a description of the valuation methodologies and key inputs used to measure financial assets recorded at fair value. The description includes an indication of the level of the fair value hierarchy in which the assets are classified.

The Organization classifies its investments in mutual funds as Level 1 in the fair value hierarchy since the values are based on their quoted prices in active markets.

The Organization classifies its investments in corporate bonds as Level 2 in the fair value hierarchy since the values are based on quoted prices in inactive markets.

The Organization classifies the beneficial interest in perpetual trusts as Level 3 in the fair value hierarchy. The underlying trust assets cannot be liquidated or redeemed by the Organization. As such, no quoted prices or active market are available for these assets. As a practical expedient, the carrying value of the assets is deemed equal to the fair value of the total investments held in the trusts.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Organization believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following tables set forth by level, within the fair value hierarchy, the recorded amount of assets measured at fair value on a recurring basis at December 31:

2016	Assets at Fair Value			
	Level 1	Level 2	Level 3	Total
Assets:				
Mutual funds				
Equity				
Small cap	\$ 1,126,090	\$ -	\$ -	\$ 1,126,090
Mid cap	1,081,388	-	-	1,081,388
Large cap	6,508,082	-	-	6,508,082
International	1,594,521	-	-	1,594,521
Fixed income	4,199,181	-	-	4,199,181
Real estate	684,586	-	-	684,586
Corporate Bonds				
A+	-	1,356,503	-	1,356,503
BBB+	-	1,051,210	-	1,051,210
BBB	-	2,083,615	-	2,083,615
Beneficial interest in perpetual trusts	-	-	842,110	842,110
Total assets at fair value	<u>\$ 15,193,848</u>	<u>\$ 4,491,328</u>	<u>\$ 842,110</u>	<u>\$ 20,527,286</u>

THE TOLEDO ZOOLOGICAL SOCIETY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2015	Assets at Fair Value			
	Level 1	Level 2	Level 3	Total
Assets:				
Mutual funds				
Equity				
Small cap	\$ 967,631	\$ -	\$ -	\$ 967,631
Mid cap	970,370	-	-	970,370
Large cap	6,158,608	-	-	6,158,608
International	1,566,680	-	-	1,566,680
Fixed income	4,002,420	-	-	4,002,420
Real estate	516,252	-	-	516,252
Beneficial interest in perpetual trusts	-	-	450,699	450,699
Total assets at fair value	<u>\$ 14,181,961</u>	<u>\$ -</u>	<u>\$ 450,699</u>	<u>\$ 14,632,660</u>

The table below sets forth a summary of changes in the fair value of the Society's Level 3 assets, consisting of the perpetual trust agreements, for the years ended December 31:

	2016	2015
Balance, January 1	\$ 450,699	\$ 494,992
Contributions and bequests	409,341	-
Unrealized losses relating to instruments held at the reporting date	(64,839)	(69,432)
Income	46,909	25,139
Balance, December 31	<u>\$ 842,110</u>	<u>\$ 450,699</u>

12. PROPERTY AND EQUIPMENT COMMITMENT

Construction in progress at December 31, 2016, relates to costs incurred with respect to various projects approved by the Board of Directors of the Society. Such projects relate to the Adventure Trail, Giraffe Feeding Deck, and major maintenance and repair projects. Such projects are estimated to cost an additional \$33,550,000 and will be completed over the following 10 years. Funding for these projects will be from a capital campaign, capital improvements tax levy, bank revolving note and general operations.

13. LEASE

The Company leases a parking lot from an unrelated entity. Semi-annual lease payments under this lease, which expires October 30, 2017, are \$12,500. Total rent expense amounted to \$25,000 in both 2016 and 2015. The final two payments under this lease are due in 2017.

THE TOLEDO ZOOLOGICAL SOCIETY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

14. ENDOWMENTS

The Organization's endowments consist of 5 funds established for the benefit of the Society. Its endowments consist of both donor-restricted endowment funds and funds designated by the Boards of Directors ("Boards") to function as endowments. As required by GAAP, net assets associated with endowment funds, including funds designated by the Boards to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The Boards of the Organization have interpreted the State of Ohio's Uniform Prudent Management of Institutional Funds Act ("UPMIFA") 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. Consequently, the Organization classifies permanently restricted net assets as:

- The original value of gifts donated to the permanent endowment.
- The original value of subsequent gifts to the permanent endowment.

The remaining portion of the donor-restricted endowment fund not classified as permanently restricted is classified as temporarily restricted net assets until those amounts are appropriated for expenditure. In accordance with UPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. The duration and preservation of the fund.
2. The purpose of the Organization and the donor-restricted endowment fund.
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 Organization.
7. The investment policies of the Organization.

Return Objectives and Risk Parameters

The Organization has adopted an investment policy for endowment assets that attempts to manage fund assets according to prudent standards as established in common trust law. Investment of the funds will be so diversified as to minimize the risk of large losses, unless under the circumstances it is clearly prudent not to do so. The intent is for investments to be broadly diversified so as to participate in market growth. It is not the intent to dramatically allocate among asset classes in an attempt to "time" the markets.

Distribution Policy

The Foundation has adopted a Statement of Distribution Policy ("Distribution Policy") to provide financial support to the Society as may be determined from time to time by the Board of Directors of the Foundation. The Distribution Policy is also designed to provide endowment protection and future growth to ensure the perpetuity of the funding of the Foundation.

It is the policy of the Foundation to make a distribution up to 5% of the previous three-year moving average market value of the Foundation, or a particular endowment, using the fund balances as of June 30 of each year.

THE TOLEDO ZOOLOGICAL SOCIETY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Strategies Employed for Achieving Objectives

In order to meet its needs, the investment strategy of the Organization is to emphasize total return; that is the aggregate return from realized and unrealized capital gains and losses and dividends and interest income.

Endowment Net Asset Composition by Type of Fund as of December 31, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor restricted	\$ -	\$ 122,236	\$ 461,184	\$ 583,420
Board-designated	<u>11,396,093</u>	<u>-</u>	<u>-</u>	<u>11,396,093</u>
Total funds	<u>\$ 11,396,093</u>	<u>\$ 122,236</u>	<u>\$ 461,184</u>	<u>\$ 11,979,513</u>

Changes in Endowment Assets for the Year Ended December 31, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 10,870,251	\$ 101,102	\$ 461,184	\$ 11,432,537
Investment return:				
Investment income	544,566	15,621	-	560,187
Net appreciation	<u>257,707</u>	<u>6,270</u>	<u>-</u>	<u>263,977</u>
Total investment return	802,273	21,891	-	824,164
Appropriation of endowment assets for expenditure	<u>(276,431)</u>	<u>(756)</u>	<u>-</u>	<u>(277,187)</u>
Endowment net assets, end of year	<u>\$ 11,396,093</u>	<u>\$ 122,236</u>	<u>\$ 461,184</u>	<u>\$ 11,979,513</u>

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor restricted	\$ -	\$ 101,102	\$ 461,184	\$ 562,286
Board-designated	<u>10,870,251</u>	<u>-</u>	<u>-</u>	<u>10,870,251</u>
Total funds	<u>\$ 10,870,251</u>	<u>\$ 101,102</u>	<u>\$ 461,184</u>	<u>\$ 11,432,537</u>

THE TOLEDO ZOOLOGICAL SOCIETY

■ NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Changes in Endowment Assets for the Year Ended December 31, 2015

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 11,241,127	\$ 102,432	\$ 461,184	\$ 11,804,743
Investment return:				
Investment income	637,753	18,037	-	655,893
Net depreciation	<u>(677,928)</u>	<u>(18,617)</u>	<u>-</u>	<u>(696,648)</u>
Total investment loss	(40,175)	(580)	-	(40,755)
Appropriation of endowment assets for expenditure	<u>(330,701)</u>	<u>(750)</u>	<u>-</u>	<u>(331,451)</u>
Endowment net assets, end of year	<u>\$ 10,870,251</u>	<u>\$ 101,102</u>	<u>\$ 461,184</u>	<u>\$ 11,432,537</u>

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**INDEPENDENT AUDITORS' REPORT
ON SUPPLEMENTARY INFORMATION**

April 12, 2017

Board of Directors
The Toledo Zoological Society
Toledo, Ohio

We have audited the consolidated financial statements of **The Toledo Zoological Society** as of and for the years ended December 31, 2016 and 2015, and have issued our report thereon dated April 12, 2017, which expressed an unmodified opinion on those consolidated financial statements. Our audits were performed for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary information as listed in the table of contents, which is the responsibility of management, is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information has not been subjected to the auditing procedures applied in our audits of the consolidated financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

A handwritten signature in black ink that reads "Rehmann Robson LLC".

SUPPLEMENTARY INFORMATION

THE TOLEDO ZOOLOGICAL SOCIETY

■ CONSOLIDATED SCHEDULES OF PARK OPERATIONS

	Year Ended December 31	
	2016	2015
Park operations revenue		
Concession stands	\$ 2,906,341	\$ 3,684,859
Picnics and catered events	1,173,477	1,345,664
Gift and souvenir sales, including stroller revenue	2,477,659	3,115,877
Parking lot revenue	730,418	872,746
Ride revenue	713,178	774,172
Facility rental	180,991	200,526
Tours	40,839	40,123
Total park operations revenue	8,222,903	10,033,967
Cost of food, beverages and merchandise	<u>2,228,026</u>	<u>2,846,377</u>
Park operations gross profit	<u>\$ 5,994,877</u>	<u>\$ 7,187,590</u>

See independent auditors' report on supplementary information.

THE TOLEDO ZOOLOGICAL SOCIETY

CONSOLIDATED SCHEDULES OF EXPENSES

	Year Ended December 31	
	2016	2015
Salaries and wages		
Full-time	\$ 9,749,292	\$ 9,197,173
Seasonal	3,625,754	3,573,969
Fringe benefits	2,482,580	2,473,987
Depreciation	5,382,593	5,264,786
Cost of food, beverages and merchandise	2,228,026	2,846,377
Utilities		
Electric	957,761	824,901
Gas	156,565	242,163
Water	639,544	485,133
Telephone	36,582	36,600
Interest and related fees	7,094	71,061
Change in fair value of interest rate swaps	-	(33,725)
Professional, marketing and other services	224,502	105,917
Contracted services	614,776	668,034
Exhibit food and nutrients	521,184	546,056
Advertising and public relations	1,200,165	1,033,659
Repairs and maintenance	771,885	895,534
Operating supplies	1,120,745	1,194,007
Insurance, licenses and taxes	504,770	421,268
Processing fees	597,161	634,938
Printing	159,007	171,552
Postage	198,500	181,811
Grants	258,775	255,520
Small equipment	442,200	464,592
Special events and promotions	189,637	207,712
Continuing education	5,397	6,653
Exhibit display and repair	26,302	38,374
Travel and entertainment	155,780	123,345
Live animal purchases	90,442	138,598
Dues	93,964	69,229
Rent	25,000	25,000
Loss on disposal of property and equipment	42,275	722
Other	5,579	14,546
Total expenses	\$ 32,513,837	\$ 32,179,492

See independent auditors' report on supplementary information.

THE TOLEDO ZOOLOGICAL SOCIETY

CONSOLIDATING STATEMENT OF FINANCIAL POSITION DECEMBER 31, 2016

	Toledo Zoological Society	Toledo Zoological Society Foundation	TZ Solar, Inc.	Eliminations	Total
ASSETS					
Assets					
Cash and cash equivalents	\$ 4,428,842	\$ 1,058,572	\$ 38,548	\$ -	\$ 5,525,962
Intercompany receivable	1,122,141	71,023	-	(1,193,164)	-
Contributions receivable	-	2,628,429	-	-	2,628,429
Accounts receivable	306,160	-	3,636	-	309,796
Inventory	409,356	-	-	-	409,356
Prepaid expenses and deposits	298,177	8,598	-	-	306,775
Investment securities	6,290,799	13,394,377	-	-	19,685,176
Beneficial interest in perpetual trusts	737,768	104,342	-	-	842,110
Property and equipment					
Land and improvements	15,852,891	-	-	-	15,852,891
Buildings and structures	171,249,527	-	-	-	171,249,527
Equipment	11,036,356	-	1,422,994	-	12,459,350
Construction in progress	2,616,178	-	-	-	2,616,178
	200,754,952	-	1,422,994	-	202,177,946
Less accumulated depreciation	76,025,268	-	348,714	-	76,373,982
Net property and equipment	124,729,684	-	1,074,280	-	125,803,964
Total assets	\$ 138,322,927	\$ 17,265,341	\$ 1,116,464	\$ (1,193,164)	\$ 155,511,568
LIABILITIES AND NET ASSETS					
Liabilities					
Accounts payable	\$ 1,356,055	\$ 2,234	\$ -	\$ -	\$ 1,358,289
Intercompany payable	71,023	534,166	587,975	(1,193,164)	-
Accrued payroll, vacation pay and payroll taxes	725,098	-	-	-	725,098
Deferred revenue	2,113,221	-	-	-	2,113,221
Total liabilities	4,265,397	536,400	587,975	(1,193,164)	4,196,608
Net assets					
Unrestricted	132,970,341	9,041,434	528,489	80,000	142,620,264
Temporarily restricted	349,421	7,121,981	-	(80,000)	7,391,402
Permanently restricted	737,768	565,526	-	-	1,303,294
Total net assets	134,057,530	16,728,941	528,489	-	151,314,960
Total liabilities and net assets	\$ 138,322,927	\$ 17,265,341	\$ 1,116,464	\$ (1,193,164)	\$ 155,511,568

See independent auditors' report on supplementary information.

THE TOLEDO ZOOLOGICAL SOCIETY

CONSOLIDATING STATEMENT OF ACTIVITIES YEAR ENDED DECEMBER 31, 2016

	Toledo Zoological Society	Toledo Zoological Society Foundation	TZ Solar, Inc.	Eliminations	Total
Unrestricted net assets					
Revenues, gains and other support					
Tax levies	\$ 12,705,151	\$ -	\$ -	\$ -	\$ 12,705,151
Park operations	8,222,903	-	-	-	8,222,903
Admissions	5,821,372	-	-	-	5,821,372
Memberships	5,566,405	-	-	-	5,566,405
Special events and programs	1,226,041	-	-	-	1,226,041
Zoo pals	119,860	-	-	-	119,860
Net unrealized gains on investment securities	49,988	201,529	-	-	251,517
Realized gains on investment securities	-	274,094	-	-	274,094
Investment income	56,868	191,313	-	-	248,181
Contributions and bequests	639,247	257,473	-	-	896,720
Grants and other revenue	1,915,158	-	33,369	(1,918,250)	30,277
Net assets released from restriction	373,330	1,301,200	-	-	1,674,530
Total revenues, gains and other support	36,696,323	2,225,609	33,369	(1,918,250)	37,037,051
Expenses					
Animal care and exhibitions	26,171,893	-	57,800	(307,644)	25,922,049
Marketing	1,028,795	-	-	-	1,028,795
Education	1,366,284	-	-	-	1,366,284
Membership services	614,675	-	-	-	614,675
General and administrative	3,006,108	1,616,851	-	(1,610,606)	3,012,353
Fundraising	569,681	-	-	-	569,681
Total expenses	32,757,436	1,616,851	57,800	(1,918,250)	32,513,837
Changes in unrestricted net assets	3,938,887	608,758	(24,431)	-	4,523,214
Temporarily restricted net assets					
Net unrealized gains on investments securities	-	107,325	-	-	107,325
Realized gains on investment securities	-	145,688	-	-	145,688
Investment income	-	121,683	-	-	121,683
Contributions and bequests	242,440	3,635,130	-	-	3,877,570
Grants and other revenue	108,116	-	-	-	108,116
Net assets released from restriction	(373,330)	(1,301,200)	-	-	(1,674,530)
Changes in temporarily restricted net assets	(22,774)	2,708,626	-	-	2,685,852
Permanently restricted net assets					
Contributions and bequests	294,322	115,019	-	-	409,341
Change in value of beneficial interest in perpetual trusts	(7,253)	(10,677)	-	-	(17,930)
Changes in permanently restricted net assets	287,069	104,342	-	-	391,411
Changes in net assets	4,203,182	3,421,726	(24,431)	-	7,600,477
Net assets, beginning of year	129,854,348	13,307,215	552,920	-	143,714,483
Net assets, end of year	\$134,057,530	\$ 16,728,941	\$ 528,489	\$ -	\$151,314,960

See independent auditors' report on supplementary information.