

The Toledo Zoological Society

Years Ended
December 31,
2015 and 2014

Consolidated
Financial
Statements
and
Supplementary
Information

THE TOLEDO ZOOLOGICAL SOCIETY

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INDEPENDENT AUDITORS' REPORT

April 12, 2016

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, 2015 and 2014, 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, 2015 and 2014, 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.

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

THE TOLEDO ZOOLOGICAL SOCIETY

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

ASSETS	December 31	
	2015	2014
Assets		
Cash and cash equivalents	\$ 6,036,458	\$ 3,311,611
Contributions receivable	281,557	115,001
Accounts receivable	250,779	194,606
Inventory	483,996	382,319
Prepaid expenses and deposits	325,128	265,588
Investment securities	14,181,961	14,420,737
Perpetual trust agreements	450,699	494,992
Property and equipment		
Land and improvements	15,814,570	15,773,912
Buildings and structures	170,457,186	139,520,644
Equipment	10,852,964	10,596,793
Construction in progress	858,130	27,475,244
	197,982,850	193,366,593
Less accumulated depreciation	71,398,572	66,379,344
Net property and equipment	126,584,278	126,987,249
Bond origination costs, net of amortization	-	15,500
Total assets	\$ 148,594,856	\$ 146,187,603
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable	\$ 1,380,047	\$ 1,576,481
Accrued payroll, vacation pay and payroll taxes	1,070,024	948,650
Deferred revenue	2,430,302	2,047,443
Fair value of interest rate swap agreements	-	33,725
Bank revolving note payable	-	3,300,000
Bonds payable	-	1,840,000
Total liabilities	4,880,373	9,746,299
Commitments (Note 13)		
Net assets		
Unrestricted	138,097,050	130,797,715
Temporarily restricted	4,705,550	4,687,413
Permanently restricted	911,883	956,176
Total net assets	143,714,483	136,441,304
Total liabilities and net assets	\$ 148,594,856	\$ 146,187,603

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

THE TOLEDO ZOOLOGICAL SOCIETY

CONSOLIDATED STATEMENTS OF ACTIVITIES

	Year Ended December 31							
	2015				2014			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, gains and other support								
Tax levies	\$ 12,785,015	\$ -	\$ -	\$ 12,785,015	\$ 12,478,793	\$ -	\$ -	\$ 12,478,793
Park operations	10,033,967	-	-	10,033,967	8,213,685	-	-	8,213,685
Admissions	7,029,944	-	-	7,029,944	4,959,350	-	-	4,959,350
Memberships	5,938,056	-	-	5,938,056	4,438,107	-	-	4,438,107
Special events and programs	1,058,359	-	-	1,058,359	976,230	-	-	976,230
Zoo pals	119,676	-	-	119,676	124,734	-	-	124,734
Net unrealized losses on investment securities	(677,189)	(318,834)	-	(996,023)	(539,060)	(222,970)	-	(762,030)
Investment income	602,103	308,900	-	911,003	1,153,519	522,728	-	1,676,247
Contributions and bequests	646,922	854,914	-	1,501,836	609,445	753,127	-	1,362,572
Grants and other revenue	25,968	1,089,163	-	1,115,131	90,589	278,215	-	368,804
Change in value of perpetual trust agreements	-	-	(44,293)	(44,293)	-	-	(727)	(727)
Net assets released from restriction	1,916,006	(1,916,006)	-	-	1,113,889	(1,113,889)	-	-
Total revenues, gains and other support	39,478,827	18,137	(44,293)	39,452,671	33,619,281	217,211	(727)	33,835,765
Expenses								
Animal care and exhibitions	25,197,459	-	-	25,197,459	22,396,106	-	-	22,396,106
Marketing	1,875,887	-	-	1,875,887	1,930,441	-	-	1,930,441
Education	1,049,900	-	-	1,049,900	1,018,525	-	-	1,018,525
Membership services	657,202	-	-	657,202	575,503	-	-	575,503
General and administrative	2,784,585	-	-	2,784,585	2,045,626	-	-	2,045,626
Fundraising	614,459	-	-	614,459	466,602	-	-	466,602
Total expenses	32,179,492	-	-	32,179,492	28,432,803	-	-	28,432,803
Changes in net assets	7,299,335	18,137	(44,293)	7,273,179	5,186,478	217,211	(727)	5,402,962
Net assets, beginning of year	130,797,715	4,687,413	956,176	136,441,304	125,611,237	4,470,202	956,903	131,038,342
Net assets, end of year	\$ 138,097,050	\$ 4,705,550	\$ 911,883	\$ 143,714,483	\$ 130,797,715	\$ 4,687,413	\$ 956,176	\$ 136,441,304

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	
	2015	2014
Cash flows from operating activities		
Changes in net assets	\$ 7,273,179	\$ 5,402,962
Adjustments to reconcile changes in net assets to net cash provided by operating activities		
Tax levies and contributions designated for capital improvements	(6,910,691)	(6,745,083)
Depreciation	5,264,786	4,248,031
Net unrealized losses on investment securities	996,023	762,030
Net realized gains on investment securities	(438,885)	(1,156,697)
Amortization of bond origination costs	15,500	23,250
Change in value of perpetual trust agreements	44,293	727
Change in fair value of interest rate swap agreements	(33,725)	(92,513)
Loss on disposal of property and equipment	722	11,607
Changes in operating assets and liabilities which provided (used) cash		
Accounts receivable	(56,173)	(19,764)
Inventory	(101,677)	(15,382)
Prepaid expenses and deposits	(59,540)	2,414
Accounts payable	(343,016)	69,932
Accrued payroll, vacation pay and payroll taxes	121,374	120,757
Deferred revenue	382,859	101,984
Net cash provided by operating activities	6,155,029	2,714,255
Cash flows from investing activities		
Purchases and construction of property and equipment	(4,735,324)	(14,244,088)
Purchases of investment securities	(2,931,859)	(10,450,378)
Sales of investment securities	2,613,497	12,050,152
Proceeds from disposal of property and equipment	21,809	500
Net cash used in investing activities	(5,031,877)	(12,643,814)
Cash flows from financing activities		
Bank revolving note payable borrowings, net	(3,300,000)	3,300,000
Proceeds from tax levies and contributions designated for capital improvements	6,744,135	6,818,575
Repayments of bonds payable	(1,840,000)	(1,745,000)
Contractual payments on charitable gift annuity payable	(2,440)	(3,901)
Net cash provided by financing activities	1,601,695	8,369,674
Increase (decrease) in cash and cash equivalents	2,724,847	(1,559,885)
Cash and cash equivalents, beginning of year	3,311,611	4,871,496
Cash and cash equivalents, end of year	\$ 6,036,458	\$ 3,311,611
Supplemental disclosures of cash flows information		
Noncash capital financing activity	\$ 149,022	\$ 146,629
Interest paid	\$ 63,734	\$ 143,944

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 15, 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 12 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.

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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.

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 \$1,500,000 and \$915,000 at December 31, 2015 and 2014, respectively.

Inventory

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

Bond Origination Costs

Costs incurred relating to the issuance of long-term bond financing are deferred and amortized on a straight-line method over the term of the related bonds.

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 2015 and 2014.

Perpetual Trust Agreements

The Society's interest in the future income stream of perpetual trust agreements is reported as an asset based on a percentage, representing the Society's beneficial interest in the annual income distribution, of the fair value of the assets of each trust.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Revenue Recognition

The Organization records appropriations (tax levies from Lucas County), grants and earned revenues on an accrual basis. 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.

Interest Rate Swap Agreements

The Society's interest rate swap agreements are considered cash flow hedges and the fair value of the agreements is reflected in these consolidated financial statements. The Organization's objective for entering into the interest rate swap agreements is to mitigate the risk of interest rate changes.

Advertising Costs

The cost of advertising and public relations are expensed as incurred. The Organization incurred \$1,033,659 and \$1,070,637 in advertising and public relations expense during 2015 and 2014, 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 2015 or 2014.

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, 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 (Form 990T) and TZ Solar's tax returns for all open tax years (2012 through 2015) remain subject to examination by the Internal Revenue Service, generally for three years after they were filed.

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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, 2015, the most recent consolidated statement of financial position presented herein, through April 12, 2016, 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:

	2015	2014
Mutual funds		
Equity		
Small cap	\$ 967,631	\$ 446,268
Mid cap	970,370	456,520
Large cap	6,158,608	6,778,350
International	1,566,680	1,611,661
Fixed income	4,002,420	4,448,753
Real estate	<u>516,252</u>	<u>679,185</u>
Total investment securities	<u>\$ 14,181,961</u>	<u>\$ 14,420,737</u>

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

	2015	2014
Gross unrealized gains	\$ 1,514,773	\$ 2,212,854
Gross unrealized losses	<u>(406,176)</u>	<u>(108,234)</u>
	<u>\$ 1,108,597</u>	<u>\$ 2,104,620</u>

The gross unrealized losses are considered to be temporary.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Net unrealized losses of investment securities amounted to \$(996,023) in 2015 and \$(762,030) in 2014 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:

	2015	2014
Interest and dividends	\$ 509,626	\$ 556,748
Net realized gains	438,885	1,156,697
Investment fees	<u>(37,508)</u>	<u>(37,198)</u>
	<u>\$ 911,003</u>	<u>\$ 1,676,247</u>

3. CONTRIBUTIONS RECEIVABLE

During 2008, the Organization began an \$8,000,000 capital campaign to obtain funds for the Master Plan of which \$9,222,572 has been pledged and \$8,912,572 has been collected as of December 31, 2015. Campaign contributions of \$854,914 and \$753,127 were reported for the years ended December 31, 2015 and 2014, 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:

	2015	2014
Gross amount due in		
Less than one year	\$ 80,000	\$ 60,000
One to four years	<u>230,000</u>	<u>60,000</u>
	310,000	120,000
Less amount representing interest	<u>28,443</u>	<u>4,999</u>
Present value of promises to give	<u>\$ 281,557</u>	<u>\$ 115,001</u>

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4. INVENTORY

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

	2015	2014
Gifts and souvenirs	\$ 353,367	\$ 259,096
Concessions	<u>130,629</u>	<u>123,223</u>
Total	<u>\$ 483,996</u>	<u>\$ 382,319</u>

5. BANK REVOLVING NOTE PAYABLE

The Society has available an unsecured \$12,000,000 bank revolving note due June 4, 2016 to be used for capital improvements and operating purposes. Interest at LIBOR plus 1.05% (effective rate of 1.3% at December 31, 2015) is payable monthly. There were no borrowings under the revolving note at December 31, 2015. Outstanding borrowings under the revolving note were \$3,300,000 at December 31, 2014. The interest rate on the unused commitment is 0.125%.

6. BONDS PAYABLE

On January 1, 2010, the Society issued \$9,565,000 in County of Lucas, Ohio Multi-Mode Variable Rate Demand Facilities Refunding Revenue Bonds, Series 2010 to refund the County of Lucas, Ohio Multi-Mode Variable Rate Demand Facilities Improvement Bonds, amended Series 2002. The proceeds from the Series 2002 Bonds were loaned by Lucas County to the Society to meet the needs of the Society's ten-year master plan which involved extensive expansion of the existing facilities. The cost of the plan was financed through a capital improvements tax levy (as described in Note 9), contributions from the general public and general operations.

The Series 2010 Bonds were issued pursuant to a loan agreement between the County of Lucas and the Society and are subject to a trust indenture between County of Lucas, the issuer, and Bank of New York Mellon Trust Company, trustee. The Bonds mature October 1, 2021, with interest payable monthly, under one of the following options: a weekly rate, a semi-annual rate, a long-term rate for a period of one year or more, or Adjusted LIBOR. The Society paid interest at the Adjusted LIBOR. The Bonds were paid in full in 2015.

On June 9, 2005, the Society and KeyBank National Association entered into an interest rate swap agreement for the amended Series 2002 Bonds. The swap agreement was amended in connection with Series 2010 Bonds, effective January 1, 2010, and established a fixed interest rate of 3.86% to the Society for a portion of the Bonds. The initial balance subject to the rate swap agreement was \$6,500,000 (\$920,000 at December 31, 2014). Rate swap interest incurred under this agreement amounted to approximately \$52,000 of expense in 2014, and was included in total interest cost incurred, as described below. The Bonds were paid in full in 2015.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

On June 24, 2005, the Society and Fifth Third Bank entered into a similar interest rate swap agreement for the amended Series 2002 Bonds. The swap agreement has been amended in connection with Series 2010 Bonds, effective January 1, 2010, and established a fixed interest rate of 3.08% to the Society for a portion of the Bonds. The initial balance subject to the rate swap agreement was \$6,500,000 (\$920,000 at December 31, 2014). The swap agreement had been maintained in connection with Series 2010 Bonds. Rate swap interest incurred under this agreement amounted to approximately \$42,000 of expense in 2014, and was included with total interest cost incurred, as described below. As noted above, the Bonds were paid in full in 2015.

In connection with accounting for the interest rate swap agreements, a decrease of \$33,725 in 2015 and \$92,513 in 2014 of the liability for the fair value of the interest rate swap agreements was recorded and is reported as a change in value of interest rate swaps in general and administrative expenses.

Interest expense and related fees amounted to \$71,061 in 2015 and \$159,740 in 2014.

7. TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS

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

	2015	2014
Care of animals	\$ 991,515	\$ 996,981
Capital projects	3,470,420	3,445,149
Works progress administration		
buildings maintenance	176,083	176,973
Charitable gift annuities, time restriction	25,020	25,180
Research and collaboration	<u>42,512</u>	<u>43,130</u>
Total	<u>\$ 4,705,550</u>	<u>\$ 4,687,413</u>

The net assets released from restriction in 2015 and 2014 amounted to \$1,916,006 and \$1,113,889, respectively. Such amounts related primarily to the satisfaction of property and equipment acquisitions.

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

	2015	2014
Perpetual trust agreements	\$ 450,699	\$ 494,992
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>\$ 911,883</u>	<u>\$ 956,176</u>

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

8. 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 \$420,381 in 2015 and \$406,781 in 2014 and is reported in general and administrative expenses.

9. 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 replacement levy in November 2011 for five years. The capital improvements levy generated revenue of \$6,910,691 in 2015 and \$6,745,083 in 2014. The operating levy generated revenue of \$5,874,324 in 2015 and \$5,733,710 in 2014. Approximately 32% in 2015 and 37% in 2014 of the Society's consolidated revenues, gains and other support was obtained through Lucas County capital and operating real estate tax levies.

10. DONATED SERVICES

The recorded contributed value of donated services provided by doctors and paramedics to the Society's animals approximated \$64,700 in 2015 and \$40,000 in 2014. Additionally, approximately 66,480 hours in 2015 and 63,500 hours in 2014 were volunteered by non-specialized individuals for which no value has been assigned.

11. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

12. 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, perpetual trust agreements, and the interest rate swap agreements are recorded at fair value on a recurring basis. Additionally, from time to time, the Organization may be required to record at fair value other assets on a nonrecurring basis, such as non-marketable equity securities and other long lived assets. These nonrecurring fair value adjustments typically involve the application of estimated fair value accounting of write downs of individual assets.

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 and liabilities recorded at fair value. The description includes an indication of the level of the fair value hierarchy in which the assets and liabilities 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 the fair value of the interest rate swap agreements as Level 2 in the fair value hierarchy. The fair value of the interest rate swap agreements was estimated by a third party using a model that builds a yield curve from market data for actively traded securities at various times and maturities and takes into account current interest rates and the current credit worthiness of the respective counterparties.

The Organization classifies the perpetual trust agreements 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 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 and liabilities measured at fair value on a recurring basis at December 31:

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
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 TOLEDO ZOOLOGICAL SOCIETY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2014	Assets and Liabilities at Fair Value			
	Level 1	Level 2	Level 3	Total
Assets:				
Mutual funds				
Equity				
Small cap	\$ 446,268	\$ -	\$ -	\$ 446,268
Mid cap	456,520	-	-	456,520
Large cap	6,778,350	-	-	6,778,350
International	1,611,661	-	-	1,611,661
Fixed income	4,448,753	-	-	4,448,753
Real estate	679,185	-	-	679,185
Perpetual trusts	-	-	494,992	494,992
Total assets at fair value	\$ 14,420,737	\$ -	\$ 494,992	\$ 14,915,729
Liabilities:				
Interest rate swap agreements	\$ -	\$ 33,725	\$ -	\$ 33,725

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:

	2015	2014
Balance, January 1	\$ 494,992	\$ 495,719
Unrealized losses relating to instruments held at the reporting date	(69,432)	(24,903)
Income	25,139	24,176
Balance, December 31	\$ 450,699	\$ 494,992

13. PROPERTY AND EQUIPMENT COMMITMENT

Construction in progress at December 31, 2015, 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 \$2,500,000 and will be completed during the following year. Funding for these projects will be from a capital campaign, capital improvements tax levy, bank revolving note and general operations.

14. LEASE

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

THE TOLEDO ZOOLOGICAL SOCIETY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

15. 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, 2015

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

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	(677,928)	(18,617)	-	(696,648)
Total investment loss	(40,175)	(580)	-	(40,755)
Appropriation of endowment assets for expenditure	(330,701)	(750)	-	(331,451)
Endowment net assets, end of year	<u>\$ 10,870,251</u>	<u>\$ 101,102</u>	<u>\$ 461,184</u>	<u>\$ 11,432,537</u>

Endowment Net Asset Composition by Type of Fund as of December 31, 2014

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor restricted	\$ -	\$ 102,432	\$ 461,184	\$ 563,616
Board-designated	11,241,127	-	-	11,241,127
Total funds	<u>\$ 11,241,127</u>	<u>\$ 102,432</u>	<u>\$ 461,184</u>	<u>\$ 11,804,743</u>

THE TOLEDO ZOOLOGICAL SOCIETY

■ NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Changes in Endowment Assets for the Year Ended December 31, 2014

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 10,644,217	\$ 85,672	\$ 461,184	\$ 11,191,073
Investment return:				
Investment income	1,189,040	30,499	-	1,219,539
Net depreciation	<u>(538,868)</u>	<u>(13,015)</u>	<u>-</u>	<u>(551,883)</u>
Total investment return	650,172	17,484	-	667,656
Appropriation of endowment assets for expenditure	<u>(53,262)</u>	<u>(724)</u>	<u>-</u>	<u>(53,986)</u>
Endowment net assets, end of year	<u>\$ 11,241,127</u>	<u>\$ 102,432</u>	<u>\$ 461,184</u>	<u>\$ 11,804,743</u>

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**INDEPENDENT AUDITORS' REPORT
ON SUPPLEMENTARY INFORMATION**

April 12, 2016

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, 2015 and 2014, and have issued our report thereon dated April 12, 2016, 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	
	2015	2014
Park operations revenue		
Concession stands	\$ 3,684,859	\$ 2,891,929
Picnics and catered events	1,345,664	1,249,629
Gift and souvenir sales, including stroller revenue	3,115,877	2,333,368
Parking lot revenue	872,746	737,151
Ride revenue	774,172	805,753
Facility rental	200,526	170,034
Tours	40,123	25,821
	<u>10,033,967</u>	<u>8,213,685</u>
Total park operations revenue	10,033,967	8,213,685
Cost of food, beverages and merchandise	<u>2,846,377</u>	<u>2,277,331</u>
Park operations gross profit	<u>\$ 7,187,590</u>	<u>\$ 5,936,354</u>

See independent auditors' report on supplementary information.

THE TOLEDO ZOOLOGICAL SOCIETY

CONSOLIDATED SCHEDULES OF EXPENSES

	Year Ended December 31	
	2015	2014
Salaries and wages		
Full-time	\$ 9,197,173	\$ 8,596,384
Seasonal	3,573,969	3,179,270
Fringe benefits	2,473,987	2,303,833
Depreciation	5,264,786	4,248,031
Cost of food, beverages and merchandise	2,846,377	2,277,331
Utilities		
Electric	824,901	837,787
Gas	242,163	345,110
Water	485,133	529,885
Telephone	36,600	31,681
Interest and related fees	71,061	159,740
Change in fair value of interest rate swaps	(33,725)	(92,513)
Professional, marketing and other services	105,917	124,362
Contracted services	668,034	571,155
Exhibit food and nutrients	546,056	451,256
Advertising and public relations	1,033,659	1,070,637
Repairs and maintenance	895,534	588,246
Operating supplies	1,194,007	915,677
Insurance, licenses and taxes	421,268	359,361
Processing fees	634,938	488,189
Printing	171,552	163,863
Postage	181,811	160,949
Grants	255,520	195,222
Small equipment	464,592	385,767
Special events and promotions	207,712	201,879
Continuing education	6,653	4,867
Exhibit display and repair	38,374	27,850
Travel and entertainment	123,345	81,021
Live animal purchases	138,598	173,107
Dues	69,229	43,745
Rent	25,000	-
Loss on disposal of property and equipment	722	11,607
Other	14,546	(2,496)
Total expenses	\$ 32,179,492	\$ 28,432,803

See independent auditors' report on supplementary information.

THE TOLEDO ZOOLOGICAL SOCIETY

CONSOLIDATING STATEMENT OF FINANCIAL POSITION DECEMBER 31, 2015

	Toledo Zoological Society	Toledo Zoological Society Foundation	TZ Solar, Inc.	Eliminations	Total
ASSETS					
Assets					
Cash and cash equivalents	\$ 5,464,194	\$ 553,685	\$ 18,579	\$ -	\$ 6,036,458
Intercompany receivable	684,789	29,421	-	(714,210)	-
Contributions receivable	-	281,557	-	-	281,557
Accounts receivable	228,743	-	22,036	-	250,779
Inventory	483,996	-	-	-	483,996
Prepaid expenses and deposits	317,235	7,893	-	-	325,128
Investment securities	1,676,969	12,504,992	-	-	14,181,961
Perpetual trust agreements	450,699	-	-	-	450,699
Property and equipment					
Land and improvements	15,814,570	-	-	-	15,814,570
Buildings and structures	170,457,186	-	-	-	170,457,186
Equipment	9,429,970	-	1,422,994	-	10,852,964
Construction in progress	858,130	-	-	-	858,130
	196,559,856	-	1,422,994	-	197,982,850
Less accumulated depreciation	71,106,858	-	291,714	-	71,398,572
Net property and equipment	125,452,998	-	1,131,280	-	126,584,278
Total assets	\$ 134,759,623	\$13,377,548	\$ 1,171,895	\$ (714,210)	\$ 148,594,856
LIABILITIES AND NET ASSETS					
Liabilities					
Accounts payable	\$ 1,375,528	\$ 4,519	\$ -	\$ -	\$ 1,380,047
Intercompany payable	29,421	65,814	618,975	(714,210)	-
Accrued payroll, vacation pay and payroll taxes	1,070,024	-	-	-	1,070,024
Deferred revenue	2,430,302	-	-	-	2,430,302
Total liabilities	4,905,275	70,333	618,975	(714,210)	4,880,373
Net assets					
Unrestricted	129,031,454	8,432,676	552,920	80,000	138,097,050
Temporarily restricted	372,195	4,413,355	-	(80,000)	4,705,550
Permanently restricted	450,699	461,184	-	-	911,883
Total net assets	129,854,348	13,307,215	552,920	-	143,714,483
Total liabilities and net assets	\$ 134,759,623	\$13,377,548	\$ 1,171,895	\$ (714,210)	\$ 148,594,856

See independent auditors' report on supplementary information.

THE TOLEDO ZOOLOGICAL SOCIETY

CONSOLIDATING STATEMENT OF ACTIVITIES YEAR ENDED DECEMBER 31, 2015

	Toledo Zoological Society	Toledo Zoological Society Foundation	TZ Solar, Inc.	Eliminations	Total
Unrestricted net assets					
Revenues, gains and other support					
Tax levies	\$ 12,785,015	\$ -	\$ -	\$ -	\$ 12,785,015
Park operations	10,033,967	-	-	-	10,033,967
Admissions	7,029,944	-	-	-	7,029,944
Memberships	5,938,056	-	-	-	5,938,056
Special events and programs	1,058,359	-	-	-	1,058,359
Zoo pals	119,676	-	-	-	119,676
Net unrealized losses on investment securities	(61,444)	(615,745)	-	-	(677,189)
Realized gains on investment securities	-	289,603	-	-	289,603
Investment income	46,272	266,228	-	-	312,500
Contributions and bequests	574,732	72,190	-	-	646,922
Grants and other revenue	1,244,700	-	32,998	(1,251,730)	25,968
Net assets released from restriction	1,385,099	530,907	-	-	1,916,006
Total revenues, gains and other support	40,154,376	543,183	32,998	(1,251,730)	39,478,827
Expenses					
Animal care and exhibitions	25,446,988	-	57,744	(307,273)	25,197,459
Marketing	1,875,887	-	-	-	1,875,887
Education	1,049,900	-	-	-	1,049,900
Membership services	657,202	-	-	-	657,202
General and administrative	2,780,580	948,462	-	(944,457)	2,784,585
Fundraising	614,459	-	-	-	614,459
Total expenses	32,425,016	948,462	57,744	(1,251,730)	32,179,492
Changes in unrestricted net assets	7,729,360	(405,279)	(24,746)	-	7,299,335
Temporarily restricted net assets					
Net unrealized losses on investments securities	-	(318,834)	-	-	(318,834)
Realized gains on investment securities	-	149,282	-	-	149,282
Investment income	-	159,618	-	-	159,618
Contributions and bequests	170,286	684,628	-	-	854,914
Grants and other revenue	1,089,163	-	-	-	1,089,163
Net assets released from restriction	(1,385,099)	(530,907)	-	-	(1,916,006)
Changes in temporarily restricted net assets	(125,650)	143,787	-	-	18,137
Permanently restricted net assets					
Change in value of perpetual trust agreements	(44,293)	-	-	-	(44,293)
Changes in net assets	7,559,417	(261,492)	(24,746)	-	7,273,179
Net assets, beginning of year	122,294,931	13,568,707	577,666	-	136,441,304
Net assets, end of year	\$129,854,348	\$ 13,307,215	\$ 552,920	\$ -	\$143,714,483

See independent auditors' report on supplementary information.