

MINNESOTA ZOO FOUNDATION

Apple Valley, Minnesota

FINANCIAL STATEMENTS

Including Independent Auditors' Report

As of and for the Years Ended June 30, 2016 and 2015

MINNESOTA ZOO FOUNDATION

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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
Minnesota Zoo Foundation
Apple Valley, Minnesota

We have audited the accompanying financial statements of Minnesota Zoo Foundation (the "Foundation"), which comprise the statements of financial position as of June 30, 2016 and 2015, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Minnesota Zoo Foundation as of June 30, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Baker Tilly Virchow Krause, LLP

Minneapolis, Minnesota
February 10, 2017

MINNESOTA ZOO FOUNDATION

STATEMENTS OF FINANCIAL POSITION
As of June 30, 2016 and 2015

	ASSETS	
	<u>2016</u>	<u>2015</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 890,495	\$ 925,301
Contributions receivable	317,832	840,463
Prepaid expenses and other	<u>22,632</u>	<u>16,299</u>
Total Current Assets	1,230,959	1,782,063
NON CURRENT ASSETS		
Contributions receivable	93,631	225,266
Investments	1,200,961	1,169,291
Beneficial interest in perpetual trust	<u>1,252,577</u>	<u>1,267,499</u>
TOTAL ASSETS	<u>\$ 3,778,128</u>	<u>\$ 4,444,119</u>
	LIABILITIES AND NET ASSETS	
CURRENT LIABILITIES		
Accounts payable	\$ 25,908	\$ 82,287
Accrued vacation and other liabilities	<u>71,998</u>	<u>88,357</u>
Total Current Liabilities	97,906	170,644
NON CURRENT LIABILITIES		
Charitable gift annuity	<u>59,568</u>	<u>49,902</u>
Total Liabilities	<u>157,474</u>	<u>220,546</u>
NET ASSETS		
Unrestricted		
Undesignated	438,865	696,696
Board designated	<u>250,000</u>	<u>250,000</u>
Total unrestricted	688,865	946,696
Temporarily restricted	933,117	1,298,078
Permanently restricted	<u>1,998,672</u>	<u>1,978,799</u>
Total Net Assets	<u>3,620,654</u>	<u>4,223,573</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 3,778,128</u>	<u>\$ 4,444,119</u>

See accompanying notes to financial statements.

MINNESOTA ZOO FOUNDATION

STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2016
(with comparative totals for 2015)

	2016				2015
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
SUPPORT AND REVENUE					
Contributions and grants	\$ 1,431,328	\$ 1,104,455	\$ 12,582	\$ 2,548,365	\$ 4,113,586
In-kind contributions	57,283	-	-	57,283	112,940
Special events, net of donor benefit of \$102,803 and \$130,301 for 2016 and 2015, respectively	338,549	259,406	22,213	620,168	628,024
Investment return	2,175	66,672	-	68,847	91,309
Change in beneficial interest in trust	-	-	(14,922)	(14,922)	(90,282)
Other income	55	-	-	55	-
Net assets released from restrictions					
Satisfaction of capital restrictions	293,405	(293,405)	-	-	-
Satisfaction of program restrictions	1,473,606	(1,473,606)	-	-	-
Satisfaction of time restrictions	28,483	(28,483)	-	-	-
Total Support and Revenue	3,624,884	(364,961)	19,873	3,279,796	4,855,577
EXPENSE					
Program services	2,793,750	-	-	2,793,750	4,125,165
Support services					
Management and general	710,351	-	-	710,351	753,261
Fundraising	378,614	-	-	378,614	340,749
Total support services	1,088,965	-	-	1,088,965	1,094,010
Total Expense	3,882,715	-	-	3,882,715	5,219,175
CHANGE IN NET ASSETS	(257,831)	(364,961)	19,873	(602,919)	(363,598)
Net Assets - Beginning of Year	946,696	1,298,078	1,978,799	4,223,573	4,587,171
NET ASSETS - END OF YEAR	<u>\$ 688,865</u>	<u>\$ 933,117</u>	<u>\$ 1,998,672</u>	<u>\$ 3,620,654</u>	<u>\$ 4,223,573</u>

See accompanying notes to financial statements.

MINNESOTA ZOO FOUNDATION

STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2015

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
SUPPORT AND REVENUE				
Contributions and grants	\$ 1,599,626	\$ 2,502,129	\$ 11,831	\$ 4,113,586
In-kind contributions	112,940	-	-	112,940
Special events, net of donor benefit of \$130,301	315,148	287,029	25,847	628,024
Investment return	3,898	87,411	-	91,309
Change in beneficial interest in trust	-	-	(90,282)	(90,282)
Net assets released from restrictions				
Satisfaction of capital restrictions	1,173,816	(1,173,816)	-	-
Satisfaction of program restrictions	2,050,182	(2,050,182)	-	-
Satisfaction of time restrictions	93,854	(93,854)	-	-
Total Support and Revenue	<u>5,349,464</u>	<u>(441,283)</u>	<u>(52,604)</u>	<u>4,855,577</u>
EXPENSE				
Program services	4,125,165	-	-	4,125,165
Support services				
Management and general	753,261	-	-	753,261
Fundraising	340,749	-	-	340,749
Total support services	<u>1,094,010</u>	<u>-</u>	<u>-</u>	<u>1,094,010</u>
Total Expense	<u>5,219,175</u>	<u>-</u>	<u>-</u>	<u>5,219,175</u>
CHANGE IN NET ASSETS	130,289	(441,283)	(52,604)	(363,598)
Net Assets - Beginning of Year	<u>816,407</u>	<u>1,739,361</u>	<u>2,031,403</u>	<u>4,587,171</u>
NET ASSETS - END OF YEAR	<u>\$ 946,696</u>	<u>\$ 1,298,078</u>	<u>\$ 1,978,799</u>	<u>\$ 4,223,573</u>

See accompanying notes to financial statements.

MINNESOTA ZOO FOUNDATION

STATEMENTS OF FUNCTIONAL EXPENSES
For the Years Ended June 30, 2016 and 2015

	2016					2015				
	Total Program Services	Support Services			Total Expenses	Total Program Services	Support Services			Total Expenses
		Management and General	Fundraising	Total Support Services			Management and General	Fundraising	Total Support Services	
Zoo Program distributions - unrestricted	\$ 490,099	\$ -	\$ -	\$ -	\$ 490,099	\$ 703,409	\$ -	\$ -	\$ -	\$ 703,409
Zoo Program distributions - restricted	1,752,194	-	-	-	1,752,194	2,876,494	-	-	-	2,876,494
Personnel costs	216,685	588,214	135,539	723,753	940,438	136,361	625,914	122,035	747,949	884,310
Other grants	205,419	-	-	-	205,419	271,687	-	-	-	271,687
Contract and professional services	70,132	38,871	24,396	63,267	133,399	67,639	35,868	10,494	46,362	114,001
Supplies, printing and postage	26,836	15,845	91,186	107,031	133,867	12,982	13,370	110,714	124,084	137,066
Special events	17,624	-	88,196	88,196	105,820	42,887	-	67,142	67,142	110,029
Rent	2,923	13,819	3,184	17,003	19,926	3,073	14,104	2,750	16,854	19,927
Miscellaneous	9,043	13,687	13,345	27,032	36,075	7,102	14,846	5,507	20,353	27,455
Donor cultivation and recognition	943	530	8,783	9,313	10,256	1,678	25	12,405	12,430	14,108
Bank and merchant fees	-	28,096	11,487	39,583	39,583	-	35,800	7,297	43,097	43,097
Dues and subscriptions	692	3,271	754	4,025	4,717	1,363	6,256	1,220	7,476	8,839
Travel	1,160	5,483	1,744	7,227	8,387	490	2,247	1,185	3,432	3,922
Interest expense	-	-	-	-	-	-	1,787	-	1,787	1,787
Change in actuarial value of gift annuities	-	2,535	-	2,535	2,535	-	3,044	-	3,044	3,044
Total Expenses	\$ 2,793,750	\$ 710,351	\$ 378,614	\$ 1,088,965	\$ 3,882,715	\$ 4,125,165	\$ 753,261	\$ 340,749	\$ 1,094,010	\$ 5,219,175

See accompanying notes to financial statements.

MINNESOTA ZOO FOUNDATION

STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2016 and 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (602,919)	\$ (363,598)
Adjustments to reconcile change in net assets to net cash flows from operating activities		
Contributions restricted for long-term investment	(34,795)	(37,678)
Realized and unrealized losses (gains) on investments	5,565	(20,431)
Change in beneficial interest in trust	14,922	90,282
Allowance for uncollectible contributions receivable	(8,900)	(8,800)
Contributions receivable discount	(3,500)	(4,900)
Interest on charitable gift annuity	-	4,290
Amortization of charitable gift annuity	2,535	(1,246)
Change in:		
Contributions receivable	666,666	32,302
Prepaid expenses and other	(6,333)	704
Accounts payable	(56,379)	71,016
Accrued vacation and other liabilities	(16,359)	25,843
Net Cash Flows From Operating Activities	(39,497)	(212,216)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(240,862)	(316,987)
Sale of investments	203,627	305,020
Net Cash Flows From Investing Activities	(37,235)	(11,967)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from charitable gift annuities	13,789	-
Charitable gift annuity payments	(6,658)	(4,858)
Contributions received restricted for long-term investment	34,795	37,678
Principal payments on note payable	-	(250,000)
Net Cash Flows From Financing Activities	41,926	(217,180)
Net Change in Cash and Cash Equivalents	(34,806)	(441,363)
CASH AND CASH EQUIVALENTS - Beginning of Year	925,301	1,366,664
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 890,495	\$ 925,301

See accompanying notes to financial statements.

MINNESOTA ZOO FOUNDATION

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2016 and 2015

NOTE 1 - BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The primary purpose of Minnesota Zoo Foundation (the "Foundation") is to raise funds for the Minnesota Zoological Garden.

The Foundation solicits contributions which are administered by the Foundation's Board of Trustees - the entity responsible for the distribution of funds to accomplish the objectives identified.

Basis of Accounting

The financial statements are prepared in conformity with accounting principles generally accepted in the United States of America.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Net Asset Classifications

In order to observe the limitation and restrictions placed on resources available to Minnesota Zoo Foundation, the accounts are classified for accounting and reporting purposes into net asset groupings established according to their nature and purpose. A description of the groupings is as follows:

Unrestricted Net Assets - Unrestricted net assets include all assets, liabilities, and related revenues and expenses arising from the operations of the Foundation, which are not subject to any donor restrictions. These net assets include both board-designated and undesignated amounts. The Board of Trustees has designated \$250,000 as of June 30, 2016 and 2015 for general operating reserves.

Temporarily Restricted Net Assets - Temporarily restricted net assets consist of uncollected long-term pledges receivable and unexpended amounts that may be used only after a specified date or only for a specified purpose or both. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets will be reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions.

Permanently Restricted Net Assets - Permanently restricted net assets consist of gifts and pledges whose principal balance is required by the donor to remain intact in perpetuity.

Cash Equivalents

The Foundation considers all highly liquid investments, except for those held for long-term investment, with original maturities of three months or less when purchased to be cash equivalents. Cash and cash equivalents are concentrated in a limited number of financial institutions and amounts in excess of federally insured limits and similar coverages are subject to the usual risks of balances in excess of those limits.

Investments

Investments consist of short-term money market accounts and debt and equity mutual funds and are recorded at fair value.

MINNESOTA ZOO FOUNDATION

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2016 and 2015

NOTE 1 - BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenues and Support

Contributions are recorded as revenue when an unconditional promise to give is received from a donor. The Foundation reports gifts of cash and other assets as additions to temporarily or permanently restricted net assets if they are received with donor stipulations that limit the use of the donations.

Contributions received with donor-imposed restrictions that are met in the same year as received are reported as revenues of the temporarily restricted net asset class, and a release to unrestricted net assets is made to reflect the expiration of such restrictions.

Allowance for Uncollectible Contributions Receivable

Bad debts are provided for on the reserve method based on historical experience and management's evaluation of outstanding contributions receivable at the end of each year.

Tax-Exempt Status

The Foundation has received notification that it qualifies as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code and corresponding provisions of State law and, accordingly, is not subject to federal or state income taxes. However, any unrelated business income may be subject to taxation. The Foundation has been classified as a publicly supported charitable organization under Section 509(A)(1) of the Code and charitable contributions are deductible by donors.

The Foundation follows the accounting standards for contingencies in evaluating uncertain tax positions. This guidance prescribes recognition threshold principles for the financial statement recognition of tax positions taken or expected to be taken on a tax return that are not certain to be realized. No liability has been recognized by the Foundation for uncertain tax positions as of June 30, 2016 and 2015. The Foundation's tax returns are subject to review and examination by federal and state authorities.

Beneficial Interest in Perpetual Trust

The Foundation is the beneficiary of a trust created by a donor, the assets of which are not in the possession of the Foundation. The Foundation has an irrevocable right to a 10% interest in the net income of the trust. The Foundation's interest in the trust is recorded at fair value and is classified as permanently restricted net assets. Distributions received from the trust are recorded as investment income temporarily restricted for education, until appropriated to operations. The change in market value is recorded as permanently restricted in the statement of activities.

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statements of activities. Accordingly, certain expenses have been allocated among the programs and services benefitted. Allocations are made largely based on actual time allocations prepared by the Foundation's employees.

MINNESOTA ZOO FOUNDATION

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2016 and 2015

NOTE 1 - BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recently Issued Accounting Standards

In August 2016, FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The new guidance improves and simplifies the current net asset classification requirements and information presented in financial statements and notes that is useful in assessing a not-for-profit's liquidity, financial performance and cash flows. ASU 2016-14 is effective for fiscal years beginning after December 15, 2017 (fiscal year 2019), with early adoption permitted. ASU 2016-14 is to be applied retroactively with transition provisions. The Foundation is assessing the impact this standard will have on its financial statements.

Reclassifications

Certain amounts appearing in the 2015 financial statements have been reclassified to conform to the 2016 presentation. The reclassifications have no effect on reported amounts of total net assets or change in total net assets.

Subsequent Events

The Foundation has evaluated subsequent events through February 10, 2017 which is the date that the financial statements were approved and available to be issued.

NOTE 2 - INVESTMENTS AND FAIR VALUE MEASUREMENTS

The summary of the investment return for the years ended June 30, 2016 and 2015, is as follows:

	<u>2016</u>	<u>2015</u>
Interest and dividends income, net	\$ 74,412	\$ 70,879
Realized gain on investments	<u>26,268</u>	<u>30,875</u>
	100,680	101,754
Unrealized loss on investments	<u>(31,833)</u>	<u>(10,445)</u>
Total investment return	<u>\$ 68,847</u>	<u>\$ 91,309</u>

Interest income is net of fees of \$12,500 and \$12,431 for years ended June 30, 2016 and 2015, respectively.

MINNESOTA ZOO FOUNDATION

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2016 and 2015

NOTE 2 - INVESTMENTS AND FAIR VALUE MEASUREMENTS (Continued)

Fair value is defined in the accounting guidance as the exchange price that would be received to sell an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the assets or liability in an orderly transaction between market participants at the measurement date. Under this guidance, a three-level hierarchy is used for fair value measurements which are based on the transparency of information, such as the pricing source, used in the valuation of an asset or liability as of the measurement date.

Financial instruments measured and reported at fair value are classified and disclosed in one of the following three categories:

- Level 1 - Inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity can access at the measurement date.
- Level 2 - Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. This includes quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, or market-corroborated inputs.
- Level 3 - Inputs are unobservable for the asset or liability. Unobservable inputs reflect the assumptions that market participants would use in pricing the asset or liability (including assumptions about risk) using the best information available in the circumstances, which may include the reporting entity's own data.

The following table presents information about the Foundation's assets measured at fair value on a recurring basis as of June 30, 2016:

	Level 1	Level 2	Level 3	Investments at Fair Value
Money market funds ⁽¹⁾	\$ 302,843	\$ -	\$ -	\$ 302,843
Fixed income security funds	543,564	-	-	543,564
Mutual funds – equities				
Large cap	356,797	-	-	356,797
Small cap	127,693	-	-	127,693
International	126,621	-	-	126,621
Total mutual funds - equities	611,111	-	-	611,111
Beneficial interest in perpetual trust	-	-	1,252,577	1,252,577
Total investments at fair value	<u>\$ 1,457,518</u>	<u>\$ -</u>	<u>\$ 1,252,577</u>	<u>\$ 2,710,095</u>

⁽¹⁾ \$256,557 of the money market funds are included in cash equivalents on the statement of financial position.

MINNESOTA ZOO FOUNDATION

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2016 and 2015

NOTE 2 - INVESTMENTS AND FAIR VALUE MEASUREMENTS (Continued)

The following table presents information about the Foundation's assets measured at fair value on a recurring basis as of June 30, 2015:

	Level 1	Level 2	Level 3	Investments at Fair Value
Money market funds ⁽¹⁾	\$ 291,850	\$ -	\$ -	\$ 291,850
Fixed income security funds	523,096	-	-	523,096
Mutual funds – equities				
Large cap	354,789	-	-	354,789
Small cap	129,755	-	-	129,755
International	126,091	-	-	126,091
Total mutual funds - equities	610,635	-	-	610,635
Beneficial interest in perpetual trust	-	-	1,267,499	1,267,499
Total investments at fair value	\$ 1,425,581	\$ -	\$ 1,267,499	\$ 2,693,080

⁽¹⁾ \$256,290 of the money market funds are included in cash equivalents on the statement of financial position.

The following methods and assumptions were used to estimate the fair value of each class of financial instrument:

Money market funds - Money market funds are classified as Level 1 as they are traded in an active market for which closing prices are readily available.

Mutual funds and fixed income security funds - Mutual funds and fixed income security funds are classified as Level 1 as they are traded in an active market for which closing prices are readily available.

Beneficial interest in perpetual trust - The Foundation's beneficial interest in a perpetual trust administered by a third party is classified as Level 3 as the fair values are based on a combination of Level 2 inputs (interest rates and yield curves) and significant unobservable inputs (entity specific estimates of cash flows). Since the Foundation has an irrevocable right to receive the income earned from the trust's assets, the fair value of the Foundation's beneficial interest is estimated to approximate the fair value of the trust's assets.

Investments currently owned are held principally for endowment purposes and are recorded as noncurrent on the statements of financial position.

MINNESOTA ZOO FOUNDATION

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2016 and 2015

NOTE 2 - INVESTMENTS AND FAIR VALUE MEASUREMENTS (Continued)

The following table presents a reconciliation of the statement of financial position amounts for assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the year ended June 30, 2016:

	Balance June 30, 2015	Purchases	Sales	Realized and unrealized losses	Balance June 30, 2016
Beneficial interest in perpetual trust	\$ 1,267,499	\$ -	\$ -	\$ (14,922)	\$ 1,252,577

The amount of total losses for the period included in change in net assets attributable to the change in unrealized losses relating to assets measured at fair value still held at June 30, 2016 \$ (14,922)

The following table presents a reconciliation of the statement of financial position amounts for assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the year ended June 30, 2015:

	Balance June 30, 2014	Purchases	Sales	Realized and unrealized losses	Balance June 30, 2015
Beneficial interest in perpetual trust	\$ 1,357,781	\$ -	\$ -	\$ (90,282)	\$ 1,267,499

The amount of total losses for the period included in change in net assets attributable to the change in unrealized losses relating to assets measured at fair value still held at June 30, 2015 \$ (90,282)

NOTE 3 - ENDOWMENT

The Foundation's endowment consists of permanently restricted and temporarily restricted funds established for the following purposes:

Permanently restricted funds are donor restricted to be held in perpetuity, with the income and related investment gains to be used for donor restricted zoo programs or operations.

Temporarily restricted funds are the accumulation of earnings from the permanently restricted endowment that have not been appropriated for expenditure, with the income and related investment gains to be used for any mission related program.

As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, if any, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Trustees has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as allowing flexibility in making expenditure decisions from donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of the gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment and (c) accumulations to the permanent endowment made in accordance with the donor gift instrument.

MINNESOTA ZOO FOUNDATION

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2016 and 2015

NOTE 3 - ENDOWMENT (Continued)

In accordance with UPMIFA, the Foundation 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 purposes of the Foundation 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 Foundation
7. The investment policies of the Foundation

The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. The Foundation has a policy of generally appropriating for distribution each year 5% of its endowment fund's average fair value over the prior 12 quarters. Endowment assets include those assets of donor-restricted funds that the Foundation must hold in perpetuity or for a donor-specified period(s) as well as board-designated funds, if any. Under this policy, as approved by the Board of Trustees, the endowment assets are expected to outperform a custom benchmark (the Allocation Index) consisting of the appropriate indices of each asset class and their proportional weighting in the portfolio.

The Allocation Index is constructed by selecting appropriate indices (e.g., S&P 500, Russell 2000, MSCI EAFE, etc.) and assigning beginning of the quarter weightings by asset class. The total return of the invested assets is expected to exceed the total return of the Allocation Index.

To satisfy its long-term rate-of-return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation targets a diversified asset allocation that places a greater emphasis on equity-based investment to achieve its long-term return objectives within prudent risk constraints.

The Foundation expects its endowment fund, over time, to provide a reasonable rate of return on an annualized basis. The Foundation has an endowment distribution policy that allows for periodic distributions, as approved and directed by the Finance Committee of the Board of Trustees. The long term goal is to achieve a rate of growth sufficient to meet the Foundation's spending needs, while maintaining the inflation-adjusted principal of the endowment funds.

The following table summarizes endowment net asset composition by type of fund as of June 30, 2016:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 269,465	\$ 746,095	\$ 1,015,560
Total endowment net assets	<u>\$ -</u>	<u>\$ 269,465</u>	<u>\$ 746,095</u>	<u>\$ 1,015,560</u>

MINNESOTA ZOO FOUNDATION

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2016 and 2015

NOTE 3 - ENDOWMENT (Continued)

The following table summarizes endowment net asset composition by type of fund as of June 30, 2015:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ -	\$ 314,753	\$ 711,300	\$ 1,026,053
Total endowment net assets	\$ -	\$ 314,753	\$ 711,300	\$ 1,026,053

Change in endowment net assets for June 30, 2016 is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, June 30, 2015	\$ -	\$ 314,753	\$ 711,300	\$ 1,026,053
Investment return				
Investment income, net	-	8,244	-	8,244
Net depreciation (realized and unrealized)	-	(6,068)	-	(6,068)
Total investment return	-	2,176	-	2,176
Distributions to operations	-	(47,464)	-	(47,464)
Contributions	-	-	12,582	12,582
Special event income, net	-	-	22,213	22,213
Endowment net assets, June 30, 2016	\$ -	\$ 269,465	\$ 746,095	\$ 1,015,560

Change in endowment net assets for June 30, 2015 is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, June 30, 2014	\$ -	\$ 332,388	\$ 673,622	\$ 1,006,010
Investment return				
Investment income, net	-	8,173	-	8,173
Net appreciation (realized and unrealized)	-	18,153	-	18,153
Total investment return	-	26,326	-	26,326
Distributions to operations	-	(43,961)	-	(43,961)
Contributions	-	-	11,831	11,831
Special event income, net	-	-	25,847	25,847
Endowment net assets, June 30, 2015	\$ -	\$ 314,753	\$ 711,300	\$ 1,026,053

MINNESOTA ZOO FOUNDATION

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2016 and 2015

NOTE 4 - RELATED PARTY TRANSACTIONS

Grants and distributions paid by the Foundation to the Minnesota Zoological Garden were \$1,828,943 and \$3,488,662 for the years ended June 30, 2016 and 2015, respectively. Additionally, the Foundation donated in-kind items in the amount of \$33,621 and \$91,241 for the years ended June 30, 2016 and 2015, respectively.

The Minnesota Zoological Garden provides furnished office space and technical support to the Foundation at no charge. These amounts are recorded as in-kind contribution revenue and were recorded at fair value in the amount of \$19,926 each year for the years ended June 30, 2016 and 2015.

NOTE 5 - LINE OF CREDIT

The Foundation maintains a \$500,000 bank line of credit, secured by all business assets, which expires June 29, 2017. Interest is charged at the current prime rate. In addition, the line of credit requires that certain covenants be maintained by the Foundation. The line of credit balance was \$0 at June 30, 2016 and 2015. No amounts were withdrawn from the line of credit during 2016 or 2015.

NOTE 6 - CONTRIBUTIONS RECEIVABLE

Contributions receivable include the following unconditional promises to be collected at June 30:

	<u>2016</u>	<u>2015</u>
In one year or less	\$ 317,832	\$ 840,463
Between one year and five years	108,931	252,966
More than five years	-	-
Gross promises to give	<u>426,763</u>	<u>1,093,429</u>
Less: Discount to net present value	(3,400)	(6,900)
Allowance for uncollectible contributions receivable	<u>(11,900)</u>	<u>(20,800)</u>
Net Contributions Receivable	<u>\$ 411,463</u>	<u>\$ 1,065,729</u>

Promises to give have been discounted using rates ranging from 1.4% to 4.0%, at June 30, 2016 and 2015, depending on the date and length of pledge.

Contributions receivable at June 30, 2016 and 2015 include approximately \$276,000 and \$732,000 due from 5 donors, respectively. Contributions receivable from Board members of the Foundation and the MN Zoological Garden were approximately \$72,000 and \$85,600 as of June 30, 2016 and 2015, respectively.

Contributions revenue at June 30, 2016 and 2015 included approximately \$530,000 from 5 donors and \$1,611,000 from 3 donors, respectively.

MINNESOTA ZOO FOUNDATION

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2016 and 2015

NOTE 7 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consisted of amounts for the following as of June 30:

	<u>2016</u>	<u>2015</u>
Zoo programs	\$ 825,931	\$ 889,361
Capital projects	107,186	380,234
Outstanding pledges, time restricted	-	28,483
	<u>\$ 933,117</u>	<u>\$ 1,298,078</u>

The Zoo programs amounts in temporarily restricted net assets as noted above include \$269,465 and \$314,753 of undistributed earnings on permanently restricted endowments as of June 30, 2016 and 2015, respectively.

NOTE 8 - PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets consisted of amounts for the following as of June 30:

	<u>2016</u>	<u>2015</u>
Zoomobile endowment	\$ 182,000	\$ 182,000
General endowment	88,876	88,876
Granum fund – exhibit updates	79,441	79,441
Kay Kamps fund – animal health	29,042	29,042
Volunteer endowment	24,241	23,310
Boegnik fund – marine exhibits	10,525	10,525
Boardman fund – zoo camp	9,244	8,994
Roman education fund – zoomobile or zoo safari	174,881	151,245
Beneficial interest in perpetual trust	1,252,577	1,267,499
Greenberg fund – animal exhibit	64,020	64,020
Eric Hayes Memorial fund – shop fabrication	57,640	57,640
Beaulieu fund – general operating with marine emphasis	24,960	14,982
Tilson fund – tiger conservation	1,225	1,225
	<u>\$ 1,998,672</u>	<u>\$ 1,978,799</u>

NOTE 9 - RETIREMENT PLAN

The Foundation maintains a 401(k) retirement plan for the benefit of all employees meeting minimum eligibility requirements. The Foundation's contributions to the plan were \$28,891 and \$23,328 for the years ended June 30, 2016 and 2015, respectively.

MINNESOTA ZOO FOUNDATION

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2016 and 2015

NOTE 10 - DEFERRED GIFT AGREEMENTS

The Foundation has arrangements with donors classified as a charitable annuity liability. In general, under these arrangements, the Foundation receives a gift from a donor in which it has a remainder interest and agrees to pay the donor stipulated amounts over the life of the donor. The arrangement may cover one or more lives.

When a gift is received under one of these arrangements, it is split into the amount representing the actuarial present value of future distributions back to the donor and the remaining gift value to be retained for the benefit of the Foundation or third-party beneficiaries. The actuarial liability is adjusted annually using actuarial tables appropriate for the type of arrangement, number of lives covered and age of the donor. There were two new deferred gift arrangements received for the year ended June 30, 2016 with a gift value of \$13,789 and no new deferred gift arrangements received for the year ended June 30, 2015. The Foundation used historical discount rates ranging from 2.0 to 3.0% for the calculations.