

Cleveland Zoological Society

**Financial Statements
December 31, 2017 and 2016**

Independent Auditor's Report

To the Board of Trustees of
Cleveland Zoological Society

Report on the Financial Statements

We have audited the accompanying financial statements of the Cleveland Zoological Society (the "Zoo Society," a nonprofit corporation), which comprise of the statements of financial position as of December 31, 2017 and 2016, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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 auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

To the Board of Trustees of
Cleveland Zoological Society

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Zoo Society as of December 31, 2017 and 2016, 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 19, 2018, on our consideration of the Zoo Society's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Zoo Society's internal control over financial reporting and compliance.

Ciuni + Panichi, Inc.

Cleveland, Ohio
April 19, 2018

Cleveland Zoological Society

Statements of Financial Position

December 31, 2017 and 2016

	<u>Assets</u>	
	<u>2017</u>	<u>2016</u>
Current assets:		
Cash and cash equivalents	\$ 1,215,313	\$ 882,864
Charitable gift annuities	240,390	233,810
Pledges receivable, net	916,575	756,776
Prepaid expenses and other assets	<u>51,600</u>	<u>82,388</u>
Total current assets	2,423,878	1,955,838
Office equipment, software, and network resources, at cost	650,122	633,277
Less: accumulated depreciation	<u>(537,846)</u>	<u>(450,329)</u>
	112,276	182,948
Other long-term assets:		
Pledges receivable, net	794,592	832,638
Marketable securities	13,473,605	11,867,111
Investments in pooled separate accounts	267,392	209,673
Beneficial interest in perpetual trusts	<u>642,203</u>	<u>576,119</u>
Total long-term assets	<u>15,177,792</u>	<u>13,485,541</u>
Total assets	\$ <u>17,713,946</u>	\$ <u>15,624,327</u>
	<u>Liabilities and Net Assets</u>	
Current liabilities:		
Accounts payable and accrued expenses	\$ 96,854	\$ 103,688
Other liabilities – funds held for others	31,309	7,469
Amounts due to Cleveland Metropolitan Park District:		
Operating agreement	120,258	103,808
Special construction projects	500,000	840,000
Comprehensive campaign	<u>1,980,821</u>	<u>33,938</u>
Total amounts due to Cleveland Metropolitan Park District	<u>2,601,079</u>	<u>977,746</u>
Total current liabilities	2,729,242	1,088,903
Long-term liabilities:		
Liability under split-interest agreements	121,339	131,476
Deferred compensation	<u>292,392</u>	<u>234,673</u>
Total long-term liabilities	<u>413,731</u>	<u>366,149</u>
Total liabilities	3,142,973	1,455,052
Net assets:		
Unrestricted:		
Undesignated	888,331	602,288
Board-designated	<u>11,319,565</u>	<u>9,705,458</u>
Total unrestricted	12,207,896	10,307,746
Temporarily restricted	1,336,874	2,949,660
Permanently restricted	<u>1,026,203</u>	<u>911,869</u>
Total net assets	<u>14,570,973</u>	<u>14,169,275</u>
Total liabilities and net assets	\$ <u>17,713,946</u>	\$ <u>15,624,327</u>

The accompanying notes are an integral part of these financial statements

Cleveland Zoological Society

Statement of Activities

For the year ended December 31, 2017

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Support, revenues, and gains:				
Contributions:				
Membership	\$ 3,165,119	\$ -	\$ -	\$ 3,165,119
Individuals, corporations, and foundations	1,139,709	810,861	48,250	1,998,820
Comprehensive campaign	-	2,259,109	-	2,259,109
Special events	1,172,886	-	-	1,172,886
Less: Direct benefit to donor costs	(503,353)	-	-	(503,353)
Investment income	1,932,669	90,067	-	2,022,736
Change in value of split-interest agreements	(6,123)	-	66,084	59,961
Total support, revenues, and gains	6,900,907	3,160,037	114,334	10,175,278
Net assets released from restrictions	4,772,823	(4,772,823)	-	-
	11,673,730	(1,612,786)	114,334	10,175,278
Expenses:				
Program services:				
Cleveland Metropolitan Park District:				
Operating agreement	2,051,046	-	-	2,051,046
Education	330,377	-	-	330,377
Conservation	544,768	-	-	544,768
Capital projects	3,493,621	-	-	3,493,621
Animal care and research	156,552	-	-	156,552
Lobbying	15,000	-	-	15,000
	6,591,364	-	-	6,591,364
Membership	1,130,777	-	-	1,130,777
Total program services	7,722,141	-	-	7,722,141
Supporting services:				
Management and general	608,078	-	-	608,078
Fundraising:				
Development	610,917	-	-	610,917
Comprehensive campaign	385,909	-	-	385,909
Communications	91,846	-	-	91,846
Special events	354,689	-	-	354,689
Total fundraising	1,443,361	-	-	1,443,361
Total supporting services	2,051,439	-	-	2,051,439
Total expenses	9,773,580	-	-	9,773,580
Change in net assets	1,900,150	(1,612,786)	114,334	401,698
Net assets – beginning of year	10,307,746	2,949,660	911,869	14,169,275
Net assets – end of year	\$ 12,207,896	\$ 1,336,874	\$ 1,026,203	\$ 14,570,973

The accompanying notes are an integral part of these financial statements

Cleveland Zoological Society

Statement of Activities

For the year ended December 31, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Support, revenues, and gains:				
Contributions:				
Membership	\$ 3,231,477	\$ -	\$ -	\$ 3,231,477
Individuals, corporations, and foundations	1,086,099	651,005	7,250	1,744,354
Comprehensive campaign	-	1,501,031	-	1,501,031
Special events	1,369,471	-	-	1,369,471
Less: Direct benefit to donor costs	(526,612)	-	-	(526,612)
Investment income (loss)	881,655	35,442	-	917,097
Change in value of split-interest agreements	1,424	-	50,261	51,685
Total support, revenues, and gains	6,043,514	2,187,478	57,511	8,288,503
Net assets released from restrictions	2,262,325	(2,262,325)	-	-
	8,305,839	(74,847)	57,511	8,288,503
Expenses:				
Program services:				
Cleveland Metropolitan Park District:				
Operating agreement	2,084,360	-	-	2,084,360
Education	313,631	-	-	313,631
Conservation	471,077	-	-	471,077
Capital projects	1,211,631	-	-	1,211,631
Animal care and research	350,997	-	-	350,997
Lobbying	15,000	-	-	15,000
	4,446,696	-	-	4,446,696
Membership	1,046,156	-	-	1,046,156
Total program services	5,492,852	-	-	5,492,852
Supporting services:				
Management and general	473,457	-	-	473,457
Fundraising:				
Development	1,003,912	-	-	1,003,912
Comprehensive campaign	471,275	-	-	471,275
Communications	99,704	-	-	99,704
Special events	393,650	-	-	393,650
Total fundraising	1,968,541	-	-	1,968,541
Total supporting services	2,441,998	-	-	2,441,998
Total expenses	7,934,850	-	-	7,934,850
Change in net assets before reclassification	370,989	(74,847)	57,511	353,653
Reclassification of net asset classes (Notes 6 and 7)	(339,892)	58,392	281,500	-
Change in net assets	31,097	(16,455)	339,011	353,653
Net assets – beginning of year	10,276,649	2,966,115	572,858	13,815,622
Net assets – end of year	\$ 10,307,746	\$ 2,949,660	\$ 911,869	\$ 14,169,275

The accompanying notes are an integral part of these financial statements

Cleveland Zoological Society

Statements of Cash Flows

For the years ended December 31, 2017 and 2016

	2017	2016
Cash flows from operating activities:		
Change in net assets	\$ 401,698	\$ 353,653
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	87,517	70,058
Provision for doubtful accounts	4,844	9,066
Discount on pledges receivable	12,846	16,918
Unrealized and realized gains on investments	(1,674,435)	(623,535)
Change in liability under split-interest agreements	-	(39,277)
Change in value of split-interest agreements	6,123	(1,424)
Change in value of beneficial interest in trusts	(66,084)	(50,261)
Contributions restricted to perpetual endowment	(48,250)	(7,250)
Changes in operating assets and liabilities:		
(Increase) decrease in assets:		
Pledges receivable	(139,443)	(130,689)
Prepaid expenses and other assets	30,788	(18,281)
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	(6,834)	(81,780)
Other liabilities – funds held for others	23,840	(142)
Amounts due to Cleveland Metropolitan Park District	1,623,333	(362,441)
Net cash provided (used) by operating activities	255,943	(865,385)
Cash flows from investing activities:		
Purchases of office equipment	(16,845)	(56,674)
Purchases of investments	(1,280,637)	(2,408,752)
Proceeds from sales of investments	1,341,998	2,875,943
Net cash provided by investing activities	44,516	410,517
Cash flows from financing activities:		
Contributions received under split-interest agreements	-	100,000
Contributions received for perpetual endowment	48,250	7,250
Payments on annuity obligations	(16,260)	(11,612)
Net cash provided by financing activities	31,990	95,638
Net increase (decrease) in cash and cash equivalents	332,449	(359,230)
Cash and cash equivalents, beginning of year	882,864	1,242,094
Cash and cash equivalents, end of year	\$ 1,215,313	\$ 882,864

The accompanying notes are an integral part of these financial statements

Cleveland Zoological Society

Notes to Financial Statements

December 31, 2017 and 2016

Note 1: Summary of Significant Accounting Policies

Nature of Activities

The Cleveland Zoological Society (the “Zoo Society”) is the advancement partner of Cleveland Metroparks Zoo (the “Zoo”) in support of a shared mission – *We create compelling experiences that connect people with wildlife and inspire personal responsibility for conserving our natural world.* The strong public-private partnership between the Zoo and the nonprofit Zoo Society facilitates continuous improvements at the Zoo and contributes significantly to the quality of life in our region. With an average annual attendance of 1.1 million visitors and 40,000 household members, the Zoo and Zoo Society are recognized as a premier conservation education facility and as a top destination in Northeast Ohio.

The Zoo Society is governed by a Board of Trustees and is a separate and distinct entity from the Cleveland Metropolitan Park District (the “District”). The Zoo Society’s activities are primarily in support of the District’s Zoo, subject to approval by the Zoo Society’s Board.

Basis of Presentation

The Zoo Society follows authoritative guidance issued by the Financial Accounting Standards Board (FASB) which established the FASB Accounting Standards Codification (ASC) as the single source of authoritative accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared on the accrual basis of accounting. Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Zoo Society and changes therein are classified and reported as follows:

Unrestricted Net Assets – Net assets that are not subject to donor-imposed restrictions. These include both Board-designated and undesignated net assets.

Unrestricted Net Assets (Undesignated) – Consists of net assets that are not subject to donor-imposed restrictions nor have been designated for a specific purpose by the Zoo Society’s Board of Trustees. The purpose of undesignated unrestricted net assets is to provide support for the daily operations and the mission of the Zoo Society.

Unrestricted Net Assets (Board-Designated) – Consists of net assets that can be used only for the specific purposes determined by a formal action of the Zoo Society’s Board of Trustees, which is the Zoo Society’s highest level of decision-making authority. Commitments may be changed or lifted only by the Zoo Society’s Board of Trustees taking the same formal action that imposed the constraint originally. The purpose of Board-designated net assets is to provide funding to ensure the continuous operation of the Zoo Society (the Sustaining Fund) and to support initiatives to connect people with wildlife (the ZooFutures Fund). In addition, Board-designated funds are included, along with donor-designated funds, in both the Animal Care Fund and the Conservation Fund.

Cleveland Zoological Society

Notes to Financial Statements

December 31, 2017 and 2016

Note 1: Summary of Significant Accounting Policies (continued)

Basis of Presentation (continued)

Temporarily Restricted Net Assets – Net assets subject to donor-imposed restrictions that may or will be met, either by actions of the Zoo Society and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as “net assets released from restrictions.”

Permanently Restricted Net Assets – Net assets subject to donor-imposed restrictions that such assets be maintained by the Zoo Society in perpetuity.

Reclassifications

Current accounts in the prior year financial statements have been reclassified for comparative purposes to conform to the presentation in the current year financial statements.

Cash and cash equivalents and marketable securities, have been reduced and increased, respectively, by \$140,393, on the statement of financial position as of December 31, 2016, to reflect the reclassification of money market fund investments held in brokerage accounts to comply with the Zoo Society’s definition of cash equivalents.

The statement of financial position as of December 31, 2016, has been amended to reflect the gross amount of investments and the related deferred compensation liability for the Zoo Society’s 457(b) executive deferred compensation plan (\$267,392) to conform to the presentation as of December 31, 2017. The deferred compensation liability at December 31, 2016, also reflects \$25,000 of accrued deferred compensation that had previously been presented within accounts payable and accrued expenses.

Functional Allocation of Expenses

The costs of providing various programs and related supporting services have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated to the appropriate programs and supporting services.

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 and disclosure of contingent 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.

Cleveland Zoological Society

Notes to Financial Statements

December 31, 2017 and 2016

Note 1: Summary of Significant Accounting Policies (continued)

Cash Equivalents

For purposes of the statements of cash flows, the Zoo Society considers unrestricted or short-term temporarily restricted, highly liquid investments purchased with an original maturity of three months or less to be cash equivalents. Board-designated cash and cash equivalents within brokerage accounts are not considered cash and cash equivalents for purposes of the statements of cash flows. Such amounts have been classified as investments on the statements of financial position.

Cash receipts from the sale of donated financial assets that are converted nearly immediately into cash are classified as cash inflows from operating activities on the statements of cash flows, unless the donor restricted the use of contributed resources to long-term purposes, in which case those cash receipts are classified as cash inflows from financing activities.

Contributions and Pledges Receivable

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor-imposed restrictions.

Unconditional pledges receivable are recognized as revenues in the period the promise is received. Conditional pledges receivable are recognized when the conditions upon which they depend are substantially met. The pledges are stated at their estimated fair value. Pledges that are to be received over a period of time greater than one year are discounted to their estimated fair value assuming their respective payment terms and an appropriate discount rate as of the date the pledge is received. The discount is amortized into contribution revenue over the term of the respective pledge agreement.

The Zoo Society and the Zoo are financially interrelated entities, in accordance with the “Transfers of Assets to a Not-for-Profit Organization” topic of the FASB ASC. Therefore, contributions raised by the Zoo Society on behalf of the Zoo are reported as temporarily restricted contribution revenues, and the amounts to be remitted to the Zoo are recorded as expense under the caption of “Cleveland Metropolitan Park District” in the accompanying statements of activities.

Investments

Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statements of financial position. Unrealized gains and losses are included in investment income in the statements of activities.

Cleveland Zoological Society

Notes to Financial Statements

December 31, 2017 and 2016

Note 1: Summary of Significant Accounting Policies (continued)

Office Equipment, Software, and Network Resources

Office equipment, software, and network resources are depreciated utilizing the straight-line method over their estimated useful lives ranging from three to ten years. The Zoo Society capitalizes purchases or donations of capital assets that exceed \$1,000. Purchased office equipment, software, and network resources are stated at cost.

Donations of capital assets are recorded as support at their estimated fair value at the date of donation. Such donations are reported as unrestricted support unless the donor has restricted the donated asset for a specific purpose. Assets donated with explicit restrictions regarding their use, and contributions of cash that must be used to acquire office equipment, software, and network resources, are reported as restricted support.

Split-Interest Agreements

The Zoo Society receives gift annuities where donors contribute assets in exchange for the right to receive an annual return during their lifetimes. Upon receipt of a gift annuity, the Zoo Society records the fair value of the assets received and records a liability for the estimated present value of future cash outflows to the annuitant, determined on an actuarial basis, as a “liability under split-interest agreements” in the accompanying statements of financial position. The difference between the fair value of the assets received and the estimated liability is recorded as unrestricted, temporarily restricted, or permanently restricted contribution revenue in accordance with the donor’s intent in the accompanying statements of activities.

The Zoo Society holds beneficial interests in perpetual trusts. The Zoo Society records its share of the fair market value of such trusts as long-term assets and permanently restricted contribution revenue at the date it is notified of its interest in such trusts. As the Zoo Society receives distributions from these trusts, it records the distributions as interest income. The interest income is classified as either unrestricted or temporarily restricted in accordance with the terms of the trust agreement. Changes in the fair value of the Zoo Society’s beneficial interest in perpetual trusts are recorded as permanently restricted gains/losses in the accompanying statements of activities under the caption “change in value of split-interest agreements.”

In-Kind Contributions

In-kind contributions are reflected as revenues at their estimated fair value at the date of donation. The Zoo Society reports gifts of media support, food for special events, and other non-monetary contributions as unrestricted revenue and expense (or capitalized, if applicable) unless accompanied by explicit donor-imposed restrictions, in which case, the contributions would be recorded as either temporarily or permanently restricted revenues in accordance with the donor restrictions.

Cleveland Zoological Society

Notes to Financial Statements

December 31, 2017 and 2016

Note 1: Summary of Significant Accounting Policies (continued)

Contributed Services

The Zoo Society recognizes contributions of services received when those services (a) create or enhance nonfinancial assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by the donation.

Income Taxes

The Zoo Society is tax-exempt, under Section 501(c)(3) of the Internal Revenue Code (IRC) of 1986. No provision for federal income taxes has been reported in its financial statements. In addition, the Zoo Society has been classified as an organization that is not a “private foundation” within the meaning of Section 509(a) of the IRC.

In accordance with the “Income Taxes” topic of the FASB ASC, uncertain income tax positions are evaluated at least annually by management. As of December 31, 2017 and 2016, the Zoo Society has identified no uncertain income tax positions and has incurred no amounts for income tax penalties and interest for the years then ended. The Zoo Society files information returns in the United States and local jurisdictions.

Concentrations of Credit Risk

Financial instruments which potentially subject the Zoo Society to concentrations of credit risk consist of cash and temporary investments, investment securities, and pledges receivable.

The Zoo Society maintains its cash and cash equivalents with national financial institutions, the balances at times may exceed federally insured limits.

The Zoo Society has significant investments in equity and debt securities and is, therefore, subject to concentrations of credit risk. Investments are managed by investment advisors who are supervised by the Trustees. The investment advisors are required to manage the Zoo Society’s investments in accordance with the Zoo Society’s investment policy. The investment policy contains investment criteria that the Zoo Society believes should reduce, to an extent, the potential for significant concentrations of credit risk. Though the market value of investments is subject to fluctuations on a year-to-year basis, the Trustees believe that the investment policy is prudent for the long-term welfare of the Zoo Society.

Credit risk with respect to pledges receivable is limited due to the number and credit worthiness of the foundations, corporations, and individuals who comprise the contributor base.

Cleveland Zoological Society

Notes to Financial Statements

December 31, 2017 and 2016

Note 1: Summary of Significant Accounting Policies (continued)

Recent Accounting Pronouncements

In May 2014, the FASB issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers*, which is a comprehensive new revenue recognition standard that will supersede existing revenue recognition guidance. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects consideration to which the entity expects to be entitled in exchange for those goods or services. FASB issued ASU 2015-14 that deferred the effective date for the Zoo Society until annual periods beginning after December 15, 2018. Earlier adoption is permitted subject to certain limitations. FASB also issued ASU 2016-08 that addresses principal versus agent considerations in recognizing revenue from contracts with customers. The amendments in these updates are required to be applied retrospectively to each prior reporting period presented or with the cumulative effect being recognized at the date of initial application. Management is currently evaluating the impact of these ASUs on the financial statements.

In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities and Health Care Entities – Presentation of Financial Statements of Not-for-Profit Entities*. This ASU changes the reporting requirements for nonprofit organizations and their required disclosures. The changes include: (a) requiring the presentation of only two classes of net assets, entitled “net assets without donor restriction” and “net assets with donor restrictions,” (b) modifying the presentation and disclosures of underwater endowment funds, (c) requiring the use of the placed in service approach to recognize the releases from restriction for gifts utilized to acquire or construct long-lived assets, (d) requiring that all nonprofits present an analysis of expenses by function and nature in either the statement of activities, a separate statement, or in the notes to the financial statements and to summarize the allocation methodologies utilized to allocate the costs, (e) requiring the disclosure of quantitative and qualitative information regarding liquidity, and (f) modifying other financial statement reporting requirements and disclosures to enhance the usefulness of nonprofit financial statements. This ASU is effective for fiscal years beginning after December 15, 2017, with early adoption permitted. Management is currently evaluating the impact of this ASU on the financial statements.

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*, which clarifies the presentation of restricted cash as included in the cash balances in the statement of cash flows. This ASU is effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. Early adoption of this ASU is permitted. Management believes that this ASU will not have a material impact on the financial statements.

Subsequent Events

In preparing these financial statements, the Zoo Society has evaluated events and transactions for potential recognition or disclosure through April 19, 2018, the date the financial statements were available to be issued.

Cleveland Zoological Society

Notes to Financial Statements

December 31, 2017 and 2016

Note 2: Cash and Cash Equivalents

Cash and cash equivalents consisted of the following at December 31:

	<u>2017</u>	<u>2016</u>
Unrestricted – available for operating expenses	\$ 1,027,489	\$ 563,363
Donor-restricted for short-term purposes	156,515	237,405
Donor-restricted for long-term purposes	-	7,250
Board-designated for short-term purposes	-	67,377
Funds held for others	<u>31,309</u>	<u>7,469</u>
	<u>\$ 1,215,313</u>	<u>\$ 882,864</u>

Note 3: Pledges Receivable

Pledges receivable, net of applicable discounts to estimated fair value and allowance for uncollectible pledges receivable, are comprised of the following at December 31:

	<u>2017</u>	<u>2016</u>
Unrestricted – available for operating expenses	\$ 38,664	\$ 41,244
Restricted for Australian Adventure train engine	-	15,000
Restricted for conservation	170,000	265,000
Restricted for comprehensive campaign	<u>1,502,503</u>	<u>1,268,170</u>
	<u>\$ 1,711,167</u>	<u>\$ 1,589,414</u>

Pledges were discounted to their estimated fair value assuming their respective terms and discount rates ranging from 3.25% to 4.50% dependent upon prevailing rates in the year in which a pledge was received. The pledges receivable are scheduled to be collected as follows:

	<u>2017</u>	<u>2016</u>
Payable within one year	\$ 974,099	\$ 809,456
Payable in two years	530,400	390,200
Payable in three years	295,500	333,900
Payable in four years	162,000	187,000
Payable in five years	<u>-</u>	<u>102,000</u>
	1,961,999	1,822,556
Less: discounts to fair value	(193,308)	(180,462)
Less: allowance for uncollectible pledges receivable	<u>(57,524)</u>	<u>(52,680)</u>
Net pledges receivable	<u>\$ 1,711,167</u>	<u>\$ 1,589,414</u>

Cleveland Zoological Society

Notes to Financial Statements

December 31, 2017 and 2016

Note 3: Pledges Receivable (continued)

The David Steffee Chair of Veterinary Medicine Gift Fund

The David Steffee Chair of Veterinary Medicine Gift Fund is a donor-advised fund currently valued at approximately \$1 million for the purpose of using investment income from the fund to support veterinary excellence at The Sarah Allison Steffee Center for Zoological Medicine at the Zoo. Donor-advised funds allow donors to suggest the purpose for which a gift will be used, but are not binding. As such, contribution revenue is recorded as the Zoo Society receives notification that a distribution has been approved by the fund. Since 2005, the Zoo Society has hosted an annual *David Steffee Address in Veterinary Medicine* and the donor has made contributions to cover the cost of the address. The Zoo Society recognized revenue from the fund of \$10,000 and \$65,000 during the years ending December 31, 2017 and December 31, 2016, respectively, and has received a total of \$176,500 from the fund since its inception.

Zoo Education

During 2013, the Zoo Society received a conditional promise to give related to funding for the Zoo Education and Workforce Development program for \$300,000. The funds were to be received in \$60,000 increments over a period of five years, subject to annual donor reviews. The Zoo Society recognized revenue related to this conditional promise to give of \$60,000 during each of the years ended December 31, 2017 and 2016. Total revenue recognized related to this conditional promise through December 31, 2017 was \$300,000. The Zoo Society used this funding to implement programs for students in certain school districts, conduct a longitudinal study over these students enrolled in the school districts that attend programs, and perform annual reviews of the programs. The receipt of funds was conditioned upon the donor's review of the programs and determination of satisfactory performance with respect to the terms of the agreement.

Comprehensive Campaign – Passport to the Wild

During 2014, the Zoo Society received a conditional promise to give to support the creation of “Rosebrough Tiger Passage” at the Zoo for \$500,000. The funds are to be received in \$50,000 increments over a period of ten years. The receipt of future incremental payments are conditioned upon the building of a water feature within a reasonable timeframe as discussed with the donor. During 2016, all conditions related to this promise to give were met and discussed with the donor. The Zoo Society recognized the remaining \$400,000 as revenue relating to this promise to give during the year ended December 31, 2016.

Hay Barn

During 2014, the Zoo Society received a conditional promise to give to support the creation of a hay barn at the Zoo for \$100,000. The funds are to be received upon the groundbreaking for the project. During 2016, the hay barn construction was underway, thus all conditions related to this promise to give were met. The Zoo Society recognized \$100,000 as revenue during the year ended December 31, 2016.

Cleveland Zoological Society

Notes to Financial Statements

December 31, 2017 and 2016

Note 3: Pledges Receivable (continued)

The Joan Rog Graduate Student Research Award

During 2015, the Zoo Society received a conditional promise to give of \$25,000 for the Joan Rog Graduate Student Research Award. The funds are to be received in \$5,000 increments over a period of five years. The annual payments are conditioned upon the donor receiving student applications for the donor's review and approval. The Zoo Society recognized revenue related to this conditional promise to give of \$5,570 and \$6,000 during the years ending December 31, 2017 and December 31, 2016, respectively, and has received a total of \$16,570 related to this conditional promise to give through December 31, 2017.

Ohio Facilities Commission

The State of Ohio awarded a \$200,000 commitment to the Zoo Society through the Ohio Facilities Commission in August 2016. The commitment is conditional upon the funds being utilized for an exhibit that is complete and open to the public. As of December 31, 2017, no revenue has been recognized by the Zoo Society related to this commitment.

Kent H. Smith Charitable Trust

The Kent H. Smith Charitable Trust awarded a \$750,000 commitment to the Zoo Society over a three-year period, beginning in 2017. The commitment is conditional upon the Zoo Society securing at least \$250,000 in matching capital contributions during the preceding year. During 2017, the Zoo Society recognized the first \$250,000 related to this promise as it had met the matching requirement.

Corporate Matches

The Zoo Society periodically receives gifts which include corporate matches that are conditioned upon the Zoo Society receiving payment from an individual donor. Total corporate matches outstanding at December 31, 2017 are \$68,657.

Note 4: Investments

Included in marketable securities at December 31, 2017 and 2016, was \$11,319,565 and \$9,638,081, respectively, of board-designated net assets.

Cleveland Zoological Society

Notes to Financial Statements

December 31, 2017 and 2016

Note 4: Investments (continued)

The following schedule summarizes investment return for the years ended December 31:

	2017		
	Unrestricted	Temporarily Restricted	Total
	Interest and dividends	\$ 304,078	\$ 11,504
Net realized and unrealized gains	<u>1,628,591</u>	<u>78,563</u>	<u>1,707,154</u>
	<u>\$ 1,932,669</u>	<u>\$ 90,067</u>	<u>\$ 2,022,736</u>
	2016		
	Unrestricted	Temporarily Restricted	Total
Interest and dividends	\$ 283,141	\$ 10,421	\$ 293,562
Net realized and unrealized losses	<u>598,514</u>	<u>25,021</u>	<u>623,535</u>
	<u>\$ 881,655</u>	<u>\$ 35,442</u>	<u>\$ 917,097</u>

Note 5: Fair Value Measurements

In accordance with the “Fair Value Measurements” topic of the FASB ASC, the Zoo Society uses a three-level fair value hierarchy that categorizes assets and liabilities measured at fair value based on the observability of the inputs utilized in the valuation. This hierarchy prioritizes the inputs into three broad levels as follows: Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities; Level 2 inputs are quoted prices for similar assets and liabilities in active markets or inputs that are observable for the asset or liability, either directly or indirectly; and Level 3 inputs are unobservable inputs in which little or no market data exists, therefore, requiring an entity to develop its own valuation assumptions. These inputs reflect management’s judgment about the assumptions that a market participant would use in pricing the asset or liability and are based on the best available information, which has been internally developed.

Financial assets and liabilities consisted of the following at December 31:

	Level 1	Level 2	Level 3	2017
Cash in money market and certificates of deposit	\$ 777,651	\$ -	\$ -	\$ 777,651
Common stock	3,548	-	-	3,548
Mutual funds – equities	9,342,998	-	-	9,342,998
Mutual funds – fixed income	3,556,848	-	-	3,556,848
Exchange traded funds – equities	32,950	-	-	32,950
Beneficial interests in perpetual trusts	<u>-</u>	<u>642,203</u>	<u>-</u>	<u>642,203</u>
	<u>\$ 13,713,995</u>	<u>\$ 642,203</u>	<u>\$ -</u>	<u>\$ 14,356,198</u>

Cleveland Zoological Society

Notes to Financial Statements

December 31, 2017 and 2016

Note 5: Fair Value Measurements (continued)

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>2016</u>
Cash in money market and certificates of deposit	\$ 706,322	\$ -	\$ -	\$ 706,322
Common stock	2,127	-	-	2,127
Mutual funds – equities	8,328,040	-	-	8,328,040
Mutual funds – fixed income	3,038,014	-	-	3,038,014
Exchange traded funds – equities	26,418	-	-	26,418
Beneficial interests in perpetual trusts	-	576,119	-	576,119
	<u>\$ 12,100,921</u>	<u>\$ 576,119</u>	<u>\$ -</u>	<u>\$ 12,677,040</u>

During 2016, the Zoo Society received a new split-interest agreement, where the related liability was initially calculated at fair value (\$60,723) on a non-recurring basis. This is considered a Level 3 measurement, determined from the present value of expected future cash flows using an appropriate discount rate (4.7%).

The fair value of the beneficial interests in perpetual trusts is based upon the value of the underlying assets within the trusts multiplied by the Zoo Society's proportionate share of said trusts. As the underlying assets within these trusts are primarily Level 1 investments, the value of the Zoo Society's interests in the perpetual trusts is shown as a Level 2 measurement as the trusts themselves are not actively traded (Level 1) instruments.

Note 6: Board-Designated Net Assets

The Board of Trustees establishes and maintains Board-designated funds. The Sustaining Fund and the ZooFutures Fund comprise a significant majority of the Board-designated net assets of the Zoo Society. Additionally, the Zoo Society has designated funds to support the Animal Care and Conservation Funds.

The Sustaining Fund was established in 1991 with the express purpose of ensuring the Zoo Society's continuing existence by providing a source of operating funds to the Zoo Society in the event of economic hardship. The Sustaining Fund, in year 2011 and beyond, may be used to fund discretionary annual distributions to the Zoo Society and fund short-term loans to the Zoo Society to supplement capital campaign or other cash flow management issues; so long as the Sustaining Fund balance remains above 50% of the Zoo Society's current budgeted annual unrestricted operating expenses. There were no approved discretionary annual distributions at both December 31, 2017 and 2016. However, the Zoo Society expended \$2,992 and \$358,800, for the years ended December 31, 2017 and 2016, respectively, from previously approved discretionary distributions.

The ZooFutures Fund, a quasi-endowment fund, was established in 1998 with the express purpose of receiving planned gifts and other contributions, and is administered and operated in support of Zoo Society activities.

Cleveland Zoological Society

Notes to Financial Statements

December 31, 2017 and 2016

Note 6: Board-Designated Net Assets (continued)

The N&BH Fund for Elephants was established in 2013 to provide funding in support for elephant-care staff training. During 2016, management had determined based on discussions with the donor, the desire of the donor is that the original contributions to the N&BH Fund for Elephants be held in perpetuity. This resulted in a reclassification of net assets as shown in the accompanying statement of activities for the year ended December 31, 2016.

In December 2016, the Board of Trustees established three funds for the purpose of receiving donor-designated endowed gifts – the Animal Care Fund, the Conservation Fund, and the Education Fund. The Board of Trustees also acted to allocate a portion of its Board-designated net assets into the Animal Care Fund and the Conservation Fund. These Board-designated net assets, in combination with donor-designated net assets, will provide targeted support for three of the Zoo Society’s primary mission foci. The first distributions from the Animal Care and Conservation funds will be made in 2018 based on 2017 investment performance.

Board-designated net assets were as follows at December 31:

	<u>2017</u>	<u>2016</u>
Sustaining Fund	\$ 5,995,494	\$ 5,229,860
ZooFutures Fund	3,596,482	2,971,077
Conservation Fund	1,138,301	943,373
Animal Care Fund	589,288	493,771
Special project initiatives	-	67,377
	<u>\$ 11,319,565</u>	<u>\$ 9,705,458</u>

Note 7: Net Asset Classification of Endowment and Quasi-Endowment Funds

The Zoo Society maintains several funds consisting of both Board-designated and donor-designated assets established to support a variety of programs. As required by GAAP, net assets associated with endowment funds, including funds designated by the Board of Trustees to function as quasi-endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Trustees of the Zoo Society has interpreted the State Prudent Management of Institutional Funds Act (SPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Zoo Society classifies as permanently restricted net assets (a) the original value of gifts donated, (b) the original value of subsequent gifts, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

Cleveland Zoological Society

Notes to Financial Statements

December 31, 2017 and 2016

Note 7: Net Asset Classification of Endowment and Quasi-Endowment Funds (continued)

In accordance with SPMIFA, the Zoo Society considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the funds.
- (2) The purposes of the Zoo Society and the donor-restricted endowment funds.
- (3) General economic conditions.
- (4) The investment policies of the Zoo Society.

During the year ended December 31, 2017, the Zoo Society had the following endowment-related activities:

	<u>Donor-Restricted Endowment Funds</u>	<u>Board-Designated Quasi-Endowment Funds</u>	<u>Total</u>
Investment return:			
Interest and dividends	\$ 11,504	\$ 111,435	\$ 122,939
Net realized and unrealized gains	<u>78,563</u>	<u>771,705</u>	<u>850,268</u>
Total investment return	90,067	883,140	973,207
Contributions to perpetual endowment	49,050	220,710	269,760
Amounts appropriated for expenditure	<u>(17,562)</u>	<u>(188,000)</u>	<u>(205,562)</u>
Total change in endowment funds	\$ <u><u>121,555</u></u>	\$ <u><u>915,850</u></u>	\$ <u><u>1,037,405</u></u>

During the year ended December 31, 2016, the Zoo Society had the following endowment-related activities:

	<u>Donor-Restricted Endowment Funds</u>	<u>Board-Designated Quasi-Endowment Funds</u>	<u>Total</u>
Investment return:			
Interest and dividends	\$ 10,421	\$ 90,377	\$ 100,798
Net realized and unrealized gains	<u>25,021</u>	<u>246,175</u>	<u>271,196</u>
Total investment return	35,442	336,552	371,994
Contributions to perpetual endowment	58,129	460,890	519,019
Amounts appropriated for expenditure	(3,431)	(186,064)	(189,495)
Reclassification into endowment funds	<u>339,892</u>	<u>-</u>	<u>339,892</u>
Total change in endowment funds	\$ <u><u>430,032</u></u>	\$ <u><u>611,378</u></u>	\$ <u><u>1,041,410</u></u>

Cleveland Zoological Society

Notes to Financial Statements

December 31, 2017 and 2016

Note 7: Net Asset Classification of Endowment and Quasi-Endowment Funds (continued)

Endowment Net Asset Composition by type of fund
as of December 31, 2017:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 214,587	\$ 384,000	\$ 598,587
Board-designated quasi-endowment funds	<u>5,324,071</u>	<u>-</u>	<u>-</u>	<u>5,324,071</u>
Total funds	<u>\$ 5,324,071</u>	<u>\$ 214,587</u>	<u>\$ 384,000</u>	<u>\$ 5,922,658</u>

Endowment Net Asset Composition by type of fund
as of December 31, 2016:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 141,282	\$ 335,750	\$ 477,032
Board-designated quasi-endowment funds	<u>4,408,221</u>	<u>-</u>	<u>-</u>	<u>4,408,221</u>
Total funds	<u>\$ 4,408,221</u>	<u>\$ 141,282</u>	<u>\$ 335,750</u>	<u>\$ 4,885,253</u>

Changes in Endowment Net Assets
for the fiscal year ended December 31, 2017:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 4,408,221	\$ 141,282	\$ 335,750	\$ 4,885,253
Investment return:				
Interest and dividends	111,435	11,504	-	122,939
Net realized and unrealized gains	<u>771,705</u>	<u>78,563</u>	<u>-</u>	<u>850,268</u>
Total investment return	883,140	90,067	-	973,207
Contributions to perpetual endowment	220,710	800	48,250	269,760
Appropriation of endowment assets for expenditure	<u>(188,000)</u>	<u>(17,562)</u>	<u>-</u>	<u>(205,562)</u>
Endowment net assets, end of year	<u>\$ 5,324,071</u>	<u>\$ 214,587</u>	<u>\$ 384,000</u>	<u>\$ 5,922,658</u>

Cleveland Zoological Society

Notes to Financial Statements

December 31, 2017 and 2016

Note 7: Net Asset Classification of Endowment and Quasi-Endowment Funds (continued)

Changes in Endowment Net Assets
for the fiscal year ended December 31, 2016:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 3,796,843	\$ -	\$ 47,000	\$ 3,843,843
Investment return:				
Interest and dividends	90,377	10,421	-	100,798
Net realized and unrealized gains	<u>246,175</u>	<u>25,021</u>	<u>-</u>	<u>271,196</u>
Total investment return	336,552	35,442	-	371,994
Contributions to perpetual endowment	460,890	50,879	7,250	519,019
Appropriation of endowment assets for expenditure	(186,064)	(3,431)	-	(189,495)
Reclassification into endowment funds	<u>-</u>	<u>58,392</u>	<u>281,500</u>	<u>339,892</u>
Endowment net assets, end of year	\$ <u>4,408,221</u>	\$ <u>141,282</u>	\$ <u>335,750</u>	\$ <u>4,885,253</u>

Return Objectives and Risk Parameters

The Zoo Society has adopted investment and spending policies for the ZooFutures Fund that attempt to provide a predictable stream of funding while seeking to maintain the purchasing power of the assets. Assets include those assets of donor-restricted funds that the Zoo Society must hold in perpetuity or for a donor-specified period(s), as well as Board-designated funds. Under this policy, as approved by the Board of Trustees, investments of all Zoo Society assets are directed by the Finance Committee of the Zoo Society utilizing professional fund managers. The standard for the Finance Committee with regard to Board-designated and donor-designated assets shall be the preservation of corpus while prudently maximizing real growth. The Zoo Society will conduct a quarterly monitoring of the portfolio. Investment performance will be measured against comparative market indices including the Standard & Poor 500 Index and the Lehman Brothers Aggregate Bond Index. The performance of the overall portfolio will also be monitored quarterly and compared against appropriate benchmarks.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the Zoo Society 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 Zoo Society targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Cleveland Zoological Society

Notes to Financial Statements

December 31, 2017 and 2016

Note 7: Net Asset Classification of Endowment and Quasi-Endowment Funds (continued)

Spending Policy

Recommendations for the use of ZooFutures Fund assets free of donor restriction shall be the responsibility of the Finance Committee as part of the annual budget process. Grants from the ZooFutures Fund shall be in support of Zoo and Zoo Society activities, zoological conservation, and such other purposes as the Zoo Society's Board of Trustees shall deem appropriate. Except in special circumstances, and except for recommending specific uses of generally restricted donor funds, recommendations shall be limited in the aggregate to an amount which shall not exceed in any calendar year a sum equal to 5% of the twelve-quarter rolling average of ZooFutures Fund assets. Amounts that have been approved for expenditure, in any given year, but not expended by the end of year, are carried over to subsequent years. As of December 31, 2017 and 2016, there were no prior approved, but unexpended, annual allocations.

Note 8: Split-Interest Agreements

The Zoo Society administers various charitable gift annuities. Under these agreements, the Zoo Society remits fixed payments to the donors on a quarterly basis. Interest rates range from 4.7% to 8.9%. Using applicable mortality tables, quarterly payments are estimated to extend through 2036. Investments, primarily mutual funds, held in charitable gift annuities aggregated \$240,390 and \$233,810 at December 31, 2017 and 2016, respectively, and are reported at fair value in the statements of financial position. Included in liability under split-interest agreements is \$121,339 and \$131,476 at December 31, 2017 and 2016, respectively, related to these agreements.

Beneficial interest in perpetual trusts include two separate trust funds that have been instructed to provide the Zoo Society with the unrestricted use of the Zoo Society's respective portion of the trusts' income in accordance with the trusts' documents. The Zoo Society has an irrevocable right to receive the income from the trusts' assets in perpetuity. The Zoo Society's share of the trusts' assets, which had a market value on December 31, 2017 and 2016 of \$642,203 and \$576,119, respectively, are included in the accompanying statements of financial position. The trusts' investments are managed by external trustees designated by the donors. As such, the Zoo Society does not control the allocation of the trusts' investments.

Note 9: Restrictions on Net Assets

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

	<u>2017</u>	<u>2016</u>
Conservation and research	\$ 554,403	\$ 510,748
Education	619,563	438,699
Comprehensive campaign	-	1,909,810
Appreciation of specific donor-restricted endowments (time restricted)	<u>162,908</u>	<u>90,403</u>
	<u>\$ 1,336,874</u>	<u>\$ 2,949,660</u>

Cleveland Zoological Society

Notes to Financial Statements

December 31, 2017 and 2016

Note 9: Restrictions on Net Assets (continued)

Temporarily restricted net assets were released from donor restrictions by incurring expenditures satisfying the purpose and/or time restrictions specified by donors as follows during the years ended December 31:

	<u>2017</u>	<u>2016</u>
African Elephant Crossing	\$ -	\$ 126,390
Art conservation	-	45,309
Conservation and research	333,174	738,008
Education	330,377	352,838
Comprehensive campaign	4,091,710	997,430
ZooFutures	<u>17,562</u>	<u>2,350</u>
	<u>\$ 4,772,823</u>	<u>\$ 2,262,325</u>

Permanently restricted net assets aggregating \$1,026,203 and \$911,869 at December 31, 2017 and 2016, respectively, consist of endowment fund assets to be held in perpetuity and beneficial interests in perpetual trusts.

Note 10: Cleveland Metropolitan Park District

The Zoo Society has historically provided support to the Cleveland Metropolitan Park District for a variety of Zoo programs and functions. Support is summarized below for the years ended December 31:

	<u>2017</u>	<u>2016</u>
Operating agreement	\$ 2,051,046	\$ 2,084,360
Levy support and lobbying	15,000	15,000
Animal care and research	156,552	350,997
Capital projects	3,493,621	1,211,631
Field conservation	544,768	471,077
Education	<u>330,377</u>	<u>313,631</u>
	<u>\$ 6,591,364</u>	<u>\$ 4,446,696</u>

Operating Agreement

In September 1997, the Zoo Society entered into an agreement with the District whereby the Zoo Society guarantees the District a specific dollar amount equivalent to aggregate annual membership contributions for membership categories where the dues are \$125 or less. This percentage began at 55% in 1998 and progressively increased to a maximum level of 70% for 2002 and thereafter. The agreement has an ongoing annual renewal clause that grants the parties the ability to request renegotiation or cancellation. The District recognizes the Society's annual operating support to the Zoo's operating budget to help finance key areas including, but not limited to: Zoo education; outreach programs; animal health, care, and welfare; horticultural and Zoo grounds beautification; and quality Zoo guest services.

Cleveland Zoological Society

Notes to Financial Statements

December 31, 2017 and 2016

Note 10: Cleveland Metropolitan Park District (continued)

Effective January 1, 2013, the Zoo Society and the District amended the agreement. The terms of this amended agreement guarantee amounts equivalent to 65% and 7% of gross membership revenues as described in the previous agreement noted with the 65% target towards the Zoo's operating budget and the 7% targeted towards mutually agreeable Zoo priorities that are mission-relevant, have donor appeal, and advance the joint strategic plan. Under this agreement, the Zoo Society has recorded aggregate Zoo support of \$2,051,046 and \$2,084,360 for 2017 and 2016, respectively. During 2017, the amended agreement was extended through December 31, 2018.

Included in "amounts due to Cleveland Metropolitan Park District – operating agreement" on the statements of financial position is \$120,258 and \$103,808 which is owed to the District under the above agreements at December 31, 2017 and 2016, respectively. Included in "accounts payable and accrued expenses" on the statements of financial position is \$14,527 and \$-0- which is owed to the District not related to the above agreements at December 31, 2017 and 2016, respectively.

Circle of Wildlife

In January 2013, the District approved participation in a Carousel Special Project Initiative, subsequently called Circle of Wildlife. This initiative outlined certain roles and responsibilities involving the Zoo Society. As part of its roles and responsibilities, the Zoo Society conditionally committed to a fundraising initiative of up to \$2,000,000 to be used for the purchase of the carousel, estimated costs for the pavilion to house the carousel, and other programmatic costs. Of the total fundraising initiative, up to \$1,600,000 was to be committed to the District for the design, delivery, construction, and installation of the carousel. The remaining \$400,000 was to be used to fund improvements, fundraising, marketing, and raising awareness of the Zoo and the Zoo Society. The commitment to the District was conditioned upon the District approving expenditures relating to this initiative. Through December 31, 2017, the Zoo Society raised a total of \$3,171,903 related to this initiative. The excess funding helped fund the Ben Gogolick Giraffe Encounter during 2015. Remaining funds are to be used for a hay barn. As of December 31, 2017 and 2016, the Zoo Society has recorded \$2,787,973 and \$2,433,518, respectively, in expenses related to these projects. At December 31, 2017 and 2016, commitments to the District for this initiative were \$-0- and \$840,000, respectively.

Comprehensive Campaign – Passport to the Wild

In December 2014, the Zoo Society formally accepted a statement of intent for a comprehensive campaign with a total fundraising goal of \$30 million. This statement of intent outlined certain roles and responsibilities involving the Zoo Society. The funds raised in the campaign will come in the form of grants and other restricted gifts and will be used to support various campaign initiatives, including animal habitats, capital improvements, endowment funds, programming for education, conservation and research, fundraising, and marketing and communications expenses incurred related to the campaign. One major contingency related to the Zoo Society's intention is the Zoo Society's ability to raise and collect funds for the campaign.

Cleveland Zoological Society

Notes to Financial Statements

December 31, 2017 and 2016

Note 10: Cleveland Metropolitan Park District (continued)

In July 2017, the District notified the Zoo Society of its intentions to move ahead with Asian Highlands, an exhibit that falls under the overall comprehensive campaign. The Zoo Society Board contingently approved a \$3.8 million commitment for capital costs related to Asian Highlands. This commitment was conditioned upon the District proceeding with construction of Asian Highlands, of which, groundbreaking occurred during 2017. With this condition being met, the Zoo Society recognized \$2,980,821 in expenses related to this project during the year ended December 31, 2017. A related liability had been recorded for \$1,980,821 at December 31, 2017.

In September 2017, the District notified the Zoo Society of its intentions to move ahead with the Jack, Joseph and Morton Mandel Welcome Pavilion (the "Mandel Welcome Pavilion"), a project that falls under the overall comprehensive campaign. The Zoo Society Board contingently approved a \$500,000 commitment for capital costs related to the Mandel Welcome Pavilion. This commitment was conditioned upon the District proceeding with construction of the Mandel Welcome Pavilion, of which, groundbreaking occurred during 2017. With this condition being met, the Zoo Society recognized \$500,000 in expenses related to this project during the year ended December 31, 2017. A related liability had been recorded for \$500,000 at December 31, 2017.

The Zoo Society recognized no expenses to the District under the comprehensive campaign for the year ending 2016. The Zoo has recognized a total of \$2,500,000 in expenses under this statement of intent in prior years.

Note 11: Allocation of Joint Costs

For the years ended December 31, 2017 and 2016, the Zoo Society incurred costs for producing and distributing membership publications. These publications included – information, materials, and activities that included fundraising appeals. These costs were allocated to fundraising and program services as follows:

	<u>2017</u>	<u>2016</u>
Fundraising	\$ 91,846	\$ 99,704
Program services	<u>397,997</u>	<u>244,727</u>
	<u>\$ 489,843</u>	<u>\$ 344,431</u>

Note 12: In-Kind Contributions

For the years ended December 31, 2017 and 2016, \$267,945 and \$333,310, was included as unrestricted special events support and revenues and expenses on the statements of activities, respectively. During both years ending December 31, 2017 and 2016, in-kind contributions primarily consisted of donated advertising/media gifts.

Cleveland Zoological Society

Notes to Financial Statements

December 31, 2017 and 2016

Note 13: Defined Contribution Plans

Effective January 1, 1999, the Zoo Society adopted a 403(b) defined contribution plan (the "Plan"). The Plan covers all employees who work 1,000 hours or more during a calendar year. Each participant may elect to defer a portion of their annual compensation and the Zoo Society will make a matching contribution up to 3% of the participant's compensation. During 2017 and 2016, the amount of expense related to this Plan was \$117,937 and \$87,809, respectively.

Effective January 1, 2005, the Zoo Society adopted a 457(b) executive deferred compensation plan (the "Executive Plan"). Participation in the Executive Plan is limited to those determined eligible by the Human Resources Committee of Zoo Society's Board of Trustees. Participants may elect annually to defer a portion of their compensation. The Human Resources Committee may annually elect to provide employer contributions to the Executive Plan. Participants are immediately vested in their elected deferral amounts and vested in the employer contributions over a three-year service period or upon their death or permanent disability. During each of the years ended December 31, 2017 and 2016, the amount of expense related to this Executive Plan was \$25,000.

The assets of the Executive Plan are included in the "investments in pooled separate accounts" on the accompanying statements of financial position. At December 31, 2017 and 2016, the total assets under the plan recorded in the accompanying statements of financial position were \$267,392 and \$209,673, respectively. The fair value of the assets under the Executive Plan is based upon the net asset value (NAV) of units held by the Society at year-end, which is provided by the administrator of the pooled separate accounts. The NAV, as provided by the administrator of the accounts, is used as a practical expedient to estimate fair value. The NAV is based on the value of the underlying investments held in the accounts, minus its liabilities, and then divided by the number of units outstanding.

The liability under the Executive Plan is included in "deferred compensation" on the accompanying statements of financial position. At December 31, 2017 and 2016, the total liability under the plan recorded in the accompanying statements of financial position was \$292,392 and \$234,673, respectively. The fair value of the deferred compensation liability is based upon the value of the total benefit available to the participants of the Executive Plan. The benefit available to the participants of the Executive Plan is equal to the underlying assets in the participants' book accounts. As such, the value of liability is equal to the assets under the Executive Plan, plus \$25,000 at both December 31, 2017 and 2016, for amounts accrued but not yet invested in the pooled separate accounts.

Note 14: Related-Party Transactions

At December 31, 2017 and 2016, \$745,061 and \$1,140,812 of pledges receivable and \$562,307 and \$914,231 of support and revenue, respectively, were from trustees, trustee-related organizations, and employees.

The Zoo Society receives donated office facilities, including office space, common space, utilities, computer and telephonic services from Cleveland Metroparks. The amount of such services cannot be reasonably estimated due to the unique nature of the space. Therefore, no amounts are recorded on the statements of activities for the years ended December 31, 2017 or 2016.