

GREATER LOS ANGELES ZOO ASSOCIATION
FINANCIAL STATEMENTS
FOR THE YEARS ENDED
JUNE 30, 2016 AND 2015

GREATER LOS ANGELES ZOO ASSOCIATION
CONTENTS
June 30, 2016

	Page
INDEPENDENT AUDITOR'S REPORT	1 – 2
FINANCIAL STATEMENTS	
Statements of Financial Position	3
Statements of Activities	4
Statements of Cash Flows	5
Notes to Financial Statements	6 – 24
SUPPLEMENTARY INFORMATION	
Schedule of Functional Expenses	25

INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
Greater Los Angeles Zoo Association
Los Angeles, California

Report on the Financial Statements

We have audited the accompanying financial statements of Greater Los Angeles Zoo Association ("Association"), which comprise the statements of financial position as of June 30, 2016 and 2015, the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements (collectively, 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 auditing standards generally accepted in the United States of America; this includes the design, implantation, 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 audit 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 Association'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 Association'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 the Association as of June 30, 2016 and the changes in net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the Association's 2015 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated February 29, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of functional expenses for the year ended June 30, 2016 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Singer Lewak LLP

December 19, 2016

GREATER LOS ANGELES ZOO ASSOCIATION
STATEMENTS OF FINANCIAL POSITION
June 30, 2016 and 2015

ASSETS		2016	2015
Assets			
Cash and cash equivalents	\$	22,645,552	\$ 6,462,560
Investments		9,516,043	27,362,703
Accounts receivable - general		503,617	570,980
Accounts receivable - City of Los Angeles		1,590,540	774,566
Pledges and grants receivable, net		745,047	803,672
Beneficial interest in perpetual trusts		126,487	140,230
Equipment and leasehold improvements, net		464,969	544,645
Other assets		248,149	158,664
Total assets	\$	35,840,404	\$ 36,818,020
LIABILITIES AND NET ASSETS			
Liabilities			
Salaries and benefits payable	\$	1,189,228	\$ 1,387,944
Accounts payable and accrued expenses - general		550,099	744,520
Accounts payable and accrued expenses - City of Los Angeles		447,833	499,653
Membership surplus due to the City of Los Angeles		277,733	-
Deferred revenue		73,574	116,669
Accrued obligation to the City of L.A.: Elephants of Asia exhibit		8,112,119	8,642,726
Capital lease obligations		29,638	42,152
Total liabilities		10,680,224	11,433,664
Net assets			
Unrestricted			
Undesignated		1,365,787	1,125,435
Designated for Elephants of Asia exhibit		119,176	(514,080)
Designated for endowment		17,677,504	18,421,405
Designated for other projects		1,998	1,998
Total unrestricted		19,164,465	19,034,758
Temporarily restricted			
Restricted for Zoo assistance		2,119,995	2,289,442
Restricted for behavioral enrichment		715,357	742,906
Restricted for endowment		1,099,569	1,242,713
Total temporarily restricted		3,934,921	4,275,061
Permanently restricted			
		2,060,794	2,074,537
Total net assets		25,160,180	25,384,356
Total liabilities and net assets	\$	35,840,404	\$ 36,818,020

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

GREATER LOS ANGELES ZOO ASSOCIATION
STATEMENTS OF ACTIVITIES
For the Year Ended June 30, 2016
(with Summarized Financial Information for the Year Ended June 30, 2015)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2016 Totals	2015 Totals
Support and revenue					
Membership revenue	\$ 6,114,242	\$ -	\$ -	\$ 6,114,242	\$ 6,253,303
Contributions and grants	4,023,629	2,049,500	-	6,073,129	4,809,221
Special events revenue, net of direct donor benefit expenses of \$305,450	795,666	-	-	795,666	729,592
Visitor amenities	3,394,012	-	-	3,394,012	3,041,288
Exhibitions and community events, net of expenses	(323,784)	-	-	(323,784)	(94,821)
Net investment income (loss)	(722,286)	(145,180)	-	(867,466)	873,528
Net unrealized loss on beneficial interest in perpetual trusts	-	-	(13,743)	(13,743)	(8,146)
Miscellaneous revenue	79,255	-	-	79,255	57,016
Net assets released from restrictions	2,244,460	(2,244,460)	-	-	-
Total support and revenue	<u>15,605,194</u>	<u>(340,140)</u>	<u>(13,743)</u>	<u>15,251,311</u>	<u>15,660,981</u>
Expenses					
Program services					
Los Angeles Zoo and Botanical Gardens	5,483,253	-	-	5,483,253	5,386,225
Greater Los Angeles Zoo Association	6,669,808	-	-	6,669,808	6,442,824
Total program services	<u>12,153,061</u>	<u>-</u>	<u>-</u>	<u>12,153,061</u>	<u>11,829,049</u>
General and administrative	1,960,275	-	-	1,960,275	2,028,158
Fundraising	1,362,151	-	-	1,362,151	1,421,009
Total expenses	<u>15,475,487</u>	<u>-</u>	<u>-</u>	<u>15,475,487</u>	<u>15,278,216</u>
Changes in net assets	129,707	(340,140)	(13,743)	(224,176)	382,765
Net assets, beginning of year	<u>19,034,758</u>	<u>4,275,061</u>	<u>2,074,537</u>	<u>25,384,356</u>	<u>25,001,591</u>
Net assets, end of year	<u>\$ 19,164,465</u>	<u>\$ 3,934,921</u>	<u>\$ 2,060,794</u>	<u>\$ 25,160,180</u>	<u>\$ 25,384,356</u>

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

GREATER LOS ANGELES ZOO ASSOCIATION
STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2016 and 2015

	2016	2015
Cash flows from operating activities		
Changes in net assets	\$ (224,176)	\$ 382,765
Adjustments to reconcile changes in net assets to net cash used in operating activities:		
Permanently restricted contributions	-	(4,993)
Net investment income (loss)	793,848	(927,843)
Depreciation and amortization	183,677	140,793
Changes in operating assets and liabilities:		
Accounts receivable	(748,611)	(1,025,900)
Pledges and grants receivable	58,625	622,880
Beneficial interest in perpetual trusts	13,743	8,146
Other assets	(89,485)	(8,135)
Accounts payable and accrued expenses	(444,957)	(434,120)
Membership surplus due to the City of Los Angeles	277,733	(447,837)
Deferred revenue	(43,095)	(47,829)
	(222,698)	(1,742,073)
Net cash used in operating activities		
Cash flows from investing activities		
Sales of investments	21,183,962	4,651,706
Purchases of investments	(4,131,150)	(3,057,170)
Purchases of equipment and leasehold improvements	(104,001)	(301,655)
	16,948,811	1,292,881
Net cash provided by investing activities		
Cash flows from financing activities		
Payments on accrued grant: Elephants of Asia exhibit	(530,607)	(1,707,476)
Principal payments on capital lease obligations	(12,514)	(11,272)
Permanently restricted contributions	-	4,993
	(543,121)	(1,713,755)
Net cash used in financing activities		
Net increase (decrease) in cash and cash equivalents	16,182,992	(2,162,947)
Cash and cash equivalents, beginning of year	6,462,560	8,625,507
Cash and cash equivalents, end of year	\$ 22,645,552	\$ 6,462,560
Supplemental disclosure of cash flow information		
Interest paid on accrued grant: Elephants of Asia exhibit	\$ 74,417	\$ 70,556

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

GREATER LOS ANGELES ZOO ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE 1 – ORGANIZATION

General

The Greater Los Angeles Zoo Association (“GLAZA” or the “Association”), the official support organization of the Los Angeles Zoo & Botanical Gardens (the “Zoo”), is a not-for-profit corporation organized for the purpose of establishing, developing, beautifying and improving the Zoo. The Los Angeles Zoo & Botanical Gardens is owned by the City of Los Angeles (the “City”) and operated by the City of Los Angeles, Department of the Zoo. To fulfill its mission, GLAZA conducts a development program that raises funds for operational, programmatic and capital needs and projects; directs and operates the Zoo’s membership programs for over 63,000 households; manages marketing, strategic branding, and public relations for the Zoo; conducts a site rentals program for the Zoo; plans and executes special events and travel programs; creates and distributes publications for the Zoo, including its website; recruits and trains approximately 900 docents and volunteers; and oversees certain visitor amenities including food and retail concessions and The Tom Mankiewicz Conservation Carousel.

Operating Agreement

The City of Los Angeles, through the Zoo Department, entered into an Operating Agreement with the Greater Los Angeles Zoo Association (the “Operating Agreement”) for the purposes of obtaining assistance in establishing, developing, beautifying and improving the Zoo. The Operating Agreement was executed on September 29, 1997, expires on September 29, 2022 and, among other things, requires GLAZA to remit to the City 25% from each family, individual and other membership fee.

On February 10, 2016, the City Council approved the first amendment to the Operating Agreement extending the term of the Concessions Agreement between the City and the Greater Los Angeles Zoo Association to August 31, 2016. On August 24, 2016, the City Council approved the second amendment to the Operating Agreement extending the term of the Concessions Agreement between the City and the Greater Los Angeles Zoo Association to August 31, 2017, with the option of an additional six month extension, subject to Council review and approval.

Concession Agreement

A separate agreement between the City and GLAZA (the “Concession Agreement”) defines the contractual relationship between the City and GLAZA whereby the City has granted to GLAZA the exclusive right and privilege to operate and maintain all approved concessions on Zoo premises. The original Concession Agreement expired on February 11, 2006. However, as referenced above, the Operating Agreement extends the term of the Concession Agreement through August 31, 2017, with a six-month option that is subject to the review and approval of the City Council.

GREATER LOS ANGELES ZOO ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE 1 – ORGANIZATION (Continued)

Concession Agreement (Continued)

On October 1, 1997, GLAZA entered into a ten-year agreement with a joint venture of Service America Corporation and Service Systems Associates (“Joint Venture” or “Concessionaire”) for subcontracting of concessions. In May 2007, a Second Amendment was made to the agreement, extending the term through September 30, 2009. In September 2009, GLAZA and the Joint Venture entered into a Third Amendment, extending the term through September 30, 2011. GLAZA and the Joint Venture then entered into three preliminary agreements to extend the expiration date through December 31, 2012, and negotiate in good faith regarding a Fourth Amendment. A Fourth Amendment was executed December 11, 2014, which extends the Joint Venture through February 11, 2016.

Memorandum of Understanding: Marketing and Public Relations and Site Rentals and Catered Events

On May 3, 2013, GLAZA and the Los Angeles Zoo & Botanical Gardens executed a Memorandum of Understanding: Marketing and Public Relations and Site Rentals and Catered Events (the “MOU”), effective for a three-year period from July 1, 2013 to June 30, 2016. The MOU was approved by the Council of the City of Los Angeles (“City Council”) on June 28, 2013, pending approval by City Council of the Zoo’s Business and Marketing Plan. In November 2013, the Zoo presented its Business and Marketing Plan to City Council for approval. In December, hearings were held by City Council but no action was taken on the plan and a First Amendment was executed, extending the date for final approval of the plan to March 31, 2014. After additional hearings in the spring of 2014, a Second Amendment to the MOU was executed, extending the date for final approval of the plan to September 30, 2014. After additional hearings in the summer of 2014, the City Council approved the Zoo’s Business and Marketing Plan, ratified the MOU, and approved the Third Amendment to the MOU on September 23, 2014.

Under the terms of the MOU, GLAZA assumed responsibility for marketing, strategic branding, and public relations for the Zoo beginning July 1, 2013. GLAZA’s objectives include investing over \$2 million annually in the Marketing and Public Relations program, with the goal of raising the Zoo’s visibility in the competitive Los Angeles marketplace; increasing Zoo attendance, admissions revenue and other forms of earned revenue, and helping to guarantee that the Zoo continues to flourish over the long-term. As a component of GLAZA’s overall marketing campaign, GLAZA also agreed to market the Zoo as a prime venue for catered events. In line with the MOU, GLAZA re-assumed responsibility for site rentals from the Concessionaire in the fall of 2013. As of December 19, 2016, the City and GLAZA continue to negotiate in good faith regarding a new MOU to be effective July 1, 2016.

GREATER LOS ANGELES ZOO ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE 1 – ORGANIZATION (Continued)

Fundraising Focus

A major fundraising focus since the late 1990's has been raising the private community support to supplement the City of Los Angeles and County of Los Angeles bond funds and other funds that are being used to fund the Zoo's Master Plan of improved facilities and exhibits. This public-private partnership has resulted in such projects as the Chimpanzees of Mahale Mountains, Red Ape Rain Forest, the Winnick Family Children's Zoo, the Gottlieb Animal Health and Conservation Center, the Children's Discovery Center, the Front Entry Plaza and Sea Life Cliffs, the Campo Gorilla Reserve, the California Condor Rescue Zone and Elephants of Asia. Additional capital projects included The Tom Mankiewicz Conservation Carousel and the Angela Collier World of Birds Theater.

GLAZA's support and participation in each of these capital projects are negotiated in advance and vary from project to project. Generally, GLAZA must raise all of its participation funds before construction of each project commences.

As a result, there tends to be a time lag between raising the funds (indicated by contributions and grants in the temporarily restricted fund) and the transfer of these funds to the Zoo as the project is constructed (indicated by net assets released from temporary restrictions and expenses listed in "Program services: Los Angeles Zoo & Botanical Gardens" on the statement of activities). The time between funds being raised (revenue) and being transferred to the Zoo (releases and expenses) can take several years depending upon the timing of the project. Hence, there can be large swings in GLAZA's surplus or deficit in the temporarily restricted fund as well as the overall consolidated yearly totals.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

Comparative Amounts

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Association's financial statements for the year ended June 30, 2015, from which the summarized information was derived.

GREATER LOS ANGELES ZOO ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Reclassifications

Certain accounts in the prior-year financial statements have been classified for comparative purposes to conform to the presentation in the current-year financial statements. These reclassifications had no effect on net assets.

Classes of Net Assets

GLAZA reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets.

- *Unrestricted* – These are not subject to donor-imposed restrictions. Unrestricted net assets may be designated for specific purposes by action of the Board or may otherwise be limited by contractual agreements with outside parties.
- *Temporarily Restricted* – These carry specific donor-imposed restrictions on the use of contributed funds or are unspent earnings on permanently restricted endowment net assets. Temporary restrictions may expire due to the passage of time or through actions of GLAZA pursuant to the stipulations indicated by the donor.
- *Permanently Restricted* – These are the net assets resulting from contributions and other inflows of assets whose use by GLAZA is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of GLAZA. Changes in the value of beneficial interest in perpetual trusts are recorded as permanently restricted net assets, and net investment revenue on permanently restricted net assets is recorded as temporarily restricted net assets until appropriated for expenditure.

Cash and Cash Equivalents

Cash and cash equivalents consist of items with a purchased maturity of three months or less.

Investments

GLAZA investments are reflected on the statement of financial position at fair value. Changes in unrealized gains and losses resulting from changes in fair value are reflected in the statement of activities.

GLAZA's investments consist of equity securities and investments in mutual funds. GLAZA's equity securities and mutual fund investments are generally publicly traded on national securities exchanges and have readily available quoted market values. Such investments are recorded at market value. Purchases and sales of securities are reflected on the trade dates.

GREATER LOS ANGELES ZOO ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments (Continued)

Investment income, interest and dividends are presented net of related investment expenses.

Income earned from investments in all net asset classifications, except permanently restricted net assets, is recorded as unrestricted, except where the instructions of the donor specify otherwise.

Beneficial Interest in Perpetual Trusts

Donors have established and funded trusts and endowments, which are administered and controlled by the California Community Foundation (“CCF”). Under the terms of these trust/endowment agreements, GLAZA has the irrevocable right to receive all or a portion of the income earned on the trusts and endowments in perpetuity. GLAZA recognizes its beneficial interest in these trusts and endowments as permanently restricted net assets based on the discounted cash flows of expected income to be received. Distributions of investment income from these trusts and endowments are recorded as “Contributions and grants” (on the statement of activities) that increase unrestricted net assets. Changes in the value of the beneficial interest on these trusts and endowments are recorded as “Change in value of beneficial interest in perpetual trusts” on the statement of activities and are recognized as permanently restricted losses or gains.

Property and Equipment

Property and equipment purchased by or constructed for the Association are capitalized and recorded at cost. Contributed items are recorded at fair value. Depreciation and amortization is provided on the straight-line basis over the estimated useful lives of the assets.

Property and equipment purchased or constructed for the Los Angeles Zoo are expensed as a program service. Such acquisitions are conveyed to the Los Angeles Zoo for their use.

Revenue Recognition

Contributions are recorded in unrestricted net assets and are considered to be available for use unless restricted by the donor for specific purposes. Conditional contributions are recognized as revenue and recorded in unrestricted net assets when the conditions on which they depend have been substantially met.

GREATER LOS ANGELES ZOO ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition (Continued)

Unconditional promises to give (pledges) are recorded as receivables and contributions, distinguishing between contributions received for each net asset class in accordance with donor-imposed restrictions. Contributions to be received after one year are discounted at an appropriate market value discount rate. An allowance for uncollectible contributions receivable is provided, if necessary, based on management's judgment, including such factors as prior collection history, type of contribution, nature of fundraising activity and when contributions are anticipated to be received.

GLAZA records contributions as temporarily restricted if donor stipulations limit their use either through purpose or time period. When donor restrictions expire—that is, when a time period ends or a purpose is fulfilled—temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as “Net assets released from restrictions.”

Concessions revenue, which is included in Visitor amenities revenue, is accrued based upon a percentage of gross receipts reported by the Concessionaire, as defined in the contract with the Joint Venture.

Membership dues are recognized as earned upon receipt, as the estimated future costs for providing the membership services are immaterial.

Volunteer Services

Volunteers donate their time on behalf of various GLAZA and Zoo activities. GLAZA does not record the value of these services, as there is no clearly measurable basis on which to place a value for such services.

Income Taxes

GLAZA, as a not-for-profit California corporation, is exempt from federal income taxes under the Internal Revenue Code §501(c)(3) and from state franchise taxes under California Revenue and Taxation Code §23710(d), except with respect to any unrelated business income. GLAZA is classified as an organization other than a private foundation. Accordingly, no income tax provision is required. GLAZA recognizes the impact of tax positions in the financial statements if that position is more likely than not to be sustained on audit, based on the technical merits of the position. To date, GLAZA has not recorded any uncertain tax positions.

GREATER LOS ANGELES ZOO ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes (Continued)

GLAZA recognizes potential accrued interest and penalties related to uncertain tax positions in income tax expense. During the year ended June 30, 2016, GLAZA performed an evaluation of uncertain tax positions and did not identify any matters that would require recognition in the financial statements or which may have an effect on its tax-exempt status.

Estimated Fair Value of Financial Instruments

As defined in U.S. GAAP, fair value is the price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date. In determining fair value, GLAZA uses the market or income approach. Based on this approach, GLAZA utilizes certain assumptions about the risk and or risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market-corroborated or generally unobservable inputs. GLAZA utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs.

Based on the observability of the inputs used in the valuation techniques, GLAZA is required to provide the following information according to the fair value hierarchy. The fair value hierarchy ranks the quality and the reliability of the information used to determine fair values. As a basis for considering such assumptions, U.S. GAAP establishes a three-tier value hierarchy, which prioritizes the inputs used in the valuation methodologies in measuring fair value:

- Level 1 – Observable inputs that reflect quoted prices (unadjusted) for identical assets or liabilities in active markets
- Level 2 – Includes other inputs that are directly or indirectly observable in the marketplace
- Level 3 – Unobservable inputs which are supported by little or no market activity

For the year ended June 30, 2016, the application of valuation techniques applied to similar assets and liabilities has been consistent with the techniques applied during the year ended June 30, 2015.

Pledges and grants receivable have been discounted using applicable market rates to approximate fair value. Investments and beneficial interest in perpetual trusts are reflected at their estimated fair values using the methodologies described above.

GREATER LOS ANGELES ZOO ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Concentration of Credit Risk

Credit risk is the failure of another party to perform in accordance with the contract terms. Financial instruments that potentially subject the Association to concentrations of credit risk consist primarily of cash and cash equivalents, investments, and pledges and other receivables.

GLAZA places its cash and cash equivalents with investment-grade institutions. Certain account balances may exceed insurance coverage. GLAZA has not experienced any losses in its cash and cash equivalents and believes it is not exposed to any significant credit risk on such accounts.

With respect to investments, GLAZA holds significant investments in the form of mutual funds and equity securities. Invested funds are subject to certain risks, such as market fluctuation, credit risk and changes in interest rates, which could result in losses in the event of adverse economic circumstances. GLAZA attempts to limit its credit risk associated with its investments through diversification and by utilizing the expertise and processes of an outside investment advisor.

With respect to pledges and other receivables, GLAZA routinely assesses the financial strength of its debtors and believes that the related credit risk exposure is limited.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP 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.

Recently Adopted Accounting Pronouncements

In January 2014, the FASB issued Accounting Standards Update (“ASU”) 2014-05, *Service Concession Arrangements (Topic 853)*, which specifies that an operating entity should not account for a service concession arrangement that is within the scope of this Update as a lease in accordance with Topic 840, “Leases”. The amendments also specify that the infrastructure used in a service concession arrangement should not be recognized as property, plant and equipment of the operating entity. The ASU is effective for annual periods beginning after December 15, 2014 and interim periods within annual periods beginning after December 15, 2015. The adoption of this guidance did not have a material impact on GLAZA's financial statements.

GREATER LOS ANGELES ZOO ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recently Issued Accounting Pronouncements

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standard will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective and permits the use of either a full retrospective or retrospective with cumulative effect transition method. In August 2015, the FASB issued ASU 2015-14 which defers the effective date of ASU 2014-09 one year, making it effective for annual reporting periods beginning after December 15, 2018. GLAZA has not yet selected a transition method and is currently evaluating the impact of the pending adoption of ASU 2014-09 on the financial statements.

In January 2016, the FASB issued ASU 2016-01, *Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*, which updates certain aspects of recognition, measurement, presentation and disclosure of financial instruments. ASU 2016-01 will be effective for the Association for fiscal years beginning after December 15, 2018. GLAZA is currently evaluating the impact of the adoption on its financial statements. The Association elected to early adopt the amendment that no longer requires disclosure of the fair value of financial instruments that are not measured at fair value and as such, these disclosures are not included herein.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. The guidance in this ASU supersedes the leasing guidance in Topic 840, "Leases." Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the statement of activities. The new standard is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. GLAZA does not believe the adoption of this guidance will have a material financial impact on its financial statements.

In August 2016, the FASB issued ASU 2016-14, *Presentation of Financial Statements for Not-for-Profit Entities*. Under the new guidance, the existing three-category classification of net assets will be replaced with a simplified model that combines temporarily restricted and permanently restricted into a single category called donor restriction. The new standard is effective for fiscal years beginning after December 15, 2017 and interim periods within fiscal years beginning after December 15, 2018. Early adoption is permitted. GLAZA is in the process of evaluating the effect that the guidance will have on its financial statements.

GREATER LOS ANGELES ZOO ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE 3 – FINANCIAL INSTRUMENTS AND FAIR VALUE MEASUREMENTS

The Association's financial instruments include investments and a beneficial interest in perpetual trusts. The Association's investments consist of operating reserves, funds functioning as endowment and funds that have been restricted by the donor as endowment. The investments are governed by the Association's investment policy, which sets asset allocation ranges for marketable investments. The Association establishes the fair value of its investments based on quoted market prices. The Association's beneficial interest in perpetual trusts is shown at the net present value of the future benefits expected to be received.

As of June 30, 2016, GLAZA's financial instruments measured on a recurring basis were classified by level within the valuation hierarchy as follows:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments				
Bond mutual funds	\$ 4,834,617	\$ -	\$ -	\$ 4,834,617
Equity mutual funds	3,322,376			3,322,376
Balanced mutual funds	-	-	-	-
Equities	1,359,050	-	-	1,359,050
Beneficial interest in perpetual trusts	<u>-</u>	<u>-</u>	<u>126,487</u>	<u>126,487</u>
Total	<u>\$9,516,043</u>	<u>\$ -</u>	<u>\$ 126,487</u>	<u>\$ 9,642,530</u>

The components of net investment income for the year ended June 30, 2016 were as follows:

Interest and dividend income	\$ 450,840
Realized and unrealized gains (losses)	(1,198,171)
Less investment management, brokerage and custodial fees	<u>(120,135)</u>
Total net investment losses	<u>\$ (867,466)</u>

As discussed in Note 8, the Association has pledged its investments as collateral for the Wells Fargo line of credit facility, up to the full \$6,000,000 of the line of credit. The Association had no outstanding borrowings on this line of credit at June 30, 2016.

For the year ended June 30, 2016, the change in value of GLAZA's beneficial interest in perpetual trusts was as follows:

Balance, beginning of the year	\$ 140,230
Net unrealized loss	<u>(13,743)</u>
Total beneficial interest in perpetual trusts	<u>\$ 126,487</u>

GREATER LOS ANGELES ZOO ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE 3 – FINANCIAL INSTRUMENTS AND FAIR VALUE MEASUREMENTS (Continued)

The following table represents GLAZA’s Level 3 financial asset, the valuation techniques used to measure the fair value of the financial asset, and the significant unobservable inputs and the ranges of values for those inputs:

Instrument	Fair Value	Principal Valuation Technique	Unobservable Inputs	Range of Significant Input Values
Beneficial interest in perpetual trusts	\$126,487	Sales comparison approach	Market comparable rates	Audited balances Contractual value

NOTE 4 – PLEDGES AND GRANTS RECEIVABLE, NET

Unconditional promises to give (pledges) are expected to be realized in the following periods:

In one year or less	\$ 779,675
In between one year and four years	<u>61,500</u>
	841,175
Less present value discount of 2.29% – 3.01%	(46,128)
Less allowance for doubtful accounts	<u>(50,000)</u>
Total pledges and grants receivable, net	<u>\$ 745,047</u>

At June 30, 2016, approximately 40% of total pledges receivable were from three donors.

GREATER LOS ANGELES ZOO ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE 5 – EQUIPMENT AND LEASEHOLD IMPROVEMENTS

At June 30, 2016, equipment and leasehold improvements consisted of the following:

Computer hardware and software	\$ 431,424
Furniture and fixtures	245,435
Vehicles	240,060
Leasehold improvements	302,584
Equipment	297,348
Leased equipment	<u>61,247</u>
	1,578,098
Less accumulated depreciation	<u>(1,113,129)</u>
Total equipment and leasehold improvements, net	<u>\$ 464,969</u>

Depreciation expense for property and equipment for the year ended June 30, 2016 was \$183,677, which included amortization expense on capital leases.

NOTE 6 – DEFERRED COMPENSATION PLANS

GLAZA sponsors three deferred compensation plans, established as defined-contribution plans (the “Plans”), to which it contributes certain percentages, as defined in the Plan agreements, of the qualifying Plans’ participants’ annual compensation. Vesting in employer contributions plus actual earnings thereon is based on years of service. In general, a participant vests 100% after five years of service. GLAZA has the right to modify or terminate the Plans in whole or in part at any time. GLAZA’s total contributions to the Plans for the year ended June 30, 2016 were \$324,756.

NOTE 7 – ACCRUED OBLIGATION TO THE CITY OF L.A.: ELEPHANTS OF ASIA EXHIBIT

In October 2007, the Board of Trustees committed to raising \$4,500,000 for the Zoo’s Elephants of Asia Project (the “Project”), formerly the Pachyderm Forest Project. In May 2008, GLAZA had raised these funds and transferred them to the City of Los Angeles so that construction on the Project could begin. During the year ended June 30, 2009, GLAZA made an additional commitment and payment of \$50,000 to the Project. In addition, GLAZA authorized a transfer of \$300,000 of unspent GLAZA contributions to the Front Entry and Sea Lion Cliffs project to the Project.

GREATER LOS ANGELES ZOO ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE 7 – ACCRUED OBLIGATION TO THE CITY OF L.A.: ELEPHANTS OF ASIA EXHIBIT (Continued)

In October 2008, motions were introduced to the Los Angeles City Council proposing cancellation of the Project. As an inducement for the City of Los Angeles to continue with the Project, GLAZA offered to pay the City of Los Angeles for the debt service of up to the \$14,479,700 of the Municipal Improvement Corporation of Los Angeles (“MICLA”) funds then allocated to the Project, provided that the Project was completed.

In late January 2009, the Los Angeles City Council approved moving ahead with the Project. GLAZA entered into an agreement with the City of Los Angeles on February 26, 2009 to formalize the terms of GLAZA’s commitments. The agreement provided that GLAZA restrict \$3.8 million of its unrestricted endowment as collateral and allowed GLAZA to use a line of credit as a guarantee towards this commitment. To that end, GLAZA entered into an agreement with Wells Fargo Bank for a line of credit to support this commitment.

With the Project completed on December 16, 2010, GLAZA recorded an accrued obligation to the City of \$14 million during the year ended June 30, 2011. During the year ended June 30, 2012, GLAZA increased the accrued obligation by \$98,648 to reflect the increase in its share of the final construction costs for the Project. The City’s accounting for the Project was completed during the year ended June 30, 2013, and there was no change in GLAZA’s share of the final construction costs. However, GLAZA’s final commitments have not been set as permanent financing has yet to be issued.

The debt service is being billed to GLAZA by the City on a quarterly basis, assuming a twenty-year amortization schedule until the earlier of: (1) refinancing the current commercial paper facility with long-term debt or (2) paying off the entire outstanding balance.

During the year ended June 30, 2016, GLAZA remitted debt service payments to the City including principal payments totaling \$530,607 and interest payments of \$74,417, reflecting interest rates of 0.6825% to 0.6925%. As of June 30, 2016, the remaining accrued balance of \$8,112,119 is reflected in the statement of financial position as “Accrued Obligation to the City of L.A.: Elephants of Asia Exhibit.”

As of June 30, 2016, GLAZA has raised approximately \$15.4 million for this project.

GREATER LOS ANGELES ZOO ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE 8 – LINE OF CREDIT

In June 2012, GLAZA renewed an agreement with Wells Fargo Bank for a \$6,000,000, three-year line of credit which expired in June 2015. On May 15, 2015, a second amendment was signed with Wells Fargo to extend the Line of Credit until June 1, 2018. GLAZA has the option of choosing an interest rate based either on LIBOR (0.46% at June 30, 2016) plus 1.75% or the Bank's prime lending rate. The line of credit is secured by GLAZA's unrestricted investments as discussed in Note 3. As of June 30, 2016, there were no outstanding borrowings on this line of credit.

NOTE 9 – CAPITAL LEASES

At June 30, 2016, GLAZA had two outstanding capital lease agreements expiring in August 2017 and April 2019, respectively. Minimum lease payments under the capital leases for future years ending June 30 are as follows:

2017	\$ 13,788
2018	9,888
2019	<u>7,590</u>
Total payments	31,266
Less interest at 3.9% and 6.5%	<u>(1,628)</u>
Capital lease obligations	<u>\$ 29,638</u>

GREATER LOS ANGELES ZOO ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE 10 – TEMPORARILY RESTRICTED NET ASSETS

The detail of temporarily restricted net assets at June 30, 2016, which will be spent at the discretion of the Zoo Director of the Los Angeles Zoo and Botanical Gardens or the President of the Greater Los Angeles Zoo Association, as appropriate, in the specified areas and according to donor restrictions, was as follows:

GLAZA and Zoo projects	
Zoo Master Plan and other capital projects	\$ 500,755
Zoo Animal and Plant Programs	361,473
Zoo Health Center	82,043
Zoo Conservation Projects	174,253
Zoo Education Projects	471,785
Zoo Marketing Projects	159,615
Greater Los Angeles Zoo Association Projects	466,199
Allowance for doubtful accounts and discount on pledges receivable	<u>(96,128)</u>
Subtotal for GLAZA and Zoo Projects	2,119,995
Behavioral enrichment program	715,357
Endowment	<u>1,099,569</u>
Total temporarily restricted net assets	<u>\$ 3,934,921</u>

NOTE 11 – PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets at June 30, 2016 consisted of the following:

Endowments	
Laura Tyler Docent Endowment Fund	\$ 1,091,003
William Randolph Hearst Endowment for Education Programs	300,000
Kaye Jamison Docent Endowment Fund	208,276
L. Eugene Dudley Fund for Felines	80,000
Ofsanko Exhibit Improvement Fund	68,278
Zoo Scholarship Endowment Fund	36,750
General endowment fund	<u>150,000</u>
Subtotal endowments	1,934,307
Beneficial interest in perpetual trusts	<u>126,487</u>
Total permanently restricted net assets	<u>\$ 2,060,794</u>

GREATER LOS ANGELES ZOO ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE 12 – ENDOWMENTS

The Association’s endowment funds consist of (a) funds functioning as endowment through designation by the Board and (b) donor-restricted endowment funds. The earnings of the Association’s endowment funds support the mission of the Association. Net assets associated with endowment funds, including funds designated by the Board to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Effective January 1, 2009, the State of California adopted the Uniform Prudent Management of Institutional Funds Act (“UPMIFA”), which replaces the Uniform Management of Institutional Funds Act (“UMIFA”). In August of 2008, the FASB issued ASC Topic No. 958, “Not-for-Profit Entities” (“ASC 958”). The disclosure provisions of ASC 958 were applied by GLAZA as of and during the year ended June 30, 2016, as shown below.

At June 30, 2016, GLAZA’s endowment net asset composition by type of fund was as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Board-designated endowment funds	\$17,677,504	\$ -	\$ -	\$17,677,504
Donor-restricted endowment funds	<u>-</u>	<u>1,099,569</u>	<u>1,934,307</u>	<u>3,033,876</u>
Total endowment funds	<u>\$17,677,504</u>	<u>\$ 1,099,569</u>	<u>\$ 1,934,307</u>	<u>\$20,711,380</u>

GREATER LOS ANGELES ZOO ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE 12 – ENDOWMENTS (Continued)

For the year ended June 30, 2016, GLAZA’s endowment net assets changed as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Balance, beginning of the year	<u>\$18,421,405</u>	<u>\$ 1,242,713</u>	<u>\$ 1,934,307</u>	<u>\$21,598,425</u>
Investment return				
Interest and dividend income	235,014	37,162	-	272,176
Net realized and unrealized gain (loss) on investments	<u>(978,915)</u>	<u>(154,792)</u>	<u>-</u>	<u>(1,133,707)</u>
Total investment return	(743,901)	(117,630)	-	(861,531)
Distributions	<u>-</u>	<u>(25,514)</u>	<u>-</u>	<u>(25,514)</u>
Total endowment funds	<u>\$17,677,504</u>	<u>\$ 1,099,569</u>	<u>\$ 1,934,307</u>	<u>\$20,711,380</u>

Investment Policy

GLAZA’s primary investment objective is to provide for distributions as outlined in its Distribution Policy and to preserve capital, adjusted for the rate of inflation as determined by the Consumer Price Index. To satisfy its long-term rate-of-return objectives, GLAZA 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). GLAZA targets a diversified asset allocation that targets 75% equity-based and 25% fixed income-based investments. Within the equity-based portion of the portfolio, GLAZA has additionally allocated investments between large capitalization and small/mid-capitalization investments, between growth and value objectives and between domestic and international investments.

GREATER LOS ANGELES ZOO ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE 12 – ENDOWMENTS (Continued)

Distribution Policy

Unless otherwise provided for in a mutual agreement between GLAZA and the endowment donor, GLAZA has a policy of appropriating for distribution each year 5% of its endowment fund's average fair value over the prior three fiscal year-ends through the preceding fiscal year in which the distribution is planned. Should less than 5% be distributed in one year (or several years), the difference between the actual distribution and the 5% maximum distribution can be distributed at a later time. However, this "look back" period cannot go back more than three years. In establishing this policy, GLAZA has considered the long-term expected return on its endowment. Accordingly, over the long term, GLAZA expects the current spending policy to allow its endowment to grow at a rate of inflation as determined by the Consumer Price Index.

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor requires GLAZA to retain as a fund of perpetual duration. Deficiencies of this nature are reported in unrestricted net assets. As of June 30, 2016, there were no such deficiencies.

NOTE 13 – TRANSACTIONS WITH THE CITY OF LOS ANGELES

Revenue

Under terms of the Marketing MOU, GLAZA is to receive a rebate if fiscal year admissions volume targets are achieved by the Zoo. In the year ended June 30, 2016, GLAZA received a rebate of \$1,590,540 from the City of Los Angeles. This amount is included in unrestricted Contributions on the statement of activities and Accounts Receivable – City of Los Angeles in the statement of financial position.

Expenses

GLAZA has several Agreements with the City of Los Angeles Zoo to provide services and manage various activities. Per the Operating Agreement, GLAZA remits to the City 25% of membership fees received. Per the Concessions Agreement, GLAZA remits payments of varying percentages to the City for commissions received on services and amenities provided by the Concessionaire. GLAZA operates the Tom Mankiewicz Carousel and manages special events such as Zoo Lights. Revenues exceeding expenses for these events are paid to the Zoo. GLAZA funds projects and exhibits on behalf of the Zoo, and funds are paid to the City depending on each project's specific needs and timeline. In addition, City departments often provide GLAZA with vendor services such as overtime event staffing and telephone, which are reimbursed separately and not part of the MOU's.

GREATER LOS ANGELES ZOO ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE 13 – TRANSACTIONS WITH THE CITY OF LOS ANGELES (Continued)

Expenses (Continued)

During the year ended June 30, 2016, GLAZA remitted cash payments to the City of Los Angeles totaling \$5,805,357.

Amounts due from and to the City of Los Angeles at June 30, 2016 are as follows:

Accounts receivable:	\$1,590,540
Accounts payable:	\$725,566

NOTE 14 – SUBSEQUENT EVENTS

As detailed in Note 1, on August 24, 2016, the City Council approved the second amendment to the Operating Agreement, extending the term of the Concessions Agreement between the City and the Greater Los Angeles Zoo Association to August 31, 2017, with the option of an additional six-month extension, subject to City Council review and approval.

The Association has evaluated subsequent events through December 19, 2016, which is the date the financial statements were available to be issued. No significant changes to these financial statements were necessary as a result of the subsequent events evaluation.

SUPPLEMENTARY INFORMATION

GREATER LOS ANGELES ZOO ASSOCIATION
SCHEDULE OF FUNCTIONAL EXPENSES
For the Year Ended June 30, 2016

	Program Services			General and	Fundraising	Total
	Los Angeles Zoo & Botanical Gardens	Greater Los Angeles Zoo Association	Subtotal	Administration		2016
Salaries	\$ -	\$ 2,167,615	\$ 2,167,615	\$ 1,086,092	\$ 793,841	\$ 4,047,548
Employee Benefits	-	370,712	370,712	191,597	183,806	746,115
Payroll Taxes	-	162,722	162,722	63,159	50,316	276,197
Consultants and Outside Services	166,015	285,992	452,007	87,336	28,688	568,031
Transfers To City	4,020,959	-	4,020,959	-	-	4,020,959
Advertising, Publicity and Marketing Campaigns	-	1,148,511	1,148,511	60	3,260	1,151,831
Animals and Plants Supplies and Equipment	207,189	-	207,189	-	-	207,189
Audit and Tax Fees	-	-	-	72,183	-	72,183
Board and Committee Meeting Expenses	-	-	-	26,965	515	27,480
Conservation Donations	178,769	-	178,769	-	-	178,769
Credit Card and Bank Fees	-	137,505	137,505	44,076	11,996	193,577
Depreciation and Amortization	-	10,144	10,144	107,612	8,851	126,607
Direct Costs of Special Events	-	315,099	315,099	560	24,122	339,781
Donor Cultivation, Events and Recognition	-	-	-	-	94,013	94,013
Institutional and Professional Memberships	33,038	-	33,038	-	-	33,038
Educational Programs Expenses	84,355	-	84,355	-	-	84,355
Elephants of Asia Expenses	74,417	-	74,417	-	-	74,417
Equipment Purchases	187,201	-	187,201	-	-	187,201
Exhibit Construction and Maintenance	280,496	-	280,496	-	-	280,496
Graphic Design	-	74,714	74,714	-	2,845	77,559
Insurance and Workers' Comp	-	112,966	112,966	66,572	4,013	183,551
Mail House Services	-	169,683	169,683	-	8,443	178,126
Marketing Research	-	112,700	112,700	-	-	112,700
Meetings and Conventions	48,393	18,260	66,653	724	2,365	69,742
Member Benefits and Premiums	-	210,046	210,046	-	-	210,046
Miscellaneous Expenses	74,132	88,208	162,340	44,834	9,783	216,957
Office Supplies	-	22,478	22,478	14,401	4,657	41,536
Permits, Licenses and Legal Fees	-	3,468	3,468	4,288	154	7,910
Postage and Shipping	-	232,368	232,368	2,403	16,832	251,603
Printing	-	486,618	486,618	846	52,339	539,803
Rent, Storage and Telephone	-	12,870	12,870	9,282	1,228	23,380
Repairs and Maintenance	52,399	32,381	84,780	41,149	-	125,929
Signs and Banners	-	106,035	106,035	-	10,844	116,879
Software, SAS Services and Payroll	-	44,302	44,302	88,527	27,133	159,962
Telemarketing and Mailing List Expenses	-	170,220	170,220	-	-	170,220
Travel and Entertainment	64,890	26,108	90,998	7,609	4,471	103,078
Zoo Ticket Purchases	-	159,083	159,083	-	17,636	176,719
	\$ 5,472,253	\$ 6,680,808	\$ 12,153,061	\$ 1,960,275	\$ 1,362,151	\$ 15,475,487

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