

GREATER LOS ANGELES ZOO ASSOCIATION
FINANCIAL STATEMENTS
FOR THE YEARS ENDED
JUNE 30, 2017 AND 2016

GREATER LOS ANGELES ZOO ASSOCIATION

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June 30, 2017

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Greater Los Angeles Zoo Association

Report on the Financial Statements

We have audited the accompanying financial statements of Greater Los Angeles Zoo Association (the "Association"), which comprise the Statement of Financial Position as of June 30, 2017, 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 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 audit. We conducted our audit 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 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.

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, 2017, and the changes in its 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 2016 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated December 19, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016, 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, 2017, 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.

A handwritten signature in black ink that reads "Singer Lewak LLP". The signature is written in a cursive, flowing style.

November 15, 2017

GREATER LOS ANGELES ZOO ASSOCIATION
STATEMENT OF FINANCIAL POSITION
June 30, 2017
(Summarized Financial Information at June 30, 2016)

ASSETS		2017	2016
Assets			
Cash and cash equivalents	\$	6,773,922	\$ 11,450,215
Accounts receivable – general		496,998	503,617
Accounts receivable – City of Los Angeles		1,576,517	1,590,540
Pledges and grants receivable, net		1,883,453	745,047
Beneficial interest in perpetual trusts		134,483	126,487
Equipment and leasehold improvements, net		374,563	464,969
Other assets		254,206	248,149
Restricted cash and cash equivalents for endowment		2,751,923	11,195,337
Endowment investments		19,939,032	9,516,043
Total assets	\$	34,185,097	\$ 35,840,404
LIABILITIES AND NET ASSETS			
Liabilities			
Salaries and benefits payable	\$	1,307,756	\$ 1,189,228
Accounts payable and accrued expenses – general		675,620	550,099
Accounts payable and accrued expenses – City of Los Angeles		468,950	447,833
Membership surplus due to the City of Los Angeles		196,213	277,733
Deferred revenue		210,505	73,574
Accrued obligation to the City of L.A.: Elephants of Asia exhibit		-	8,112,119
Capital lease obligations		16,864	29,638
Total liabilities		2,875,908	10,680,224
Net assets			
Unrestricted			
Undesignated		2,216,427	1,365,787
Board-designated for Elephants of Asia exhibit		53,800	119,176
Board-designated for endowment		19,193,991	17,677,504
Board-designated for other projects		1,998	1,998
Total unrestricted		21,466,216	19,164,465
Temporarily restricted			
Restricted for Zoo assistance		5,394,980	2,119,995
Restricted for behavioral enrichment		816,546	715,357
Restricted for endowment		1,512,657	1,099,569
Total temporarily restricted		7,724,183	3,934,921
Permanently restricted			
		2,118,790	2,060,794
Total net assets		31,309,189	25,160,180
Total liabilities and net assets	\$	34,185,097	\$ 35,840,404

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

GREATER LOS ANGELES ZOO ASSOCIATION
STATEMENTS OF ACTIVITIES
Year Ended June 30, 2017
(Summarized Information for the Year Ended June 30, 2016)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2017 Totals	2016 Totals
Support and revenue					
Membership revenue	\$ 5,755,897	\$ -	\$ -	\$ 5,755,897	\$ 6,114,242
Contributions and grants	5,062,206	3,902,565	50,000	9,014,771	6,073,129
Special events revenue, net of direct donor benefit of \$417,442	1,555,007	-	-	1,555,007	795,666
Visitor amenities	3,376,917	-	-	3,376,917	3,394,012
Exhibitions and community events, net of expenses	158,585	-	-	158,585	(323,784)
Net investment income (loss)	1,457,882	529,633	-	1,987,515	(867,466)
Net unrealized gain (loss) on beneficial interest in perpetual trusts	-	-	7,996	7,996	(13,743)
Miscellaneous revenue	54,785	-	-	54,785	79,255
Net assets released from restrictions	642,936	(642,936)	-	-	-
Total support and revenue	18,064,215	3,789,262	57,996	21,911,473	15,251,311
Expenses					
Program services					
Los Angeles Zoo and Botanical Gardens	5,952,561	-	-	5,952,561	5,483,253
Greater Los Angeles Zoo Association	6,539,749	-	-	6,539,749	6,669,808
Total program services	12,492,310	-	-	12,492,310	12,153,061
General and administrative	1,735,457	-	-	1,735,457	1,960,275
Fundraising	1,534,697	-	-	1,534,697	1,362,151
Total expenses	15,762,464	-	-	15,762,464	15,475,487
Change in net assets	2,301,751	3,789,262	57,996	6,149,009	(224,176)
Net assets, beginning of year	19,164,465	3,934,921	2,060,794	25,160,180	25,384,356
Net assets, end of year	\$ 21,466,216	\$ 7,724,183	\$ 2,118,790	\$ 31,309,189	\$ 25,160,180

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

GREATER LOS ANGELES ZOO ASSOCIATION
STATEMENTS OF CASH FLOWS
Year Ended June 30, 2017
(Summarized Information for the Year Ended June 30, 2016)

	2017	2016
Cash flows from operating activities		
Changes in net assets	\$ 6,149,009	\$ (224,176)
Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities:		
Endowment contributions received	(50,000)	-
Net investment (income) loss	(1,565,980)	793,848
Depreciation and amortization	188,987	183,677
Changes in operating assets and liabilities:		
Accounts receivable	20,642	(748,611)
Pledges and grants receivable	(1,138,406)	58,625
Beneficial interest in perpetual trusts	(7,996)	13,743
Other assets	(6,057)	(89,485)
Accounts payable and accrued expenses	265,166	(444,957)
Membership surplus due to the City of Los Angeles	(81,520)	277,733
Deferred revenue	136,931	(43,095)
	<u>3,910,776</u>	<u>(222,698)</u>
Net cash provided by (used in) operating activities		
Cash flows from investing activities		
Sales of investments	3,943,660	21,183,962
Purchases of investments	(12,800,669)	(4,131,150)
(Addition to) withdrawal of restricted cash and cash equivalents for endowment	8,443,414	(11,195,337)
Purchases of equipment and leasehold improvements	(98,581)	(104,001)
	<u>(512,176)</u>	<u>5,753,474</u>
Net cash provided by (used in) investing activities		
Cash flows from financing activities		
Payments on accrued grant: Elephants of Asia exhibit	(8,112,119)	(530,607)
Principal payments on capital lease obligations	(12,774)	(12,514)
Endowment contributions received	50,000	-
	<u>(8,074,893)</u>	<u>(543,121)</u>
Net cash used in financing activities		
Net increase (decrease) in cash and cash equivalents	(4,676,293)	4,987,655
Cash and cash equivalents, beginning of year	<u>11,450,215</u>	<u>6,462,560</u>
Cash and cash equivalents, end of year	<u>\$ 6,773,922</u>	<u>\$ 11,450,215</u>
Supplemental disclosure of cash flow information		
Interest paid on accrued grant: Elephants of Asia exhibit	<u>\$ 65,376</u>	<u>\$ 74,417</u>

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

GREATER LOS ANGELES ZOO ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

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 54,000 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 750 docents and volunteers; and oversees certain visitor amenities including food and retail concessions.

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 purpose 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 membership fee.

On February 10, 2016, the City Council approved the first amendment to the Operating Agreement extending the term of the Concession 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 Concession Agreement to August 31, 2017, with the option of an additional six-month extension, subject to Council review and approval. On August 29, 2017, the City Council approved the third amendment to the Operating Agreement, extending the term of the Concession Agreement to August 31, 2018.

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 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 to August 31, 2018.

GREATER LOS ANGELES ZOO ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

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. A fifth amendment was executed June 14, 2016, extending the term of the Concession Services agreement until August 31, 2016. On August 31, 2016, the term of the agreement will extend for an additional three, six-month terms through February 28, 2018. On December 13, 2016, a sixth amendment was signed, which extended the agreement to August 31, 2017. On May 19, 2017, a seventh amendment was signed, which extended the agreement to February 28, 2018. On August 17, 2017, an eighth amendment was signed, which extended the Concession Services Agreement until August 31, 2018. Management expects this agreement to be extended for at least six months at the end of the term. If the arrangement is not extended, GLAZA may be responsible for reimbursing the current concessionaire for the unamortized capital investment of \$272,000.

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 (“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. A fourth amendment was executed on May 1, 2015, which updated GLAZA’s marketing strategies and redefined the revenue sharing agreement between GLAZA and the Zoo.

GREATER LOS ANGELES ZOO ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

NOTE 1 – ORGANIZATION (Continued)

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

A supplemental agreement to the MOU was signed on June 16, 2017, effective retroactive to July 1, 2016, and remained in effect until June 30, 2017, and continued the services of the previous MOU and related amendments. As of the date of these financial statements, GLAZA and the Zoo continue to negotiate in good faith towards a new MOU to be effective July 1, 2017.

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 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 reassumed responsibility for site rentals from the Concessionaire in the fall of 2013.

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 is negotiated in advance and varies 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 Statements 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 overall consolidated yearly totals.

GREATER LOS ANGELES ZOO ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting 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 U.S. GAAP. Accordingly, such information should be read in conjunction with the Association's financial statements for the year ended June 30, 2016, from which the summarized information was derived.

Reclassifications

Certain reclassifications of amounts previously reported have been made to the accompanying financial statements to maintain consistency between periods presented. The reclassifications had no impact on previously reported 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 the 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, which have not been board or donor restricted, consist of items with an original maturity when purchased of three months or less.

GREATER LOS ANGELES ZOO ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 Statements of Activities.

GLAZA's investments consist of equity securities, debt securities, and investments in mutual funds. GLAZA's equity securities, debt 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.

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 Statements 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 Statements 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.

GREATER LOS ANGELES ZOO ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition

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

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 Statements 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 is immaterial.

Advertising Costs

Advertising costs are expensed as incurred, and approximated \$1,116,292 during the year ended June 30, 2017.

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 clear, measurable basis on which to place a value for such services.

GREATER LOS ANGELES ZOO ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes

GLAZA, as a not-for-profit California corporation, is exempt from federal income taxes under the Internal Revenue Code Section 501(c)(3) and from state franchise taxes under Section 23710(d) of the Revenue and Taxation Code, 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.

GLAZA recognizes potential accrued interest and penalties related to uncertain tax positions in income tax expense. During the year ended June 30, 2017, GLAZA performed an evaluation of uncertain tax positions and did not note 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, 2017, the application of valuation techniques applied to similar assets and liabilities has been consistent with the techniques applied during the fiscal year ended June 30, 2016.

GREATER LOS ANGELES ZOO ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

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 limits by the Federal Deposit Insurance Corporation (FDIC) and Securities Investor Protection Corporation from time to time. FDIC insurance covers all deposit accounts up to \$250,000 per depositor, per insured bank. 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. At June 30, 2017, approximately 68% of total pledges receivable were from three donors.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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.

GREATER LOS ANGELES ZOO ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recent Accounting Pronouncements

In May 2014, the FASB issued Accounting Standards Updates (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)*, to supersede nearly all existing revenue recognition guidance under U.S. GAAP. The core principle of ASU 2014-09 is to recognize revenues when promised goods or services are transferred to customers in an amount that reflects the consideration to which an entity is expected to be entitled for those goods or services. ASU 2014-09 defines a five step process to achieve this core principle and, in doing so, it is possible more judgment and estimates may be required within the revenue recognition process than required under existing U.S. GAAP, including identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price, and allocating the transaction price to each performance obligation. ASU 2014-09, as deferred one year by ASU 2015-14, will be effective for annual reporting periods beginning after December 15, 2018, using either of two methods: (a) retrospective to each prior reporting period presented with the option to elect certain practical expedients as defined within ASU 2014-09; or (b) retrospective with the cumulative effect of initially applying ASU 2014-09 recognized at the date of initial application and providing certain additional disclosures as defined in ASU 2014-09. The Association has not yet selected a transition method and is currently evaluating the impact of the pending adoption of ASU 2014-09 on its financial statements. However, revenue from contributions and investment income is not impacted by the new standard.

In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, which simplifies and improves how a not-for-profit organization classifies its net assets, as well as the information it presents in financial statements and notes about its liquidity, financial performance, and cash flows. Among other changes, the ASU replaces the three current classes of net assets with two new classes, “net assets with donor restrictions” and “net assets without donor restrictions”, and expands disclosures about the nature and amount of any donor restrictions. ASU 2016-14 is effective for fiscal years beginning after December 15, 2017. The Association is currently evaluating the impact the adoption of this guidance will have on its financial statements.

GREATER LOS ANGELES ZOO ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recent Accounting Pronouncements (Continued)

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash (a consensus of the FASB Emerging Issues Task Force)*, which provides guidance on the presentation of restricted cash or restricted cash equivalents in the Statements of Cash Flows. ASU 2016-18 will be effective for the Association beginning on January 1, 2019. ASU 2016-18 must be applied using a retrospective transition method with early adoption permitted. The adoption of ASU 2016-18 is not expected to have a material impact on the financial statements.

On January 12, 2017, the FASB issued ASU 2017-02, *Not-for-Profit Entities—Consolidation (Subtopic 958-810): Clarifying When a Not-for-Profit Entity That Is a General Partner or a Limited Partner Should Consolidate a For-Profit Limited Partnership or Similar Entity*, which clarifies the model used by not-for-profit entities to evaluate the consolidation of investments in limited partnerships (and limited liability companies that are similar to limited partnerships). ASU 2017-02 is effective for not-for-profit entities for fiscal years beginning after December 15, 2016. The Association is currently evaluating the impact the adoption of this guidance will have on its financial statements.

In May 2017, the FASB issued ASU 2017-10, *Service Concession Arrangements (Topic 853): Determining the Customer of the Operation Services (a Consensus of the FASB Emerging Issues Task Force)*. ASU 2017-10 provides guidance on how to address diversity in practice on how an operating entity determines the customer in service concession arrangements. ASU 2017-10 is effective for annual periods beginning after December 15, 2018. The Association is currently evaluating the impact the adoption of this guidance will have on its financial statements.

NOTE 3 – FINANCIAL INSTRUMENTS AND FAIR VALUE MEASUREMENTS

The Association's financial instruments include investments and a beneficial interest in perpetual trust. 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.

GREATER LOS ANGELES ZOO ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

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

As of June 30, 2017, GLAZA's financial instruments measured on a recurring basis were classified by level within the valuation hierarchy as follows:

	Level 1	Level 2	Level 3	Total
Endowment investments				
US Treasuries	\$ 6,810,882	\$ -	\$ -	\$ 6,810,882
Bond mutual funds	4,320,305	-	-	4,320,305
Equity mutual funds	7,774,240	-	-	7,774,240
Equities	1,033,605	-	-	1,033,605
Subtotal endowment investments	19,939,032	-	-	19,939,032
Beneficial interest in perpetual trusts	-	-	134,483	134,483
Total	<u>\$19,939,032</u>	<u>\$ -</u>	<u>\$ 134,483</u>	<u>\$ 20,073,515</u>

The components of net investment income for the year ended June 30, 2017, were as follows:

Interest and dividend income	\$ 432,996
Realized and unrealized gains (losses)	1,630,406
Less investment management, brokerage, and custodial fees	(75,887)
Total net investment income	<u>\$ 1,987,515</u>

For the year ended June 30, 2017, the change in value of GLAZA's beneficial interest in perpetual trusts was as follows:

Balance, beginning of the year	\$ 126,487
Net unrealized gain	7,996
Total beneficial interest in perpetual trusts	<u>\$ 134,483</u>

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	\$134,483	Sales Comparison Approach	Market Comparable Rates	Audited Balances Contractual Value

GREATER LOS ANGELES ZOO ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

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	\$ 1,165,230
In between one year and four years	<u>830,000</u>
	1,995,230
Less present value discount of 2.29–3.58%	(69,780)
Less allowance for doubtful accounts	<u>(41,997)</u>
Total pledges and grants receivable, net	<u>\$ 1,883,453</u>

NOTE 5 – EQUIPMENT AND LEASEHOLD IMPROVEMENTS

At June 30, 2017, equipment and leasehold improvements consisted of the following:

Computer hardware and software	\$ 431,424
Furniture and fixtures	245,435
Vehicles	277,461
Leasehold improvements	302,584
Equipment	358,528
Leased equipment	<u>61,247</u>
	1,676,679
Less accumulated depreciation and amortization	<u>(1,302,116)</u>
Total equipment and leasehold improvements, net	<u>\$ 374,563</u>

Depreciation and amortization expense for equipment and leasehold improvements for the year ended June 30, 2017, was \$188,987, 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, 2017, was \$350,033.

GREATER LOS ANGELES ZOO ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

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.

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 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 had not been set, as permanent financing had yet to be issued.

The debt service was 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.

On February 13, 2017, GLAZA paid the remaining principal balance of the debt, totaling \$7,758,381. During the year ended June 30, 2017, GLAZA remitted debt service payments to the City, including principal payments of \$8,112,119 and interest payments of \$65,376, reflecting interest rates of 0.50% to 0.63%.

GREATER LOS ANGELES ZOO ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

NOTE 8 – LINE OF CREDIT

GLAZA has a \$6,000,000 line of credit with a bank which expires on June 1, 2018. GLAZA has the option of choosing an interest rate based either on LIBOR plus 1.75% or the bank’s prime lending rate. The line of credit is secured by the portion of GLAZA’s cash invested in US Treasuries valued at \$6,810,882 on June 30, 2017. As of June 30, 2017, there were no outstanding borrowings on this line of credit.

NOTE 9 – CAPITAL LEASES

At June 30, 2017, GLAZA had two outstanding capital lease agreements expiring in August 2017 and April 2019, respectively. Future minimum lease payments under the capital leases are \$9,888 and \$7,590 for 2018 and 2019, respectively. Total capital lease obligations are \$16,864 at June 30, 2017.

NOTE 10 – TEMPORARILY RESTRICTED NET ASSETS

The detail of temporarily restricted net assets at June 30, 2017, 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, is as follows:

GLAZA and Zoo projects	
Zoo Master Plan and other capital projects	\$ 2,608,636
Zoo Animal and Plant Programs	374,114
Zoo Health Center	66,779
Zoo Conservation Projects	942,712
Zoo Education Projects	505,883
Zoo Marketing Projects	152,115
Greater Los Angeles Zoo Association Projects	477,761
Restricted for purpose	386,760
Allowance for doubtful accounts and discount on pledges receivable	<u>(119,780)</u>
Total GLAZA and Zoo Projects	5,394,980
Behavioral enrichment program	816,546
Unspent appreciation of endowment funds	<u>1,512,657</u>
Total temporarily restricted net assets	<u>\$ 7,724,183</u>

GREATER LOS ANGELES ZOO ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

NOTE 11 – PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets at June 30, 2017, 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	258,276
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>
Total endowments	1,984,307
Beneficial interest in perpetual trusts	<u>134,483</u>
Total permanently restricted net assets	<u>\$ 2,118,790</u>

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.

At June 30, 2017, 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	\$ 19,193,991	\$ -	\$ -	\$ 19,193,991
Donor-restricted endowment funds	<u>-</u>	<u>1,512,657</u>	<u>1,984,307</u>	<u>3,496,964</u>
Total endowment funds	<u>\$ 19,193,991</u>	<u>\$ 1,512,657</u>	<u>\$ 1,984,307</u>	<u>\$ 22,690,955</u>

GREATER LOS ANGELES ZOO ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

NOTE 12 – ENDOWMENTS (Continued)

For the year ended June 30, 2017, 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	\$ 17,677,504	\$ 1,099,569	\$ 1,934,307	\$ 20,711,380
Investment return				
Interest and dividend income	256,033	75,651	-	331,684
Net realized and unrealized gain on investments	<u>1,193,989</u>	<u>352,793</u>	<u>-</u>	<u>1,546,782</u>
Total investment return	1,450,022	428,444	-	1,878,466
Contributions	67,758	-	50,000	117,758
Distributions/expenses	<u>(1,293)</u>	<u>(15,354)</u>	<u>-</u>	<u>(16,647)</u>
Total endowment funds	<u>\$ 19,193,991</u>	<u>\$ 1,512,657</u>	<u>\$ 1,984,307</u>	<u>\$ 22,690,955</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 has chosen a diversified asset allocation that targets 60% equity-based investments and 40% cash and treasuries-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, 2017

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 3% 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 (in March 2017, GLAZA elected to change its rate for distribution of endowment funds from 5% to 3%). Should less than 3% be distributed in one year (or several years), the difference between the actual distribution and the 3% 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, 2017, 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, 2017, GLAZA received a rebate of \$1,576,517 from the City of Los Angeles. This amount is included in Unrestricted contributions on the Statements 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 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, the City's 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.

For the year ended June 30, 2017, amounts paid to the City of Los Angeles totaled \$6,054,715.

GREATER LOS ANGELES ZOO ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

NOTE 14 – RELATED PARTY TRANSACTIONS

The Association's board of trustees is actively involved in raising funds for the Association. During the year ended June 30, 2017, the Association received a total of \$1,142,550 in contributions from board of trustees' members. In addition, board members have agreed to contribute an additional amount of \$242,250 that is recorded as pledges receivable. The present value of the pledges available from board members at June 30, 2017, was \$234,071.

NOTE 15 – SUBSEQUENT EVENTS

The Association has evaluated subsequent events through November 15, 2017, 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
Year Ended June 30, 2017

	Program Services			General and Administration	Fundraising	Total
	Los Angeles Zoo & Botanical Gardens	Greater Los Angeles Zoo Association	Total Program			
Salaries	\$ -	\$ 2,154,865	\$ 2,154,865	\$ 947,784	\$ 736,562	\$ 3,839,211
Employee Benefits	-	372,728	372,728	268,679	220,279	861,686
Payroll Taxes	-	169,481	169,481	66,743	51,527	287,751
Consultants and Outside Services	106,359	326,775	433,134	15,395	251,939	700,468
Transfers To City	3,843,656	-	3,843,656	-	-	3,843,656
Advertising, Publicity, and Marketing Campaigns	-	1,113,146	1,113,146	-	3,146	1,116,292
Animals and Plants and Supplies and Equipment	198,796	-	198,796	-	-	198,796
Audit and Tax Fees	-	-	-	57,126	-	57,126
Board and Committee Meeting Expenses	-	-	-	5,778	583	6,361
Conservation Donations	169,000	-	169,000	-	-	169,000
Credit Card and Bank Fees	-	106,991	106,991	41,508	9,459	157,958
Depreciation and Amortization	-	10,144	10,144	94,382	8,851	113,377
Direct Costs of Special Events	-	353,708	353,708	-	7,778	361,486
Donor Cultivation, Events, and Recognition	-	-	-	-	85,102	85,102
Institutional and Professional Memberships	47,248	-	47,248	-	-	47,248
Educational Programs Expenses	95,699	-	95,699	-	-	95,699
Elephants of Asia Expenses	65,377	-	65,377	-	-	65,377
Equipment Purchases	62,766	-	62,766	-	-	62,766
Exhibit Construction and Maintenance	950,329	-	950,329	-	-	950,329
Graphic Design	-	103,512	103,512	-	3,752	107,264
Insurance and Workers' Comp	-	114,699	114,699	75,542	4,835	195,076
Mail House Services	-	164,893	164,893	-	7,584	172,477
Marketing Research	-	7,625	7,625	-	-	7,625
Meetings and Conventions	53,976	5,518	59,494	2,362	3,447	65,303
Member Benefits and Premiums	-	215,869	215,869	-	-	215,869
Miscellaneous Expenses	228,780	67,589	296,369	14,910	4,149	315,428
Office Supplies	-	20,884	20,884	10,982	6,079	37,945
Permits, Licenses, and Legal Fees	-	3,871	3,871	11,975	42	15,888
Postage and Shipping	-	222,970	222,970	2,370	15,170	240,510
Printing	-	467,299	467,299	-	30,972	498,271
Rent, Storage, and Telephone	-	14,656	14,656	11,637	1,870	28,163
Repairs and Maintenance	48,202	6,473	54,675	16,352	-	71,027
Signs and Banners	-	134,226	134,226	-	6,954	141,180
Software, SAS Services, and Payroll	-	55,992	55,992	82,659	50,585	189,236
Telemarketing and Mailing-list Expenses	-	74,160	74,160	-	-	74,160
Travel and Entertainment	82,373	23,915	106,288	9,273	5,439	121,000
Zoo Ticket Purchases	-	227,760	227,760	-	18,593	246,353
	\$ 5,952,561	\$ 6,539,749	\$ 12,492,310	\$ 1,735,457	\$ 1,534,697	\$ 15,762,464

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