

The Lincoln Park Zoological Society

Financial Report
March 31, 2016

The Lincoln Park Zoological Society

Contents

Report Letter	1-2
Financial Statements	
Statement of Financial Position	3
Statement of Activities and Changes in Net Assets	4
Statement of Cash Flows	5
Notes to Financial Statements	6-23

Independent Auditor's Report

To the Board of Trustees
The Lincoln Park Zoological Society

We have audited the accompanying financial statements of The Lincoln Park Zoological Society (an Illinois corporation and an organized not-for-profit) (the "Society"), which comprise the statement of financial position as of March 31, 2016 and 2015 and the related statements of activities and changes in net assets and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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 organization'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 organization's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

To the Board of Trustees
The Lincoln Park Zoological Society

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Lincoln Park Zoological Society as of March 31, 2016 and 2015 and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note 2, the financial statements include hedge funds investments valued at \$37,186,145 (25 percent of net assets) at March 31, 2016, whose fair value has been estimated in the absence of observable inputs used to determine the market values. Management's estimates are based on information provided by the fund managers of the general partners. Our opinion is not modified with respect to this matter.

Planté & Moreau, PLLC

June 6, 2016

The Lincoln Park Zoological Society

Statement of Financial Position

	<u>March 31, 2016</u>	<u>March 31, 2015</u>
Assets		
Cash	\$ 10,869,306	\$ 11,965,685
Investments	98,274,088	98,445,368
Investments - Other	8,702,468	8,421,053
Receivables:		
Pledges and grants - Net	30,592,785	37,844,482
Other	210,593	212,653
Inventories	351,375	434,494
Other assets	401,591	554,254
Property and equipment - Net	1,659,607	1,511,138
Total assets	<u>\$ 151,061,813</u>	<u>\$ 159,389,127</u>
Liabilities and Net Assets		
Liabilities		
Accounts payable	\$ 2,274,585	\$ 2,582,922
Annuities payable	304,033	221,160
Accrued compensation	915,700	830,693
Deferred revenue	941,285	652,698
Accrued expenses - Other	341,933	374,749
Commercial paper	67,951,089	55,000,000
Total liabilities	72,728,625	59,662,222
Net Assets		
Unrestricted	24,539,753	40,910,791
Temporarily restricted	20,217,159	25,341,632
Permanently restricted	33,576,276	33,474,482
Total net assets	78,333,188	99,726,905
Total liabilities and net assets	<u>\$ 151,061,813</u>	<u>\$ 159,389,127</u>

The Lincoln Park Zoological Society

Statement of Activities and Changes in Net Assets

	Year Ended							
	March 31, 2016				March 31, 2015			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue, Gains, and Other Support								
Contributions, grants, and development	\$ 9,332,131	\$ 1,834,876	\$ 101,794	\$ 11,268,801	\$ 14,996,033	\$ 5,315,168	\$ 75,423	\$ 20,386,624
Membership dues and activities	1,411,786	-	-	1,411,786	1,348,120	-	-	1,348,120
Events revenue	2,663,897	-	-	2,663,897	2,287,168	-	-	2,287,168
Visitor services	7,586,406	-	-	7,586,406	7,136,106	-	-	7,136,106
Chicago Park District subsidy	5,590,000	-	-	5,590,000	5,590,000	-	-	5,590,000
Facility rental revenue	1,204,238	-	-	1,204,238	1,151,297	-	-	1,151,297
Investment (loss) income	(3,036,252)	(2,608,373)	-	(5,644,625)	3,315,374	2,734,999	-	6,050,373
Other income	1,256,589	-	-	1,256,589	1,115,554	-	-	1,115,554
Net assets released from restrictions	4,325,976	(4,325,976)	-	-	5,155,729	(5,155,729)	-	-
Total revenue, gains, and other support	30,334,771	(5,099,473)	101,794	25,337,092	42,095,381	2,894,438	75,423	45,065,242
Expenses								
Program services:								
Animal collection and conservation	10,098,752	-	-	10,098,752	9,149,565	-	-	9,149,565
Public education	5,031,697	-	-	5,031,697	3,080,957	-	-	3,080,957
Membership	584,385	-	-	584,385	522,714	-	-	522,714
Visitor services	2,468,875	-	-	2,468,875	2,322,192	-	-	2,322,192
Events	1,758,636	-	-	1,758,636	1,656,706	-	-	1,656,706
Facility rental	164,829	-	-	164,829	294,284	-	-	294,284
Buildings and grounds	4,460,058	-	-	4,460,058	4,209,243	-	-	4,209,243
Construction	16,947,022	-	-	16,947,022	15,069,321	-	-	15,069,321
Total program service expenses	41,514,254	-	-	41,514,254	36,304,982	-	-	36,304,982
Administration	2,657,933	-	-	2,657,933	2,363,490	-	-	2,363,490
Fundraising and development	1,960,897	-	-	1,960,897	1,850,636	-	-	1,850,636
Debt service	572,725	-	-	572,725	337,716	-	-	337,716
Total expenses	46,705,809	-	-	46,705,809	40,856,824	-	-	40,856,824
Change in Net Assets Before Write-off of Pledges Receivable	(16,371,038)	(5,099,473)	101,794	(21,368,717)	1,238,557	2,894,438	75,423	4,208,418
Write-off of Pledges Receivable	-	(25,000)	-	(25,000)	-	(375,000)	-	(375,000)
Net Assets - Beginning of year	40,910,791	25,341,632	33,474,482	99,726,905	39,672,234	22,822,194	33,399,059	95,893,487
Net Assets - End of year	\$ 24,539,753	\$ 20,217,159	\$ 33,576,276	\$ 78,333,188	\$ 40,910,791	\$ 25,341,632	\$ 33,474,482	\$ 99,726,905

The Lincoln Park Zoological Society

Statement of Cash Flows

	Year Ended	
	<u>March 31, 2016</u>	<u>March 31, 2015</u>
Cash Flows from Operating Activities		
(Decrease) increase in net assets	\$ (21,393,717)	\$ 3,833,418
Adjustments to reconcile (decrease) increase in net assets to net cash from operating activities:		
Realized and unrealized loss (gain) on investments	7,075,602	(4,787,964)
Bad debt expense	25,000	375,000
Depreciation and amortization	267,983	255,208
Permanently restricted contributions	(101,794)	(75,423)
Changes in operating assets and liabilities which provided (used) cash:		
Receivables	7,464,865	(678,776)
Inventories	83,119	33,979
Other assets	152,663	78,306
Accounts payable and accrued expenses	(252,450)	(87,596)
Annuity payable	82,873	(3,864)
Deferred revenue	288,587	(24,298)
Net cash used in operating activities	<u>(6,307,269)</u>	<u>(1,082,010)</u>
Cash Flows from Investing Activities		
Purchases of investments	(11,621,691)	(4,440,379)
Sale of investments	2,564,359	993,327
Purchases of money market funds	(347,328)	(2,049,760)
Sale of money market funds	65,913	59,166
Capital expenditures	(416,452)	(237,263)
Net cash used in investing activities	<u>(9,755,199)</u>	<u>(5,674,909)</u>
Cash Flows from Financing Activities		
Permanently restricted contributions	2,015,000	1,105,000
Issuance of commercial paper	12,951,089	11,698,024
Net cash provided by financing activities	<u>14,966,089</u>	<u>12,803,024</u>
Net (Decrease) Increase in Cash	<u>(1,096,379)</u>	<u>6,046,105</u>
Cash - Beginning of year	<u>11,965,685</u>	<u>5,919,580</u>
Cash - End of year	<u>\$ 10,869,306</u>	<u>\$ 11,965,685</u>
Supplemental Disclosure of Cash Flow Information - Cash paid for interest and related fees	<u>\$ 567,534</u>	<u>\$ 401,864</u>

The Lincoln Park Zoological Society

Notes to Financial Statements March 31, 2016 and 2015

Note I - Nature of Business and Significant Accounting Policies

The Lincoln Park Zoological Society (the "Society") was formed to aid in the improvement, maintenance, and operation of Lincoln Park Zoological Gardens (the "Zoo"), located in Chicago, Illinois. The Zoo site and buildings are owned by the Chicago Park District (the "Park District") and are occupied by the Society without charge. The Society provides funding and operational support for building, grounds, and exhibition improvements and the development and operation of educational, conservation, research, and other operating programs. In addition, the Society operates the visitor services at the Zoo.

Effective January 1, 1995, the Park District and the Society entered into a privatization agreement, which gives the Society complete responsibility for the financial and operational management of the Zoo. The agreement, which expires on December 31, 2024, provides for the Park District to pay an annual base subsidy of \$5,590,000.

The agreement also transferred the rights to parking concession income to the Society. Revenue from such concessions is designated for the operation and maintenance of the Zoo's facilities and related capital expenditures.

Basis of Presentation

Classification of net assets - The Society's net assets have been grouped into the following three classes:

Unrestricted - Net assets that are not subject to donor-imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of the board of trustees or may otherwise be limited by contractual agreements with outside parties.

Temporarily restricted - Net assets whose use by the Society is subject to donor-imposed stipulations that can be fulfilled by actions of the Society pursuant to those stipulations or that expire by the passage of time.

Permanently restricted - Net assets subject to donor-imposed stipulations that they be maintained permanently by the Society. Generally, the donors of these assets permit the Society to use all or part of the interest and dividends earned on these assets. Such assets primarily include the Society's permanent endowment funds.

Revenue is reported as an increase in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. When a donor-imposed restriction expires (i.e., when a stipulated time restriction ends or the purpose of the restriction is accomplished) temporarily restricted net assets are reclassified to unrestricted net assets and are reported in the statement of activities and changes in net assets as net assets released from restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law.

The Lincoln Park Zoological Society

Notes to Financial Statements March 31, 2016 and 2015

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Revenue and Support - Contributions of cash and other assets, including unconditional promises to give in the future, are reported as revenue when received, measured at fair value. Donor promises to give in the future are recorded at the present value of estimated future cash flows.

Contributions without donor-imposed restrictions and contributions with donor-imposed time or purpose restrictions that are met in the same period as the gift are both reported as unrestricted support. Other restricted gifts are reported as restricted support and temporarily or permanently restricted net assets.

Facility rental and visitor services revenue, which includes daily food and retail operations, as well as parking, net of taxes, is recognized for these activities when the service is delivered. Revenue from event revenue includes income from shows and private and special events and is recognized when services are provided.

Chicago Park District subsidy - Revenue from the Society's allocable share of the tax levy administered by the Chicago Park District is recorded when collected.

Tax Status - The Society is a not-for-profit corporation and is exempt from tax under the provisions of Internal Revenue Code Section 501(c)(3). Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the Society and recognize a tax liability if the Society has taken an uncertain position that more likely than not would not be sustained upon examination by the IRS or other applicable taxing authorities. Management has analyzed the tax positions taken by the Society and has concluded that as of March 31, 2016 and 2015, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or disclosure in the financial statements.

Pledge Receivable - Pledges receivable are stated at the present value of the expected future cash flows; discounts are amortized to contribution revenue consistent with donor restrictions. An allowance for doubtful pledges receivable is provided based upon management's judgement, including such factors as prior collection history, type of contribution, and nature of the fundraising activity. No allowance was deemed necessary at March 31, 2016 and 2015.

Contributed Services - The Society records various types of in-kind support, including professional services and supplies. Contributed professional services are recognized if the services received (a) create or enhance long-lived assets, (b) require specialized skills, which are provided by individuals possessing those skills, and (c) would typically need to be purchased if not provided by donation. Contributions of tangible assets are recognized at fair value when received.

The Lincoln Park Zoological Society

Notes to Financial Statements March 31, 2016 and 2015

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

A substantial number of volunteers have made significant contributions of their time that do not meet the two criteria described above. Accordingly, the value of this donated time is not reflected in the financial statements.

Cash - The Society maintains its cash in bank deposit accounts, which at times may exceed federally insured limits. The Society has not experienced any losses in such accounts. The Society believes it is not exposed to any significant credit risk on cash.

Investments - The Society's investments are reported at fair value. Investment income, including net realized and unrealized gains, is reflected in the statement of activities and changes in net assets as an increase in net assets. Interest and dividend income is recorded on the accrual basis.

The Society's investments are exposed to various risks, such as interest rate, credit, and overall market volatility. Due to these risk factors, it is reasonably possible that changes in the value of investments will occur in the near term and could materially affect the amounts reported in the statement of financial position.

Investments - Other - The balance includes amounts in interest-bearing cash accounts at March 31, 2016 and 2015.

Inventories - Merchandise and food inventories are valued at the lower of first-in, first-out (FIFO) cost or market value.

Animal Collection - In connection with the privatization agreement, ownership of the Zoo's animal collection was transferred to the Society. The Society has established a policy of not capitalizing the animal collection. No gains or losses regarding collection transactions are recognized in the financial statements. All expenses regarding collection transactions are reflected in the accompanying statement of activities and changes in net assets.

Property and Equipment - Property and equipment consist of building improvements, equipment and facilities, and furniture and office equipment, which are stated at cost. Donated property is recorded at fair value when received. Depreciation is computed over the estimated useful lives of the assets as indicated in Note 5 using the straight-line method. The Society's policy is to capitalize all purchases of property and equipment over \$10,000 with an estimated useful life of three years. Major construction projects are expensed by the Society as a result of its agreement with the Chicago Park District.

Financial Instruments - The Society's financial instruments consist of cash, pledges and accounts receivables, investments, accounts payable, accrued expenses, and commercial paper.

Investments are carried at fair value as disclosed in Note 2.

The Lincoln Park Zoological Society

Notes to Financial Statements March 31, 2016 and 2015

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

The commercial paper is recorded at cost. The carrying value of the bonds is based on weekly remarketing of the interest rates and approximates its fair value as of March 31, 2016 and 2015. For the remaining financial instruments, other than pledges receivable, the carrying value is a reasonable estimate of fair value because of the short-term nature of the financial instruments. The fair values of the Society's pledges receivable are estimated based on the current interest rates and the period of collectibility. These financial instruments would have been classified at net asset value if they had been included in the fair value measurements table in Note 2.

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

Functional Allocation of Expenses - The costs of providing the program and support services have been reported on a functional basis in the statement of activities and changes in net assets. Indirect costs have been allocated between the various programs and support services based on estimates, as determined by management. Although the methods of allocation used are considered reasonable, other methods could be used that would produce a different amount.

Subsequent Events - The financial statements and related disclosures include evaluation of events up through and including June 6, 2016, which is the date the financial statements were issued.

Upcoming Accounting Change - In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which will supersede the current revenue recognition requirements in Topic 605, *Revenue Recognition*. The ASU is based on the principle that revenue is recognized to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The ASU also requires additional disclosure about the nature, amount, timing, and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. The new guidance will be effective for the Society's year ending March 31, 2019. The ASU permits application of the new revenue recognition guidance to be applied using one of two retrospective application methods. The Society has not yet determined which application method it will use or the potential effects of the new standard on the financial statements, if any.

The Lincoln Park Zoological Society

Notes to Financial Statements March 31, 2016 and 2015

Note 2 - Fair Value Measurements

Accounting standards require certain assets and liabilities be reported at fair value in the financial statements and provides a framework for establishing that fair value. The framework for determining fair value is based on a hierarchy that prioritizes the inputs and valuation techniques used to measure fair value.

The following tables present information about the Society's assets measured at fair value on a recurring basis at March 31, 2016 and 2015 and the valuation techniques used by the Society to determine those fair values.

Fair values determined by Level 1 inputs use quoted prices in active markets for identical assets that the Society has the ability to access.

Fair values determined by Level 2 inputs use other inputs that are observable, either directly or indirectly. These Level 2 inputs include quoted prices for similar assets in active markets and other inputs such as interest rates and yield curves that are observable at commonly quoted intervals.

Level 3 inputs are unobservable inputs, including inputs that are available in situations where there is little, if any, market activity for the related asset. These Level 3 fair value measurements are based primarily on management's own estimates using pricing models, discounted cash flow methodologies, or similar techniques taking into account the characteristics of the asset.

In instances whereby inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The Society's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset.

As of March 31, 2016, the Society implemented new guidance that changes the required disclosures for investments valued at net asset value (NAV) per share (or its equivalent) as a practical expedient. Previously, investments measured at fair value using the NAV practical expedient were classified in the fair value hierarchy based on the redemption features associated with the investment. Under the new guidance, investments measured at fair value using net asset value per share (or its equivalent) as a practical expedient are no longer classified in the fair value hierarchy above and the information for 2016 has been adjusted to conform to the new disclosure requirements.

The Lincoln Park Zoological Society

Notes to Financial Statements March 31, 2016 and 2015

Note 2 - Fair Value Measurements (Continued)

Assets Measured at Fair Value on a Recurring Basis at March 31, 2016

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Net Asset Value	Total
Investments:					
Money market funds	\$ 300,419	\$ -	\$ -	\$ -	\$ 300,419
Western Asset Intermediate Bond Fund	5,217,097	-	-	-	5,217,097
Templeton Foreign Small Company Fund	3,185,663	-	-	-	3,185,663
Dimensional Fund	942,123	-	-	-	942,123
Vanguard Short-Term Investment Grade Fund	2,048,410	-	-	-	2,048,410
TCW Emerging Markets Local Income Fund	568,455	-	-	-	568,455
Ballie Gifford Harbor Fund	6,492,430	-	-	-	6,492,430
PNC Intermediate Bond	5,024,970	-	-	-	5,024,970
Small-cap mutual fund	3,731,188	-	-	-	3,731,188
International stock fund	4,872,236	-	-	-	4,872,236
Hedge funds	-	-	-	37,186,145	37,186,145
Bank common trust funds	-	-	-	28,704,952	28,704,952
Total investments	\$ 32,382,991	\$ -	\$ -	\$ 65,891,097	\$ 98,274,088

Assets Measured at Fair Value on a Recurring Basis at March 31, 2015

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Net Asset Value	Total
Investments:					
Money market funds	\$ 232,535	\$ -	\$ -	\$ -	\$ 232,535
Western Asset Intermediate Bond Fund	3,766,147	-	-	-	3,766,147
Templeton Foreign Small Company Fund	2,567,509	-	-	-	2,567,509
Dimensional Fund	2,157,652	-	-	-	2,157,652
Vanguard Short-Term Investment Grade Fund	2,011,448	-	-	-	2,011,448
TCW Emerging Markets Local Income Fund	1,607,293	-	-	-	1,607,293
Ballie Gifford Harbor Fund	3,916,327	-	-	-	3,916,327
Small-cap mutual fund	4,030,084	-	-	-	4,030,084
International stock fund	5,118,458	-	-	-	5,118,458
Hedge funds	-	-	-	37,395,618	37,395,618
Bank common trust funds	-	-	-	35,642,297	35,642,297
Total investments	\$ 25,407,453	\$ -	\$ -	\$ 73,037,915	\$ 98,445,368

The Lincoln Park Zoological Society

Notes to Financial Statements March 31, 2016 and 2015

Note 2 - Fair Value Measurements (Continued)

The Society's policy is to recognize transfers in and transfers out of Level 1, 2, and 3 fair value classifications as of the beginning of the reporting period in which the circumstances that caused the transfer occurred.

During the years ended March 31, 2016 and 2015, there were no such transfers.

Investments in Entities that Calculate Net Asset Value per Share

The Society holds shares or interests in investment companies at year end whereby the fair value of the investment held is estimated based on the net asset value per share (or its equivalent) of the investment company.

The Society has a lockup with one alternative for two years.

At year end, the fair value, unfunded commitments, and redemption rules of those investments are as follows:

	March 31,	March 31,	March 31, 2016		
	2016	2015	Unfunded	Redemption	Redemption
	Fair Value	Fair Value	Commitments	Frequency, if Eligible	Notice Period
Hedge funds:					
equity long/short hedge funds	\$ 3,840,184	\$ 3,785,625	\$ -	Quarterly	30 Days
Equity long/short hedge funds (b)	13,910,553	11,198,653	-	Quarterly	15-60 Days
Directional hedge funds (c)	2,454,895	3,775,429	-	Quarterly	30 Days
Directional hedge funds (c)	3,872,439	4,113,865	-	Biennially	90 Days
Low volatility hedge funds (d)	12,281,999	10,708,419	-	Quarterly	30-90 Days
Multistrategy macro hedge funds (e)	826,075	3,813,627	-	Quarterly	30 Days
Bank common trust funds (f):					
Northern Trust S&P 500	23,974,540	25,553,640	-	Daily	N/A
Northern Trust All Country World	4,730,412	3,725,628	-	Daily	N/A
JPMorgan Investment Bond Fund	-	6,363,029	-	Daily	N/A
Total	<u>\$ 65,891,097</u>	<u>\$ 73,037,915</u>	<u>\$ -</u>		

- a. Long only United States Equity: These managers will typically invest at least 80 percent in U.S.-domiciled equities. These managers use fundamental and quantitative analysis to find undervalued and attractive opportunities. These managers will not use leverage in their portfolios.

The Lincoln Park Zoological Society

Notes to Financial Statements March 31, 2016 and 2015

Note 2 - Fair Value Measurements (Continued)

- b. Equity Long/Short: These managers typically maintain portfolios with exposure between 100 percent to 160 percent net long and 30 percent to 70 percent net short. The securities held in the portfolio will vary along the market capitalization spectrum, with a bias to large-cap companies. These investment managers will invest in global equities, typically with a North American bias in the portfolio. All of these portfolios will maintain exposure to credit when attractive opportunities become available. A wide variety of investment processes can be employed to arrive at an investment decision, including both quantitative and fundamental techniques; strategies can be broadly diversified or narrowly focused on specific sectors.
- c. Directional: The directional strategies are composed of managers with higher expected returns and portfolio risk; the strategies will be part of the capital appreciation allocation in the total portfolio. The strategies will generally have an equity bias, as many of the underlying managers have dedicated equity long/short mandates. Other hedge fund strategies in the portfolio include event-driven equities and credit, merger arbitrage, long/short corporate credit, distressed credit, structured credit, and capital structure arbitrage. The investment managers will generally use fundamental analysis to uncover attractive investment opportunities. These managers typically maintain portfolios with higher net long exposures. The managers' regional allocations will be diversified globally, with a focus in the U.S., Europe, Asia, and some select emerging markets. One hedge fund included in the directional strategies has a rolling two-year lockup.
- d. Low Volatility: The low volatility strategies are composed of managers with lower expected returns and portfolio risk; the strategies will be part of the capital preservation allocation in the total portfolio. These strategies are expected to be less correlated to the broader markets and provide consistent long-term returns. The strategies will tend to have a market neutral and relative value tilt, as many of the underlying managers will seek to isolate alpha while either directly or indirectly hedging market risk. Other hedge fund strategies in the portfolio will include corporate credit, liquid distressed credit, merger arbitrage, convertible arbitrage, structured credit, and capital structure arbitrage. These managers typically maintain portfolios with lower net long exposures given the underlying strategies employed. The managers' regional allocations will be diversified globally with a focus in the U.S., Europe, Asia, and some select emerging markets.
- e. Multistrategy Macro: Multistrategy macro hedge funds will take long and short positions in various securities based on top-down economic or political views. The fund will allocate to both discretionary trading and systematic quantitative based strategies. The correlations of the underlying strategies tend to be low, which has led to low volatility at the portfolio level and performance that has historically been uncorrelated to the broad market. The discretionary strategies in the portfolio include trading interest rates, currency, and sovereign credit in both developed and emerging markets, thematic fixed income, liquid distressed credit, and trade finance. The systematic strategies include trend following and statistical arbitrage. The fund's regional allocations will be diversified globally with a focus in the U.S., Europe, Asia, Australia, and some select emerging markets.
- f. Bank Common Trust Funds: The bank common trust funds, which are held at The Northern Trust Company, are described below:

NTGI-QM Common Daily S&P 500 Equity Index Fund - Lending: The primary objective of this fund is to approximate the risk and return characteristics of the S&P 500 index. This index is commonly used to represent the large-cap segment of the U.S. equity market. This fund may participate in securities lending.

The Lincoln Park Zoological Society

Notes to Financial Statements March 31, 2016 and 2015

Note 2 - Fair Value Measurements (Continued)

NTGI-QM Common Daily All Country World ex U.S. Equity Index Fund - Lending: The primary objective of this fund is to approximate the risk and return characteristics of the MSCI ACWI ex U.S. index. This index is commonly used to represent the performance of non-U.S. emerging and developed markets. This fund may participate in securities lending.

The bank common trust fund, which is held at JPMorgan Chase, is described below:

Investment Bond Fund (JPMorgan): This investment manager uses a bottom-up, value-oriented approach to selecting fixed-income securities. The fund will have an average maturity between four to six years. The fund's duration will usually be within 10 percent of Barclays Intermediate Government/Credit Index. Sector allocations will generally fall in the following ranges: treasuries - 15 percent to 40 percent, corporate/asset-backed - 15 percent to 40 percent, and mortgage-backed/agency - 40 percent to 60 percent. The manager will only invest in investment grade securities at the time of purchase.

Note 3 - Investments

Investments as of March 31, 2016 and 2015 were as follows:

	2016	2015
Diversified assets - Money market	\$ 300,419	\$ 232,535
Short- and intermediate-term government bonds:		
Western Asset Intermediate Bond Fund	5,217,097	3,766,147
Templeton Foreign Small Company Fund	3,185,663	2,567,509
Dimensional fund	942,123	2,157,652
Vanguard Short-Term Investment Grade Fund	2,048,410	2,011,448
TCW Emerging Markets Local Income Fund	568,455	1,607,293
Baillie Gifford Harbor Fund	6,492,430	3,916,327
PNC Intermediate Bond	5,024,970	-
Equity mutual funds	8,603,424	9,148,542
Hedge funds	37,186,145	37,395,618
Bank common trust funds:		
Northern Trust S&P 500	23,974,540	25,553,640
Northern Trust All Country World	4,730,412	3,725,628
JPMorgan Investment Bond Fund	-	6,363,029
Total investments at fair value	<u>\$ 98,274,088</u>	<u>\$ 98,445,368</u>
Total investments at cost	<u>\$ 85,901,065</u>	<u>\$ 78,379,794</u>

The Lincoln Park Zoological Society

Notes to Financial Statements March 31, 2016 and 2015

Note 3 - Investments (Continued)

The components of investment income for the years ended March 31, 2016 and 2015 are as follows:

	<u>2016</u>	<u>2015</u>
Unrestricted:		
Interest and dividends	\$ 861,912	\$ 708,272
Realized and unrealized (losses) gains	(3,898,164)	2,606,960
Temporarily restricted:		
Interest and dividends	570,474	554,137
Realized and unrealized (losses) gains	<u>(3,178,847)</u>	<u>2,181,004</u>
Total	<u>\$ (5,644,625)</u>	<u>\$ 6,050,373</u>

Total investment expenses were \$68,248 and \$74,436 for the years ended March 31, 2016 and 2015, respectively.

Note 4 - Pledges and Grants Receivable

Pledges and grants receivable as of March 31 are expected to be collected in the following periods:

	<u>2016</u>	<u>2015</u>
Pledges and grants receivable:		
Within one year	\$ 1,141,057	\$ 486,382
One to five years	22,601,024	28,710,922
Five to nine years	<u>9,894,000</u>	<u>12,003,000</u>
Total	33,636,081	41,200,304
Less discounts	<u>(3,043,296)</u>	<u>(3,355,822)</u>
Net pledges and grants receivable	<u>\$ 30,592,785</u>	<u>\$ 37,844,482</u>

Pledges and grants receivable are adjusted to present value using discount rates between .13 percent and 3.04 percent.

The Lincoln Park Zoological Society

Notes to Financial Statements March 31, 2016 and 2015

Note 5 - Property and Equipment

The cost of property and equipment is summarized as follows:

	2016	2015	Depreciable Life - Years
Building improvements	\$ 1,978,741	\$ 2,030,227	3-32
Equipment and facilities	1,676,760	1,336,296	3-10
Furniture and office equipment	62,483	62,483	3-7
Total cost	3,717,984	3,429,006	
Less accumulated depreciation	<u>(2,058,377)</u>	<u>(1,917,868)</u>	
Net carrying amount	<u>\$ 1,659,607</u>	<u>\$ 1,511,138</u>	

Depreciation and amortization expense was \$267,983 for 2016 and \$255,208 for 2015.

Note 6 - Commercial Paper

In connection with the Commercial Paper Revenue Notes Pooled Financing Program of the Illinois Educational Facilities Authority (the "Authority"), \$23,300,000 was made available to the Society pursuant to the terms and provisions of the security agreement under a trust indenture (the "Indenture"), dated November 1, 1995, between the Authority and JPMorgan Chase & Company (JPMorgan), as trustee (the "Trustee"). In connection therewith, the Society issued a promissory note, dated November 30, 1995, with the principal amount not to exceed \$20,000,000 at any one time outstanding under the security agreement. An additional \$20,000,000 was made available to the Society pursuant to the terms and provisions of the amended security agreement. In connection therewith, the Society issued a promissory note for \$10,000,000, dated May 2, 2002, and an additional note for \$10,000,000 on December 18, 2003. An additional \$30,000,000 was made available to the Society pursuant to the terms and provisions of the amended security agreement. In connection therewith, the Society issued a promissory note for \$15,000,000 on November 1, 2013 and an additional note for \$15,000,000 on May 5, 2015. The total principal amount of all such notes is not to exceed \$70,000,000 outstanding at any one time under the agreement. Concurrently with the issuance of the notes, the Society entered into a letter of credit agreement (LOC) issued by The Northern Trust Company pursuant to the terms of the reimbursement agreement in the amount of \$71,750,000. The Society is subject to certain covenants relative to, among other things, operating performance measures. The LOC secures the payment of the principal and certain interest payments until November 30, 2017, when it is subject to renegotiation. The letter of credit for the first \$56,375,000 is subject to a .40 percent annual fee. The additional increase of \$15,375,000 is subject to a .80 percent annual fee.

The Lincoln Park Zoological Society

Notes to Financial Statements March 31, 2016 and 2015

Note 6 - Commercial Paper (Continued)

On November 1, 1995, \$9,000,000 was issued. The proceeds were primarily used to (a) finance, including capitalized interest, the acquisition, construction, renovation, and equipping of certain cultural facilities owned or operated by the Society; (b) pay a portion of the interest on the notes; and (c) pay certain costs related to the issuance of the notes and the borrowing by the Society. Pursuant to the promissory note, the principal payment of \$9,000,000 is due on November 1, 2025.

On June 30, 1997, an additional \$4,935,000 was issued. The proceeds were used to (a) finance, including capitalized interest, the acquisition, construction, renovation and equipping of certain cultural facilities owned or operated by the Society; (b) pay a portion of the interest on the notes; and (c) pay certain costs related to the issuance of the notes and the borrowing by the Society. Pursuant to the promissory note, the principal of \$4,935,000 is due on June 1, 2027.

On November 17, 1998, an additional \$6,065,000 was issued. The proceeds were used to (a) finance, including capitalized interest, the construction, renovation, and equipping of certain cultural facilities owned or operated by the Society; (b) pay a portion of the interest on the notes; and (c) pay certain costs related to the issuance of the notes and the borrowing by the Society. Pursuant to the promissory note, the principal of \$6,065,000 is due on November 1, 2028.

On May 2, 2002, an additional \$10,000,000 was issued. The proceeds were used to (a) finance, including capitalized interest, the construction, renovation, and equipping of certain cultural facilities owned or operated by the Society; (b) pay a portion of the interest on the notes; and (c) pay certain costs related to the issuance of the notes and the borrowing by the Society. Pursuant to the promissory note, the principal of \$10,000,000 is due on May 1, 2032.

On December 18, 2003, an additional \$10,000,000 was issued. The proceeds were used to (a) finance, including capitalized interest, the acquisition, construction, renovation, and equipping of certain cultural facilities owned or operated by the Society; (b) pay a portion of the interest on the notes; and (c) pay certain costs related to the issuance of the notes and the borrowing by the Society. Pursuant to the promissory note, the principal of \$10,000,000 is due on May 1, 2032.

On November 1, 2013, an additional \$15,000,000 was issued. As of March 31, 2015, the Society had drawn down \$15,000,000 of proceeds. On May 5, 2015 an additional \$15,000,000 was issued. As of March 31, 2016 the Society had drawn \$12,951,089. The proceeds were used to finance, including the acquisition, construction, renovation, and equipping, certain cultural facilities owned or operated by the Society. Pursuant to the promissory note, the principal of \$30,000,000 is due on November 1, 2043.

The Lincoln Park Zoological Society

Notes to Financial Statements March 31, 2016 and 2015

Note 6 - Commercial Paper (Continued)

The interest rates on the notes are variable and are determined by JPMorgan Chase & Company (JPMorgan) as the remarketing agent and are defined as tax-exempt rates equal to the lowest rates, which, in the judgment of JPMorgan, would enable the notes to be remarketed at par plus any accrued interest on the date of issuance of such notes, all in accordance with the terms of the Indenture. The interest rate on the notes issued as of March 31, 2016 and March 31, 2015 ranged from .03 percent to .10 percent and .05 percent to .08 percent, respectively. Debt expense for the years ended March 31, 2016 and 2015 was \$572,725 and \$337,716, respectively.

Note 7 - Net Assets

Temporarily restricted net assets are available for the following purposes:

	<u>2016</u>	<u>2015</u>
Capital expenditures	\$ 2,881,324	\$ 3,175,245
Programs and operations expenditures	5,342,060	6,225,273
Endowment appropriations	<u>11,993,775</u>	<u>15,941,114</u>
Total temporary restricted net assets	<u>\$ 20,217,159</u>	<u>\$ 25,341,632</u>

Some amounts included in these restrictions are also included in the pledges receivable balance on the statement of financial position.

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes as follows:

	<u>2016</u>	<u>2015</u>
Capital expenditures	\$ 402,012	\$ 454,768
Programs and operations expenditures	2,584,998	2,254,259
Receipt of cash - Time	-	1,500,000
Endowment appropriations	<u>1,338,966</u>	<u>946,702</u>
Total expenditures	<u>\$ 4,325,976</u>	<u>\$ 5,155,729</u>

The Lincoln Park Zoological Society

Notes to Financial Statements March 31, 2016 and 2015

Note 7 - Net Assets (Continued)

Permanently restricted net assets are restricted to the following:

	2016	2015
Investments in perpetuity, the income from which is expendable to support:		
Animal care	\$ 9,569,974	\$ 9,569,974
Conservation and science	5,028,822	5,013,822
Education	3,000,000	3,000,000
Horticulture and sculptures	3,425,080	3,425,080
General operations	12,552,400	12,465,606
Total permanently restricted net assets	<u>\$ 33,576,276</u>	<u>\$ 33,474,482</u>

Note 8 - Donor-restricted and Board-designated Endowments

The Society's endowment consists of 19 individual funds established for a variety of purposes. Its endowment includes donor-restricted endowment funds only. As required by GAAP, net assets associated with endowment funds are classified and reported based on existences or absences of donor-imposed restrictions.

Interpretation of Relevant Law

The board of trustees of the Society has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Society classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Society in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Society considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the fund
- (2) The purposes of the Society and the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the Society
- (7) The investment policies of the Society

The Lincoln Park Zoological Society

Notes to Financial Statements March 31, 2016 and 2015

Note 8 - Donor-restricted and Board-designated Endowments (Continued)

Endowment Net Asset Composition by Type of Fund as of March 31, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ -	\$ 11,993,775	\$ 33,576,276	\$ 45,570,051

Changes in Endowment Net Assets for the Fiscal Year Ended March 31, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets - Beginning of year	\$ -	\$ 15,941,114	\$ 33,474,482	\$ 49,415,596
Investment return:				
Investment income	-	570,474	-	570,474
Net appreciation (realized and unrealized)	-	(3,178,847)	-	(3,178,847)
Total investment return	-	(2,608,373)	-	(2,608,373)
Contributions	-	-	101,794	101,794
Appropriation of endowment assets for expenditure	-	(1,338,966)	-	(1,338,966)
Endowment net assets - End of year	\$ -	\$ 11,993,775	\$ 33,576,276	\$ 45,570,051

Endowment Net Asset Composition by Type of Fund as of March 31, 2015

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ -	\$ 15,941,114	\$ 33,474,482	\$ 49,415,596

The Lincoln Park Zoological Society

Notes to Financial Statements March 31, 2016 and 2015

Note 8 - Donor-restricted and Board-designated Endowments (Continued)

Changes in Endowment Net Assets for the Fiscal Year Ended March 31, 2015

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets -				
Beginning of year	\$ -	\$ 14,152,817	\$ 33,399,059	\$ 47,551,876
Investment return:				
Investment income	-	553,995	-	553,995
Net appreciation (realized and unrealized)	-	2,181,004	-	2,181,004
Total investment return	-	2,734,999	-	2,734,999
Contributions	-	-	75,423	75,423
Appropriation of endowment assets for expenditure	-	(946,702)	-	(946,702)
Endowment net assets - End of year	\$ -	\$ 15,941,114	\$ 33,474,482	\$ 49,415,596

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 or UPMIFA requires the Society to retain as a fund of perpetual duration. The endowment fund as a whole was not deficient; however, two funds for approximately \$113,000 were deficient as of March 31, 2016. These deficiencies resulted from unfavorable market fluctuations. There were no such deficiencies as of March 31, 2015.

Return Objectives and Risk Parameters

The Society has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Society must hold in perpetuity or for a donor-specified period(s) as well as board-designated funds. Under this policy, as approved by the board of trustees, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of the S&P 500 index while assuming a moderate level of investment risk. The Society expects its endowment funds, over time, to provide an annual real return of 5 percent, net of inflation and expenses. Actual returns in any given year may vary from this amount.

The Lincoln Park Zoological Society

Notes to Financial Statements March 31, 2016 and 2015

Note 8 - Donor-restricted and Board-designated Endowments (Continued)

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Society has a policy of appropriating for distribution each year up to 4 percent assets annually, based on the average market value for the trailing three fiscal years. In establishing this policy, the Society considered the long-term expected return on its endowment. Accordingly, over the long term, the Society expects the current spending policy to allow its endowment to grow at an average of 5 percent annually. This is consistent with the Society's objective to provide additional real growth through new gifts and investment return.

Strategies Employed for Achieving Objectives

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

Note 9 - Retirement Plan

The Society has a defined contribution employee retirement program under which it makes contributions equal to 3 percent of the eligible participant's salary and also matches participant contributions up to an additional 3 percent of the participant's salary. The Society's contribution for the fiscal years ended March 31, 2016 and 2015 totaled \$552,621 and \$521,586, respectively.

The Society has established a 457(b) and 457(f) deferred compensation plans for select employees. The Society may make contributions for the benefit of eligible employees; the Society contributed \$0 in 2016 and 2015. Balances in the 457(b) and 457(f) plans are subject to forfeiture until age or certain other requirements are met. The assets in the plans are held in trust but remain property of the Society and are subject to the claims of the Society's general creditors. The Society's liability for benefits under this plan is limited to the balance of assets in the plan. As of March 31, 2016 and 2015, total assets of the plan were \$300,419 and \$232,534, respectively.

Note 10 - Other Cash Flow Information

During the years ended March 31, 2016 and 2015, pledged receivables of \$2,149,314 and \$23,265, respectively, were paid by the donation of common stock, which the Society sold as soon as was practical.

The Lincoln Park Zoological Society

Notes to Financial Statements March 31, 2016 and 2015

Note 11 - Construction Commitments

The current construction is managed by a general contractor with a signed commitment of approximately \$17,000,000 as of March 31, 2016, including retainage/contingency ranging from 5 to 10 percent, and is expected to be complete in August 2016. During 2016, the Society began a new construction project managed by a general contractor with a signed commitment of approximately \$4,200,000, including retainage/contingency ranging from 5 to 10 percent, and is expected to be complete in October 2016.