



**TULSA ZOO MANAGEMENT, INC.**

**FINANCIAL STATEMENTS**

**JUNE 30, 2016 and 2015**

**WITH**

**INDEPENDENT AUDITOR'S REPORT**



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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Tulsa Zoo Management, Inc.

We have audited the accompanying financial statements of Tulsa Zoo Management, Inc. (TZMI), which comprise the statements of financial position as of June 30, 2016, and the related statements of activities and changes in net assets, and cash flows for the year 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 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 our 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, we consider 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 TZMI as of June 30, 2016, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### Other Matter

The financial statements of TZMI, as of and for the year ended June 30, 2015, were audited by other auditors, whose report, dated February 17, 2016, expressed an unmodified opinion on those statements. Certain reclassifications of amounts previously reported have been made to the accompanying financial statements with no impact to previously reported total assets and net assets.

*Hogan Taylor LLP*

October 14, 2016

**TULSA ZOO MANAGEMENT, INC.**  
**STATEMENTS OF FINANCIAL POSITION**

**June 30, 2016 and 2015**

	2016	2015
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 3,126,220	\$ 429,211
Accounts receivable	216,610	229,434
Certificates of deposit	2,252,211	3,962,765
Contributions receivable	1,281,547	952,381
Prepaid expenses and other	99,972	115,528
	6,976,560	5,689,319
Total current assets		
Property and equipment, net	647,613	830,724
Contributions receivable, net	2,447,575	3,150,399
Certificates of deposit	3,302,282	4,001,704
Investments	3,310,860	3,490,557
	\$ 16,684,890	\$ 17,162,703
Total assets		
<b>Liabilities and Net Assets</b>		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 1,583,616	\$ 982,080
Custodial accounts	11,747	11,196
	1,595,363	993,276
Total current liabilities		
Net assets:		
Unrestricted:		
Undesignated	2,425,324	2,653,758
Board-designated - capital projects	250,000	250,000
Board-designated - endowment	3,437,744	3,581,342
	6,113,068	6,485,100
Total unrestricted		
Temporarily restricted	8,976,459	9,684,327
	15,089,527	16,169,427
Total net assets		
Total liabilities and net assets	\$ 16,684,890	\$ 17,162,703

**TULSA ZOO MANAGEMENT, INC.**

**STATEMENT OF ACTIVITIES**

**Year ended June 30, 2016  
(with comparative totals from the year ended June 30, 2015)**

	2016			2015
	Unrestricted	Temporarily Restricted	Total	Total
<b>Revenues from operations</b>				
Management fee revenue	\$ 5,810,080	\$ -	\$ 5,810,080	\$ 5,024,468
Admissions	2,199,066	-	2,199,066	2,211,005
Memberships	1,363,653	-	1,363,653	1,389,545
Train and carousel	600,218	-	600,218	558,348
Private events	567,088	-	567,088	648,431
Food sales	351,858	-	351,858	344,986
Temporary exhibits and events	239,208	-	239,208	573,017
Gift sales	229,651	-	229,651	264,769
Other	253,656	-	253,656	267,892
Contributions	147,718	-	147,718	44,829
In-kind contributions	223,361	-	223,361	745,415
Net investment income	109,835	-	109,835	210,605
Net assets released from restrictions	3,022,013	(3,022,013)	-	-
<b>Total revenues from operations</b>	<b>15,117,405</b>	<b>(3,022,013)</b>	<b>12,095,392</b>	<b>12,283,310</b>
<b>Expenses</b>				
Program services expense	8,301,118	-	8,301,118	7,713,155
Supporting services expense:				
General and administrative	2,766,952	-	2,766,952	3,447,697
Fundraising and development	419,932	-	419,932	302,155
<b>Total supporting services expense</b>	<b>3,186,884</b>	<b>-</b>	<b>3,186,884</b>	<b>3,749,852</b>
<b>Total expenses</b>	<b>11,488,002</b>	<b>-</b>	<b>11,488,002</b>	<b>11,463,007</b>
<b>Total increase (decrease) from operations</b>	<b>3,629,403</b>	<b>(3,022,013)</b>	<b>607,390</b>	<b>820,303</b>
<b>Income (loss) from nonoperations</b>				
Contributions	-	2,024,689	2,024,689	3,884,110
Gross special events revenue	-	412,290	412,290	386,577
Less: cost of direct benefit to donors	-	(122,834)	(122,834)	(118,951)
<b>Net special events revenue</b>	<b>-</b>	<b>289,456</b>	<b>289,456</b>	<b>267,626</b>
Expenses for capital projects (Note 9)	(3,881,517)	-	(3,881,517)	(1,845,954)
Net investment loss	(119,918)	-	(119,918)	(48,109)
<b>Total increase (decrease) from nonoperations</b>	<b>(4,001,435)</b>	<b>2,314,145</b>	<b>(1,687,290)</b>	<b>2,257,673</b>
<b>Change in net assets</b>	<b>(372,032)</b>	<b>(707,868)</b>	<b>(1,079,900)</b>	<b>3,077,976</b>
<b>Net assets, beginning of year</b>	<b>6,485,100</b>	<b>9,684,327</b>	<b>16,169,427</b>	<b>13,091,451</b>
<b>Net assets, end of year</b>	<b>\$ 6,113,068</b>	<b>\$ 8,976,459</b>	<b>\$ 15,089,527</b>	<b>\$ 16,169,427</b>

**TULSA ZOO MANAGEMENT, INC.**

**STATEMENT OF ACTIVITIES**

**Year ended June 30, 2015**

	Unrestricted	Temporarily Restricted	Total
<b>Revenues from operations</b>			
Management fee revenue	\$ 5,024,468	\$ -	\$ 5,024,468
Admissions	2,211,005	-	2,211,005
Memberships	1,389,545	-	1,389,545
Train and carousel	558,348	-	558,348
Private events	648,431	-	648,431
Food sales	344,986	-	344,986
Temporary exhibits and events	573,017	-	573,017
Gift sales	264,769	-	264,769
Other	267,892	-	267,892
Contributions	44,829	-	44,829
In-kind contributions	745,415	-	745,415
Net investment income	210,605	-	210,605
Net assets released from restrictions	1,694,069	(1,694,069)	-
Total revenues from operations	13,977,379	(1,694,069)	12,283,310
<b>Expenses</b>			
Program services expense	7,713,155	-	7,713,155
Supporting services expense:			
General and administrative	3,447,697	-	3,447,697
Fundraising and development	302,155	-	302,155
Total supporting services expense	3,749,852	-	3,749,852
Total expenses	11,463,007	-	11,463,007
Total increase (decrease) from operations	2,514,372	(1,694,069)	820,303
<b>Income (loss) from nonoperations</b>			
Contributions	-	3,884,110	3,884,110
Gross special events revenue	-	386,577	386,577
Less: cost of direct benefit to donors	-	(118,951)	(118,951)
Net special events revenue	-	267,626	267,626
Expenses for capital projects (Note 9)	(1,845,954)	-	(1,845,954)
Net investment income	(48,109)	-	(48,109)
Total increase (decrease) from nonoperations	(1,894,063)	4,151,736	2,257,673
Change in net assets	620,309	2,457,667	3,077,976
Net assets, beginning of year	5,864,791	7,226,660	13,091,451
Net assets, end of year	\$ 6,485,100	\$ 9,684,327	\$ 16,169,427

**TULSA ZOO MANAGEMENT, INC.**

**STATEMENTS OF CASH FLOWS**

**Years ended June 30, 2016 and 2015**

	<u>2016</u>	<u>2015</u>
<b>Cash Flows from Operating Activities</b>		
Changes in net assets	\$ (1,079,900)	\$ 3,077,976
Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities:		
Depreciation	315,059	254,073
Contributions restricted for long-term purposes	(2,024,689)	-
Reinvested investment income	-	(150,280)
Unrealized gains on endowment fund investments	179,697	29,516
Changes in operating assets and liabilities:		
Accounts receivable	12,824	44,398
Contributions receivable, net	1,034,222	(972,366)
Prepaid expenses and other	15,556	(23,514)
Accounts payable and accrued liabilities	601,536	209,836
Custodial accounts	551	5,680
	<u>(945,144)</u>	<u>2,475,319</u>
Net cash provided by (used in) operating activities	(945,144)	2,475,319
<b>Cash Flows from Investing Activities</b>		
Purchase of certificates of deposit	(2,829,674)	(6,750,000)
Maturity of certificates of deposit	5,239,650	-
Sale of investments	-	90,785
Purchases of property and equipment	(131,948)	(473,519)
	<u>2,278,028</u>	<u>(7,132,734)</u>
Net cash provided by (used in) investing activities	2,278,028	(7,132,734)
<b>Cash Flows from Financing Activities</b>		
Contributions restricted for long-term purposes	1,364,125	-
	<u>1,364,125</u>	<u>-</u>
Net change in cash and cash equivalents	2,697,009	(4,657,415)
Cash and cash equivalents, beginning of year	429,211	5,086,626
	<u>429,211</u>	<u>5,086,626</u>
Cash and cash equivalents, end of year	<u>\$ 3,126,220</u>	<u>\$ 429,211</u>

**TULSA ZOO MANAGEMENT, INC.**  
**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2015**

**Note 1 – Nature of Operations**

Tulsa Zoo Management, Inc. (TZMI) is a nonprofit organization formed for the purposes of promoting and supporting the improvement of the Tulsa Zoo and Living Museum (the Zoo). TZMI entered into an agreement with the City of Tulsa (the City), whereby TZMI operates the Zoo under a management agreement. Under this management agreement, TZMI retains all gate admissions, the City pays TZMI a management fee and a portion of its utilities in exchange for operating the Zoo. The City retains ownership of the Zoo grounds and buildings while the employees working at the Zoo are employees of TZMI.

**Note 2 – Summary of Significant Accounting Policies**

Basis of accounting

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America. The financial statements reflect the activities of TZMI as a whole and present balances and transactions according to the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified as follows:

*Unrestricted Net Assets* – Net assets not subject to donor-imposed restrictions and available for purposes consistent with TZMI's mission. Revenues are generally reported as increases in unrestricted net assets unless the use of the related assets is limited by donor-imposed restrictions. Investment returns generated by unrestricted funds are classified as changes in unrestricted net assets. Expenses are reported as decreases in unrestricted net assets.

*Temporarily Restricted Net Assets* – Net assets subject to donor-imposed restrictions that must be met by actions of TZMI and/or the passage of time. Contributed assets normally fund specific expenditures of an operating or capital nature. Temporarily restricted contributions received and expended within the same fiscal year are reported as increases in temporarily restricted net assets and net assets released from restrictions, respectively, in the statement of activities.

*Permanently Restricted Net Assets* – Net assets subject to donor-imposed restrictions requiring that they be maintained permanently by TZMI. There were no permanently restricted net assets at June 30, 2016 or 2015.

Cash and cash equivalents

Cash and cash equivalents include cash and unrestricted highly liquid investments with original maturities less than 90 days. At times, such balances may be in excess of the Federal Deposit Insurance Corporation insurance limit of \$250,000.



### Receivables and credit policies

Accounts receivable consist primarily of noninterest-bearing amounts due for rental fees from private events on Zoo premises and TZMI's share of gift shop and concession revenue due from the third-party operator. The allowance for uncollectible accounts receivable, when deemed necessary, is based on historical experiences, an assessment of economic conditions, and a review of subsequent collections. Accounts receivable are written off when deemed uncollectible. No allowance for uncollectible accounts receivable was deemed necessary at June 30, 2016.

### Contributions receivable

Contributions receivable represents promises to fund planned campaigns, including the acquisition of various building, improvements and exhibits. Contributions receivable expected to be collected within one year are recorded at net realizable value. Unconditional promises to give expected to be collected in future years are initially recorded at fair value using present value techniques incorporating risk-adjusted discount rates designed to reflect the assumptions market participants would use in pricing the asset. In subsequent years, amortization of the discounts is included in contribution revenue in the statements of activities. Management determines the allowance for uncollectible contributions receivable based on historical experience, an assessment of economic conditions, and a review of subsequent collections. Contributions receivable are written off when deemed uncollectible. There was no allowance for uncollectible contributions received at June 30, 2016 or 2015.

### Property and equipment

Property and equipment are stated at purchased cost or estimated fair value at date of donation. Additions in excess of \$1,000 are capitalized, whereas the cost of repairs and maintenance are charged to expense as incurred. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the assets.

### Investments

Management records investment purchases at cost, or if donated, at fair value on the date of donation. Thereafter, investments are reported at their fair values in the statements of financial position. Net investment return (loss) is reported in general revenue in the statements of activities and consists of interest and dividend income, realized and unrealized capital gains and losses and various investment fees.

### Revenue and revenue recognition

Revenue is recognized when earned. Program service fees received in advance are deferred to the applicable period in which the related services are performed. Contributions are recognized when cash, securities or other assets, an unconditional promise to give, or notification of a beneficial interest is received. Conditional promises to give are not recognized until the conditions on which they depend have been substantially met.

### Donated services and in-kind contributions

Volunteers contribute significant amounts of time to TZMI's program services, administration, and fundraising and development activities; however, the financial statements do not reflect the value of these contributed services because they do not meet recognition criteria prescribed by generally accepted accounting principles. Contributed goods are recorded at fair value at the date of donation. Donated professional services are recorded at the respective fair values of the services received. Such donated

professional services are recorded as temporarily restricted in-kind contributions revenue and in the appropriate expense category. Revenues from contributed services amounted to approximately \$223,000 in 2016, and \$136,000 in 2015.

#### Advertising costs

Advertising costs are expensed as incurred and approximated \$262,000 and \$349,000 during the years ended June 30, 2016 and 2015, respectively.

#### Allocation of functional expenses

The costs of providing the various program services and supporting activities have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among the various functions.

#### Income taxes

TZMI is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code (the Code) and is not considered a private foundation under Section 509(a) of the Code. As a result, as long as TZMI maintains its tax exemption, it will not be subject to income tax.

#### Use of estimates

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

#### 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.

#### Subsequent events

Management has performed an evaluation of subsequent events through October 14, 2016, which is the date financial statements were made available for issuance.

### **Note 3 – Fair Value Measurements**

The fair value measurement standards establish a consistent framework for measuring fair value and establish a fair value hierarchy based on the observability of inputs used to measure fair value. These inputs are summarized in the three broad levels listed below:

- Level 1 – quoted prices in active markets for identical securities.
- Level 2 – other significant observable inputs (including quoted prices for similar securities).
- Level 3 – significant unobservable inputs (including TZMI's own assumptions in determining the value of investments).

The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities. The fair values of the underlying investments are based on quoted prices from active and inactive markets.

The following is a summary of the inputs used as of June 30 in valuing TZMI securities held within the Endowment carried at fair value:

	Fair Value Measurement at June 30, 2016			
	Total	Level 1	Level 2	Level 3
Mutual funds:				
Bond funds	\$ 624,608	\$ 624,608	\$ -	\$ -
Equity funds	2,549,078	2,549,078	-	-
Beneficial interest in Tulsa Community Foundation	137,174	-	137,174	-
<b>Total investments at fair value</b>	<b>\$ 3,310,860</b>	<b>\$ 3,173,686</b>	<b>\$ 137,174</b>	<b>\$ -</b>
	Fair Value Measurement at June 30, 2015			
	Total	Level 1	Level 2	Level 3
Mutual funds:				
Bond funds	\$ 608,584	\$ 608,584	\$ -	\$ -
Equity funds	2,743,060	2,743,060	-	-
Beneficial interest in Tulsa Community Foundation	138,913	-	138,913	-
<b>Total investments at fair value</b>	<b>\$ 3,490,557</b>	<b>\$ 3,351,644</b>	<b>\$ 138,913</b>	<b>\$ -</b>

Beneficial interest in assets held by others (Beneficial Interest) at Tulsa Community Foundation (the Foundation) is measured at fair value using Level 2 inputs. Since the Foundation maintains variance power for the beneficial interest it holds, there is no potential market for the Beneficial Interest or similar assets. Consequently, the valuation is determined by aggregating the valuation of the underlying investments of the Beneficial Interest. The underlying investments include cash equivalents, fixed income, equity funds and alternative investments securities. The fair values of the underlying investments are based on quoted prices from active markets.

TZMI has established an endowment (the Endowment) to be used at the discretion of TZMI's Board of Directors. The principal objective of the Endowment is to preserve the purchasing power, and to provide a growing stream of cash distributions to fund the operation and development of the Zoo. The Endowment is expected to attain an average annual real (inflation-adjusted) total return of 5% to 7% over most five-year periods. The Endowment shall be so diversified as to minimize the risk of large losses, unless under circumstances it is clearly not prudent to do so. Fund managers should make reasonable efforts to preserve capital and control risk. The endowment funds are handled consistently with TZMI's overall investment philosophy, which, in general, is a split of 20% fixed income securities, 10% international equity investments, and 70% domestic equity investments. Distributions are allowed up to 4% of the trailing three-year average market value of the endowment portfolio. At June 30, 2016, board-designated endowment assets consisted of \$126,884 in cash and investments valued at \$3,310,860. At June 30, 2015, board-designated endowment assets consisted of \$90,785 in cash and investments valued at \$3,490,557.

Changes in investments for the years ended June 30 are as follows:

	2016	2015
Balance, beginning of year	\$ 3,490,557	\$ 3,464,418
Interest and dividend income	67,790	68,815
Net unrealized losses	(250,811)	(120,301)
Net realized gains	27,004	101,929
Investment fees	(23,680)	(24,304)
Balance, end of year	<u>\$ 3,310,860</u>	<u>\$ 3,490,557</u>

#### Note 4 – Contributions Receivable

Contributions receivable are estimated to be collected as follows at June 30:

	2016	2015
Within one year	\$ 1,281,547	\$ 952,381
In one to five years	1,783,889	2,252,178
Over five years	750,000	1,000,000
	3,815,436	4,204,559
Less discount	(86,314)	(101,779)
	<u>\$ 3,729,122</u>	<u>\$ 4,102,780</u>

One donor accounted for approximately 54% and 55% of total contributions receivable at June 30, 2016 and 2015, respectively.

#### Note 5 – Property and Equipment

Property and equipment consists of the following at June 30:

	2016	2015	Years
Equipment	\$ 1,660,753	\$ 1,905,337	3-10
Train and accessories	564,347	503,196	3-10
	2,225,100	2,408,533	
Less accumulated depreciation	<u>1,577,487</u>	<u>1,577,809</u>	
	<u>\$ 647,613</u>	<u>\$ 830,724</u>	

## Note 6 – Debt

In 2015, TZMI entered into a promissory note with a foundation to facilitate construction of an exhibit with maximum borrowings of \$3,600,000 bearing interest at 1.52%. April 2017, quarterly payments of principal and interest are due until maturity in January 2020. The note is secured by the endowment investments and any payments and contributions receivable for the related exhibit.

## Note 7 – Temporarily Restricted Net Assets

Temporarily restricted net assets are restricted to the following projects at June 30:

	2016	2015
Zoo Care (animal acquisition)	\$ -	\$ 71,420
Memorials	24,405	15,411
Education	551	2,000
Coca-Cola donations/capital projects	6,771	54,189
Lost Kingdom	5,109,863	5,378,284
Contributions receivable, the proceeds from which have been restricted by donors for Lost Kingdom	2,447,575	4,102,780
STEM Alliance	2,500	-
Rain Garden	2,490	-
YOT Full Circle	75,000	-
Osage Casino Giraffe Exhibit Expansion	996,493	-
St. John's Family Center	287,250	-
Rhino exhibit	23,561	60,243
Total temporarily restricted net assets	<u>\$ 8,976,459</u>	<u>\$ 9,684,327</u>

## Note 8 – Retirement Plan

TZMI has adopted a retirement plan (the Plan) qualified under Section 401(k) of the Code. The Plan provides that eligible employees, as defined by the Plan, who have attained the age of 21 and completed one year of service may voluntarily contribute to the Plan up to the maximum amount allowed by the Internal Revenue Service. TZMI matches 50% of an employee's contribution up to a maximum of 3% of eligible employee compensation, resulting in retirement plan expenses for the years ended June 30, 2016 and 2015, of approximately \$72,000 and \$67,000, respectively.

In addition to matching contributions, TZMI can elect to contribute a portion of its profits to its eligible employees based on the percentage of an eligible employee's wages to the total of all eligible wages. There were no additional profit sharing contributions made by TZMI for the years ended June 30, 2016 or 2015.

## Note 9 – Related Party Transactions

In the course of carrying out its obligations under the management agreement, certain real and personal property owned by the City is made available to TZMI. Such property includes the TZMI administrative offices, admission facilities, food and gift concession buildings, and train ride equipment. In some cases,

TZMI has funded all or a part of these facilities. The City charges no rental fee for making these facilities available to TZMI. In 2016, TZMI commenced a \$14.4 million construction project of the Lost Kingdom and has a remaining contractual commitment of approximately \$11.3 million as of June 30, 2016.

The following table summarizes TZMI's expenses for capital projects on behalf of the Zoo during the years ended June 30:

	<u>2016</u>	<u>2015</u>
Zoo improvements	\$ 647,557	\$ 344,323
Lost Kingdom	3,098,001	195,447
Rhino exhibit	36,683	1,306,184
Other	<u>99,276</u>	<u>-</u>
Total expenses for capital projects	<u>\$ 3,881,517</u>	<u>\$ 1,845,954</u>

Sales of food and gifts, along with vending revenue and stroller revenue, are managed by a third party. The amounts above represent TZMI's commissions earned from these activities.