

**Arrowhead Zoological Society, Inc.
d/b/a Lake Superior Zoological Society**

Financial Statements and Independent Auditor's Report

Years ended December 31, 2017 and 2016

WIPFLi LLP
CPAs and Consultants



Independent Auditor's Report

To the Board of Directors
Arrowhead Zoological Society
d/b/a Lake Superior Zoological Society
Duluth, Minnesota

We have audited the accompanying financial statements of Arrowhead Zoological Society, Inc. d/b/a Lake Superior Zoological Society (a nonprofit organization), which comprise the statements of financial position as of December 31, 2017 and 2016, and the related statements of activities, functional expenses, 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; 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Arrowhead Zoological Society, Inc. d/b/a Lake Superior Zoological Society as of December 31, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States.

Wipfli LLP

Wipfli LLP

Duluth, Minnesota
September 4, 2018

Arrowhead Zoological Society, Inc.
d/b/a Lake Superior Zoological Society
Statements of Financial Position

December 31,

Assets	2017	2016
Current assets		
Cash	\$ 79,824	\$ 130,814
Investments	39,031	34,213
Accounts receivable	13,757	33,228
Grants receivable		82,483
Inventory	27,974	20,999
Prepaid expenses	14,241	13,441
Total current assets	174,827	315,178
Property and equipment, net of accumulated depreciation of \$248,629 and \$208,674, respectively	473,730	461,336
Total assets	\$ 648,557	\$ 776,514
Liabilities and Net Assets	2017	2016
Current liabilities		
Accounts payable	\$ 61,452	\$ 77,081
Line of credit	300,000	300,000
Short term funding		43,350
Current maturities on capital lease payable		6,591
Current maturities on note payable		14,149
Accrued		
Wages and vacation	36,618	46,431
Payroll taxes and withholding	7,687	7,454
Interest	17,075	9,575
Sales tax	279	116
Deferred membership revenue	42,844	45,641
Total current liabilities	465,955	550,388
Long-term liabilities		
Note payable, net of current maturities		242
Total liabilities	465,955	550,630
Net assets		
Unrestricted net assets	79,978	120,272
Temporarily restricted net assets	81,574	84,562
Permanently restricted net assets	21,050	21,050
Total net assets	182,602	225,884
Total liabilities and net assets	\$ 648,557	\$ 776,514

See accompanying notes to the financial statements.

Arrowhead Zoological Society, Inc.

d/b/a Lake Superior Zoological Society

Statements of Activities

For the Year Ended December 31, 2017

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, gains, and other support				
City contract subsidy	\$ 869,924	\$	\$	\$ 869,924
Gate	440,037			440,037
Memberships	100,025			100,025
Contributions and grants	73,509	30,282		103,791
Donated services	30,213			30,213
Donated equipment	59,521			59,521
Concession and gift shop sales	183,910			183,910
Concession and gift shop purchases	(69,287)			(69,287)
Train tickets	16,052			16,052
Special events	45,618			45,618
Special events expenses	(20,736)			(20,736)
Rentals	2,842			2,842
Education income	72,213			72,213
Unrealized gain on investments		4,818		4,818
Dividends and interest income	75	1,153		1,228
Loss on disposal of assets	(163)			(163)
Miscellaneous	3,802			3,802
Net revenues, gains, and other support	1,807,555	36,253		1,843,808
Net assets released from restrictions	39,241	(39,241)		
Net revenues, gains, other support, and reclassifications	1,846,796	(2,988)		1,843,808
Expenses				
Program services				
Education	210,394			210,394
Member services	80,085			80,085
Zoo services	1,298,686			1,298,686
Total program services	1,589,165			1,589,165
Supporting services				
Management and general	239,443			239,443
Fundraising	58,482			58,482
Total supporting services	297,925			297,925
Total expenses	1,887,090			1,887,090
Decrease in net assets	(40,294)	(2,988)		(43,282)
Net assets, beginning of year	120,272	84,562	21,050	225,884
Net assets, end of year	\$ 79,978	\$ 81,574	\$ 21,050	\$ 182,602

See accompanying notes to the financial statements.

Arrowhead Zoological Society, Inc. d/b/a Lake Superior Zoological Society

Statements of Activities

For the Year Ended December 31, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, gains, and other support				
City contract subsidy	\$ 870,000	\$	\$	\$ 870,000
Gate	426,057			426,057
Memberships	116,297			116,297
Contributions and grants	337,836	84,799		422,635
Donated services	19,450			19,450
Concession and gift shop sales	160,015			160,015
Concession and gift shop purchases	(61,048)			(61,048)
Train tickets	13,831			13,831
Special events	94,739			94,739
Special events expenses	(21,062)			(21,062)
Rentals	2,359			2,359
Education income	63,050			63,050
Unrealized gain on investments		7,121		7,121
Dividend and interest income	73	1,120		1,193
Miscellaneous	7,984			7,984
Net revenues, gains, and other support	2,029,581	93,040		2,122,621
Net assets released from restrictions	124,518	(124,518)		
Net revenues, gains, other support, and reclassifications	2,154,099	(31,478)		2,122,621
Expenses				
Program services				
Education	198,244			198,244
Member services	64,843			64,843
Zoo services	1,400,013			1,400,013
Total program services	1,663,100			1,663,100
Supporting services				
Management and general	427,467			427,467
Fundraising	48,174			48,174
Total supporting services	475,641			475,641
Total expenses	2,138,741			2,138,741
Increase (decrease) in net assets	15,358	(31,478)		(16,120)
Net assets, beginning of year	104,914	116,040	21,050	242,004
Net assets, end of year	\$ 120,272	\$ 84,562	\$ 21,050	\$ 225,884

See accompanying notes to the financial statements.

Arrowhead Zoological Society, Inc.
d/b/a Lake Superior Zoological Society
Statement of Functional Expenses

For the Year Ended December 31, 2017

	Program Services				Supporting Services			
	Education	Member Services	Zoo Services	Total Program Services	Management and General	Fundraising	Total Supporting Services	Total
Wages	\$ 147,195	\$ 46,687	\$ 661,455	\$ 855,337	\$ 86,493	\$ 36,030	\$ 122,523	\$ 977,860
Payroll taxes and benefits	22,459	7,123	100,925	130,507	13,198	5,497	18,695	149,202
Animal expenses			72,806	72,806				72,806
Exhibits & signs			9,947	9,947				9,947
Animal medical supplies and laboratory fees			13,172	13,172				13,172
Advertising and promotion	2,320		44,081	46,401				46,401
Donated advertising			22,725	22,725				22,725
Bad debt	3,676	1,166	16,519	21,361	2,160	900	3,060	24,421
Supplies			59,108	59,108	2,899		2,899	62,007
Printing	1,341	425	6,028	7,794	790	328	1,118	8,912
Postage		1,593		1,593	1,062		1,062	2,655
Legal and accounting	1,581	501	7,103	9,185	928	387	1,315	10,500
Insurance	8,078	2,562	36,299	46,939	4,747	1,977	6,724	53,663
Bank charges		5,670	5,671	11,341				11,341
Dues and subscriptions					19,107		19,107	19,107
Conferences, travel, and training					14,873		14,873	14,873
Contracted services			100,358	100,358	66,906		66,906	167,264
Depreciation	9,998	9,998	9,998	29,994	10,000	9,998	19,998	49,992
Repairs and maintenance			56,714	56,714				56,714
Utilities	13,746	4,360	61,770	79,876	8,077	3,365	11,442	91,318
License and fees			12,006	12,006				12,006
Interest					8,203		8,203	8,203
Income tax expense			2,001	2,001				2,001
Total functional expenses	\$ 210,394	\$ 80,085	\$ 1,298,686	\$ 1,589,165	\$ 239,443	\$ 58,482	\$ 297,925	\$ 1,887,090

See accompanying notes to the financial statements.

Arrowhead Zoological Society, Inc.
d/b/a Lake Superior Zoological Society
Statement of Functional Expenses

For the Year Ended December 31, 2016

	Program Services				Supporting Services			Total
	Education	Member Services	Zoo Services	Total Program Services	Management and General	Fundraising	Total Supporting Services	
Wages	\$ 139,295	\$ 35,012	\$ 608,047	\$ 782,354	\$ 133,066	\$ 28,313	\$ 161,379	\$ 943,733
Payroll taxes and benefits	19,718	4,956	86,073	110,747	18,836	4,009	22,845	133,592
Animal expenses			77,670	77,670				77,670
Exhibits & signs			22,308	22,308				22,308
Animal medical supplies and laboratory fees			12,546	12,546				12,546
Advertising and promotion	2,384		45,287	47,671				47,671
Donated advertising			19,450	19,450				19,450
Bad debt	1,727	434	7,538	9,699	1,650	351	2,001	11,700
Supplies			63,931	63,931	3,704		3,704	67,635
Printing	1,010	254	4,411	5,675	965	206	1,171	6,846
Postage		3,646		3,646	2,430		2,430	6,076
Legal and accounting	2,135	537	9,320	11,992	2,040	433	2,473	14,465
Insurance	6,906	1,736	30,147	38,789	6,597	1,404	8,001	46,790
Bank charges		5,433	5,432	10,865				10,865
Dues and subscriptions					26,034		26,034	26,034
Conferences, travel, and training					8,010		8,010	8,010
Contracted services			283,044	283,044	188,696		188,696	471,740
Depreciation	8,728	8,728	8,728	26,184	8,728	8,727	17,455	43,639
Repairs and maintenance			34,698	34,698				34,698
Miscellaneous						1,409	1,409	1,409
Utilities	16,341	4,107	71,332	91,780	15,610	3,322	18,932	110,712
License and fees			8,533	8,533				8,533
Interest					11,101		11,101	11,101
Income tax expense			1,518	1,518				1,518
Total functional expenses	\$ 198,244	\$ 64,843	\$ 1,400,013	\$ 1,663,100	\$ 427,467	\$ 48,174	\$ 475,641	\$ 2,138,741

See accompanying notes to the financial statements.

Arrowhead Zoological Society, Inc.
d/b/a Lake Superior Zoological Society

Statements of Cash Flows

For the Years Ended December 31,

	2017	2016
Cash flows from operating activities		
Change in net assets	\$ (43,282)	\$ (16,120)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities		
Depreciation	49,992	43,639
Donated equipment	(59,521)	
Unrealized gain on investments	(4,818)	(7,121)
Loss on disposals of assets	163	
(Increase) decrease in		
Accounts receivable	19,471	(11,945)
Grants receivable	82,483	(77,483)
Inventory	(6,975)	(7,281)
Prepaid expenses	(800)	(709)
Increase (decrease) in		
Accounts payable	(15,629)	52,668
Accrued wages and vacation	(9,813)	8,369
Accrued payroll taxes and withholding	233	2,875
Accrued interest	7,500	6,434
Accrued sales tax	163	(16)
Deferred membership revenue	(2,797)	(13,688)
Net cash provided by (used in) operating activities	16,370	(20,378)
Cash flows from investing activities		
Purchase of property and equipment	(3,028)	(2,955)
Net cash used in investing activities	(3,028)	(2,955)
Cash flows from financing activities		
Payments on note payable	(14,391)	(14,960)
Payments on capital lease payable	(6,591)	(6,338)
Payments on short term funding	(43,350)	43,350
Proceeds from line of credit, net		20,848
Net cash provided by (used in) financing activities	(64,332)	42,900
Net increase (decrease) in cash and equivalents	(50,990)	19,567
Cash and equivalents, beginning	130,814	111,247
Cash and equivalents, ending	\$ 79,824	\$ 130,814
Supplementary cash flow information		
Cash paid during the year for interest	\$ 703	\$ 4,667
Noncash investing and financing activities		
Donated equipment	59,521	

See accompanying notes to the financial statements.

Arrowhead Zoological Society, Inc.

d/b/a Lake Superior Zoological Society

Notes to Financial Statements

Note 1: Nature of Activities and Summary of Significant Accounting Policies

Nature of Operations

Arrowhead Zoological Society, Inc. d/b/a Lake Superior Zoological Society (Society), was incorporated in 1959 to assist the City of Duluth with the maintenance and development of the Lake Superior Zoological Gardens (Park).

In 2009, the Society entered into an expanded contract with the City of Duluth (City) to provide services including operational management, admissions, concessions, gift shop, education, marketing, and administrative support at the Park. The current contract between the City and Park is through May 2026.

The Society receives a majority of its revenue and support under this contract.

Basis of Accounting

The financial statements of the Society have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States.

Basis of Presentation

Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Society and changes therein are classified and reported as follows:

Unrestricted net assets are the net assets of the Society that are neither permanently restricted nor temporarily restricted. Thus, they include all net assets whose use has not been restricted by donors or by law.

Temporarily restricted net assets are subject to donor-imposed stipulations that may or may not be met, either by actions of the Society and/or the passage of time. When a restriction expires, temporarily restricted net assets are transferred to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Permanently restricted net assets are 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 income earned on any related investments for general or specific purposes.

Cash

Cash consists of demand deposits.

Arrowhead Zoological Society, Inc.

d/b/a Lake Superior Zoological Society

Notes to Financial Statements

Note 1: Nature of Activities and Summary of Significant Accounting Policies (Continued)

Accounts, Contribution and Grants Receivable

Accounts, grants, and contributions receivable are reported at the amount management expects to collect on balances outstanding at year-end. Management closely monitors outstanding balances and writes off, as of year-end, any balances that are not expected to be collected. Therefore, no valuation allowance is considered necessary. Management expects to collect the contribution and grants receivables within one year. The Society recognized bad debt expense of \$24,421 and \$11,700 for the years ended December 31, 2017 and 2016, respectively. These amounts consisted entirely of amounts not paid by the City.

Property and Equipment

Property and equipment over \$500 are recorded at cost and depreciated using the straight-line method over their estimated useful lives. Donations of property and equipment are recorded as support at their estimated fair value. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, the Society reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Society reclassifies temporarily restricted net assets to unrestricted net assets at that time.

During 2017, the Society received \$59,521 in donated equipment. This consisted of a used x-ray machine valued at \$50,000 and new dental equipment that was purchased for \$9,521 and donated to the Society. These items are recorded as revenue in the statement of activities for the year ended December 31, 2017 and will be depreciated over their useful lives.

Inventory

Inventories consist of gift shop and concession merchandise. Inventories as of December 31, 2016 are stated at the lower of cost or market. Cost is determined using the first in first out method. In 2017, the Organization adopted Accounting Standards Update (ASU) 2015-11, "*Inventory - Simplifying the Measurement of Inventory*," which changed how inventory is valued. Inventories as of December 31, 2017 are stated at the lower of cost or net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. The adoption of ASU 2015-11 did not have a material impact on the Organization's financial statements.

Arrowhead Zoological Society, Inc.

d/b/a Lake Superior Zoological Society

Notes to Financial Statements

Note 1: Nature of Activities and Summary of Significant Accounting Policies (Continued)

Investments

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the balance sheet. Investment income or loss, including gains and losses on investments, interest, and dividends, are included in the statement of activities as increases or decreases in unrestricted net assets unless the income is restricted by the donor or by law.

Investment securities, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in value of investments securities will occur in the near term.

Recognition of Donor Restrictions

Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

Donated Services

The Society recognizes contributions of services received that create or enhance a nonfinancial asset or require specialized skill by the individual possessing those skills and would typically need to be purchased if not provided by donation. Volunteers provided a variety of tasks and fund-raising services throughout the year that are not recognized as contributions in the financial statements since the recognition criteria were not met. During the years ended December 31, 2017 and 2016, The Society recognized expense and revenue related to donated advertising, website development, and special event services of \$30,213 and \$19,450, respectively.

Deferred Membership Revenue

Income from membership fees is deferred and recognized over the periods to which the fees relate.

Advertising and Promotion

Advertising and promotion costs are charged to operations in the period incurred. Advertising and promotion expense was \$46,401 and \$47,671 for the years ended December 31, 2017 and 2016, respectively.

Arrowhead Zoological Society, Inc.

d/b/a Lake Superior Zoological Society

Notes to Financial Statements

Note 1: Nature of Activities and Summary of Significant Accounting Policies (Continued)

Functional Allocation of Expenses

The costs of providing various programs and other activities have been summarized on a functional basis in the statement of activities and in the statement of functional expenses. Accordingly, certain costs have been allocated among the program services and supporting activities benefited.

Use of Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Income Taxes

The Society is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. However, income from gift shop sales not directly related to the Society's tax-exempt purpose is subject to taxation on unrelated business income.

The Society's tax years prior to 2014 are no longer open for examination by federal and state taxing authorities.

Collection of Customer Taxes

The Society records taxes collected from customers and remitted to governmental authorities on a net basis, which means they are excluded from both sales and costs of sales.

Reclassification

Certain amounts as previously reported in the 2016 financial statements have been reclassified to conform to the 2017 presentation. Such reclassifications have no effect on reported amounts of net assets or change in net assets.

Subsequent Events

The Society has evaluated events and transactions for potential recognition or disclosure in the financial statements through September 4, 2018, which is the date the financial statements were available to be issued.

Arrowhead Zoological Society, Inc.

d/b/a Lake Superior Zoological Society

Notes to Financial Statements

Note 2: Investments

Investments at December 31, 2017 and 2016 consisted of the following:

	2017		2016	
	Cost	Fair Value	Cost	Fair Value
Common stock	\$ 8,420	\$ 39,031	\$ 8,420	\$ 34,213

Note 3: Fair Value Measurements

The Society categorizes its assets and liabilities measured at fair value into a three-level hierarchy based on the priority of the inputs to the valuation technique used to determine fair value. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used in the determination of the fair value measurement fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement. Assets and liabilities valued at fair value are categorized based on the inputs to the valuation techniques as follows:

Level 1 - Inputs that utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that the Society has the ability to access.

Level 2 - Inputs that include quoted prices for similar assets and liabilities in active market and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument. Fair value for these instruments are estimated using pricing models, quoted prices of securities with similar characteristics, or discounted cash flows.

Level 3 - Inputs that are unobservable inputs for the asset or liability, which are typically based on an entity's own assumptions, as there is little, if any related market activity.

Common stock is valued based on quoted market prices from active markets.

The following tables present the balances of assets and liabilities measured at fair value on a recurring basis by level within the fair value hierarchy at December 31, 2017 and 2016:

	2017			
	Level 1	Level 2	Level 3	Total
Investments - Common Stock	\$ 39,031	\$	\$	\$ 39,031
Total	\$ 39,031	\$	\$	\$ 39,031

Arrowhead Zoological Society, Inc.

d/b/a Lake Superior Zoological Society

Notes to Financial Statements

Note 3: Fair Value Measurements (Continued)

	2016			
	Level 1	Level 2	Level 3	Total
Investments - Common Stock	\$ 34,213	\$	\$	\$ 34,213
Total	\$ 34,213	\$	\$	\$ 34,213

Note 4: Property and Equipment

A summary of property and equipment is as follows as of December 31:

2017	Estimated Lives	Cost	Accumulated Depreciation	Net
Computer	3 - 5 years	\$ 35,267	\$ 30,665	\$ 4,602
Building	40 years	425,702	41,683	384,019
Operation equipment	3 - 10 years	172,055	98,908	73,147
Concession stand	5 - 7 years	10,959	10,348	611
Vehicle	5 years	26,185	15,275	10,910
Train and depot	5 - 10 years	52,191	51,750	441
Total		\$ 722,359	\$ 248,629	\$ 473,730

2016	Estimated Lives	Cost	Accumulated Depreciation	Net
Computer	3 - 5 years	\$ 36,844	\$ 28,688	\$ 8,156
Building	40 years	425,702	31,041	394,661
Operation equipment	3 - 10 years	118,129	78,407	39,722
Concession stand	5 - 7 years	10,959	9,635	1,324
Vehicle	5 years	26,185	10,038	16,147
Train and depot	5 - 10 years	52,191	50,865	1,326
Total		\$ 670,010	\$ 208,674	\$ 461,336

Depreciation expense totaled \$49,992 and \$43,639 for the years ended December 31, 2017 and 2016, respectively.

Arrowhead Zoological Society, Inc.

d/b/a Lake Superior Zoological Society

Notes to Financial Statements

Note 5: Temporarily Restricted Net Assets

Temporarily restricted net assets consisted of the following at December 31:

	2017	2016
Griggs Exhibit	\$ 67,839	\$ 61,868
Weesner Bussing	3,944	4,763
Parrot Housing	2,697	2,697
Barn Solar Repair		165
Sugar Glider Exhibit	1,000	1,000
Develop Creativity & Innovation		4,388
X-Ray Machine	2,165	8,049
Butterfly Exhibit	2,929	
Other Exhibits	1,000	1,632
Total	\$ 81,574	\$ 84,562

Note 6: Permanently Restricted Net Assets

Griggs Endowment Fund - Permanently restricted net assets consist of an endowment fund. The principal is to be maintained in perpetuity. The earnings on the fund are to be used to maintain the Griggs Exhibit and are included in temporarily restricted net assets.

Note 7: Endowment Funds

The Board of Directors of the Society has interpreted the State of Minnesota's Uniform Act (UPMIFA) as requiring the preservation of the fair value of the original gift date of the donor-restricted endowment funds in accordance with donor stipulations. 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 and (b) the original value of subsequent gifts to the permanent endowment, if any. In accordance with donor stipulations, gains, losses, and earnings on the fund are 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 various funds, (2) the purposes of the donor-restricted endowment funds, (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, and (7) the Society's investment policies.

Arrowhead Zoological Society, Inc.

d/b/a Lake Superior Zoological Society

Notes to Financial Statements

Note 7: Endowment Funds (Continued)

Investment Return Objectives, Risk Parameters and Strategies. 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 funds while also maintaining the purchasing power of those endowment assets over the long-term. Accordingly, the investment process seeks to achieve an after-cost total rate of return, including investment income as well as capital appreciation, which exceeds the annual distribution with acceptable levels of risk. Endowment assets consist of equity securities, which are intended to result in a consistent inflation-protected rate of return that has sufficient liquidity to protect the original gift, while growing the funds if possible. Therefore, the Society expects its endowment assets, over time, to produce a reasonable rate of return. Actual returns in any given year may vary from this amount. Investment risk is measured in terms of the total endowment assets and allocation between asset classes and strategies are managed to not expose the fund to unacceptable levels of risk.

Spending Policy. The Society has no specific policy of appropriating for distribution an amount to be spent on maintaining the Griggs Exhibit. This is done annually as needed and comes from earnings accumulated on the original gift. The Society considers the long term expected return on its investment assets, the nature and duration of the individual endowment funds, many of which must be maintained in perpetuity because of donor-restrictions, and the possible effects of inflation. This is consistent with the Society's objective to maintain the purchasing power of the endowment assets as well as to provide additional real growth through investment return.

Composition of and changes in endowment net assets for the year ended December 31, were as follows for the Griggs Exhibit:

	Temporarily Restricted	Permanently Restricted	Total Endowment Assets
January 1, 2016	\$ 53,627	\$ 21,050	\$ 74,677
Interest and dividends	1,120		1,120
Unrealized gain on stock	7,121		7,121
December 31, 2016	61,868	21,050	82,918
Interest and dividends	1,153		1,153
Unrealized gain on stock	4,818		4,818
December 31, 2017	\$ 67,839	\$ 21,050	\$ 88,889

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Notes to Financial Statements

Note 8: Retirement Plan

Under the terms of a Simple IRA retirement plan, the Society contributes a matching contribution of up to 3 percent of each eligible participating employee's salary. Matching contributions to this plan were \$16,844 and \$13,557 for the years ended December 31, 2017 and 2016, respectively.

Note 9: Capital Lease Obligation

The Society leases a tractor with annual lease payments of \$7,129 beginning December 2014 through December 2017. A capital lease obligation has been recorded at the present value of future minimum payments, discounted at an interest rate of 4 percent. The capitalized cost of \$26,151 less accumulated depreciation of \$23,728 and \$17,191 at December 31, 2017 and 2016, respectively, is included in operations equipment in the accompanying financial statements. Depreciation expense for the equipment was \$6,538 and \$8,251 for the years ended December 31, 2017 and 2016, respectively.

Interest expense on the capital lease was \$538 and \$791 during the years ended December 31, 2017 and 2016, respectively.

Note 10: Line of Credit and Short-Term Funding

In October 2013, the Society entered into an unsecured line of credit agreement with the City. The line of credit provides for maximum availability of up to \$300,000 and accrues interest at 2.5 percent. Amounts borrowed under the line of credit are due in full on the maturity date of October 1, 2018. The Society had drawn \$300,000 on the line of credit at December 31, 2017 and 2016. Interest expense on the line of credit was \$7,500 and \$9,575 for the years ended December 31, 2017 and 2016, respectively.

During 2016, the Society received interest-free short term funding from the City of Duluth to pay contractor invoices that would later be reimbursed by the State of Minnesota. At December 31, 2016, the Society owed the City of Duluth \$43,350. The short term funding was paid back during 2017.

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Note 11: Long-term Debt

In March 2014, the Society entered into a 0% promissory note agreement with a construction company for work performed on the pavilion. The note agreement was for \$59,401 with monthly payments of \$2,450 and was due in full in March 2016.

In January 2016, the Society entered into a revision of the promissory note with the construction company. The revised note agreement included monthly payments of \$1,308 beginning in February 2016, including interest at 3.25%. The promissory note was paid off during the year ended December 31, 2017.

The note payable had a balance remaining of \$0 and \$14,391 at December 31, 2017 and 2016, respectively. Interest expense on the note payable was \$165 and \$735 for the years ended December 31, 2017 and 2016, respectively.

Note 12: Concentration of Credit Risk

The Society maintains certain cash with a financial institution. The cash is insured by the Federal Deposit Insurance Corporation up to \$250,000. There were no uninsured balances at December 31, 2017 and 2016, respectively.