
**ART MUSEUM SUBDISTRICT OF THE
METROPOLITAN ZOOLOGICAL PARK
AND MUSEUM DISTRICT OF THE CITY
OF ST. LOUIS AND ST. LOUIS COUNTY**
COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2015

SAINT LOUIS ART MUSEUM

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RubinBrown LLP
Certified Public Accountants
& Business Consultants

One North Brentwood
Saint Louis, MO 63105

T 314.290.3300
F 314.290.3400

W rubinbrown.com
E info@rubinbrown.com

Independent Auditors' Report

Board of Commissioners
Art Museum Subdistrict of the Metropolitan
Zoological Park and Museum District of the
City of St. Louis and St. Louis County
St. Louis, Missouri

Report On The Combined Financial Statements

We have audited the accompanying combined financial statements of the business-type activities of the Art Museum Subdistrict of the Metropolitan Zoological Park and Museum District of the City of St. Louis and St. Louis County (the Subdistrict) and its blended component unit, the Saint Louis Art Museum Foundation (the Foundation), as of and for the year ended December 31, 2015, and the related notes to the combined financial statements, which collectively comprise the Subdistrict's basic financial statements as listed in the table of contents.

Management's Responsibility For The Combined Financial Statements

Management is responsible for the preparation and fair presentation of these combined 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.

Auditors' Responsibility

Our responsibility is to express opinions on these combined 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 combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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 opinions.

Opinions

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Subdistrict and the Foundation as of December 31, 2015, and the respective changes in its financial position and cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Change In Accounting Principle

As discussed in Note 1 to the financial statements, the Subdistrict implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, as amended by GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, effective January 1, 2015. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the schedules of selected pension information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

RubinBrown LLP

March 28, 2016

**ART MUSEUM SUBDISTRICT OF THE METROPOLITAN
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**MANAGEMENT'S DISCUSSION AND ANALYSIS (*Unaudited*)
For The Year Ended December 31, 2015**

Background Information

The Art Museum Subdistrict of the Metropolitan Zoological Park and Museum District of the City of St. Louis and St. Louis County (Subdistrict) and the Saint Louis Art Museum Foundation (Foundation) are included within these financial statements. Both entities are tax exempt under section 501(c)(3) of the Internal Revenue Code. The management's discussion and analysis relates to the total of both the activities of the Subdistrict and the Foundation.

The audited financial statements cover the one year ended December 31, 2015. However, the management's discussion and analysis does include comparisons to the prior year.

The management's discussion and analysis of the Museum's and Foundation's financial performance provides an overview of the financial activities for the year ended December 31, 2015. The management's discussion and analysis should not be taken as a replacement for the financial statements but should be read in conjunction with them to enhance understanding of the organization's financial performance.

Financial Highlights

- Tax revenue from the Metropolitan Zoological Park and Museum District (Zoo-Museum District) is a result of an allocation of property taxes levied by the Zoo-Museum District on behalf of the Subdistrict per \$100 of assessed valuation equal to 7.93 cents and 8.00 cents for the years ended December 31, 2015 and 2014, respectively.
- Support from the Zoo-Museum District under the accrual basis method was \$21,579,797 and \$21,181,369 for the years ended December 31, 2015 and 2014, respectively.
- The Foundation provided support to the Subdistrict in the amount of \$4,638,262 and \$4,450,034 for the years ended December 31, 2015 and 2014, respectively.

Financial Statements

The Statement of Net Position includes the assets, liabilities, and net position as of December 31, 2015. The statement is prepared under the accrual basis of accounting. The statement of revenues, expenses, and changes in net position presents the revenues earned and expenses incurred during the year. The statement of cash flows' primary purpose is to provide information about the cash receipts and payments summarized by operating, noncapital financing, investing, and capital and related financing activities.

The Subdistrict meets the criterion for presenting its financial statements as a government.

**ART MUSEUM SUBDISTRICT OF THE METROPOLITAN
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Management's Discussion And Analysis (*Continued*)

The Foundation, although legally separate from the Subdistrict, is a blended component unit, reported as a separate business activity and major enterprise fund. Since the Foundation is blended, the two entities are combined and reported as one financial reporting entity.

The Foundation is incorporated under Missouri nonprofit law and its primary purpose is to raise funds for the benefit of the Subdistrict and then subsequently make gifts to the Subdistrict. Its other purpose is to manage the Foundation's endowment portfolio.

Notes To The Financial Statements

The notes to the combined financial statements provide additional information that is essential to a full understanding of the data provided in the financial statements.

Condensed Combined Schedule Of Net Position

	<i>(In Thousands)</i>	
	2015	2014
Assets:		
Cash and cash equivalents	\$ 48,593	\$ 28,761
Due from the Sub-district by the Zoo-Museum District	7,752	10,092
Investments	176,070	170,576
Receivables:		
Tax revenue from the Zoo-Museum District	12,364	11,644
Contributions	12,390	9,886
Interest and investment proceeds	200	254
Grants	76	100
Accounts	192	236
Prepaid expenses	249	391
Inventory held for resale	290	288
Capital assets, net	137,681	142,196
Total assets	<u>395,857</u>	<u>374,424</u>
Deferred outflows of resources	<u>3,234</u>	—
Liabilities:		
Current liabilities	3,732	3,386
Noncurrent liabilities	30,226	27,732
Total liabilities	<u>33,958</u>	<u>31,118</u>
Deferred inflows of resources	<u>264</u>	—
Net Position:		
Net investment in capital assets	117,355	116,263
Restricted	133,464	110,522
Unrestricted	114,050	116,521
Total net position	<u>\$ 364,869</u>	<u>\$ 343,306</u>

**ART MUSEUM SUBDISTRICT OF THE METROPOLITAN
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Management's Discussion And Analysis (*Continued*)

Analysis:

- Cash and cash equivalents increased in 2015 due to \$22 million in endowment gifts received in December.
- Investments increased due to receipt of a \$5 million gift in 2015.
- Contributions receivables increased in 2015 due to receipt of a \$4 million bequest.
- Noncurrent liabilities increased by \$2.8 million as compared to 2014. The net increase in noncurrent liabilities includes \$8.6 million net pension liability as a result of the implementation of GASB Statement No. 68, less debt principal payments of \$5.6 million in 2015.
- Increase in net investment in capital assets is due to redemption of the remaining \$5.5 million of variable rate debt less depreciation expense on assets of \$5.3 million and net building additions of \$0.8 million.
- Increase in restricted net position is due to the receipt of over \$27 million of permanent endowment gifts, less \$5 million of restricted capital campaign funds used to redeem the variable rate debt reported in the net investment in capital assets above.
- The decrease in unrestricted net position is due to the recording of pension liability of \$5.4 million from year end 2014 as part of the restatement of net position per the implementation of GASB 68 and \$3.2 million increase from unrestricted revenue over expenditures in combined Subdistrict and Foundation.

**ART MUSEUM SUBDISTRICT OF THE METROPOLITAN
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Management's Discussion And Analysis (*Continued*)

Condensed Combined Schedule Of Changes In Net Position

	<i>(In Thousands)</i>	
	2015	2014
Operating revenues:		
Merchandise sales and admissions	\$ 1,338	\$ 1,451
Members' contributions	3,511	3,293
Proceeds from deaccessions of collections	286	—
Contributions of art	834	38,933
Other earned revenue	3,747	855
Total operating revenues	9,716	44,532
Operating expenses:		
Program services	10,101	46,982
Gallery operations	12,965	11,832
Management and general	11,403	8,861
Fundraising	2,456	2,389
Total operating expenses	36,925	70,064
Non-operating revenue (expenses):		
Tax revenue from Zoo-Museum District	21,580	21,181
Contributions and bequests	4,201	2,521
Grants	126	100
Investment income	361	8,695
Interest expense	(977)	(1,055)
Total non-operating revenues	25,291	31,442
Capital contributions and bequests	1,838	828
Change from donor restriction	—	(2,000)
Additions to permanent endowment	27,056	2,180
Increase in net position	\$ 26,976	\$ 6,918

Analysis:

- Contributions of art decreased in 2015 by \$38.1 million as compared to 2014 primarily due to receipt of a bequest of a collection of Asian Art in 2014 valued at \$37.7 million. Gifts of art consist of objects which are accessioned into the collection. Acquisitions of art for the collection, whether by gift or purchase, fluctuate from year to year.
- Other earned revenue increased in 2015 due to recovery of \$700,000 pursuant to a design liability settlement related to the east building and \$2.5 million in commissions received from food service due to a change in accounting for food service activity.
- Investment income decreased \$8.3 million as compared to 2014, due to market value decreases.

**ART MUSEUM SUBDISTRICT OF THE METROPOLITAN
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Management's Discussion And Analysis (*Continued*)

- Contributions increased in 2015 primarily due to receipt of \$27 million of permanent endowment gifts and a \$4 million restricted bequest.
- The decrease in 2015 operating expenses is primarily due to the bequest of an Asian Art collection valued at approximately \$37.7 million reflected in 2014 activity. Expenses for food sales increased management expenses by \$2.1 million due to a change in accounting for food service activity.

Schedule Of Capital Assets, Net (Amounts In Thousands)

	2015	2014
Non-depreciable:		
Construction in process	\$ —	\$ 1,590
Depreciable:		
Buildings and building improvements	137,526	140,367
Furniture, fixtures and equipment	155	239
Total capital assets	\$ 137,681	\$ 142,196

The Subdistrict has invested \$137.7 million in capital assets (net of accumulated depreciation) as of the close of the fiscal year. These capital assets consist of buildings and building improvements, furniture, fixtures, and equipment.

Construction in process for 2014 was associated with the Outdoor Improvement Project which was completed in 2015 and reclassified to building improvements.

Additional information on Capital Assets may be found in Note 4 of the financial statements.

Additional information on the Cultural Facilities Revenue Bonds may be found in Note 6 of the financial statements.

Requests for Information

These basic financial statements are designed to provide a general overview of the Subdistrict's and Foundation's finances. Questions concerning any information provided in this report should be addressed to the Finance Department, Saint Louis Art Museum, One Fine Arts Drive, Forest Park, St. Louis, Missouri 63110-1380.

**ART MUSEUM SUBDISTRICT OF THE METROPOLITAN
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COMBINED STATEMENT OF NET POSITION

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December 31, 2015

	<u>Business-Type Activities</u>		
	<u>Museum Subdistrict</u>	<u>Foundation</u>	<u>Total</u>
Assets			
Current Assets			
Cash and cash equivalents:			
Unrestricted	\$ 19,088,158	\$ 443,367	\$ 19,531,525
Restricted	3,516,598	25,545,122	29,061,720
Due from the Metropolitan Zoological Park and Museum District	7,752,126	—	7,752,126
Investments:			
Unrestricted	168,173	6,224,485	6,392,658
Restricted	44,838	807,117	851,955
Receivables:			
Tax revenue from the Metropolitan Zoological Park and Museum District, net of an allowance of \$668,735	12,363,797	—	12,363,797
Unrestricted contributions	—	49,500	49,500
Restricted contributions	26,730	4,854,512	4,881,242
Unrestricted interest and investment proceeds	51,282	55,453	106,735
Restricted interest and investment proceeds	17,356	75,711	93,067
Grants	75,507	—	75,507
Accounts:			
Unrestricted	191,980	—	191,980
Prepaid expenses	248,964	—	248,964
Inventory held for resale	290,173	—	290,173
Total Current Assets	43,835,682	38,055,267	81,890,949
Noncurrent Assets			
Receivables:			
Restricted contributions	42,953	7,416,602	7,459,555
Investments:			
Unrestricted	18,720,596	58,987,643	77,708,239
Restricted	6,700,167	84,416,951	91,117,118
Capital assets, net:			
Depreciable:			
Buildings and building improvements	137,526,266	—	137,526,266
Furniture, fixtures, and equipment	154,826	—	154,826
Total Noncurrent Assets	163,144,808	150,821,196	313,966,004
Total Assets	206,980,490	188,876,463	395,856,953
Deferred Outflows Of Resources			
Pension contributions	332,056	—	332,056
Difference between expected and actual earnings on pension investments	2,497,790	—	2,497,790
Changes in proportionate share - pension	404,283	—	404,283
Total Deferred Outflows Of Resources	3,234,129	—	3,234,129

**ART MUSEUM SUBDISTRICT OF THE METROPOLITAN
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CITY OF ST. LOUIS AND ST. LOUIS COUNTY**

COMBINED STATEMENT OF NET POSITION

Page 2 Of 2
December 31, 2015

	Business-Type Activities		Total
	Museum Subdistrict	Foundation	
Liabilities			
Current Liabilities			
Bonds payable - due within one year	\$ —	\$ 495,000	\$ 495,000
Accounts payable	1,902,772	27,700	1,930,472
Accrued expenses	741,260	—	741,260
Interest payable	77,965	—	77,965
Obligations under split-interest agreements	—	71,591	71,591
Other liabilities	225,419	190,381	415,800
Total Current Liabilities	2,947,416	784,672	3,732,088
Noncurrent Liabilities			
Obligations under split-interest agreements	—	339,030	339,030
Net pension liability	8,624,107	—	8,624,107
Bonds payable due in more than one year	—	19,831,328	19,831,328
Other liabilities	1,431,075	—	1,431,075
Total Noncurrent Liabilities	10,055,182	20,170,358	30,225,540
Total Liabilities	13,002,598	20,955,030	33,957,628
Deferred Inflows Of Resources			
Difference between expected and actual experience - pension	134,527	—	134,527
Change of assumptions	129,287	—	129,287
Total Deferred Inflows Of Resources	263,814	—	263,814
Net Position			
Net investment in capital assets	137,681,092	(20,326,328)	117,354,764
Restricted:			
Expendable:			
Art acquisition and other	5,824,253	38,093,209	43,917,462
Capital campaign	—	10,939,520	10,939,520
Nonexpendable:			
Endowment principal	4,524,389	74,083,285	78,607,674
Unrestricted	48,918,473	65,131,747	114,050,220
Total Net Position	\$ 196,948,207	\$ 167,921,433	\$ 364,869,640

**ART MUSEUM SUBDISTRICT OF THE METROPOLITAN
ZOOLOGICAL PARK AND MUSEUM DISTRICT OF THE
CITY OF ST. LOUIS AND ST. LOUIS COUNTY**

**COMBINED STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION**

For The Year Ended December 31, 2015

	Business-Type Activities		Total
	Museum Subdistrict	Foundation	
Operating Revenues			
Merchandise sales and admissions	\$ 1,335,388	\$ 2,460	\$ 1,337,848
Members' contributions	—	3,511,414	3,511,414
Proceeds from deaccessions of collections	285,891	—	285,891
Contributions of art	834,087	—	834,087
Other earned revenue	3,728,176	19,056	3,747,232
Total Operating Revenues	6,183,542	3,532,930	9,716,472
Operating Expenses			
Program services:			
Curatorial and conservation	4,156,912	—	4,156,912
Exhibitions	1,286,421	—	1,286,421
Education and library	1,908,710	—	1,908,710
Accessions of art for collections	2,748,532	—	2,748,532
Gallery operations:			
Building operations and maintenance	9,808,812	7,698	9,816,510
Protective services	3,148,884	—	3,148,884
Management and general:			
Administration	10,349,636	172,181	10,521,817
Museum shop	881,217	—	881,217
Fundraising:			
Development	2,450,597	5,000	2,455,597
Total Operating Expenses	36,739,721	184,879	36,924,600
Operating Income (Loss)	(30,556,179)	3,348,051	(27,208,128)
Nonoperating Revenues (Expenses)			
Tax revenue from the Metropolitan Zoological Park and Museum District	21,579,797	—	21,579,797
Contributions and bequests	1,401,184	2,799,927	4,201,111
Grants	125,675	—	125,675
Investment income	274,693	53,575	328,268
Change in value of split-interest agreements	—	32,369	32,369
Interest expense	(976,653)	—	(976,653)
Payments from the Foundation (payments to the Subdistrict)	4,638,262	(4,638,262)	—
Total Nonoperating Revenues (Expenses)	27,042,958	(1,752,391)	25,290,567
Income (Loss) Before Capital Contributions And Bequests And Additions To Permanent Endowment	(3,513,221)	1,595,660	(1,917,561)
Capital Contributions And Bequests	—	1,838,233	1,838,233
Additions To Permanent Endowment	15,725	27,039,958	27,055,683
Increase (Decrease) In Net Position	(3,497,496)	30,473,851	26,976,355
Net Position - Beginning Of Year - As Previously Stated	205,858,323	137,447,582	343,305,905
Prior Period Adjustment - Effect Of Adoption Of GASB 68	(5,412,620)	—	(5,412,620)
Net Position - Beginning of Year - As Restated	200,445,703	137,447,582	337,893,285
Net Position - End Of Year	\$ 196,948,207	\$ 167,921,433	\$ 364,869,640

**ART MUSEUM SUBDISTRICT OF THE METROPOLITAN
ZOOLOGICAL PARK AND MUSEUM DISTRICT OF THE
CITY OF ST. LOUIS AND ST. LOUIS COUNTY**

**COMBINED STATEMENT OF CASH FLOWS
For The Year Ended December 31, 2015**

	Business-Type Activities		
	Museum Subdistrict	Foundation	Total
Cash Flows From Operating Activities			
Receipts from patrons	\$ 1,331,388	\$ 3,504,380	\$ 4,835,768
Receipts from deaccessions of collections	285,891	—	285,891
Other operating cash receipts	3,771,770	19,056	3,790,826
Payments to suppliers of goods and services	(15,167,605)	(137,853)	(15,305,458)
Payments to employees	(14,893,929)	—	(14,893,929)
Net Cash Provided By (Used In) Operating Activities	(24,672,485)	3,385,583	(21,286,902)
Cash Flows From Noncapital Financing Activities			
Cash collections of support from Zoo Museum District	23,162,373	—	23,162,373
Payments to (from) the Foundation	4,638,262	(4,638,262)	—
Proceeds from contributions	1,399,257	29,828,147	31,227,404
Investment subject to split-interest agreements	—	17,761	17,761
Net payments received for split-interest agreements	—	(114,663)	(114,663)
Net Cash Provided By Noncapital Financing Activities	29,199,892	25,092,983	54,292,875
Cash Flows From Investing Activities			
Purchase of investments	(5,184,124)	(22,195,741)	(27,379,865)
Investment income	653,366	3,652,793	4,306,159
Proceeds from sale of investments	4,651,853	13,343,256	17,995,109
Net Cash Provided By (Used In) Investing Activities	121,095	(5,199,692)	(5,078,597)
Cash Flows From Capital And Related Financing Activities			
Cash collections of grant support	150,576	—	150,576
Proceeds from capital contributions	—	(701,854)	(701,854)
Payments on bonds payable	—	(5,615,000)	(5,615,000)
Interest paid	(976,653)	—	(976,653)
Purchase of property and equipment	(951,432)	—	(951,432)
Net Cash Used In Capital And Related Financing Activities	(1,777,509)	(6,316,854)	(8,094,363)
Net Increase In Cash And Cash Equivalents	2,870,993	16,962,020	19,833,013
Cash And Cash Equivalents - Beginning Of Year	19,733,763	9,026,469	28,760,232
Cash And Cash Equivalents - End Of Year	\$ 22,604,756	\$ 25,988,489	\$ 48,593,245
Reconciliation Of Operating Income (Loss) To Net Cash Provided By (Used In) Operating Activities			
Operating income (loss)	\$ (30,556,179)	\$ 3,348,051	\$ (27,208,128)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:			
Depreciation and amortization	5,462,928	7,668	5,470,596
Write off of contributions receivable	—	5,000	5,000
Provision for uncollectible taxes	37,638	—	37,638
Changes in assets and liabilities:			
Accounts receivable	43,594	—	43,594
Prepaid expenses	142,200	—	142,200
Inventory held for resale	(2,252)	—	(2,252)
Accounts payable	412,383	34,358	446,741
Interest payable	(395)	—	(395)
Accrued expenses	(385,291)	—	(385,291)
Net pension liability	241,172	—	241,172
Other liabilities	(68,283)	(9,494)	(77,777)
Total adjustments	5,883,694	37,532	5,921,226
Net Cash Provided By (Used In) Operating Activities	\$ (24,672,485)	\$ 3,385,583	\$ (21,286,902)
Supplemental Disclosure Of Cash Flow Information			
Accounts payable incurred for capital asset purchases	\$ 292,727	\$ —	\$ 292,727
Unrealized loss on investments	(107,578)	(3,789,405)	(3,896,983)

See the accompanying notes to financial statements.

**ART MUSEUM SUBDISTRICT OF THE METROPOLITAN
ZOOLOGICAL PARK AND MUSEUM DISTRICT OF THE
CITY OF ST. LOUIS AND ST. LOUIS COUNTY**

**NOTES TO COMBINED FINANCIAL STATEMENTS
December 31, 2015**

1. Summary Of Significant Accounting Policies

The Art Museum Subdistrict (the Subdistrict) was established by an act of the Missouri State Legislature in 1971. The Subdistrict operates the Saint Louis Art Museum, and is supported by tax revenue from the Metropolitan Zoological Park and Museum District of the City of St. Louis and St. Louis County (the Zoo-Museum District). Support from the Zoo-Museum District represents a continuous appropriation of an allocation of property tax revenues from the City of St. Louis and St. Louis County, which are levied on behalf of the Sub-district by the Zoo-Museum District. The Sub-district has no authority to levy taxes on its own.

The following is a summary of the more significant accounting policies:

Reporting Entity

The Subdistrict's financial reporting entity has been determined in accordance with governmental accounting standards for defining the reporting entity and identifying entities to be included in its basic financial statements. The Subdistrict's financial reporting entity consists of the Subdistrict (the primary government) and its blended component unit, the Saint Louis Art Museum Foundation (the Foundation).

The Foundation, a separate legal entity, was incorporated as a Missouri not-for-profit organization to act as an organization for certain of the Saint Louis Art Museum's fundraising activities. Members of the Board of Commissioners for the subdistrict appoint the members of the Board of Directors for the Foundation. In addition, the Foundation manages the endowment of the Subdistrict and the income and resources generated by the Foundation support the efforts of the Subdistrict. Consequently, the Foundation is included as a blended component unit of the Subdistrict. The financial activity of the Foundation is presented as a separate enterprise fund and in a separate column in the accompanying basic financial statements to emphasize that it is legally separate from the Subdistrict. Separate financial statements of the Foundation are not prepared.

Basis Of Accounting

The Subdistrict and Foundation prepare their financial statements in accordance with accounting principles generally accepted in the United States of America for business-type activities, as prescribed by The Governmental Accounting Standards Board (GASB). Accordingly, the economic resource measurement focus and the accrual basis of accounting are used. Revenues, expenses, gains, losses, assets and liabilities from exchange and exchange-like transactions are recognized when the exchange transaction takes place, while those from nonexchange transactions (principally tax revenue from the Zoo-Museum District, grants and contributions) are recognized when all applicable eligibility requirements are met.

**ART MUSEUM SUBDISTRICT OF THE METROPOLITAN
ZOOLOGICAL PARK AND MUSEUM DISTRICT OF THE
CITY OF ST. LOUIS AND ST. LOUIS COUNTY**

Notes To Combined Financial Statements (*Continued*)

Business-type activities distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with business-type activities ongoing operations. Revenues from merchandise sales and admissions, proceeds from deaccessions of collections, and members' contributions are reported as operating revenues. All expenses related to operating the Subdistrict or Foundation are reported as operating expenses. Transactions which are capital, financing, or investing related are reported as nonoperating revenues and expenses in its own category in the Statement of Revenues, Expenses and Changes in the Net Position.

Revenue Recognition

The Subdistrict recognizes merchandise sales as revenue at the point of sale. The Subdistrict and Foundation recognize members' contributions as revenue when received.

Tax revenue from the Zoo-Museum District represents a continuous appropriation to the Subdistrict by the Zoo-Museum District. Accordingly, the Subdistrict recognizes support from the Zoo-Museum District based on an allocation of property taxes which are levied by the Zoo-Museum District, net of the Zoo-Museum District management fee and an allowance for uncollectible accounts.

The Subdistrict and Foundation recognize contributions, including contributions receivable due in future periods, when the contribution is received and all eligibility requirements, including time requirements, are met.

Cash And Cash Equivalents

For purposes of the statements of cash flows, cash and cash equivalents consist of cash on hand and in banks.

Investments

The Subdistrict and Foundation's investments are stated at fair value. Fair value of all debt and equity securities with a readily determinable fair value is based on quotations obtained from national securities exchanges.

The Subdistrict and Foundation invest in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statement of net position.

**ART MUSEUM SUBDISTRICT OF THE METROPOLITAN
ZOOLOGICAL PARK AND MUSEUM DISTRICT OF THE
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Notes To Combined Financial Statements (*Continued*)

Capital Assets

Capital assets of the Subdistrict are recorded at original cost or, if donated, at fair value at date of donation. Capital assets are defined as assets with an initial, individual cost of \$5,000 or more and building improvements need to increase the value of the building or asset. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, ranging from 3 to 5 years for furniture, fixtures, and equipment, 10 years for certain building improvements, and 30 to 75 years for buildings.

Prepaid Expenses

At December 31, 2015, prepaid expenses represent \$213,433 of payments to vendors for insurance costs and \$35,531 of other payments to vendors and contractors applicable to future accounting periods.

Inventory Held For Resale

Inventory held for resale by the Subdistrict's Museum Shop is stated at the lower of cost (determined on a first-in, first-out basis) or market.

Collections

The Subdistrict collects works of art representing many periods and cultures. The Subdistrict's collections, as permitted by accounting principles generally accepted in the United States of America, are not capitalized in the accompanying financial statements because they meet all of the following criteria:

- The collections are held for public exhibition.
- The collection is cataloged, preserved, and cared for, with activities verifying the existence and condition of the collection performed annually.
- The Subdistrict's collections' policy requires the proceeds from the sales of deaccessioned items, which are items removed from the collection, to be used to acquire other objects for the collections.

The Subdistrict preserves, collects and interprets the collection through curatorial research and educational outreach. The Subdistrict's curatorial, conservation, library and registrarial staff work to interpret and present the permanent collections in the historic galleries of the Beaux Art building and the East Building.

Objects can be acquired, or accessioned, by purchase or by outright gift. Items acquired by outright gift are recorded as operating revenue and accessions of art for collections at their estimated fair value in the year of donation.

**ART MUSEUM SUBDISTRICT OF THE METROPOLITAN
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Notes To Combined Financial Statements (*Continued*)

A summary of the Subdistrict's deaccessions and accessions for the year ended December 31, 2015 are as follows:

Accessions of art for collections:	
Value of objects acquired by gift	\$ 834,087
Purchase of accessions of art for collections	<u>1,914,445</u>
	<u>\$ 2,748,532</u>

Accrued Expenses

The Subdistrict's accrued expenses balance of as of December 31, 2015 represents \$185,897 of accrued salaries due to employees, \$21,791 of accrued contributions to the Employee Retirement System of the City of St. Louis, and \$533,572 of benefit time due to employees. Benefit time is granted to all full-time employees based on years of continuous service. No employee shall be allowed to exceed the maximum carryover of days, based on the employee's years of service, past December 31 of any given year without the written approval of the Director.

Other Liabilities

The Subdistrict's other liabilities as of December 31, 2015 represent \$1,599,444 of amounts due under deferred compensation plans, \$6,050 of withholdings from employees and \$51,000 of unearned income to be recognized in future periods. Other liabilities for the Foundation include \$190,381 of unearned income.

Deferred Outflows Of Resources

In addition to assets, the statement of net position will sometimes include a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period or periods and so will not be recognized as an outflow of resources until then. Deferred outflows of resources include pension-related deferrals required by the implementation of GASB Statement No. 68.

Deferred Inflows Of Resources

In addition to liabilities, the statement of net position will sometimes include a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period or periods and so will not be recognized as an inflow of resources until then. Deferred inflows of resources include pension-related deferrals required by the implementation of GASB Statement No. 68.

ART MUSEUM SUBDISTRICT OF THE METROPOLITAN
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Notes To Combined Financial Statements (*Continued*)

Pensions

Pension-related expenses, liabilities, deferred outflows of resources and deferred inflows of resources have been determined on the same bases as they are reported by the Employees Retirement System of the City of St. Louis (the System). For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Net Position

The Subdistrict and Foundation's net position is classified for financial reporting purposes in the following categories:

Net investment in capital assets - This component of net position reports the difference between capital assets less both the accumulated depreciation and the outstanding balance of debt, excluding unexpended bond proceeds, that is directly attributable to the acquisition, construction or improvement of those assets.

Restricted - Expendable - This component of net position includes net position whose use by the Subdistrict or the Foundation is subject to externally imposed stipulations that can be fulfilled by actions of the Subdistrict or the Foundation.

Restricted - Nonexpendable - This component of net position includes amounts subject to externally imposed stipulations that the assets be maintained permanently by the Subdistrict or the Foundation. Such assets include the Subdistrict or the Foundation's permanent endowment fund. The current spending rate has been set at 4.5% of the trailing five-year (20 quarter) average account balance. If, due to market conditions or other issues, the Director and/or Controller deem it inadvisable to withdraw the entire 4.5% amount during any one year, they will have the authority to either take less than the 4.5%, or to withhold taking any withdrawal from the account during that year. The net amount of appreciation available for authorization of expenditure as of December 31, 2015 was \$2,238,305 and \$33,341,186 reported in restricted expendable net position of the Subdistrict and Foundation, respectively. Depending on the presence or absence of donor stipulations as to use, the amount harvested is recorded as a part of unrestricted or restricted - expendable net positions.

Unrestricted - For the Subdistrict, this component of net position includes net positions that are not subject to externally imposed stipulations. For the Foundation, this component of net position includes amounts that are for the support of the Subdistrict, but that are not subject to externally imposed stipulations. Unrestricted net position may be designated for specific purposes by action of the Board of Commissioners of the Subdistrict or the Board of Directors of the Foundation. When an expense is incurred that can be paid using either restricted or unrestricted resources, the Subdistrict and the Foundation's policy is to first apply the expense toward restricted resources, and then toward unrestricted resources.

**ART MUSEUM SUBDISTRICT OF THE METROPOLITAN
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Notes To Combined Financial Statements (*Continued*)

New Accounting Standards Adopted

During the year, the Subdistrict adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, as amended by GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. These statements established standards for measuring and recognizing liabilities, deferred outflows and inflows of resources, and expense associated with defined benefit pension plans. As a result of the implementation, net position as of January 1, 2015 was restated as follows:

Net position, as previously reported	<u>\$ 205,858,323</u>
Prior period adjustment:	
Beginning net pension liability (measurement date of October 1, 2014)	(5,870,560)
Change in Subdistrict's net pension liability at October 1, 2014 due to change in proportional share of pension items are reported as deferred outflows of resources	606,424
Deferred inflows of resources for investment earnings differences and experience gains - October 1, 2014	(439,312)
Contributions made October 1, 2014 through December 31, 2014 reported as deferred outflows of resources	<u>290,828</u>
Total prior period adjustment	<u>(5,412,620)</u>
Net position, as restated	<u><u>\$ 200,445,703</u></u>

Estimates And Assumptions

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the Subdistrict and Foundation to make estimates and assumptions that affect the reported amounts of assets and liabilities as of 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.

Contributed Services

A substantial number of unpaid volunteers contribute services to the Subdistrict. The estimated value of this contributed time for the year ending December 31, 2015 is \$169,195. The value of contributed services is not reflected in the accompanying statement of revenues, expenses and changes in net position.

Federal Income Tax

The Subdistrict is exempt from federal income taxes under Sections 115(a) and 501(c)(3) of the Internal Revenue Code, except for any unrelated business income activities.

**ART MUSEUM SUBDISTRICT OF THE METROPOLITAN
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Notes To Combined Financial Statements (*Continued*)

The Foundation is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code, except for any unrelated business income activities.

2. Investments

All investment decisions of the Subdistrict and Foundation are recommended by the Investment Committee, and made in accordance with the Investment Policy Statement adopted by the Subdistrict and the Foundation in May 2014.

Subdistrict

The Subdistrict's investments are maintained in accordance with state laws governing the investment of public funds; specifically those contained in Article 6, Section 23 of the Missouri Constitution. As such, the Subdistrict's investments, excluding assets related to deferred compensation plan or which were donated, consist of fixed income securities, specifically U.S. Treasury and U.S. Agency securities. The Subdistrict's Investment Committee has the responsibility of ensuring compliance with the existing investment policy, monitoring management's compliance with state laws, and recommending any changes to investment custodians, managers or changes to the policy.

Interest Rate Risk

Interest rate risk is the risk that the fair value of investments will be adversely affected by a change in interest rates. The Subdistrict's investment policy provides that the Subdistrict's investment pool, excluding assets related to deferred compensation plans or which were donated, should consist entirely of fixed income securities, specifically U.S. Treasury and U.S. Agency securities, with maturity dates staggered over approximately a five-year maturity.

As of December 31, 2015, the Subdistrict had the following investments and related maturities:

	Fair Value	Investment Maturities (In Years)			
		Less Than One	One To Five	Six To Ten	No Maturity
Investment type:					
U.S. Treasury	\$ 1,587,146	\$ —	\$ 1,587,146	\$ —	\$ —
U.S. Agencies	11,766,849	2,573,702	9,074,881	118,266	—
Municipal bonds	60,498	—	—	60,498	—
Stocks	504,908	—	—	—	504,908
Mutual funds	591,588	—	—	—	591,588
Money market mutual funds	190,009	190,009	—	—	—
Total	\$ 14,700,998	\$ 2,763,711	\$ 10,662,027	\$ 178,764	\$ 1,096,496

**ART MUSEUM SUBDISTRICT OF THE METROPOLITAN
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Notes To Combined Financial Statements (*Continued*)

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Credit risk is measured using credit quality ratings of investments in debt securities as described by nationally recognized rating agencies such as Standard & Poor's and Moody's.

The Subdistrict's investment policy requires the average credit quality of the portfolio be maintained at AA- or higher, as rated by Moody's and/or Standard and Poor's. The policy dictates that split-rated issues in which one of the ratings is below investment grade are not permissible.

The following table lists the credit quality ratings per Moody's and/or Standard and Poor's of the Subdistrict's investments as of December 31, 2015:

Investment type:	Fair Value	Quality Ratings		
		AA+	AA	Unrated
U.S. Treasury	\$ 1,587,146	\$ 1,587,146	\$ —	\$ —
U.S. Agencies	11,766,849	11,766,849	—	—
Municipal bonds	60,498	—	60,498	—
Stocks	504,908	—	—	504,908
Mutual funds	591,588	—	—	591,588
Money market mutual funds	190,009	—	—	190,009
Total	\$ 14,700,998	\$ 13,353,995	\$ 60,498	\$ 1,286,505

Custodial Credit Risk

Custodial credit risk is the risk that, in the event of the failure of a counterparty to a transaction for investments or a bank failure for deposits, the Subdistrict will not be able to recover the value of the investments, collateral securities, or deposits that are in the possession of the counterparty or bank. The Subdistrict does not have a formal policy related to custodial credit risk of investments or deposits. Protection of the Subdistrict's deposits is provided by the Federal Deposit Insurance Corporation and by eligible securities pledged by the financial institutions.

Concentration Of Credit Risk

The Subdistrict's investment policy provides that the Subdistrict's investment pool, excluding assets related to deferred compensation plans or which were donated, should consist entirely of fixed income securities, specifically U.S. Treasury and U.S. Agency securities and corporate bonds.

**ART MUSEUM SUBDISTRICT OF THE METROPOLITAN
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Notes To Combined Financial Statements (*Continued*)

At December 31, 2015, the Subdistrict held the following investments that, individually, were greater than 5% of the Subdistrict's total investments:

<u>Investment Type</u>	<u>Percentage</u>
U.S. Treasury	10.80
FFCB	5.40
FHLB	18.58
FICO	20.81
FNMA	31.54

Investments which include \$10,932,776 of certificates of deposit are reported in the Subdistrict's accompanying statement of net position as of December 31, 2015 as follows:

Current investments:	
Unrestricted	\$ 168,173
Restricted	44,838
Noncurrent investments:	
Unrestricted	18,720,596
Restricted	<u>6,700,167</u>
Total Investments	<u>\$ 25,633,774</u>

Foundation

The Foundation is incorporated as a Missouri not-for-profit organization organized under Chapter 355 of the Missouri revised Statutes, and as such, is not subject to the restrictions on investments of governmental subdivisions contained in Article 6, Section 23 of the Missouri Constitution. Specifically, not-for-profit corporations are not restricted under Missouri law from investing in corporate stock and similar investments.

Interest Rate Risk

Interest rate risk is the risk that the fair value of securities will be adversely affected by a change in interest rates. The Foundation's investment policy provides that the Foundation's investment pool may consist of fixed income securities with maturity dates not exceeding 10 years.

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Notes To Combined Financial Statements *(Continued)*

As of December 31, 2015, the Foundation had the following investments and maturities:

Investment type:	Fair Value	Investment Maturities (In Years)					No Maturity
		Less Than One	One To Five	Six To Ten	More Than Ten		
U.S. Treasury	\$ 770,323	\$ —	\$ 289,439	\$ 480,884	\$ —	\$ —	—
U.S. Agencies	13,557,826	1,496,895	3,517,695	8,394,724	148,512	—	—
Corporate bonds	186,462	—	186,462	—	—	—	—
Taxable municipal bonds	7,720,430	330,769	3,507,298	3,766,579	115,784	—	—
Mutual funds	111,527,290	—	—	—	—	—	111,527,290
Money market mutual funds	983,203	983,203	—	—	—	—	—
Other investments	15,914	—	—	—	—	—	15,914
Total	\$ 134,761,448	\$ 2,810,867	\$ 7,500,894	\$ 12,642,187	\$ 264,296	\$ 111,543,204	

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Credit risk is measured using credit quality ratings of investments in debt securities as described by nationally recognized rating agencies such as Standard & Poor's and Moody's.

The Foundation's investment policy requires that the average credit quality of the portfolio of investments be maintained at AA or higher, and that corporate fixed income securities be limited to quality ratings of BBB or above, as rated by Moody's and/or Standard and Poor's. The policy dictates that split-rated issues in which one of the ratings is below investment grade are not permissible.

The following table lists the credit quality ratings per Moody's and/or Standard and Poor's of the Foundation's investments as of December 31, 2015:

Investment type:	Fair Value	Quality Ratings				
		AAA	AA+	AA	AA-	A+
U.S. Treasury	\$ 770,323	\$ —	\$ 770,323	\$ —	\$ —	\$ —
U.S. Agencies	13,557,826	31,330	13,409,289	89,375	—	128
Corporate bonds	186,462	—	186,462	—	—	—
Taxable municipal bonds	7,720,430	799,290	3,070,019	3,186,749	664,372	—
Mutual funds	111,527,290	—	—	—	—	—
Money market mutual funds	983,203	—	—	—	—	—
Other investments	15,914	—	—	—	—	—
Total	\$ 134,761,448	\$ 830,620	\$ 17,436,093	\$ 3,276,124	\$ 664,372	\$ 128

(Continued)

**ART MUSEUM SUBDISTRICT OF THE METROPOLITAN
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Notes To Combined Financial Statements (*Continued*)

	Quality Ratings	
	CC	Unrated
Investment type:		
U.S. Treasury	\$ —	\$ —
U.S. Agencies	27,704	—
Corporate bonds	—	—
Taxable municipal bonds	—	—
Stocks	—	—
Mutual funds	—	111,527,290
Money market mutual funds	—	983,203
Other investments	—	15,914
Total	\$ 27,704	\$ 112,526,407

Custodial Credit Risk

Custodial credit risk is the risk that, in the event of the failure of a counterparty to a transaction for investments or a bank failure for deposits, the Foundation will not be able to recover the value of the investments or collateral securities that are in the possession of the counterparty or bank. The Foundation does not have a formal policy related to custodial credit risk of investments or deposits. At December 31, 2015, \$3,867,566 of the Foundation's bank balance of \$19,827,499 was uninsured and uncollateralized, and thus exposed to custodial credit risk.

Concentration Of Credit Risk

The Foundation's Investment Policy includes an asset allocation policy, which includes the following target investment allocations with a permissible variance of +/-10%:

<u>Investment Type</u>	<u>Percentage</u>
Equity investments:	
Total market	11.50
Large capitalization value	16.00
Small capitalization value	11.00
Small capitalization market	7.00
REIT's	3.50
International	21.00
Fixed income investments	30.00
Total	100.00

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Notes To Combined Financial Statements (*Continued*)

At December 31, 2015, the Foundation held the following investments that, individually, were greater than 5% of the Foundation's total investments:

<u>Investment Type</u>	<u>Percentage</u>
FHLB	7.68
MF - Vanguard FTSE All World	8.80
MF - Vanguard Small Cap Index	8.12
MF - Vanguard Small Cap Value	12.62
MF - Vanguard Total Stock Mkt	14.10
MF - Vanguard Value Index	18.77
MF - Ishares MSCI EAFE Small	10.19
MF - Ishares MSCI EAFE Value	5.83

Investments, which include \$15,674,748 of certificates of deposit, are reported in the Foundation's accompanying statement of net position as of December 31, 2015 as follows:

Current investments:	
Unrestricted	\$ 6,224,485
Restricted	807,117
Noncurrent investments:	
Unrestricted	58,987,643
Restricted	<u>84,416,951</u>
 Total Investments	 <u>\$ 150,436,196</u>

3. Contributions Receivable

At December 31, 2015, the present value of the Subdistrict's contributions receivable is expected to be collected in the future as follows:

<u>Year</u>	<u>Amount</u>
2016	\$ 27,000
2017	25,000
2018	25,000
	<u>77,000</u>
Less: Allowance for uncollectibility	770
Less: Unamortized discount	<u>6,547</u>
	<u>\$ 69,683</u>

At December 31, 2015, the present value of the Foundation's contributions receivable are expected to be collected in the future as follows:

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Notes To Combined Financial Statements (*Continued*)

Year	Amount
2016	\$ 4,913,244
2017	10,000
2018	7,407,177
	12,330,421
Less: Allowance for uncollectibility	9,232
Less: Unamortized discount	575
	\$ 12,320,614

4. Capital Assets

The following is a summary of changes in capital assets for the Subdistrict for the year ended December 31, 2015:

	Balance January 1, 2015	Additions And Reclassifications	Retirements And Reclassifications	Balance December 31, 2015
Capital assets not being depreciated:				
Construction in process	\$ 1,589,809	\$ —	\$ (1,589,809)	\$ —
Capital assets being depreciated:				
Buildings and building improvements	168,000,659	2,383,535	—	170,384,194
Furniture, fixtures and equipment	3,658,858	154,219	(154,037)	3,659,040
Total capital assets being depreciated	171,659,517	2,537,754	(154,037)	174,043,234
Less accumulated depreciation for:				
Buildings and building improvements	(27,633,575)	(5,224,353)	—	(32,857,928)
Furniture, fixtures and equipment	(3,419,676)	(238,575)	154,037	(3,504,214)
Total accumulated depreciation	(31,053,251)	(5,462,928)	154,037	(36,362,142)
Total capital assets being depreciated, net	140,606,266	(2,925,174)	—	137,681,092
Capital assets, net	\$ 142,196,075	\$ (2,925,174)	\$ (1,589,809)	\$ 137,681,092

**ART MUSEUM SUBDISTRICT OF THE METROPOLITAN
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Notes To Combined Financial Statements (*Continued*)

Depreciation expense for 2015 was allocated to the following functions of the Subdistrict:

Building operations and maintenance	\$ 5,271,275
Administration	168,194
Museum shop	<u>23,459</u>
	<u>\$ 5,462,928</u>

5. Tax Revenue From The Zoo-Museum District

Tax revenue from the Zoo-Museum District represents property tax revenues allocated to the Subdistrict from the following sources:

City of St. Louis, Missouri	\$ 3,526,024
St. Louis County, Missouri	<u>18,053,773</u>
	<u>\$ 21,579,797</u>

6. Noncurrent Liabilities

During the year ended December 31, 2009, the Industrial Development Authority of the City of St. Louis, (the IDA) issued \$20,710,000 in Cultural Facilities Revenue Bonds (Series 2009A) with interest rates ranging from 2% to 5%. The bond proceeds were used to finance a portion of the costs of improvements to the Museum's existing 269,900 square foot facility, construction of an approximate 82,000 square foot expansion to the Museum's existing facility, and constructing an approximate 128,000 square foot, 300 space underground parking facility. The bonds are scheduled to mature on December 1, 2013 through December 1, 2040.

During the year ended December 31, 2009, the IDA also issued \$25,515,000 (Series 2009B) in Variable Rate Demand Cultural Facilities Revenue Bonds. The bond proceeds were used in conjunction with the Series 2009A bonds to finance the portion of the costs of improvements to the Museum's existing 269,900 square foot facility, construction of an approximate 82,000 square foot expansion to the Museum's existing facility, and constructing an approximate 128,000 square foot, 300 space underground parking facility. In 2014, the Subdistrict effected a \$20 million redemption of the variable rate debt. The remaining balance of \$5,515,000 was redeemed in 2015.

The bonds were issued pursuant to a Trust Indenture dated December 1, 2009 between the IDA and UMB Bank, N. A., as Bond Trustee. Under the terms of the Trust Indenture, the IDA assigned and pledged to the Trustee all of its interest in the Loan Agreement (except its rights to receive indemnification and reimbursement and certain other rights).

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Notes To Combined Financial Statements (*Continued*)

The Foundation entered into Loan Agreements with the IDA whereby the IDA loaned the Series 2009A and Series 2009B bond proceeds to the Foundation. In return, the Loan Agreement requires the Foundation to make payments on the loan in the amount of the interest and principal on the bonds. In order to provide revenues to the Foundation to make payments under the Loan Agreement, the Museum and Foundation entered into a Ground Lease, dated December 1, 2009, pursuant to which the Museum will lease certain of its real property, commonly known as the "South Wing" (the Leased Property) to the Foundation. The Foundation and the Museum entered into a Lease/Purchase Agreement, dated December 1, 2009, (the Lease) pursuant to which the Foundation will sublease the Leased Property to the Museum and the Museum agrees, subject to the availability of appropriations of funds therefore to pay Base Rentals (as defined in the Lease) in amounts sufficient for the Foundation to make the Loan Payments under the Loan Agreement.

Pursuant to these agreements, the capital assets and improvements are capitalized on the books of the Museum. Construction costs were funded by the transfer of funds from the Foundation to the Museum.

The Series 2009 bonds subjected the Foundation to certain restrictions and covenants including refraining from taking any action which caused the interest on the bonds to be includable in gross income for federal income tax purposes, maintaining a ratio of the Foundation's and Museum's unrestricted net assets to total outstanding indebtedness of at least 0.75 to 1, furnishing audited financial statements to the bank and other restrictions and covenants. The Foundation further covenants that it will maintain its tax-exempt status under Section 501(c)(3) of the Internal Revenue Code.

**ART MUSEUM SUBDISTRICT OF THE METROPOLITAN
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Notes To Combined Financial Statements (*Continued*)

Principal And Interest Requirements To Maturity

Obligations related to the cultural facilities revenue bonds are payable in varying amounts through 2040. Annual principal and interest requirements to maturity on the bonds as of December 31, 2015 are as follows:

Year Ending December 31,	Cultural Facilities Revenue Bonds	
	Principal	Interest
2016	\$ 495,000	\$ 948,570
2017	505,000	933,720
2018	300,000	917,055
2019	535,000	906,555
2020	555,000	886,760
2021-2025	3,130,000	4,079,650
2026-2030	3,865,000	3,339,675
2031-2035	4,890,000	2,316,000
2036-2040	6,235,000	965,250
	<u>\$ 20,510,000</u>	<u>\$ 15,293,235</u>

Bond interest paid in 2015 was \$950,921 and \$25,732 for 2009A and 2009B bonds, respectively. No bond interest was capitalized in 2015.

Following is a summary of the changes in noncurrent liabilities of the Subdistrict for the year ended December 31, 2015. Refer to Note 9 for descriptions of the net pension liability.

	Beginning Balance	Additions	Reductions	Ending Balance	Amount Due Within One Year
Deferred compensation	\$ 1,665,002	\$ 560,511	\$ (626,069)	\$ 1,599,444	\$ 168,369

Deferred compensation is included in other liabilities – current and noncurrent in the statement of net position.

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Notes To Combined Financial Statements (*Continued*)

Following is a summary of the changes in noncurrent liabilities of the Foundation for the year ended December 31, 2015:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amount Due Within One Year</u>
Revenue bonds:					
Series 2009A	\$ 20,610,000	\$ —	\$ (100,000)	\$ 20,510,000	\$ 495,000
Series 2009B	5,515,000	—	(5,515,000)	—	—
Obligations under split-interest agreements	507,523	—	(96,902)	410,621	71,591
				<u>20,920,621</u>	
	<u>\$ 26,632,523</u>	<u>\$ —</u>	<u>\$ (5,711,902)</u>		<u>\$ 566,591</u>
Less:					
Unamortized discount on bonds				<u>(183,672)</u>	
Total Noncurrent Liabilities				<u>\$ 20,736,949</u>	

7. Operating Lease Commitment

In 2011, the Museum entered into an operating lease agreement for warehouse space which began February 2011 and ends January 31, 2016. The lease agreement was amended October 20, 2015 to extend the operating lease through January 31, 2021. The amount of base rent and additional rent for common areas is estimated at the maximum rate allowed under the contract. Property taxes owed for the rental space are proportionate to the square footage rented and utility costs are separately contracted by the Subdistrict. For the year ended December 31, 2015, the Subdistrict incurred operating lease expenses of \$71,856. The estimated annual lease payments including any additional rent and taxes due under the terms of the lease agreement are as follows.

<u>Year</u>	<u>Amount</u>
2016	\$ 122,811
2017	130,035
2018	136,083
2019	141,900
2020	147,927
Thereafter	12,369
	<u>\$ 691,125</u>

**ART MUSEUM SUBDISTRICT OF THE METROPOLITAN
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CITY OF ST. LOUIS AND ST. LOUIS COUNTY**

Notes To Combined Financial Statements (*Continued*)

8. Split-Interest Agreements

The Foundation administers gift annuities subject to obligations to pay fixed amounts periodically to the respective donor or designated beneficiaries during their lifetimes. Assets held under these split-interest agreements are included in investments and long-term investments. Contribution revenue is recorded at the inception date of each split-interest agreement, net of the related obligation under split-interest agreement, which is recorded at present value utilizing interest rates ranging between 4.5% and 12.6%, for estimated future payments to be made to the donors or designated beneficiaries during their lifetimes. The obligations under split-interest agreements are adjusted over the term of the agreements for changes in the fair value of the assets, accretion of the discount, and other changes in estimates of future benefits.

9. Retirement Plans

General Information About The Pension Plan

Plan description. The Employees Retirement System of the City of St. Louis (the System) is a cost-sharing multiple-employer public employee's retirement system for nonuniformed employees of the City of St. Louis and certain other public entities funded by, or providing services to, residents of the City of St. Louis. All non-uniformed employees of the City and certain other public entities funded by or providing services to residents of the City become members of the System upon employment with the exception of employees hired after attaining age 60. The System issues a publicly available financial report that includes financial statements and supplementary information. That report may be obtained by writing to the Employees' Retirement System of the City of St. Louis; 1114 Market Street, Suite 900; St. Louis, Missouri 63101.

Benefits provided. The System provides for defined benefit payments for retirement, death, or disability to eligible employees or their beneficiaries based upon creditable service, final average compensation, and a benefit compensation base. Benefits vest with employees covered by the System after the employee has attained five years of creditable service. Employees retire with full retirement benefits after the age of 65 or if the employee's age and creditable service combined equal or exceed 85. Employees may retire and receive a reduced benefit after age 60 with five years of creditable service; age 55 with at least 20 years of creditable service; or at any age with 30 years of creditable service. The monthly pension benefits of all retirees or their beneficiaries are adjusted accordingly to the changes in the Consumer Price Index of the U.S. Department of Labor. Increases are limited each year, with total increases to retirees or their beneficiaries limited to 25%.

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Notes To Combined Financial Statements (*Continued*)

On June 8, 2000, the Mayor of the City approved an ordinance passed by the Board of Aldermen, authorizing a Deferred Retirement Option Plan (DROP), which became effective January 1, 2001. This plan states that when members reach retirement age, they are allowed to work for five additional years and defer receipt of their retirement allowance. The calculation of average salary for retirement benefits will not include the additional years of service after normal retirement age. The amount that would have been received as retirement benefit is put in a special DROP account monthly. The DROP account will not be adjusted for cost of living increases as the normal retirement benefits are. The DROP account earns interest at the actuarial valuation rate of return and at the 10 year U.S. Treasury Bond yield as of September 30, for DROP participants enrolling February 1, 2003 and thereafter. After the member completely terminates employment, the member can withdraw amounts from the DROP account in a lump sum or according to a deferred retirement payment plan.

Contributions. The System's funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are sufficient to accumulate assets to pay benefits due. If contributions are necessary, level percentage of payroll employer contribution rates are determined using the projected unit credit actuarial cost method. Employer contribution rates are established annually by the Board of Trustees of the Employees' System based on an actuarial study. Deductions from plan assets are financed from plan additions.

The Board of Trustees established the required employer contributions rate based on active member payroll of 13.86% effective July 1, 2015. Employees who became members of the System prior to October 14, 1977, and continued to make contributions, may make voluntary contributions to the System equal to 3% of their compensation until the employee's compensation equals the maximum annual taxable earnings under the Federal Social Security Act. Thereafter, employees may contribute 6% of their compensation for the remainder of the calendar year. The Subdistrict's contributions to the System for the year ended December 31, 2015 were \$1,386,774.

**Pension Liabilities, Pension Expense, And Deferred Outflows Of Resources And
Deferred Inflows Of Resources Related To Pensions**

At December 31, 2015, the Subdistrict reported a liability of \$8,624,107 as its proportionate share of the net pension liability. The net pension liability was measured as of October 1, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

The Subdistrict's proportion of the net pension liability was based on the Subdistrict's contributions relative to the contributions of all participating employers for the System's plan year ended September 30, 2015. At September 30, 2015, the Subdistrict's proportion was 3.797%, which was an increase of 0.19 from its proportion measured as of September 30, 2014.

**ART MUSEUM SUBDISTRICT OF THE METROPOLITAN
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Notes To Combined Financial Statements (*Continued*)

For the year ended December 31, 2015, the Subdistrict recognized pension expense of \$241,172. At December 31, 2015, the Subdistrict reported deferred outflows of resources and deferred inflows of resource related to pensions from the following sources:

	<u>Deferred Outflows Of Resources</u>	<u>Deferred Inflows Of Resources</u>
Differences between expected and actual experience	\$ —	\$ 134,527
Changes of assumptions	—	129,287
Net difference between expected and actual earnings on pension plan investments	2,497,790	—
Changes in Subdistrict's proportion and differences between Subdistrict contributions and Subdistrict's proportionate share of contributions	404,283	—
Subdistrict contributions subsequent to the measurement date of October 1, 2015	332,056	—
	<u>\$ 3,234,129</u>	<u>\$ 263,814</u>

Deferred outflows of resources of \$332,056 resulting from Subdistrict contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending September 30, 2016.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense in the Subdistrict's fiscal year following the System's fiscal year as follows:

<u>Year</u>	<u>Deferred Outflows Amount</u>	<u>Deferred Inflows Amount</u>
2016	\$ 805,333	\$ (131,907)
2017	805,333	(131,907)
2018	603,192	—
2019	688,215	—
	<u>\$ 2,902,073</u>	<u>\$ (263,814)</u>

**ART MUSEUM SUBDISTRICT OF THE METROPOLITAN
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Notes To Combined Financial Statements (*Continued*)

Actuarial assumptions. The total pension liability in the September 30, 2015 actuarial valuation, which is also the date of measurement for GASB 68 purposes, was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.5%
Salary increases	3.5% annually, average, plus merit component based on employee's years of service (range from 3.5% to 7.02%)
Investment rate of return	7.5% net of investment expense

Mortality rates were based on the 1994 Group Annuity Mortality Table.

The actuarial assumptions used in the September 30, 2015 valuation were based on the results of actual experience of the System. As a result of the 2015 actuarial experience study, economic and demographic actuarial assumptions were updated. An explicit assumption for administrative expenses was added equal to 0.3% of covered payroll.

The long-term expected rate of return on pension plan investments was determined using the building block approach and a forward-looking model in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These rates are combined to produce the long-term expected rate of return by weighing the expected future real rate of return by the target asset allocation percentage and by adding expected inflation.

Even though history provides a valuable perspective for setting the investment return assumption, the System relies primarily on an approach which builds upon the last capital market assumptions. Specifically, the System uses Summit Strategies Group capital market assumption in analyzing the System's asset allocation.

The best-estimate range for the long-term expected rate of return is determined by adding expected inflation to the expected long-term real return and reflecting expected volatility and correlation.

**ART MUSEUM SUBDISTRICT OF THE METROPOLITAN
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Notes To Combined Financial Statements (*Continued*)

The target allocation and best estimate of arithmetic real rate of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate Of Return</u>
Private Equity	5.00%	8.25%
Real Estate	10.00%	5.00%
Hedge Funds	10.00%	4.50%
Master Limited Partnerships	7.50%	6.00%
International Equity	21.50%	6.84%
Domestic Equity	21.00%	5.05%
Fixed Income	25.00%	2.25%
 Total	 <u>100.00%</u>	

Discount rate. The discount rate used to measure the total pension liability was 7.50 percent. The projection of cash flows used to determine the discount rate assumed that contributions from System members will be made at the current contribution rate. Based on these assumptions, the System's net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on System investments was applied to all periods of projected benefit payments to determine the total pension liability. The long-term expected rate of return was determined net of investment expenses but without reduction for administrative expenses.

Sensitivity of the Subdistrict's proportionate share of the net pension liability to changes in the discount rate. The following presents the Subdistrict's proportionate share of the net pension liability calculated using the discount rate of 7.5%, as well as what the Subdistrict's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.5%) or 1-percentage-point higher (8.5%) than the current rate:

Sensitivity Of The Subdistrict's Proportionate Share Of The NPL

	<u>1% Decrease (6.5%)</u>	<u>Current Discount Rate (7.5%)</u>	<u>1% Increase (8.5%)</u>
Subdistrict's proportionate share of the net pension liability	\$ 12,301,640	\$ 8,624,107	\$ 5,480,099

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Notes To Combined Financial Statements (*Continued*)

Pension plan fiduciary net position. Detailed information about the pension plan's fiduciary net position is available in the separately issued System financial report.

Payables To The Pension Plan

The Subdistrict did not report any payables to the System for 2015.

Deferred Compensation

The Subdistrict maintains deferred compensation plans for the purpose of providing deferred compensation to a select group of current and previous key employees. The plans require the Subdistrict to establish a Reserve Account and make annual distributions based upon terms of the deferred compensation agreements. The balance of the Reserve Account and the corresponding other liabilities accounts at December 31, 2015 was \$1,599,444.

10. Risk Management

The Subdistrict and the Foundation are exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; theft of, damage to, and destruction of collections; errors and omissions; injuries to employees; and natural disasters. The Subdistrict and Foundation purchase commercial insurance for these risks of loss. Settled claims did not exceed commercial coverage in the past three years.

Required Supplementary Information

**ART MUSEUM SUBDISTRICT OF THE METROPOLITAN
ZOOLOGICAL PARK AND MUSEUM DISTRICT OF THE
CITY OF ST. LOUIS AND ST. LOUIS COUNTY**

**SCHEDULES OF SELECTED PENSION INFORMATION
EMPLOYEES RETIREMENT SYSTEM OF THE CITY OF ST. LOUIS
December 31, 2015**

Schedule Of Subdistrict's Proportionate Share Of The Net Pension Liability

Fiscal Year	2015
Subdistrict's proportion of the net pension liability	3.7971%
Subdistrict's proportionate share of the net pension liability	\$ 8,624,107
Subdistrict's covered-employee payroll	9,830,362
Subdistrict's proportionate share of net pension liability as a percentage of its covered-employee payroll	87.73%
Plan fiduciary net position as a percentage of the total pension liability	76.22%

Schedule Of Subdistrict's Contributions

Fiscal Year	2015
Required contribution	\$ 1,345,545
Contributions in relation to the required contribution	1,345,545
Contribution deficiency	—
Subdistrict's covered-employee payroll	9,830,362
Contributions as a percentage of covered-employee payroll	13.69%

Note:

Above schedules are intended to show information for 10 years. Additional years will be displayed as they become available.

Changes Of Benefit Terms Or Assumptions

There were no changes to benefit terms in the plan or changes to assumptions in valuation reports for the year ended September 30, 2015.