
**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, 2017

SAINT LOUIS ART MUSEUM

Contents

	Page
Independent Auditors' Report	1 - 2
Management's Discussion And Analysis (Unaudited)	3 - 7
 Basic Financial Statements	
Combined Statement Of Net Position.....	8 - 9
Combined Statement Of Revenues, Expenses And Changes In Net Position	10
Combined Statement Of Cash Flows	11
Notes To Combined Financial Statements	12 - 34
 Required Supplementary Information	
Schedules Of Selected Pension Information - Employees Retirement System Of The City Of St. Louis	35



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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, 2017, 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, 2017, 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.

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 29, 2018

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (*Unaudited*) For The Year Ended December 31, 2017

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, 2017. 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, 2017. 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 7.68 cents and 7.99 cents for the years ended December 31, 2017 and 2016, respectively.
- Support from the Zoo-Museum District under the accrual basis method was \$22,750,584 and \$21,759,820 for the years ended December 31, 2017 and 2016, respectively.
- The Foundation provided support to the Subdistrict in the amount of \$7,376,134 and \$6,030,901 for the years ended December 31, 2017 and 2016, respectively.

Financial Statements

The Statement of Net Position includes the assets, liabilities, and net position as of December 31, 2017. 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. 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.

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

Management's Discussion And Analysis *(Continued)*

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>	
	2017	2016
Assets:		
Cash and cash equivalents	\$ 50,046	\$ 28,764
Due from the Sub-district by the Zoo-Museum District	7,610	13,374
Investments	230,014	211,208
Receivables:		
Tax revenue from the Zoo-Museum District	13,610	12,367
Contributions	8,376	12,410
Interest and investment proceeds	265	251
Grants	84	115
Accounts	324	195
Prepaid expenses	939	345
Beneficial interest in trust held by others	78	-
Inventory held for resale	283	319
Capital assets, net	128,544	133,549
Total assets	<u>440,173</u>	<u>412,897</u>
Deferred outflows of resources	880	2,304
Liabilities:		
Current liabilities	7,038	4,072
Noncurrent Liabilities	27,307	29,078
Total liabilities	<u>34,345</u>	<u>33,150</u>
Deferred inflows of resources	251	234
Net Position:		
Net investment in capital assets	109,574	113,534
Restricted	155,710	139,600
Unrestricted	141,173	128,683
Total net position	<u>\$ 406,457</u>	<u>\$ 381,817</u>

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

Management's Discussion And Analysis (*Continued*)

Analysis:

- Cash and cash equivalents increased in 2017 primarily due to receipt of three bequests totaling \$9.2 million and \$5.8 million due to the timing of the cash draw from the Zoo-Museum District.
- Investments increased \$18.8 million driven by market appreciation.
- Contributions receivable decreased \$4 million due to the cash receipt of a bequest that was previously booked as a receivable.
- Decrease in net investment in capital assets is due to depreciation expense on assets of \$5.5 million and net building additions of \$262,000.
- Prepaid expenses increased approximately \$600,000 due to pre-payment of exhibition venue fees required for the 2018 Sunken Cities exhibition.
- Current liabilities increased in 2017 primarily due to a \$2.2 million year-end art acquisition. Other increases include approximately \$300,000 in shared exhibition costs due to partner museums for the Reigning Men and Degas exhibitions.
- The increase in both restricted and unrestricted net position is primarily due to market value appreciation of endowment assets.

Condensed Combined Schedule Of Changes In Net Position

	<i>(In Thousands)</i>	
	2017	2016
Operating revenues:		
Merchandise sales and admissions	\$ 1,488	\$ 1,256
Members' contributions	3,617	3,039
Proceeds from deaccessions of collections	622	18
Contributions of art	3,493	560
Other earned revenue	2,787	2,704
Total operating revenues	12,007	7,577
Operating expenses:		
Program services	16,929	8,601
Gallery operations	13,967	13,100
Management and general	11,935	11,208
Fundraising	2,605	2,633
Total operating expenses	45,436	35,542
Non-operating revenue (expenses):		
Tax revenue from Zoo-Museum District	22,751	21,760
Contributions and bequests	2,016	4,040
Grants	130	183
Investment income	27,074	19,031
Interest expense	(358)	(896)
Total non-operating revenues	51,613	44,118
Capital contributions and bequests	5,873	667
Additions to permanent endowment	583	127
Increase in net position	\$ 24,640	\$ 16,947

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

Management's Discussion And Analysis (*Continued*)

Analysis:

- Membership contributions increased \$578,000 consisting of a \$142,000 increase in general membership and \$436,000 in upper-level membership.
- Proceeds from deaccessions increased by \$604,000 and contributions of art increased \$2,933,000 as compared to 2016. Deaccessions and gifts of art fluctuate from year to year.
- Contributions and bequests decreased \$2,024,000 due to receiving less bequests than 2016. Contributions and bequests fluctuate from year to year.
- Investment income increased \$8 million as compared to 2016, due to market value increases.
- Additions to the permanent endowment increased in 2017 due to receipt of \$500,000 to create a new permanently endowed fund.
- The increase in 2017 operating expenses is primarily due to open positions and variations in costs for loan fees and shipping related to the exhibition program. The 2017 program expenses also include \$8.7 million for art purchase, an increase of \$3.7 million, as compared to 2016.

Schedule Of Capital Assets, Net (Amounts In Thousands)

	2017	2016
Depreciable:		
Buildings and building improvements	\$ 128,352	\$ 133,414
Furniture, fixtures and equipment	192	135
Total capital assets	\$ 128,544	\$ 133,549

The Subdistrict has invested \$128.5 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.

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. The bonds payable decreased by the amount of principal payments in the current year.

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

Management's Discussion And Analysis (*Continued*)

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

COMBINED STATEMENT OF NET POSITION

Page 1 Of 2

December 31, 2017

	<u>Business-Type Activities</u>		<u>Total</u>
	<u>Museum</u>	<u>Foundation</u>	
	<u>Subdistrict</u>	<u>Foundation</u>	<u>Total</u>
Assets			
Current Assets			
Cash and cash equivalents:			
Unrestricted	\$ 23,412,652	\$ 11,080,844	\$ 34,493,496
Restricted	3,439,899	12,112,541	15,552,440
Due from the Metropolitan Zoological Park and Museum District	7,609,743	—	7,609,743
Investments:			
Unrestricted	203,736	7,560,634	7,764,370
Restricted	—	206,420	206,420
Receivables:			
Tax revenue from the Metropolitan Zoological Park and Museum District, net of an allowance of \$628,158	13,609,971	—	13,609,971
Unrestricted contributions	—	163,456	163,456
Restricted contributions	24,750	8,187,669	8,212,419
Unrestricted interest and investment proceeds	43,878	95,181	139,059
Restricted interest and investment proceeds	14,150	111,996	126,146
Grants	84,434	—	84,434
Accounts:			
Unrestricted	323,996	—	323,996
Prepaid expenses	938,891	—	938,891
Beneficial interest in trust held by others	77,558	—	77,558
Inventory held for resale	282,949	—	282,949
Total Current Assets	50,066,607	39,518,741	89,585,348
Noncurrent Assets			
Investments:			
Unrestricted	18,370,072	72,061,026	90,431,098
Restricted	6,477,339	125,134,474	131,611,813
Capital assets, net:			
Depreciable:			
Buildings and building improvements	128,351,849	—	128,351,849
Furniture, fixtures, and equipment	192,390	—	192,390
Total Noncurrent Assets	153,391,650	197,195,500	350,587,150
Total Assets	203,458,257	236,714,241	440,172,498
Deferred Outflows Of Resources			
Pension contributions	329,454	—	329,454
Difference between expected and actual earnings on pension investments	79,529	—	79,529
Changes in proportionate share - pension	471,245	—	471,245
Total Deferred Outflows Of Resources	880,228	—	880,228

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

COMBINED STATEMENT OF NET POSITION

Page 2 Of 2

December 31, 2017

	Business-Type Activities		
	Museum Subdistrict	Foundation	Total
Liabilities			
Current Liabilities			
Bonds payable - due within one year	\$ —	\$ 845,000	\$ 845,000
Accounts payable	3,448,213	1,100,245	4,548,458
Accrued expenses	923,923	—	923,923
Obligations under split-interest agreements	—	80,127	80,127
Other liabilities	493,364	147,500	640,864
Total Current Liabilities	4,865,500	2,172,872	7,038,372
Noncurrent Liabilities			
Obligations under split-interest agreements	—	325,490	325,490
Net pension liability	7,307,481	—	7,307,481
Bonds payable due in more than one year	—	18,125,000	18,125,000
Other liabilities	1,549,138	—	1,549,138
Total Noncurrent Liabilities	8,856,619	18,450,490	27,307,109
Total Liabilities	13,722,119	20,623,362	34,345,481
Deferred Inflows Of Resources			
Difference between expected and actual experience - pension	173,113	—	173,113
Irrevocable split interest agreement	77,558	—	77,558
Total Deferred Inflows Of Resources	250,671	—	250,671
Net Position			
Net investment in capital assets	128,544,239	(18,970,000)	109,574,239
Restricted:			
Expendable:			
Art acquisition and other	5,325,649	54,336,345	59,661,994
Capital campaign	—	16,728,912	16,728,912
Nonexpendable:			
Endowment principal	4,630,489	74,687,843	79,318,332
Unrestricted	51,865,318	89,307,779	141,173,097
Total Net Position	\$ 190,365,695	\$ 216,090,879	\$ 406,456,574

**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, 2017

	Business-Type Activities		Total
	Museum Subdistrict	Foundation	
Operating Revenues			
Merchandise sales and admissions	\$ 1,484,366	\$ 3,755	\$ 1,488,121
Members' contributions	—	3,617,212	3,617,212
Proceeds from deaccessions of collections	622,428	—	622,428
Contributions of art	3,492,598	—	3,492,598
Other earned revenue	2,786,275	450	2,786,725
Total Operating Revenues	8,385,667	3,621,417	12,007,084
Operating Expenses			
Program services:			
Curatorial and conservation	4,728,050	—	4,728,050
Exhibitions	1,766,801	—	1,766,801
Education and library	1,720,946	—	1,720,946
Accessions of art for collections	8,713,645	—	8,713,645
Gallery operations:			
Building operations and maintenance	10,715,586	—	10,715,586
Protective services	3,250,914	—	3,250,914
Management and general:			
Administration	10,843,781	185,449	11,029,230
Museum shop	905,752	—	905,752
Fundraising:			
Development	2,604,590	—	2,604,590
Total Operating Expenses	45,250,065	185,449	45,435,514
Operating Income (Loss)	(36,864,398)	3,435,968	(33,428,430)
Nonoperating Revenues (Expenses)			
Tax revenue from the Metropolitan Zoological Park and Museum District	22,750,584	—	22,750,584
Contributions and bequests	842,620	1,173,300	2,015,920
Grants	129,952	—	129,952
Investment income	425,887	26,700,314	27,126,201
Change in value of split-interest agreements	—	(51,880)	(51,880)
Interest expense	(358,324)	—	(358,324)
Payments from the Foundation (payments to the Subdistrict)	7,376,134	(7,376,134)	—
Total Nonoperating Revenues (Expenses)	31,166,853	20,445,600	51,612,453
Income (Loss) Before Capital Contributions And Bequests And Additions To Permanent Endowment	(5,697,545)	23,881,568	18,184,023
Capital Contributions And Bequests	—	5,872,739	5,872,739
Additions To Permanent Endowment	5,000	578,103	583,103
Increase (Decrease) In Net Position	(5,692,545)	30,332,410	24,639,865
Net Position - Beginning of Year	196,058,240	185,758,469	381,816,709
Net Position - End Of Year	\$ 190,365,695	\$ 216,090,879	\$ 406,456,574

**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, 2017**

	<u>Business-Type Activities</u>		
	<u>Museum Subdistrict</u>	<u>Foundation</u>	<u>Total</u>
Cash Flows From Operating Activities			
Receipts from patrons	\$ 1,683,660	\$ 3,768,468	\$ 5,452,128
Receipts from deaccessions of collections	622,428	—	622,428
Other operating cash receipts	2,657,804	450	2,658,254
Payments to suppliers of goods and services	(18,260,115)	911,518	(17,348,597)
Payments to employees	(16,050,153)	—	(16,050,153)
Net Cash Provided By (Used In) Operating Activities	(29,346,376)	4,680,436	(24,665,940)
Cash Flows From Noncapital Financing Activities			
Cash collections of support from Zoo Museum District	27,272,347	—	27,272,347
Payments to (from) the Foundation	7,376,134	(7,376,134)	—
Proceeds from contributions	869,047	1,741,403	2,610,450
Investment subject to split-interest agreements	—	54,735	54,735
Net payments received for split-interest agreements	—	(74,273)	(74,273)
Net Cash Provided By (Used In) Noncapital Financing Activities	35,517,528	(5,654,269)	29,863,259
Cash Flows From Investing Activities			
Purchase of investments	(5,197,091)	(10,346,906)	(15,543,997)
Investment income	1,367,902	5,978,323	7,346,225
Proceeds from sale of investments	5,197,148	11,255,139	16,452,287
Net Cash Provided By Investing Activities	1,367,959	6,886,556	8,254,515
Cash Flows From Capital And Related Financing Activities			
Cash collections of grant support	160,236	—	160,236
Proceeds from capital contributions	—	9,885,781	9,885,781
Payments on bonds payable	—	(1,045,000)	(1,045,000)
Interest paid	(358,324)	—	(358,324)
Purchase of property and equipment	(812,496)	—	(812,496)
Net Cash Provided By (Used In) Capital And Related Financing Activities	(1,010,584)	8,840,781	7,830,197
Net Increase In Cash And Cash Equivalents	6,528,527	14,753,504	21,282,031
Cash And Cash Equivalents - Beginning Of Year	20,324,024	8,439,881	28,763,905
Cash And Cash Equivalents - End Of Year	\$ 26,852,551	\$ 23,193,385	\$ 50,045,936
Reconciliation Of Operating Income (Loss) To Net Cash Provided By (Used In) Operating Activities			
Operating income (loss)	\$ (36,864,398)	\$ 3,435,968	\$ (33,428,430)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:			
Depreciation and amortization	5,492,834	—	5,492,834
Write off of contributions receivable	—	10,000	10,000
Changes in assets and liabilities:			
Accounts receivable	(128,471)	—	(128,471)
Prepaid expenses	(594,334)	—	(594,334)
Inventory held for resale	35,635	—	35,635
Accounts payable	1,899,707	1,086,968	2,986,675
Accrued expenses	92,410	—	92,410
Net pension liability	396,872	—	396,872
Other liabilities	323,369	147,500	470,869
Total adjustments	7,518,022	1,244,468	8,762,490
Net Cash Provided By (Used In) Operating Activities	\$ (29,346,376)	\$ 4,680,436	\$ (24,665,940)
Supplemental Disclosure Of Cash Flow Information			
Accounts payable incurred for capital asset purchases	\$ 464,443	\$ —	\$ 464,443
Unrealized gain (loss) on investments	(131,143)	19,571,496	19,440,353

**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, 2017

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
CITY OF ST. LOUIS AND ST. LOUIS COUNTY**

Notes To Combined Financial Statements (*Continued*)

Fair Value Measurements

The Subdistrict and Foundation categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

Capital Assets

Capital assets of the Subdistrict are recorded at original cost or, if donated, at acquisition 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, 2017, prepaid expenses represent \$263,910 of payments to vendors for insurance costs, \$650,241 for exhibition deposits and \$24,740 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 or net realizable value, with cost being determined using the first-in, first-out method.

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.

**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*)

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 acquisition value in the year of donation.

A summary of the Subdistrict's accessions for the year ended December 31, 2017 are as follows:

Accessions of art for collections:	
Value of objects acquired by gift	\$ 3,492,598
Purchase of accessions of art for collections	<u>5,221,047</u>
	<u><u>\$ 8,713,645</u></u>

Accrued Expenses

The Subdistrict's accrued expenses balance of as of December 31, 2017 represents \$285,993 of accrued salaries due to employees, \$30,149 of accrued contributions to the Employee Retirement System of the City of St. Louis, and \$607,781 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, 2017 represent \$1,764,519 of amounts due under deferred compensation plans, \$7,983 of withholdings from employees and \$270,000 of unearned income to be recognized in future periods. The Foundation's other liabilities as of December 31, 2017 represent \$147,500 of unearned income to be recognized in future periods.

Deferred Outflows Of Resources

In addition to assets, the statement of net position includes 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 GASB Statement No. 68.

Deferred Inflows Of Resources

In addition to liabilities, the statement of net position includes 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 GASB Statement No. 68 and irrevocable split interest agreements required by GASB Statement No. 81.

**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*)

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, 2017 was \$1,931,122 and \$51,343,538 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
ZOOLOGICAL PARK AND MUSEUM DISTRICT OF THE
CITY OF ST. LOUIS AND ST. LOUIS COUNTY**

Notes To Combined Financial Statements (*Continued*)

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, 2017 is \$165,279. 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.

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 and amended December 12, 2016.

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.

**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*)

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, 2017, the Subdistrict had the following investments and related maturities:

	Investment Maturities (In Years)				
	Fair Value	Less Than One	One To Five	Six To Ten	No Maturity
Investment type:					
U.S. Treasury	\$ 7,505,912	\$ 1,191,480	\$ 6,092,856	\$ 221,576	\$ —
U.S. Agencies	5,707,914	2,351,155	3,356,759	—	—
Municipal bonds	60,096	—	60,096	—	—
Stocks	204,251	—	—	—	204,251
Mutual funds	841,617	—	—	—	841,617
Money market mutual funds	15,910	—	—	—	15,910
Total	\$ 14,335,700	\$ 3,542,635	\$ 9,509,711	\$ 221,576	\$ 1,061,778

The Subdistrict has the following recurring fair value measurements as follows:

Investment type:	Fair Value	Fair Value Measurements	
		Level 1	Level 2
U.S. Treasury	\$ 7,505,912	\$ 7,505,912	\$ —
U.S. Agencies	5,707,914	5,707,914	—
Municipal bonds	60,096	—	60,096
Stocks	204,251	204,251	—
Mutual funds	841,617	841,617	—
Money market mutual funds	15,910	15,910	—
Total	\$ 14,335,700	\$ 14,275,604	\$ 60,096

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.

**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*)

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, 2017:

Investment type:	Fair Value	Quality Ratings		
		AA+	AA	Unrated
U.S. Treasury	\$ 7,505,912	\$ 7,480,231	\$ —	\$ 25,681
U.S. Agencies	5,707,914	4,236,030	—	1,471,884
Municipal bonds	60,096	—	60,096	—
Stocks	204,251	—	—	204,251
Mutual funds	841,617	—	—	841,617
Money market mutual funds	15,910	—	—	15,910
Total	\$ 14,335,700	\$ 11,716,261	\$ 60,096	\$ 2,559,343

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

Notes To Combined Financial Statements (*Continued*)

At December 31, 2017, 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	52.36
Federal Farm Credit Banks	5.24
Federal Home Loan Banks	8.28
Financing Corporation	11.11
Fannie Mae	15.19

Investments which include \$10,715,447 of certificates of deposit are reported in the Subdistrict's accompanying statement of net position as of December 31, 2017 as follows:

Current investments:	
Unrestricted	\$ 203,736
Noncurrent investments:	
Unrestricted	18,370,072
Restricted	<u>6,477,339</u>
 Total Investments	 <u><u>\$ 25,051,147</u></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.

**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*)

As of December 31, 2017, the Foundation had the following investments and maturities:

	Fair Value	Investment Maturities (In Years)					No Maturity
		Less Than One	One To Five	Six To Ten	More Than Ten		
Investment type:							
U.S. Treasury	\$ 2,038,926	\$ —	\$ 808,183	\$ 1,230,743	\$ —	\$ —	
U.S. Agencies	10,820,862	651,836	3,178,992	6,918,760	71,274	—	
Corporate bonds	185,698	—	185,698	—	—	—	
Taxable municipal bonds	17,320,800	1,076,719	8,267,790	7,976,291	—	—	
Mutual funds	155,107,276	—	—	—	—	155,107,276	
Other investments	3,968	—	—	—	—	—	3,968
Total	\$ 185,477,530	\$ 1,728,555	\$ 12,440,663	\$ 16,125,794	\$ 71,274	\$ 155,111,244	

The Foundation has the following recurring fair value measurements as follows:

	Fair Value	Fair Value Measurements		
		Level 1	Level 2	Not Applicable
Investment type:				
U.S. Treasury	\$ 2,038,926	\$ 2,038,926	\$ —	\$ —
U.S. Agencies	10,820,862	10,820,862	—	—
Corporate bonds	185,698	185,698	—	—
Taxable municipal bonds	17,320,800	—	17,320,800	—
Mutual funds	155,107,276	155,107,276	—	—
Other investments	3,968	—	—	3,968
Total	\$ 185,477,530	\$ 168,152,762	\$ 17,320,800	\$ 3,968

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.

**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*)

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, 2017:

Investment type:	Fair Value	Quality Ratings				
		AAA	AA+	AA	A+	Unrated
U.S. Treasury	\$ 2,038,926	\$ —	\$ 2,038,926	\$ —	\$ —	\$ —
U.S. Agencies	10,820,862	—	10,820,802	—	—	60
Corporate bonds	185,698	—	—	—	—	185,698
Taxable municipal bonds	17,320,800	3,066,789	3,143,747	5,483,013	100,663	5,526,588
Mutual funds	155,107,276	—	—	—	—	155,107,276
Other investments	3,968	—	—	—	—	3,968
Total	\$ 185,477,530	\$ 3,066,789	\$ 16,003,475	\$ 5,483,013	\$ 100,663	\$ 160,823,590

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, 2017, \$8,559,345 of the Foundation's bank balance of \$29,161,718 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%:

Investment Type	Percentage
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

**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*)

At December 31, 2017, 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>
MF - Vanguard FTSE All World	8.87
MF - Vanguard Small Cap Index	8.41
MF - Vanguard Small Cap Value	13.28
MF - Vanguard Total Stock Market	13.55
MF - Vanguard Value Index	19.41
MF - Ishares MSCI EAFE Small Cap	6.16
MF - Ishares MSCI EAFE Value	10.21

Investments, which include \$19,485,024 certificates of deposit, are reported in the Foundation's accompanying statement of net position as of December 31, 2017 as follows:

Current investments:	
Unrestricted	\$ 7,560,634
Restricted	206,420
Noncurrent investments:	
Unrestricted	72,061,026
Restricted	<u>125,134,474</u>
 Total Investments	 <u><u>\$ 204,962,554</u></u>

3. Contributions Receivable

At December 31, 2017, the present value of the Subdistrict's contributions receivable is expected to be collected in 2018, net of \$250 allowance for uncollectibility.

At December 31, 2017, the present value of the Foundation's contributions receivable are expected to be collected in the future as follows:

<u>Year</u>	<u>Amount</u>
2018	\$ 8,285,919
2019	35,000
2020	40,000
	<u>8,360,919</u>
Less: Allowance for uncollectibility	7,178
Less: Unamortized discount	<u>2,616</u>
	<u><u>\$ 8,351,125</u></u>

**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*)

4. Capital Assets

The following is a summary of changes in capital assets for the Subdistrict for the year ended December 31, 2017:

	Balance January 1, 2017	Additions And Reclassifications	Retirements And Reclassifications	Balance December 31, 2017
Capital assets being depreciated:				
Buildings and building improvements	\$ 171,568,608	\$ 261,854	\$ —	\$ 171,830,462
Furniture, fixtures and equipment	3,058,250	226,498	(70,250)	3,214,498
Total capital assets being depreciated	174,626,858	488,352	(70,250)	175,044,960
Less accumulated depreciation for:				
Buildings and building improvements	(38,155,180)	(5,323,433)	—	(43,478,613)
Furniture, fixtures and equipment	(2,922,957)	(169,401)	70,250	(3,022,108)
Total accumulated depreciation	(41,078,137)	(5,492,834)	70,250	(46,500,721)
Total capital assets being depreciated, net	133,548,721	(5,004,482)	—	128,544,239
Capital assets, net	\$ 133,548,721	\$ (5,004,482)	\$ —	\$ 128,544,239

Depreciation expense for 2017 was allocated to the following functions of the Subdistrict:

Building operations and maintenance	\$ 5,303,471
Administration	165,904
Museum shop	23,459
	<u>\$ 5,492,834</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	\$ 3,626,710
St. Louis County, Missouri	19,123,874
	<u>\$ 22,750,584</u>

**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*)

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.

During the year ended December 31, 2016, the IDA issued \$20,015,000 in Cultural Facilities Refunding Revenue Bonds (Series 2016) to redeem the Series 2009A bonds. The bonds are scheduled to mature in 2040.

PNC Bank, National Association (the Purchaser), purchased the entire principal amount of the Series 2016 bonds pursuant to the terms of the Bond Trust Indenture dated as of December 1, 2016 (the Bond Indenture), between the Authority and UMB Bank, N.A. (the Bond Trustee). The Bonds are issued under the Bond Indenture for the purpose of making a loan to the St. Louis Art Museum Foundation) pursuant to terms contained in the Loan Agreement dated as of December 1, 2016 (the "Loan Agreement"), between the Authority and the Foundation. 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, and amended December 1, 2016, 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, and amended December 1, 2016, (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 being capitalized on the books of the Museum. Construction costs are being funded by the transfer of funds from the Foundation to the Museum.

The annual interest rate for the bonds is equal to the sum of one month LIBOR Rate multiplied by 72% plus 100 basis points. The rate at December 31, 2017 was 2.13%.

**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*)

The Series 2016 bonds subject the Foundation to certain restrictions and covenants including refraining from taking any action which causes 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 1 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.

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, 2017 are as follows:

Year Ending December 31,	Cultural Facilities Revenue Bonds	
	Principal	Interest
2018	\$ 845,000	\$ 371,206
2019	1,085,000	354,671
2020	1,105,000	334,353
2021	1,125,000	311,817
2022	1,150,000	289,803
2023 - 2027	3,590,000	1,127,300
2028 - 2032	—	986,331
2033 - 2037	—	985,792
2038 - 2040	10,070,000	591,691
	<u>\$ 18,970,000</u>	<u>\$ 5,352,964</u>

The Series 2016 bond interest rate for purposes of the maturity schedule is assumed to be 1.93%. Bond interest paid in 2017 was \$358,324. No bond interest was capitalized in 2017.

Following is a summary of the changes in noncurrent liabilities of the Subdistrict for the year ended December 31, 2017. Refer to Note 9 for descriptions of the net pension liability.

	Beginning Balance	Additions	Reductions	Ending Balance	Amount Due Within One Year
Deferred compensation	\$ 1,669,868	\$ 738,364	\$ (643,713)	\$ 1,764,519	\$ 215,381

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

**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*)

Following is a summary of the changes in noncurrent liabilities of the Foundation for the year ended December 31, 2017:

	Beginning Balance	Additions	Reductions	Ending Balance	Amount Due Within One Year
Series 2016 Revenue Bonds	\$ 20,015,000	\$ —	\$ (1,045,000)	\$ 18,970,000	\$ 845,000
Obligations under split-interest agreements	425,155	56,402	(75,940)	405,617	80,127
	<u>\$ 20,440,155</u>	<u>\$ 56,402</u>	<u>\$ (1,120,940)</u>	<u>\$ 19,375,617</u>	<u>\$ 925,127</u>

7. Operating Lease Commitment

In 2011, the Subdistrict entered into an operating lease agreement for warehouse space which began February 2011 and ended 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, 2017, the Subdistrict incurred operating lease expenses of \$108,894. The estimated annual lease payments including any additional rent and taxes due under the terms of the lease agreement are as follows.

Year	Amount
2018	\$ 113,239
2019	119,056
2020	125,083
2021	10,466
	<u>\$ 367,844</u>

**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*)

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%.

**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*)

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 12.13% effective July 1, 2017. 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, 2017 were \$1,272,100.

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

At December 31, 2017, the Subdistrict reported a liability of \$7,307,481 as its proportionate share of the net pension liability. The net pension liability was measured as of October 1, 2017, 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, 2017. At September 30, 2017, the Subdistrict's proportion was 4.207%, which was an increase of 0.25% from its proportion measured as of September 30, 2016.

**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*)

For the year ended December 31, 2017, the Subdistrict recognized pension expense of \$1,668,972, which includes \$1,272,100 of the Subdistrict's contributions to the System. At December 31, 2017, the Subdistrict reported deferred outflows of resources and deferred inflows of resource related to pensions from the following sources:

	Deferred Outflows Of Resources	Deferred Inflows Of Resources
Differences between expected and actual experience	\$ —	\$ 173,113
Net difference between expected and actual earnings on pension plan investments	79,529	—
Changes in Subdistrict's proportion and differences between Subdistrict contributions and Subdistrict's proportionate share of contributions	471,245	—
Subdistrict contributions subsequent to the measurement date of October 1, 2017	329,454	—
	\$ 880,228	\$ 173,113

Deferred outflows of resources of \$329,454 resulting from Subdistrict contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending December 31, 2018.

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:

Year	Deferred Outflows Amount	Deferred Inflows Amount
2018	\$ 594,518	\$ (111,807)
2019	574,917	(61,306)
2020	(363,804)	—
2021	(254,857)	—
	\$ 550,774	\$ (173,113)

**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*)

Actuarial assumptions. The total pension liability in the September 30, 2017 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% annually, average, plus merit component based on employee's years of service (range from 3% to 4.25%)
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, 2017 valuation were based on the results of actual experience of the System. As a result of the 2017 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
ZOOLOGICAL PARK AND MUSEUM DISTRICT OF THE
CITY OF ST. LOUIS AND ST. LOUIS COUNTY**

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>
Large cap	17.00%	7.30%
Small cap	4.00%	7.00%
International large cap	15.30%	7.30%
Emerging markets	6.20%	9.30%
High yield	5.00%	5.30%
Master limited partnerships	7.50%	10.80%
Private equity	5.00%	9.80%
Core fixed income	12.50%	3.80%
International fixed income	4.00%	3.50%
Core real estate	10.00%	6.50%
Treasury inflation protected securities	3.50%	3.50%
Hedge funds	10.00%	5.00%
 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.

**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*)

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:

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
Subdistrict's proportionate share of the net pension liability	\$ 11,469,380	\$ 7,307,481	\$ 3,746,674

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 2017.

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, 2017 was \$1,764,519.

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.

**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*)

11. Tax Abatements

The Subdistrict recognizes tax revenue based on an allocation of property taxes levied and collected by the Zoo-Museum District. The Zoo-Museum District levies and collects property taxes on behalf of the Subdistricts based on the assessed valuation of property in the City of St. Louis, Missouri (the City) and St. Louis County, Missouri (the County). Both the City and the County have entered into property tax abatement agreements with local businesses under various state statutes. Under these state statutes, the City and the County may grant property tax abatements for the purpose of attracting or retaining businesses within their jurisdictions. The Subdistrict's allocated revenues were reduced under these agreements entered into by the City and the County. Information regarding the City and County 2017 property tax allocated revenue reduction is unavailable.

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, 2017**

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

Plan Year	2017	2016	2015
Subdistrict's proportion of the net pension liability	4.2066%	3.9538%	3.7971%
Subdistrict's proportionate share of the net pension liability	\$ 7,307,481	\$ 8,273,109	\$ 8,624,107
Subdistrict's covered-employee payroll	10,136,866	9,429,227	9,830,362
Subdistrict's proportionate share of net pension liability as a percentage of its covered-employee payroll	72.09%	87.74%	87.73%
Plan fiduciary net position as a percentage of the total pension liability	82.46%	78.52%	76.22%

Schedule Of Subdistrict's Contributions

Fiscal Year	2017	2016	2015
Required contribution	\$ 1,272,100	\$ 1,248,391	\$ 1,386,774
Contributions in relation to the required contribution	1,272,100	1,248,391	1,386,774
Subdistrict's covered-employee payroll	10,357,551	9,528,783	9,581,296
Contributions as a percentage of covered-employee payroll	12.28%	13.10%	14.47%

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, 2017.