

**SAN FRANCISCO
ZOOLOGICAL SOCIETY**

**FINANCIAL STATEMENTS WITH
INDEPENDENT AUDITOR'S REPORT**

**YEARS ENDED
JUNE 30, 2017 AND 2016**

INDEPENDENT AUDITOR'S REPORT

**Board of Directors
San Francisco Zoological Society
San Francisco, California**

We have audited the accompanying financial statements of the San Francisco Zoological Society (a nonprofit organization), which comprise the statements of financial position as of June 30, 2017 and 2016, and the related statements of activities and of cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the San Francisco Zoological Society as of June 30, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

A handwritten signature in black ink that reads "Gilbert Associates, Inc." in a cursive script.

GILBERT ASSOCIATES, INC.
Sacramento, California

September 22, 2017

SAN FRANCISCO ZOOLOGICAL SOCIETY

STATEMENTS OF FINANCIAL POSITION JUNE 30, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
CURRENT ASSETS:		
Cash and cash equivalents	\$ 3,645,325	\$ 3,860,339
Contributions receivable	331,000	503,502
Bequests and other receivables	297,976	498,741
Prepaid expenses	<u>331,584</u>	<u>222,527</u>
Total current assets	4,605,885	5,085,109
INVESTMENTS	7,579,622	6,835,960
PROPERTY AND EQUIPMENT, Net	<u>645,956</u>	<u>611,825</u>
TOTAL ASSETS	<u>\$ 12,831,463</u>	<u>\$ 12,532,894</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable	\$ 625,320	\$ 860,919
Accrued expenses	1,090,844	1,312,021
Deferred revenue	1,272,735	1,292,197
Current portion of long-term debt	148,482	166,887
Due to the City and County of San Francisco	<u>155,542</u>	<u>235,022</u>
Total current liabilities	3,292,923	3,867,046
LONG-TERM DEBT, Net	<u> </u>	<u>148,482</u>
Total liabilities	<u>3,292,923</u>	<u>4,015,528</u>
NET ASSETS:		
Unrestricted	3,052,310	2,356,412
Temporarily restricted	2,235,382	1,913,906
Permanently restricted	<u>4,250,848</u>	<u>4,247,048</u>
Total net assets	<u>9,538,540</u>	<u>8,517,366</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 12,831,463</u>	<u>\$ 12,532,894</u>

SAN FRANCISCO ZOOLOGICAL SOCIETY

STATEMENTS OF ACTIVITIES (Page 1 of 2) YEARS ENDED JUNE 30, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
UNRESTRICTED NET ASSETS:		
REVENUES AND SUPPORT:		
Program revenues:		
Admissions	\$ 7,556,979	\$ 7,672,298
Membership dues	2,683,611	2,683,210
Retail commissions	1,446,077	1,496,768
Retail sales, rides and rentals	1,390,204	1,442,135
Parking	1,372,588	1,121,094
Education	894,654	809,356
Fundraising and ticketed events (net of direct benefit to donors of \$427,073 in 2017 and \$360,461 in 2016)	639,034	375,172
Total program revenue	15,983,147	15,600,033
Other support:		
Management fee	4,120,000	4,120,000
Contributions and bequests	2,159,430	2,284,125
Other income	7,173	10,121
Satisfaction of restrictions, operations	535,002	751,208
Total revenues and support	22,804,752	22,765,487
OPERATING EXPENSES:		
Program services:		
Animals, collections and exhibits	12,304,765	12,703,275
Education	1,289,296	1,458,446
Children's Zoo	1,244,893	1,276,574
Retail operations	937,928	921,615
Membership services	550,818	911,086
Admissions and other program expenses	2,094,154	1,734,819
Total program services	18,421,854	19,005,815
Supporting services:		
General and administrative	1,958,082	1,637,396
Marketing	1,070,983	1,021,933
Fundraising	910,383	870,684
Total supporting services	3,939,448	3,530,013
Total operating expenses	22,361,302	22,535,828
INCOME FROM OPERATIONS	443,450	229,659

The accompanying notes are an integral part of these financial statements.

SAN FRANCISCO ZOOLOGICAL SOCIETY

STATEMENTS OF ACTIVITIES (Page 2 of 2) YEARS ENDED JUNE 30, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
UNRESTRICTED NET ASSETS (CONTINUED):		
Investment income (loss)	714,879	(340,506)
Depreciation expense	(175,498)	(173,616)
Capital expenditures to be gifted to the City and County of San Francisco	(2,103,427)	(1,525,275)
Other capital expenditures	(282,560)	(127,519)
Satisfaction of restrictions, capital	<u>2,099,054</u>	<u>1,652,794</u>
 INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS	 <u>695,898</u>	 <u>(284,463)</u>
 TEMPORARILY RESTRICTED NET ASSETS:		
Contributions	2,927,428	2,478,642
Investment income	28,104	30,458
Satisfaction of restrictions, operations	(535,002)	(751,208)
Satisfaction of restrictions, capital	<u>(2,099,054)</u>	<u>(1,652,794)</u>
 INCREASE IN TEMPORARILY RESTRICTED NET ASSETS	 <u>321,476</u>	 <u>105,098</u>
 PERMANENTLY RESTRICTED NET ASSETS:		
Contributions	<u>3,800</u>	<u>15,000</u>
 INCREASE (DECREASE) IN NET ASSETS	 1,021,174	 (164,365)
 NET ASSETS, Beginning of Year	 <u>8,517,366</u>	 <u>8,681,731</u>
 NET ASSETS, End of Year	 <u>\$ 9,538,540</u>	 <u>\$ 8,517,366</u>

SAN FRANCISCO ZOOLOGICAL SOCIETY

STATEMENTS OF CASH FLOWS YEARS ENDED JUNE 30, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase (decrease) in net assets	\$ 1,021,174	\$ (164,365)
Reconciliation to net cash provided (used) by operating activities:		
Depreciation	175,498	173,616
Net realized and unrealized (gain) loss on investments	(578,754)	391,345
Permanently restricted contributions	(3,800)	(15,000)
Donated investments	(824,118)	
Changes in:		
Contributions receivable	172,502	600,000
Bequests and other receivables	200,765	(274,979)
Prepaid expenses	(109,057)	27,894
Accounts payable	(235,599)	(739,554)
Accrued expenses	(221,177)	(69,071)
Deferred revenue	(19,462)	99,463
Due to the City and County of San Francisco	(79,480)	15,790
Net cash provided (used) by operating activities	<u>(501,508)</u>	<u>45,139</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investments	(907,617)	(3,616,618)
Proceeds from sale of investments	1,566,827	3,517,488
Purchases of property and equipment	(209,629)	(188,831)
Net cash provided (used) by investing activities	<u>449,581</u>	<u>(287,961)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Permanently restricted contributions	3,800	15,000
Repayment on long-term debt	(166,887)	(247,079)
Net cash used by financing activities	<u>(163,087)</u>	<u>(232,079)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(215,014)	(474,901)
CASH AND CASH EQUIVALENTS, Beginning of Year	<u>3,860,339</u>	<u>4,335,240</u>
CASH AND CASH EQUIVALENTS, End of Year	<u>\$ 3,645,325</u>	<u>\$ 3,860,339</u>
SUPPLEMENTAL ACTIVITY:		
Cash paid for interest	<u>\$ 87</u>	<u>\$ 2,706</u>

The accompanying notes are an integral part of these financial statements.

SAN FRANCISCO ZOOLOGICAL SOCIETY

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2017 AND 2016

1. ORGANIZATION AND OPERATIONS

The San Francisco Zoological Society (the Society) is a nonprofit public benefit corporation organized in 1954 for charitable, scientific, and educational purposes for the study and promotion of zoology and wildlife conservation and for the education and recreation of the public.

The Society currently provides a wide range of services for the City and County of San Francisco (the City) at the San Francisco Zoological Gardens (the Zoo). The Society and the City have negotiated a management agreement, which incorporates animal care, management of all facilities, operations, community support, and public services.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting and financial statement presentation – The financial statements are prepared on the accrual basis of accounting and in conformity with professional standards applicable to not-for-profit entities. The Society reports information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted.

Revenue recognition – Contributions and bequests are recognized in full when received or unconditionally promised, in accordance with professional standards. All contributions are considered available for unrestricted use unless specifically restricted by donors for future periods or specific purposes. Donor-restricted amounts are reported as increases in temporarily or permanently restricted net assets. Temporarily restricted net assets become unrestricted, and are reported in the statement of activities as satisfaction of restrictions, when the time restrictions expire and/or the contributions are used for the restricted purposes. Permanently restricted net assets are those net assets whose use by the Society is restricted by donor-imposed stipulations that neither expire by the passage of time nor can be fulfilled and removed by the actions of the Society and consist of contributions to the Society's endowment fund.

Education and special event revenue is recognized when the related event occurs. Membership revenue is recognized over the term of the membership, typically one year.

Donated materials, equipment, and professional services are recorded as in-kind donations and recognized at the estimated fair value as of the date of donation or service. Contributed services that do not meet the criteria for recognition are not reflected in the financial statements.

Cash and cash equivalents – For financial statement purposes, the Society considers all investments with an initial maturity of three months or less at time of purchase to be cash equivalents, unless held for long-term purposes.

The Society minimizes credit risk associated with cash by periodically evaluating the credit quality of its primary financial institution. The balance at times may exceed federally insured limits. The Society has not experienced any losses in such accounts and management believes the Society is not exposed to any significant credit risk related to cash.

Investments are stated at fair value and are held for long-term purposes.

SAN FRANCISCO ZOOLOGICAL SOCIETY

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2017 AND 2016

Property and equipment is stated at cost or, if donated, at the estimated fair market value at the date of donation. The Society capitalizes all expenditures for property and equipment in excess of \$1,500. Depreciation is computed using the straight-line method over estimated useful lives of individual assets ranging from 3 to 39 years.

Pursuant to the management agreement with the City and County of San Francisco (Note 11), property and equipment of the Society consists of furniture, furnishings and articles of movable personal property installed in the Zoo, by or for the account of the Society, without expense to the City, and which can be removed without structural or other material damage to the Zoo. The City retains title to all real property and all appurtenances, fixtures, improvements, equipment, additions and other property attached to or installed in the Zoo. Capital expenditures by the Society for property and equipment for which the Society does not retain title are expensed when incurred and are donated to the City as a gift as expenses are incurred.

Functional expenses – The costs of providing the program and supporting services have been summarized on a functional basis in the statements of activities. Certain costs have been allocated to program services based on estimates of employees' time incurred and management's estimate of the usage of resources.

Income taxes – The Society is publicly supported and exempt from income taxes under Internal Revenue Code Section 501(c)(3) and corresponding California state codes.

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

Recent Accounting Pronouncement – During 2017, the Foundation adopted ASU No. 2015-07 – *Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*. This guidance removes the requirement to categorize within the fair value hierarchy investments whose fair values are measured at Net Asset Value (NAV) (or its equivalent) under the practical expedient in the fair value measurement guidance.

Subsequent events have been evaluated through September 22, 2017, the date the financial statements were issued. Management concluded that no material subsequent events have occurred since June 30, 2017 that require recognition or disclosure in such financial statements.

Reclassification – Certain 2016 amounts have been reclassified to conform to the 2017 financial statement presentation.

3. CONTRIBUTIONS RECEIVABLE

Contributions receivable at June 30, 2017 and 2016 are due to be collected within 1 year. The Society had one major donor in 2016 that accounted for 99% of total contributions receivable. There were no significant concentrations of contributions receivable in 2017.

SAN FRANCISCO ZOOLOGICAL SOCIETY

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2017 AND 2016

4. INVESTMENTS

Investments consist of the following:

	<u>2017</u>	<u>2016</u>
Cash and cash equivalents	\$ 266,744	\$ 236,108
Common stock:		
Technology	844,986	621,056
Healthcare	632,036	405,965
Consumer goods	478,488	414,564
Foreign large blend	477,499	436,408
Industrial goods	381,702	288,914
Financial	159,606	102,301
Energy	105,241	94,995
Basic material	101,675	70,910
Consumer staples	74,743	73,963
Large blend	50,292	
Utilities	38,309	39,082
Telecommunications	16,790	21,648
Other		10,628
Total common stock	<u>3,361,367</u>	<u>2,580,434</u>
Corporate fixed income securities:		
A	4,155	3,251
A-	74,449	67,345
AA+	24,909	31,860
AA	81,755	80,093
AA-	5,177	
BBB+	34,189	36,632
BBB		11,890
Total corporate fixed income securities	<u>224,634</u>	<u>231,071</u>
Government securities – AAA	<u>113,183</u>	<u>105,471</u>
Mutual funds:		
Intermediate-term bond	951,791	937,806
Corporate bond	255,048	230,984
Multisector bond	243,516	216,691
Total mutual funds	<u>1,450,355</u>	<u>1,385,481</u>
Alternative funds – hedge funds/limited partnership	<u>2,163,339</u>	<u>2,297,395</u>
Total investments	<u>\$ 7,579,622</u>	<u>\$ 6,835,960</u>
Investment income (loss) consists of the following:		
Interest and dividends	\$ 164,229	\$ 81,297
Net realized and unrealized gains (losses)	<u>578,754</u>	<u>(391,345)</u>
Total investment income (loss)	<u>\$ 742,983</u>	<u>\$ (310,048)</u>

SAN FRANCISCO ZOOLOGICAL SOCIETY

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2017 AND 2016

5. FAIR VALUE MEASUREMENTS

Fair value is a market-based measurement, not an entity-specific measurement. For some assets and liabilities, observable market transactions or market information might be available. For other assets and liabilities, observable market transactions and market information might not be available. However, the objective of a fair value measurement in both cases is the same—to estimate the price at which an orderly transaction to sell the asset or to transfer the liability would take place between market participants at the measurement date under current market conditions (that is, an exit price at the measurement date from the perspective of a market participant that holds the asset or owes the liability).

In order to increase consistency and comparability in fair value measurements, a fair value hierarchy that prioritizes observable and unobservable inputs is used to measure fair value into three broad levels, as follows:

- Level 1 Inputs Unadjusted quoted prices in active markets that are accessible at the measurement date for identical assets or liabilities.
- Level 2 Inputs Inputs other than quoted prices in active markets that are observable either directly or indirectly.
- Level 3 Inputs Unobservable inputs for the asset or liability.

When a price for an identical asset or liability is not observable, a reporting entity measures fair value using another valuation technique that maximizes the use of relevant observable inputs and minimizes the use of unobservable inputs. Because fair value is a market-based measurement, it is measured using the assumptions that market participants would use when pricing the asset or liability, including assumptions about risk. As a result, a reporting entity's intention to hold an asset or to settle or otherwise fulfill a liability is not relevant when measuring fair value.

The Society's investments are classified as follows:

Year ended June 30, 2017:	<u>Level 1</u>	<u>Level 2</u>	<u>NAV</u>	<u>Total</u>
Investments	<u>\$ 5,078,466</u>	<u>\$ 337,817</u>	<u>\$ 2,163,339</u>	<u>\$ 7,579,622</u>
Year ended June 30, 2016:	<u>Level 1</u>	<u>Level 2</u>	<u>NAV</u>	<u>Total</u>
Investments	<u>\$ 4,202,023</u>	<u>\$ 336,542</u>	<u>\$ 2,297,395</u>	<u>\$ 6,835,960</u>

SAN FRANCISCO ZOOLOGICAL SOCIETY

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2017 AND 2016

The Society's investments classified within Level 1 include cash and cash equivalents, common stock, and mutual funds and are valued using quoted market prices, broker or dealer quotations, or alternative sources with reasonable levels of price transparency. The Society's investments classified within Level 2 include corporate fixed-income securities and government securities and are valued using a matrix pricing system to estimate the fair value.

The Society holds \$2,163,339 and \$2,297,395 as of June 30, 2017 and 2016, respectively, of alternative investments that include hedge funds invested in commingled funds, multi-strategy hedge funds and an investment in a limited partnership. These investments are reported at the net asset value reported by the fund managers, which is used as a practical expedient to estimate the fair value. Hedge funds invested in comingled funds may be redeemed quarterly with 45 days prior notice and contain terms requiring one year soft lock-up with a 1% early redemption fee. Multi-strategy hedge funds may be redeemed quarterly with 65 days prior notice and contain no lock-up provisions. The investment in a limited partnership may be redeemed monthly with 7 days prior notice and contain no lock-up provisions.

6. PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	<u>2017</u>	<u>2016</u>
Machinery and equipment	\$ 1,358,577	\$ 1,409,379
Furniture and fixtures	290,838	291,461
Software	340,150	349,749
Other	<u>197,769</u>	<u>85,759</u>
Total	2,187,334	2,136,348
Less accumulated depreciation and amortization	<u>(1,541,378)</u>	<u>(1,524,523)</u>
Total	<u>\$ 645,956</u>	<u>\$ 611,825</u>

Management estimates that approximately 55% and 57% of depreciation expense relates to program services and 45% and 43% to supporting services for the years ended June 30, 2017 and 2016, respectively.

SAN FRANCISCO ZOOLOGICAL SOCIETY

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2017 AND 2016

7. LONG-TERM DEBT

Long term debt outstanding at June 30, 2017 is due to be paid within 1 year. Long-term debt consists of the following:

	<u>2017</u>	<u>2016</u>
Payable to the City, principal payment of \$250,000 paid on October 1, 2009, monthly payments of \$8,442 beginning July 2010, including principal and interest of 3.75% per annum. Payable paid in full in September 2016.	\$	\$ 18,405
Payable to the San Francisco Public Utilities Commission, with 0% interest if scheduled payments are made as agreed and 5% per annum if scheduled payments are not made as agreed; principal payments of \$148,482 due annually beginning July 31, 2010, until maturity at July 31, 2017.	<u>148,482</u>	<u>296,964</u>
Total	148,482	315,369
Less current portion	<u>(148,482)</u>	<u>(166,887)</u>
Long-term debt, net	<u>\$</u>	<u>\$ 148,482</u>

8. NET ASSETS

Temporarily restricted net assets are available for the following purposes:

	<u>2017</u>	<u>2016</u>
Capital program	\$ 1,726,392	\$ 1,460,230
Conservation	140,397	35,674
Other projects	<u>368,593</u>	<u>418,002</u>
Total	<u>\$ 2,235,382</u>	<u>\$ 1,913,906</u>

Permanently restricted net assets consist of the following:

General operations	\$ 2,516,282	\$ 2,516,282
Conservation	1,000,000	1,000,000
Education	490,366	487,866
Other projects	<u>244,200</u>	<u>242,900</u>
Total	<u>\$ 4,250,848</u>	<u>\$ 4,247,048</u>

The Society's endowment consists of nineteen individual donor restricted endowment funds, as well as board-designated endowment funds for a variety of purposes. The net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor imposed restrictions.

SAN FRANCISCO ZOOLOGICAL SOCIETY

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2017 AND 2016

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

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

The Society had the following endowment activities during the years ended June 30, 2017 and 2016:

	Board Designated Unrestricted	Permanently Restricted
Year ended June 30, 2017:		
Endowment net assets, beginning of year	\$ 1,753,686	\$ 4,247,048
Contributions		3,800
Investment income	132,898	
Realized and unrealized gain on investments	578,754	
Endowment net assets, end of year	\$ 2,465,338	\$ 4,250,848
	Board Designated Unrestricted	Permanently Restricted
Year ended June 30, 2016:		
Endowment net assets, beginning of year	\$ 2,096,360	\$ 4,232,048
Contributions		15,000
Investment income	48,672	
Realized and unrealized loss on investments	(391,345)	
Endowment net assets, end of year	\$ 1,753,686	\$ 4,247,048

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the value of the initial and subsequent donor gift amounts (deficit). When donor endowment deficits exist, they are classified as a reduction of unrestricted net assets. These deficits resulted from unfavorable market fluctuations and authorized appropriation that was deemed prudent.

SAN FRANCISCO ZOOLOGICAL SOCIETY

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2017 AND 2016

The Society has adopted endowment investment policies that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of endowment assets. Under this policy, the return objective for the endowment assets, measured over a full market cycle, shall be to maximize the return against a blended index, based on the endowment's target allocation applied to the appropriate individual benchmarks.

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

The Board of Directors of the Society determines the method to be used to appropriate board-designated endowment funds for expenditure. Calculations are performed for individual endowment funds at a rate of 5% of the average last three years ending endowment fund balance. The corresponding calculated spending allocations are distributed in the second quarter from the current net total or accumulated net total investment returns for individual endowment funds. In establishing this policy, the Board of Directors considered the expected long term rate of return on its endowment. Accordingly, over the long term, the Society expects the current spending policy to allow its endowment to grow at an average of 4% annually, consistent with its intention to maintain the purchasing power of the endowment assets as well as to provide additional real growth through new gifts.

9. PENSION PLAN

The Society has a defined contribution plan covering all full-time employees not covered by a collective bargaining agreement. The plan calls for annual contributions of five percent of covered salaries and is funded by the purchase of insurance annuity contracts. Total plan costs were \$210,762 and \$204,621 in June 30, 2017 and 2016, respectively.

10. DONATED MATERIALS AND SERVICES

For the years ended June 30, 2017 and 2016, the Society received donated materials and services, which were used for the following activities:

	<u>2017</u>	<u>2016</u>
Auction items and catering services	\$ 118,122	\$ 84,158
Equipment	47,870	
Legal services	39,409	14,756
Consulting services	12,459	29,535
Animal food and enrichment	36,347	
Other professional services		500
Architecture services	<u> </u>	<u>16,600</u>
Total donated materials and services	<u>\$ 254,207</u>	<u>\$ 145,549</u>

SAN FRANCISCO ZOOLOGICAL SOCIETY

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2017 AND 2016

11. CITY AND COUNTY OF SAN FRANCISCO

San Francisco Zoo management agreement – The Society has negotiated a management agreement (the Agreement) with the City, acting through its Recreation and Park Commission, which was approved by the Board of Supervisors on September 7, 1993 and effective on October 9, 1993.

The Agreement originally expired on June 30, 1998, and provides for additional automatic extensions for successive periods of five years, not to exceed ninety-nine years. The next automatic extension of the Agreement is in 2018. Generally, under the Agreement, the Society receives an annual management fee from the City plus all admission fees, and in turn, is responsible for all operating and maintenance expenses incurred in the operation of the Zoo.

The management fee under the contract's current extension period is \$4,120,000 per year and will be adjusted upon each subsequent extension based upon the terms in the Agreement.

Under the Agreement, labor and utilities expenses were incurred with the City and County by the Society for the years ended June 30, 2017 and 2016, totaling \$944,321 and \$1,237,066, respectively.

Animal purchase and exchange fund – In accordance with the Agreement, all amounts held by the City in the animal purchase and exchange fund, which was established pursuant to Section 10.187 of the City's Administrative Code, are appropriated to the Society for the purpose of animal purchases at the Zoo annually. In addition, all proceeds from sale or other disposition of animals are deposited into the City's animal purchase and exchange fund or other segregated fund established by the Society. All funds transferred by the City and animal sales proceeds held in the segregated fund established by the Society are to be held in trust by the Society for the benefit of the City, and are restricted to animal purchases. For the years ended June 30, 2017 and 2016, no funds were transferred by the City to the Society. Purchases of animals in excess of the balance in this fund are paid for and expensed by the Society. Total purchases amounted to \$418 and \$10,527 for the years ended June 30, 2017 and 2016, respectively. The balance in the animal purchase and exchange fund was \$77,816 and \$78,234 at June 30, 2017 and 2016, respectively.

12. FOOD, BEVERAGE AND CONCESSIONS AGREEMENT

The Society has a concessions agreement with Service Systems Associates, Inc. (SSA) to provide for the operation of food, beverage, gift shop, and rental concessions at the Zoo. SSA has agreed to pay the Society certain percentages of gross receipts based on the various types of concession sales. Retail concession revenues paid to the Society totaled \$1,446,077 and \$1,496,768 for the years ended June 30, 2017 and 2016, respectively.