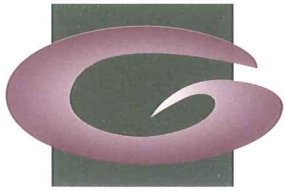


**SAN FRANCISCO
ZOOLOGICAL SOCIETY**

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

**YEARS ENDED
JUNE 30, 2011 AND 2010**



Gilbert Associates, Inc.
CPAs and Advisors

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying statements of financial position of the San Francisco Zoological Society (the Society) as of June 30, 2011 and 2010, and the related statements of activities and of cash flows for the years then ended. These financial statements are the responsibility of the Society's management. 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 audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our 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, 2011 and 2010, and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Gilbert Associates, Inc.

GILBERT ASSOCIATES, INC.
Sacramento, California

October 21, 2011

SAN FRANCISCO ZOOLOGICAL SOCIETY

STATEMENTS OF FINANCIAL POSITION JUNE 30, 2011 AND 2010

	<u>2011</u>	<u>2010</u>
CURRENT ASSETS:		
Cash and equivalents	\$ 3,906,177	\$ 3,669,282
Current portion of contributions receivable	340,339	345,000
Bequests and other receivables	523,791	567,493
Prepaid expenses	<u>170,856</u>	<u>223,375</u>
Total current assets	4,941,163	4,805,150
CONTRIBUTIONS RECEIVABLE, Net	598,000	785,000
CHARITABLE REMAINDER TRUST ASSETS	223,231	847,638
INVESTMENTS	6,669,053	6,520,967
PROPERTY AND EQUIPMENT, Net	<u>463,945</u>	<u>543,440</u>
TOTAL ASSETS	<u>\$ 12,895,392</u>	<u>\$ 13,502,195</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable	\$ 427,370	\$ 660,627
Accrued expenses	920,614	878,010
Deferred revenue	923,750	1,010,923
Liability to beneficiary		364,865
Current portion of long-term debt	227,533	224,629
Due to the City and County of San Francisco	<u>258,582</u>	<u>555,559</u>
Total current liabilities	2,757,849	3,694,613
LONG-TERM DEBT, Net	<u>1,441,224</u>	<u>1,668,756</u>
Total liabilities	<u>4,199,073</u>	<u>5,363,369</u>
NET ASSETS:		
Unrestricted	2,434,234	1,368,926
Temporarily restricted	2,067,191	2,608,006
Permanently restricted	<u>4,194,894</u>	<u>4,161,894</u>
Total net assets	<u>8,696,319</u>	<u>8,138,826</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 12,895,392</u>	<u>\$ 13,502,195</u>

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

SAN FRANCISCO ZOOLOGICAL SOCIETY

STATEMENTS OF ACTIVITIES (Page 1 of 2) YEARS ENDED JUNE 30, 2011 AND 2010

	<u>2011</u>	<u>2010</u>
UNRESTRICTED NET ASSETS:		
REVENUES AND SUPPORT:		
Program revenues:		
Admissions	\$ 4,778,477	\$ 4,955,304
Membership dues	1,983,971	1,842,621
Retail commissions	1,004,629	985,633
Retail sales, rides and rentals	920,422	934,383
Fundraising and ticketed events (net of direct benefit to donors of \$289,690 in 2011 and \$332,359 in 2010)	761,863	428,342
Parking	715,999	729,651
Education	509,563	511,023
Children's Zoo	49,983	55,336
Total program revenue	<u>10,724,907</u>	<u>10,442,293</u>
Other support:		
Management fee	4,120,000	4,120,000
Contributions and bequests	1,511,931	1,639,502
Other income	17,065	21,770
Capital expenditure reimbursements from the City and County of San Francisco		769,650
Satisfaction of restrictions, operations	878,522	270,425
Total revenues and support	<u>17,252,425</u>	<u>17,263,640</u>
OPERATING EXPENSES:		
Program services:		
Animals, collections and exhibits	8,792,634	8,768,045
Children's Zoo	1,007,678	1,007,163
Education	913,459	827,185
Retail operations	748,907	723,823
Membership services	542,355	662,069
Admissions and other program expenses	1,082,761	887,935
Total program services	<u>13,087,794</u>	<u>12,876,220</u>
Supporting services:		
General and administrative	1,375,781	1,347,084
Marketing	1,149,421	1,275,576
Fundraising	556,221	630,047
Total supporting services	<u>3,081,423</u>	<u>3,252,707</u>
Total operating expenses	<u>16,169,217</u>	<u>16,128,927</u>
INCOME FROM OPERATIONS	\$ 1,083,208	\$ 1,134,713

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, 2011 AND 2010

	<u>2011</u>	<u>2010</u>
UNRESTRICTED NET ASSETS (CONTINUED):		
Investment income	90,388	791,383
Depreciation expense	(108,288)	(95,773)
Capital expenditures to be gifted to the City and County of San Francisco	(417,926)	(448,180)
Other capital expenditures	(255,118)	(7,733)
Satisfaction of restrictions, capital	<u>673,044</u>	<u>455,913</u>
INCREASE IN UNRESTRICTED NET ASSETS	<u>1,065,308</u>	<u>1,830,323</u>
TEMPORARILY RESTRICTED NET ASSETS:		
Contributions	567,495	1,551,927
Investment income	25,680	47,624
Change in value of charitable remainder trust assets	445,576	29,129
Satisfaction of restrictions, operations	(878,522)	(270,425)
Satisfaction of restrictions, capital	(673,044)	(455,913)
Donor redirection of funds	<u>(28,000)</u>	<u> </u>
INCREASE (DECREASE) IN TEMPORARILY RESTRICTED NET ASSETS	<u>(540,815)</u>	<u>902,342</u>
PERMANENTLY RESTRICTED NET ASSETS:		
Contributions	5,000	6,000
Donor redirection of funds	<u>28,000</u>	<u> </u>
INCREASE IN PERMANENTLY RESTRICTED NET ASSETS	<u>33,000</u>	<u>6,000</u>
INCREASE IN NET ASSETS	557,493	2,738,665
NET ASSETS, Beginning of Year	<u>8,138,826</u>	<u>5,400,161</u>
NET ASSETS, End of Year	<u>\$ 8,696,319</u>	<u>\$ 8,138,826</u>

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

SAN FRANCISCO ZOOLOGICAL SOCIETY

STATEMENTS OF CASH FLOWS YEARS ENDED JUNE 30, 2011 AND 2010

	<u>2011</u>	<u>2010</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase in net assets	\$ 557,493	\$ 2,738,665
Reconciliation to net cash and equivalents provided by operating activities:		
Depreciation	108,288	95,773
Net realized and unrealized gain on investments	(46,576)	(715,915)
Permanently restricted contributions	(5,000)	(6,000)
Donated property and equipment		(6,561)
Accrued interest on long-term debt		23,801
Loss on capital lease disposal	1,629	
Changes in:		
Bequests and other receivables	43,702	438,389
Prepaid expenses	52,519	(20,279)
Contributions receivable	191,661	(942,043)
Charitable remainder trust assets	624,407	20,907
Accounts payable	(233,257)	293,346
Accrued expenses	42,604	11,581
Deferred revenue	(87,173)	34,351
Liability to beneficiary	(364,865)	(50,036)
Due to the City and County of San Francisco	(296,977)	555,559
Net cash and equivalents provided by operating activities	<u>588,455</u>	<u>2,471,538</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investments	(501,510)	(10,338,991)
Proceeds from sale of investments	400,000	10,211,156
Purchases of property and equipment	(30,422)	(414,568)
Net cash and equivalents used by investing activities	<u>(131,932)</u>	<u>(542,403)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Permanently restricted contributions	5,000	6,000
Repayment on long-term debt	(224,628)	(250,000)
Repayment on line of credit		(600,000)
Net cash and equivalents used by financing activities	<u>(219,628)</u>	<u>(844,000)</u>
NET INCREASE IN CASH AND EQUIVALENTS	236,895	1,085,135
CASH AND EQUIVALENTS, Beginning of Year	<u>3,669,282</u>	<u>2,584,147</u>
CASH AND EQUIVALENTS, End of Year	<u>\$ 3,906,177</u>	<u>\$ 3,669,282</u>
SUPPLEMENTAL ACTIVITY:		
Cash paid for interest	<u>\$ 25,157</u>	<u>\$ 31,897</u>

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

SAN FRANCISCO ZOOLOGICAL SOCIETY

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2011 AND 2010

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 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 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.

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 (see Note 7).

SAN FRANCISCO ZOOLOGICAL SOCIETY

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2011 AND 2010

Charitable remainder trust assets include the fair value of the Society's remainder interest in irrevocable trusts for which the Society is the secondary beneficiary. The fair value of the Society's remainder interest in irrevocable trusts is determined using investment returns consistent with the composition of the asset portfolios, life expectancies, and the discount rates of 2.8% and 3.2% at June 30, 2011 and 2010, respectively. Irrevocable charitable trusts whose use is limited by the Society due to time or donor-imposed restrictions increase temporarily restricted net assets.

Liability to beneficiary represents the present value of the liability due to the primary beneficiary of the irrevocable charitable remainder trust for which the Society was both trustee and secondary beneficiary. The liability was eliminated in 2011 as the Society received the final payment from this trust.

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 of San Francisco (Note 13), 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 upon completion.

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 exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. The Society has implemented the amended accounting principles related to the accounting for uncertainty in income taxes and has determined there is no material impact on the financial statements. With some exceptions, the Society is no longer subject to U.S. federal and state income tax examinations by tax authorities for Society tax years prior to June 30, 2007.

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.

Subsequent events have been reviewed through October 21, 2011, the date the financial statements were issued.

SAN FRANCISCO ZOOLOGICAL SOCIETY

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2011 AND 2010

Recent accounting pronouncements – The Financial Accounting Standards Board issued an Accounting Standards Update related to improving disclosures about fair value measurements. The guidance clarifies existing disclosure requirements regarding inputs and valuation techniques, as well as the level of disaggregation for each class of assets and liabilities for which separate fair value measurements should be disclosed. Other than requiring additional disclosures, adoption of this update did not have a material effect on the Society’s financial statements.

3. CONTRIBUTIONS RECEIVABLE

The Society recognizes contributions receivable at their estimated fair value. Fair value is determined by calculating the present value of the estimated future cash flows. The discount rates used in determining the net present value of contributions receivable ranged from 1.8% to 3.2%. Contributions receivable are due to be collected as follows:

	<u>2011</u>	<u>2010</u>
Within one year	\$ 340,339	\$ 345,000
In one to five years	<u>598,000</u>	<u>785,000</u>
Contributions receivable, net	<u>\$ 938,339</u>	<u>\$ 1,130,000</u>

4. CONDITIONAL PROMISES TO GIVE

In 2011, the Society received a \$1,000,000 conditional promise to give from a donor. The Society must raise certain matching funds as a condition of this promise to give. In accordance with professional standards, as of June 30, 2011, no revenue has been recognized related to this promise to give as the conditions of the contribution have not been met.

5. CHARITABLE REMAINDER TRUST ASSETS

Charitable remainder trust assets consist of the following:

	<u>2011</u>	<u>2010</u>
Charitable remainder interests receivable from third parties	\$ 223,231	\$ 197,051
Assets held in charitable remainder trust in which the Society is both trustee and remainder beneficiary	<u> </u>	<u>650,587</u>
Total	<u>\$ 223,231</u>	<u>\$ 847,638</u>

SAN FRANCISCO ZOOLOGICAL SOCIETY

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2011 AND 2010

6. INVESTMENTS

Investments consist of the following:

	<u>2011</u>	<u>2010</u>
Cash and equivalents	\$ 1,802,950	\$ 1,901,440
Fixed income mutual fund – short-term bond	2,527,898	2,201,845
Fixed income mutual fund – ultra-short bond	2,338,205	2,319,062
Fixed income – bond	<u> </u>	<u>98,620</u>
Total investments	<u>\$ 6,669,053</u>	<u>\$ 6,520,967</u>

Investment income consists of the following:

Interest and dividends	\$ 69,492	\$ 123,092
Net realized and unrealized gain	<u>46,576</u>	<u>715,915</u>
Total investment income	<u>\$ 116,068</u>	<u>\$ 839,007</u>

7. FAIR VALUE MEASUREMENTS

The Society values its financial assets and liabilities based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In determining fair value, the Society utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible. 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 in which there is little or no market data, which require management to develop their own assumptions.

SAN FRANCISCO ZOOLOGICAL SOCIETY

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2011 AND 2010

The Society's assets are classified as follows:

Year ending June 30, 2011:	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments	\$ 6,669,053		
Charitable remainder interests receivable from third parties	<u> </u>	<u> </u>	\$ <u>223,231</u>
Total	<u>\$ 6,669,053</u>	<u>\$ </u>	<u>\$ 223,231</u>
Year ending June 30, 2010:	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments	\$ 6,422,347	\$ 98,620	
Investments held in charitable remainder trusts in which the Society is both trustee and remainder beneficiary	650,587		
Charitable remainder interests receivable from third parties	<u> </u>	<u> </u>	\$ <u>197,051</u>
Total	<u>\$ 7,072,934</u>	<u>\$ 98,620</u>	<u>\$ 197,051</u>

The Society's investments and investments held in charitable remainder trusts in which the Society is both trustee and remainder beneficiary are classified within Level 1 of the fair value hierarchy because they are valued using quoted market prices, broker or dealer quotations, or alternative sources with reasonable levels of price transparency. The Society's fixed income – bond investments are classified within Level 2 of the hierarchy because they are valued using alternative pricing methods using observable information inputs. The Society's charitable remainder interests receivable from third parties are classified within Level 3 of the hierarchy because determination of the present value of future cash flows is based on little or no market data and requires management to develop their own assumptions.

Changes in the Level 3 charitable remainder interest receivables for the year ending June 30 consist of:

	<u>2011</u>	<u>2010</u>
July 1	\$ 197,051	\$ 176,915
Unrealized increase in fair value	<u>26,180</u>	<u>20,136</u>
June 30	<u>\$ 223,231</u>	<u>\$ 197,051</u>

SAN FRANCISCO ZOOLOGICAL SOCIETY

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2011 AND 2010

8. PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	<u>2011</u>	<u>2010</u>
Machinery and equipment	\$ 976,211	\$ 1,025,292
Furniture and fixtures	350,836	353,192
Software	348,229	348,229
Other	<u>85,951</u>	<u>76,160</u>
Total	1,761,227	1,802,873
Less accumulated depreciation and amortization	<u>(1,297,282)</u>	<u>(1,259,433)</u>
Total	<u>\$ 463,945</u>	<u>\$ 543,440</u>

Management estimates that approximately 51% and 46% of depreciation expense relates to program services and 49% and 54% to supporting services for the years ended June 30, 2011 and 2010, respectively.

9. DONATED MATERIALS AND SERVICES

The Society received donated materials and services, which were used for the following activities:

	<u>2011</u>	<u>2010</u>
Auction items and catering services	\$ 54,345	\$ 171,129
Legal services	30,400	40,400
Marketing services	20,000	50,000
Advertising materials and services		14,630
Other	<u>7,283</u>	<u>7,219</u>
Total donated materials and services	<u>\$ 112,028</u>	<u>\$ 283,378</u>

10. NET ASSETS

Temporarily restricted net assets are available for the following purposes:

	<u>2011</u>	<u>2010</u>
Capital program	\$ 1,486,634	\$ 1,131,047
Charitable remainder trust assets – time restricted	223,231	482,773
Conservation	137,745	132,224
Parrot/lorikeet research		511,178
Other projects	<u>219,581</u>	<u>350,784</u>
Total	<u>\$ 2,067,191</u>	<u>\$ 2,608,006</u>

SAN FRANCISCO ZOOLOGICAL SOCIETY

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2011 AND 2010

Permanently restricted net assets consist of the following:

General operations	\$ 2,516,282	\$ 2,516,282
Conservation	1,000,000	1,000,000
Education	472,712	472,712
Other projects	<u>205,900</u>	<u>172,900</u>
Total	<u>\$ 4,194,894</u>	<u>\$ 4,161,894</u>

The Society's endowment consists of approximately nineteen individual donor restricted endowment funds and two 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.

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

SAN FRANCISCO ZOOLOGICAL SOCIETY

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2011 AND 2010

The Society had the following endowment activities during the years ended June 30, 2011 and 2010:

	Board Designated <u>Unrestricted</u>	Permanently <u>Restricted</u>
Year ending June 30, 2011:		
Endowment net assets, beginning of year	\$ 2,359,073	\$ 4,161,894
Investment income, net of fees	68,510	
Realized and unrealized gain on investments	46,576	
Donor redirection of funds		28,000
Contributions	<u> </u>	<u>5,000</u>
Endowment net assets, end of year	<u>\$ 2,474,159</u>	<u>\$ 4,194,894</u>
	Board Designated <u>Unrestricted</u>	Permanently <u>Restricted</u>
Year ending June 30, 2010:		
Endowment net assets, beginning of year	\$ 1,521,323	\$ 4,155,894
Investment income, net of fees	121,835	
Realized and unrealized gain on investments	715,915	
Contributions	<u> </u>	<u>6,000</u>
Endowment net assets, end of year	<u>\$ 2,359,073</u>	<u>\$ 4,161,894</u>

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.

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.

SAN FRANCISCO ZOOLOGICAL SOCIETY

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2011 AND 2010

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 or 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.

11. LONG-TERM DEBT

Long-term debt consists of the following:

	<u>2011</u>	<u>2010</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, unpaid principal and interest due August 2018.	\$ 629,384	\$ 705,531
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 \$148,481 due annually beginning July 31, 2010, until maturity at July 31, 2017.	<u>1,039,373</u>	<u>1,187,854</u>
Total	1,668,757	1,893,385
Less current portion	<u>(227,533)</u>	<u>(224,629)</u>
Long-term debt, net	<u>\$ 1,441,224</u>	<u>\$ 1,668,756</u>

Scheduled annual maturities of long-term debt are as follows:

Year ending June 30:

2012	\$ 227,533
2013	230,549
2014	233,679
2015	236,932
2016	240,305
Thereafter	<u>499,759</u>
Total	<u>\$ 1,668,757</u>

SAN FRANCISCO ZOOLOGICAL SOCIETY

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2011 AND 2010

12. 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 contributions of five percent of covered salaries and is funded by the purchase of insurance annuity contracts. Total plan costs were \$139,820 and \$122,852 in June 30, 2011 and 2010, respectively.

13. 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 2013. 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.

Operating expenses incurred by the City and paid by the Society for the years ended June 30, 2011 and 2010, were \$1,393,398 and \$1,655,703, 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, 2011 and 2010, 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 \$2,309 and \$13,800 for the years ended June 30, 2011 and 2010, respectively. The balance in the animal purchase and exchange fund was \$76,059 and \$73,368 at June 30, 2011 and 2010, respectively.

General obligation bonds – A general obligation bond measure to fund \$48 million towards Zoo improvements was passed in June 1997. Series 1999C Bonds were issued in June 1999, Series 2000B Bonds were issued in June of 2000, Series 2002A Bonds were issued in September of 2002, and Series 2005H Bonds were issued in June 2005. All bonds mature twenty years from issuance.

SAN FRANCISCO ZOOLOGICAL SOCIETY

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2011 AND 2010

Proceeds from these bonds are available for, but are not limited to, funding the acquisition, construction and/or reconstruction of San Francisco Zoo facilities and properties and all other works, property and structures necessary or convenient for these purposes, and to pay for certain costs related to the issuance of the Series 1999C Bonds, Series 2000B Bonds, Series 2002A Bonds, and Series 2005H Bonds.

The City and County of San Francisco are responsible for the issuance, the use of the proceeds and the repayment of these bonds for the benefit of the San Francisco Zoo.

14. 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 Zoo totaled \$1,004,629 and \$985,633 for the years ended June 30, 2011 and 2010, respectively.