

**SAN FRANCISCO
ZOOLOGICAL SOCIETY**

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

**YEARS ENDED
JUNE 30, 2016 AND 2015**

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, 2016 and 2015, 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, 2016 and 2015, 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

October 13, 2016

SAN FRANCISCO ZOOLOGICAL SOCIETY

STATEMENTS OF FINANCIAL POSITION JUNE 30, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
CURRENT ASSETS:		
Cash and cash equivalents	\$ 3,860,339	\$ 4,335,240
Contributions receivable	503,502	1,103,502
Bequests and other receivables	498,741	223,762
Prepaid expenses	<u>222,527</u>	<u>250,421</u>
Total current assets	5,085,109	5,912,925
INVESTMENTS	6,835,960	7,128,175
PROPERTY AND EQUIPMENT, Net	<u>611,825</u>	<u>596,610</u>
TOTAL ASSETS	<u>\$ 12,532,894</u>	<u>\$ 13,637,710</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable	\$ 860,919	\$ 1,600,473
Accrued expenses	1,312,021	1,381,092
Deferred revenue	1,292,197	1,192,734
Current portion of long-term debt	166,887	247,082
Due to the City and County of San Francisco	<u>235,022</u>	<u>219,232</u>
Total current liabilities	3,867,046	4,640,613
LONG-TERM DEBT, Net	<u>148,482</u>	<u>315,366</u>
Total liabilities	<u>4,015,528</u>	<u>4,955,979</u>
NET ASSETS:		
Unrestricted	2,356,412	2,640,875
Temporarily restricted	1,913,906	1,808,808
Permanently restricted	<u>4,247,048</u>	<u>4,232,048</u>
Total net assets	<u>8,517,366</u>	<u>8,681,731</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 12,532,894</u>	<u>\$ 13,637,710</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, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
UNRESTRICTED NET ASSETS:		
REVENUES AND SUPPORT:		
Program revenues:		
Admissions	\$ 7,672,298	\$ 7,069,718
Membership dues	2,683,210	2,736,933
Retail commissions	1,496,768	1,579,388
Retail sales, rides and rentals	1,415,994	1,143,772
Parking	1,121,094	1,044,675
Education	809,356	697,293
Fundraising and ticketed events (net of direct benefit to donors of \$360,461 in 2016 and \$444,793 in 2015)	375,172	381,839
Children's Zoo	26,141	35,542
Total program revenue	15,600,033	14,689,160
Other support:		
Management fee	4,120,000	4,120,000
Contributions and bequests	2,284,125	2,581,566
Other income	10,121	25,922
Satisfaction of restrictions, operations	751,208	256,783
Total revenues and support	22,765,487	21,673,431
OPERATING EXPENSES:		
Program services:		
Animals, collections and exhibits	12,703,275	11,821,926
Education	1,458,446	1,338,504
Children's Zoo	1,276,574	1,196,171
Retail operations	921,615	913,267
Membership services	911,086	886,313
Admissions and other program expenses	1,734,819	1,621,100
Total program services	19,005,815	17,777,281
Supporting services:		
General and administrative	1,637,396	1,818,024
Marketing	1,021,933	1,024,759
Fundraising	870,684	877,824
Total supporting services	3,530,013	3,720,607
Total operating expenses	22,535,828	21,497,888
INCOME FROM OPERATIONS	229,659	175,543

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, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
UNRESTRICTED NET ASSETS (CONTINUED):		
Investment income (loss)	(340,506)	173,888
Depreciation expense	(173,616)	(142,469)
Capital expenditures to be gifted to the City and County of San Francisco	(1,525,275)	(6,970,440)
Other capital expenditures	(127,519)	(574,814)
Satisfaction of restrictions, capital	<u>1,652,794</u>	<u>3,643,363</u>
 DECREASE IN UNRESTRICTED NET ASSETS	 <u>(284,463)</u>	 <u>(3,694,929)</u>
 TEMPORARILY RESTRICTED NET ASSETS:		
Contributions	2,478,642	2,188,960
Investment income	30,458	29,120
Satisfaction of restrictions, operations	(751,208)	(256,783)
Satisfaction of restrictions, capital	<u>(1,652,794)</u>	<u>(3,643,363)</u>
 INCREASE (DECREASE) IN TEMPORARILY RESTRICTED NET ASSETS	 <u>105,098</u>	 <u>(1,682,066)</u>
 PERMANENTLY RESTRICTED NET ASSETS:		
Contributions	<u>15,000</u>	<u>20,154</u>
 DECREASE IN NET ASSETS	 (164,365)	 (5,356,841)
 NET ASSETS, Beginning of Year	 <u>8,681,731</u>	 <u>14,038,572</u>
 NET ASSETS, End of Year	 <u>\$ 8,517,366</u>	 <u>\$ 8,681,731</u>

SAN FRANCISCO ZOOLOGICAL SOCIETY

STATEMENTS OF CASH FLOWS YEARS ENDED JUNE 30, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Decrease in net assets	\$ (164,365)	\$ (5,356,841)
Reconciliation to net cash provided (used) by operating activities:		
Depreciation	173,616	142,469
Net realized and unrealized (gain) loss on investments	391,345	(116,307)
Permanently restricted contributions	(15,000)	(20,154)
Changes in:		
Bequests and other receivables	(274,979)	141,784
Prepaid expenses	27,894	(68,215)
Contributions receivable	600,000	(654,750)
Accounts payable	(739,554)	855,555
Accrued expenses	(69,071)	(40,016)
Deferred revenue	99,463	80,791
Due to the City and County of San Francisco	15,790	30,508
Net cash provided (used) by operating activities	<u>45,139</u>	<u>(5,005,176)</u>
 CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investments	(3,616,618)	(9,695,274)
Proceeds from sale of investments	3,517,488	9,589,819
Purchases of property and equipment	<u>(188,831)</u>	<u>(175,772)</u>
Net cash used by investing activities	<u>(287,961)</u>	<u>(281,227)</u>
 CASH FLOWS FROM FINANCING ACTIVITIES:		
Permanently restricted contributions	15,000	20,154
Repayment on long-term debt	<u>(247,079)</u>	<u>(243,458)</u>
Net cash used by financing activities	<u>(232,079)</u>	<u>(223,304)</u>
 NET DECREASE IN CASH AND CASH EQUIVALENTS	 (474,901)	 (5,509,707)
 CASH AND CASH EQUIVALENTS, Beginning of Year	 <u>4,335,240</u>	 <u>9,844,947</u>
 CASH AND CASH EQUIVALENTS, End of Year	 <u>\$ 3,860,339</u>	 <u>\$ 4,335,240</u>
 SUPPLEMENTAL ACTIVITY:		
Cash paid for interest	<u>\$ 2,706</u>	<u>\$ 6,328</u>

SAN FRANCISCO ZOOLOGICAL SOCIETY

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016 AND 2015

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, 2016 AND 2015

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 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.

Subsequent events have been evaluated through October 13, 2016, the date the financial statements were issued. Management concluded that no material subsequent events have occurred since June 30, 2016 that require recognition or disclosure in such financial statements.

Recent Accounting Pronouncements – In May 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2015-07 *Fair Value Measurements: Disclosures for Investments in Certain Entities that Calculate Net Asset Value per Share (or its equivalent)*, amending the Accounting Standards Codification (ASC) 820. This update eliminates the requirement to include investments in the fair value hierarchy table whose fair values are measured at net asset value using the practical expedient. The guidance will be effective for the Society beginning January 1, 2016. The Society does not expect the new guidance to have a material impact on its financial statements.

3. CONTRIBUTIONS RECEIVABLE

Contributions receivable at June 30, 2016 and 2015 are due to be collected within 1 year. The Society had one major donor in 2016 and in 2015 that accounted for 99% and 82%, respectively, of total contributions receivable.

SAN FRANCISCO ZOOLOGICAL SOCIETY

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016 AND 2015

4. INVESTMENTS

Investments consist of the following:

	<u>2016</u>	<u>2015</u>
Cash and cash equivalents	\$ 236,108	\$ 362,118
Common stock:		
Technology	621,056	415,177
Foreign large blend	436,408	426,833
Consumer goods	414,564	332,006
Healthcare	405,965	346,792
Industrial goods	288,914	402,497
Financial	102,301	231,269
Energy	94,995	124,519
Consumer staples	73,963	104,145
Basic material	70,910	86,221
Utilities	39,082	65,162
Telecommunications	21,648	23,333
Exchange traded funds		404,737
Europe stock		206,002
Other	10,628	70,616
Corporate fixed income securities:		
A+		19,461
A	3,251	11,076
A-	67,345	25,286
AA+	31,860	
AA	80,093	
AA-		15,008
BBB+	36,632	4,032
BBB	11,890	4,968
BBB-		10,001
Government securities – AAA	105,471	174,754
Mutual funds:		
Intermediate-term bond	937,806	624,253
Corporate bond	230,984	110,917
Multisector bond	216,691	346,393
World bond		242,045
Alternative funds – hedge funds	<u>2,297,395</u>	<u>1,938,554</u>
 Total investments	 <u>\$ 6,835,960</u>	 <u>\$ 7,128,175</u>
 Investment income (loss) consists of the following:		
Interest and dividends	\$ 81,297	\$ 86,701
Net realized and unrealized gains	<u>(391,345)</u>	<u>116,307</u>
 Total investment income (loss)	 <u>\$ (310,048)</u>	 <u>\$ 203,008</u>

SAN FRANCISCO ZOOLOGICAL SOCIETY

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016 AND 2015

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, 2016:	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments	\$ <u>4,202,023</u>	\$ <u>336,542</u>	\$ <u>2,297,395</u>
Year ended June 30, 2015:	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments	\$ <u>4,925,035</u>	\$ <u>264,586</u>	\$ <u>1,938,554</u>

SAN FRANCISCO ZOOLOGICAL SOCIETY

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016 AND 2015

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.

Level 3 investments consist 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 generally 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.

Changes in the Level 3 assets measured at fair value on the recurring basis for the year ending June 30 consist of:

	<u>2016</u>	<u>2015</u>
July 1	\$ 1,938,554	\$ 400,000
Purchases	550,000	1,558,529
Unrealized decrease in fair value	<u>(191,159)</u>	<u>(19,975)</u>
June 30	<u>\$ 2,297,395</u>	<u>\$ 1,938,554</u>

6. PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	<u>2016</u>	<u>2015</u>
Machinery and equipment	\$ 1,409,379	\$ 1,318,716
Furniture and fixtures	291,461	297,295
Software	349,749	349,749
Other	<u>85,759</u>	<u>53,517</u>
Total	2,136,348	2,019,277
Less accumulated depreciation and amortization	<u>(1,524,523)</u>	<u>(1,422,667)</u>
Total	<u>\$ 611,825</u>	<u>\$ 596,610</u>

Management estimates that approximately 57% and 51% of depreciation expense relates to program services and 43% and 49% to supporting services for the years ended June 30, 2016 and 2015, respectively.

SAN FRANCISCO ZOOLOGICAL SOCIETY

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016 AND 2015

7. LONG-TERM DEBT

Long-term debt consists of the following:

	<u>2016</u>	<u>2015</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 in 2018.	\$ 18,405	\$ 117,003
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>296,964</u>	<u>445,445</u>
Total	315,369	562,448
Less current portion	<u>(166,887)</u>	<u>(247,082)</u>
Long-term debt, net	<u>\$ 148,482</u>	<u>\$ 315,366</u>

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

Year ending June 30:

2017	\$ 166,887	
2018	<u>148,482</u>	
Total	<u>\$ 315,369</u>	

8. NET ASSETS

Temporarily restricted net assets are available for the following purposes:

	<u>2016</u>	<u>2015</u>
Capital program	\$ 1,460,230	\$ 1,319,742
Conservation	35,674	90,533
Estate bequest – animal care		15,000
Other projects	<u>418,002</u>	<u>383,533</u>
Total	<u>\$ 1,913,906</u>	<u>\$ 1,808,808</u>

SAN FRANCISCO ZOOLOGICAL SOCIETY

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016 AND 2015

Permanently restricted net assets consist of the following:

General operations	\$ 2,516,282	\$ 2,516,282
Conservation	1,000,000	1,000,000
Education	487,866	482,866
Other projects	<u>242,900</u>	<u>232,900</u>
 Total	 <u>\$ 4,247,048</u>	 <u>\$ 4,232,048</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

The Society had the following endowment activities during the years ended June 30, 2016 and 2015:

	Board Designated Unrestricted	Permanently Restricted
Year ended June 30, 2016:		
Endowment net assets, beginning of year	\$ 2,896,127	\$ 4,232,048
Contributions		15,000
Investment income, net of fees	84,130	
Realized and unrealized gain on investments	<u>(391,345)</u>	<u> </u>
 Endowment net assets, end of year	 <u>\$ 2,588,912</u>	 <u>\$ 4,247,048</u>

SAN FRANCISCO ZOOLOGICAL SOCIETY

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016 AND 2015

	Board Designated <u>Unrestricted</u>	Permanently <u>Restricted</u>
Year ended June 30, 2015:		
Endowment net assets, beginning of year	\$ 2,694,519	\$ 4,211,894
Contributions		20,154
Investment income, net of fees	85,301	
Realized and unrealized gain on investments	<u>116,307</u>	<u> </u>
Endowment net assets, end of year	<u>\$ 2,896,127</u>	<u>\$ 4,232,048</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.

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 \$204,621 and \$206,667 in June 30, 2016 and 2015, respectively.

SAN FRANCISCO ZOOLOGICAL SOCIETY

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016 AND 2015

10. DONATED MATERIALS AND SERVICES

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

	<u>2016</u>	<u>2015</u>
Auction items and catering services	\$ 84,158	\$ 150,790
Consulting services	29,535	
Architecture services	16,600	84,595
Legal services	14,756	12,400
Other professional services	500	1,475
Marketing services	<u> </u>	<u>86,035</u>
Total donated materials and services	<u>\$ 145,549</u>	<u>\$ 335,295</u>

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, 2016 and 2015, totaling \$1,237,066 and \$1,479,610, 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, 2016 and 2015, 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 \$10,527 and \$1,805 for the years ended June 30, 2016 and 2015, respectively. The balance in the annual purchase and exchange fund was \$78,234 and \$76,689 at June 30, 2016 and 2015, respectively.

SAN FRANCISCO ZOOLOGICAL SOCIETY

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016 AND 2015

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 Zoo totaled \$1,496,768 and \$1,579,388 for the years ended June 30, 2016 and 2015, respectively.