

**SAN FRANCISCO
ZOOLOGICAL SOCIETY**

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

**YEARS ENDED
JUNE 30, 2015 AND 2014**

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 (the Society), which comprise the statements of financial position as of June 30, 2015 and 2014, 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, 2015 and 2014, 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 cursive script that reads "Gilbert Associates, Inc.".

GILBERT ASSOCIATES, INC.
Sacramento, California

October 27, 2015

SAN FRANCISCO ZOOLOGICAL SOCIETY

STATEMENTS OF FINANCIAL POSITION JUNE 30, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
CURRENT ASSETS:		
Cash and cash equivalents	\$ 4,335,240	\$ 9,844,947
Contributions receivable	1,103,502	448,752
Bequests and other receivables	223,762	365,546
Prepaid expenses	250,421	182,206
Total current assets	<u>5,912,925</u>	<u>10,841,451</u>
INVESTMENTS	7,128,175	6,906,413
PROPERTY AND EQUIPMENT, Net	<u>596,610</u>	<u>563,307</u>
TOTAL ASSETS	<u>\$ 13,637,710</u>	<u>\$ 18,311,171</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable	\$ 1,600,473	\$ 744,918
Accrued expenses	1,381,092	1,421,108
Deferred revenue	1,192,734	1,111,943
Current portion of long-term debt	247,082	243,458
Due to the City and County of San Francisco	219,232	188,724
Total current liabilities	<u>4,640,613</u>	<u>3,710,151</u>
LONG-TERM DEBT, Net	<u>315,366</u>	<u>562,448</u>
Total liabilities	<u>4,955,979</u>	<u>4,272,599</u>
NET ASSETS:		
Unrestricted	2,640,875	6,335,804
Temporarily restricted	1,808,808	3,490,874
Permanently restricted	4,232,048	4,211,894
Total net assets	<u>8,681,731</u>	<u>14,038,572</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 13,637,710</u>	<u>\$ 18,311,171</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, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
UNRESTRICTED NET ASSETS:		
REVENUES AND SUPPORT:		
Program revenues:		
Admissions	\$ 7,069,718	\$ 6,755,942
Membership dues	2,736,933	2,493,144
Retail commissions	1,579,388	1,432,912
Retail sales, rides and rentals	1,143,772	1,370,266
Parking	1,044,675	984,886
Education	697,293	604,590
Fundraising and ticketed events (net of direct benefit to donors of \$444,793 in 2015 and \$391,678 in 2014)	381,839	275,604
Children's Zoo	<u>35,542</u>	<u>45,278</u>
Total program revenue	14,689,160	13,962,622
Other support:		
Management fee	4,120,000	4,120,000
Contributions and bequests	2,581,566	2,765,635
Other income	25,922	20,932
Satisfaction of restrictions, operations	<u>256,783</u>	<u>428,374</u>
Total revenues and support	<u>21,673,431</u>	<u>21,297,563</u>
 OPERATING EXPENSES:		
Program services:		
Animals, collections and exhibits	11,821,926	11,280,470
Education	1,338,504	1,154,232
Children's Zoo	1,196,171	1,060,462
Retail operations	913,267	844,004
Membership services	886,313	792,565
Admissions and other program expenses	<u>1,621,100</u>	<u>1,589,560</u>
Total program services	<u>17,777,281</u>	<u>16,721,293</u>
Supporting services:		
General and administrative	1,818,024	1,571,714
Fundraising	877,824	1,043,957
Marketing	<u>1,024,759</u>	<u>996,246</u>
Total supporting services	<u>3,720,607</u>	<u>3,611,917</u>
Total operating expenses	<u>21,497,888</u>	<u>20,333,210</u>
 INCOME FROM OPERATIONS	 175,543	 964,353

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, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
UNRESTRICTED NET ASSETS (CONTINUED):		
Investment income	173,888	75,564
Depreciation expense	(142,469)	(109,007)
Capital expenditures to be gifted to the City and County of San Francisco	(6,970,440)	(1,940,760)
Other capital expenditures	(574,814)	(138,552)
Satisfaction of restrictions, capital	<u>3,643,363</u>	<u>2,079,312</u>
 INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS	 <u>(3,694,929)</u>	 <u>930,910</u>
 TEMPORARILY RESTRICTED NET ASSETS:		
Contributions	2,188,960	1,850,095
Investment income	29,120	15,249
Change in value of charitable remainder trust assets		(19,152)
Satisfaction of restrictions, operations	(256,783)	(428,374)
Satisfaction of restrictions, capital	<u>(3,643,363)</u>	<u>(2,079,312)</u>
 DECREASE IN TEMPORARILY RESTRICTED NET ASSETS	 <u>(1,682,066)</u>	 <u>(661,494)</u>
 PERMANENTLY RESTRICTED NET ASSETS:		
Contributions	<u>20,154</u>	<u>10,000</u>
 INCREASE (DECREASE) IN NET ASSETS	 (5,356,841)	 279,416
 NET ASSETS, Beginning of Year	 <u>14,038,572</u>	 <u>13,759,156</u>
 NET ASSETS, End of Year	 <u>\$ 8,681,731</u>	 <u>\$ 14,038,572</u>

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

SAN FRANCISCO ZOOLOGICAL SOCIETY

STATEMENTS OF CASH FLOWS YEARS ENDED JUNE 30, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase (decrease) in net assets	\$ (5,356,841)	\$ 279,416
Reconciliation to net cash provided (used) by operating activities:		
Depreciation	142,469	109,007
Net realized and unrealized gain on investments	(116,307)	(24,052)
Permanently restricted contributions	(20,154)	(10,000)
Changes in:		
Bequests and other receivables	141,784	(125,494)
Prepaid expenses	(68,215)	(5,662)
Contributions receivable	(654,750)	192,257
Charitable remainder trust assets		233,388
Accounts payable	855,555	90,573
Accrued expenses	(40,016)	266,576
Deferred revenue	80,791	106,613
Due to the City and County of San Francisco	<u>30,508</u>	<u>273</u>
Net cash provided (used) by operating activities	<u>(5,005,176)</u>	<u>1,112,895</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investments	(9,695,274)	(6,983,886)
Proceeds from sale of investments	9,589,819	6,908,418
Purchases of property and equipment	<u>(175,772)</u>	<u>(236,012)</u>
Net cash used by investing activities	<u>(281,227)</u>	<u>(311,480)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Permanently restricted contributions	20,154	10,000
Repayment on long-term debt	<u>(243,458)</u>	<u>(252,408)</u>
Net cash used by financing activities	<u>(223,304)</u>	<u>(242,408)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(5,509,707)	559,007
CASH AND CASH EQUIVALENTS, Beginning of Year	<u>9,844,947</u>	<u>9,285,940</u>
CASH AND CASH EQUIVALENTS, End of Year	<u>\$ 4,335,240</u>	<u>\$ 9,844,947</u>
SUPPLEMENTAL ACTIVITY:		
Cash paid for interest	<u>\$ 6,328</u>	<u>\$ 9,858</u>

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

SAN FRANCISCO ZOOLOGICAL SOCIETY

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2015 AND 2014

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, 2015 AND 2014

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. The Society applies the principles related to the accounting for uncertainty in income taxes and has determined that 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 years prior to 2010.

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 27, 2015, the date the financial statements were issued. Management concluded that no material subsequent events have occurred since June 30, 2015 that require recognition or disclosure in such financial statements.

3. CONTRIBUTIONS RECEIVABLE

Contributions receivable at June 30, 2015 and 2014 are due to be collected within 1 year. The Society had one major donor in 2015 and one major donor in 2014 that accounted for 82% and 74%, respectively, of total contributions receivable.

SAN FRANCISCO ZOOLOGICAL SOCIETY

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2015 AND 2014

4. INVESTMENTS

Investments consist of the following:

	<u>2015</u>	<u>2014</u>
Cash and cash equivalents	\$ 362,118	\$ 5,482,063
Common stock:		
Foreign large blend	426,833	
Technology	415,177	77,789
Exchange traded funds	404,737	
Industrial goods	402,497	27,250
Healthcare	346,792	39,192
Consumer goods	332,006	55,118
Financial	231,269	34,704
Europe stock	206,002	
Energy	124,519	
Consumer staples	104,145	
Basic material	86,221	24,588
Utilities	65,162	7,128
Telecommunications	23,333	
Services		47,546
Other	70,616	74,868
Corporate fixed income securities:		
A+	19,461	
A	11,076	4,125
A-	25,286	9,483
AA+		2,025
AA-	15,008	4,001
BBB+	4,032	2,061
BBB	4,968	2,548
BBB-	10,001	
Government securities – AAA	174,754	201,196
Mutual funds:		
Intermediate-term bond	624,253	49,648
Multisector bond	346,393	116,248
World bond	242,045	35,055
Corporate bond	110,917	58,071
Foreign large blend		101,794
High yield bond		49,912
Alternative funds – hedge funds	1,938,554	400,000
Total investments	\$ 7,128,175	\$ 6,906,413

SAN FRANCISCO ZOOLOGICAL SOCIETY

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2015 AND 2014

Investment income consists of the following:

Interest and dividends	\$ 86,701	\$ 66,761
Net realized and unrealized gains	<u>116,307</u>	<u>24,052</u>
Total investment income	<u>\$ 203,008</u>	<u>\$ 90,813</u>

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, 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>
Year ended June 30, 2014:	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments	<u>\$ 6,280,973</u>	<u>\$ 225,440</u>	<u>\$ 400,000</u>

SAN FRANCISCO ZOOLOGICAL SOCIETY

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2015 AND 2014

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 comingled 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. Investments in limited partnerships 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>2015</u>	<u>2014</u>
July 1	\$ 400,000	\$ 233,388
Maturity of charitable remainder interest receivables		(233,388)
Purchases	1,558,529	400,000
Unrealized decrease in fair value	<u>(19,975)</u>	<u> </u>
June 30	<u>\$ 1,938,554</u>	<u>\$ 400,000</u>

6. PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	<u>2015</u>	<u>2014</u>
Machinery and equipment	\$ 1,318,716	\$ 1,332,538
Furniture and fixtures	297,295	317,488
Software	349,749	349,749
Other	<u>53,517</u>	<u>28,351</u>
Total	2,019,277	2,028,126
Less accumulated depreciation and amortization	<u>(1,422,667)</u>	<u>(1,464,819)</u>
Total	<u>\$ 596,610</u>	<u>\$ 563,307</u>

Management estimates that approximately 51% and 53% of depreciation expense relates to program services and 49% and 47% to supporting services for the years ended June 30, 2015 and 2014, respectively.

SAN FRANCISCO ZOOLOGICAL SOCIETY

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2015 AND 2014

7. LONG-TERM DEBT

Long-term debt consists of the following:

	<u>2015</u>	<u>2014</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.	\$ 117,003	\$ 211,979
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.	445,445	593,927
Total	562,448	805,906
Less current portion	(247,082)	(243,458)
Long-term debt, net	<u>\$ 315,366</u>	<u>\$ 562,448</u>

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

Year ending June 30:

2016	\$ 247,082
2017	166,885
2018	148,481
Total	<u>\$ 562,448</u>

8. NET ASSETS

Temporarily restricted net assets are available for the following purposes:

	<u>2015</u>	<u>2014</u>
Capital program	\$ 1,319,742	\$ 1,062,546
Conservation	90,533	103,992
Estate bequest – animal care	15,000	1,914,524
Other projects	383,533	409,812
Total	<u>\$ 1,808,808</u>	<u>\$ 3,490,874</u>

SAN FRANCISCO ZOOLOGICAL SOCIETY

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2015 AND 2014

Permanently restricted net assets consist of the following:

General operations	\$ 2,516,282	\$ 2,516,282
Conservation	1,000,000	1,000,000
Education	482,866	472,712
Other projects	<u>232,900</u>	<u>222,900</u>
 Total	 <u>\$ 4,232,048</u>	 <u>\$ 4,211,894</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

The Society had the following endowment activities during the years ended June 30, 2015 and 2014:

	Board Designated Unrestricted	Permanently Restricted
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>

SAN FRANCISCO ZOOLOGICAL SOCIETY

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2015 AND 2014

	Board Designated <u>Unrestricted</u>	Permanently Restricted
Year ended June 30, 2014:		
Endowment net assets, beginning of year	\$ 2,604,999	\$ 4,201,894
Contributions		10,000
Investment income, net of fees	65,468	
Realized and unrealized gain on investments	<u>24,052</u>	<u> </u>
Endowment net assets, end of year	<u>\$ 2,694,519</u>	<u>\$ 4,211,894</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.

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 contributions of five percent of covered salaries and is funded by the purchase of insurance annuity contracts. Total plan costs were \$206,667 and \$182,354 in June 30, 2015 and 2014, respectively.

SAN FRANCISCO ZOOLOGICAL SOCIETY

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2015 AND 2014

10. DONATED MATERIALS AND SERVICES

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

	<u>2015</u>	<u>2014</u>
Auction items and catering services	\$ 150,790	\$ 144,763
Marketing services	86,035	24,000
Architecture services	84,595	
Legal services	12,400	31,400
Other professional services	1,475	5,000
Other	<u> </u>	<u>25,800</u>
Total donated materials and services	<u>\$ 335,295</u>	<u>\$ 230,963</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, 2015 and 2014, totaling \$1,321,465 and \$1,346,755, 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, 2015 and 2014, 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 \$1,805 and \$2,340 for the years ended June 30, 2015 and 2014, respectively. The balance in the annual purchase and exchange fund was \$76,689 and \$78,494 at June 30, 2015 and 2014, respectively.

SAN FRANCISCO ZOOLOGICAL SOCIETY

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2015 AND 2014

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 \$1,579,388 and \$1,432,912 for the years ended June 30, 2015 and 2014, respectively.