

**SAN FRANCISCO
ZOOLOGICAL SOCIETY**

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

**YEARS ENDED
JUNE 30, 2019 AND 2018**

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, 2019 and 2018, and the related statements of activities, functional expenses, 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.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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, 2019 and 2018, 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 CPAs". The signature is written in a cursive, flowing style.

GILBERT CPAs
Sacramento, California

October 29, 2019

SAN FRANCISCO ZOOLOGICAL SOCIETY

STATEMENTS OF FINANCIAL POSITION JUNE 30, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
CURRENT ASSETS:		
Cash and cash equivalents	\$ 1,037,601	\$ 2,969,319
Contributions receivable, current	3,136,225	2,625,000
Bequests and other receivables	399,285	818,924
Prepaid expenses	<u>407,378</u>	<u>409,453</u>
Total current assets	4,980,489	6,822,696
CONTRIBUTIONS RECEIVABLE, Net	4,164,970	3,868,472
INVESTMENTS	7,417,598	8,123,718
PROPERTY AND EQUIPMENT, Net	<u>325,147</u>	<u>486,582</u>
TOTAL ASSETS	<u>\$ 16,888,204</u>	<u>\$ 19,301,468</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable	\$ 727,665	\$ 674,733
Accrued expenses	1,187,940	1,431,474
Deferred revenue	<u>1,547,094</u>	<u>1,343,981</u>
Total liabilities	<u>3,462,699</u>	<u>3,450,188</u>
NET ASSETS:		
Without donor restrictions	1,861,262	3,296,088
With donor restrictions	<u>11,564,243</u>	<u>12,555,192</u>
Total net assets	<u>13,425,505</u>	<u>15,851,280</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 16,888,204</u>	<u>\$ 19,301,468</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, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
NET ASSETS WITHOUT DONOR RESTRICTIONS:		
REVENUES AND SUPPORT:		
Program revenues:		
Admissions	\$ 7,082,295	\$ 7,710,703
Retail operations	4,274,297	4,407,315
Membership	2,627,551	2,657,715
Education	807,894	852,323
Fundraising and ticketed events (net of direct benefit to donors of \$350,593 in 2019 and \$385,817 in 2018)	<u>557,339</u>	<u>398,932</u>
Total program revenues	15,349,376	16,026,988
Other support:		
Management fee	4,120,000	4,120,000
Contributions and bequests	3,440,067	3,199,439
Other income	3,128	4,672
Satisfaction of restrictions, operations	<u>747,797</u>	<u>634,878</u>
Total revenues and support	<u>23,660,368</u>	<u>23,985,977</u>
OPERATING EXPENSES:		
Program services:		
Animal care and management	14,704,667	14,649,075
Membership and visitor services	3,105,899	3,355,286
Education	<u>1,251,564</u>	<u>1,405,890</u>
Total program services	<u>19,062,130</u>	<u>19,410,251</u>
Supporting services:		
General and administrative	3,445,722	3,034,355
Fundraising	<u>948,187</u>	<u>1,007,986</u>
Total supporting services	<u>4,393,909</u>	<u>4,042,341</u>
Total operating expenses	<u>23,456,039</u>	<u>23,452,592</u>
INCOME FROM OPERATIONS	204,329	533,385

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, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
NET ASSETS WITHOUT DONOR RESTRICTIONS (CONTINUED):		
INCOME FROM OPERATIONS	204,329	533,385
Investment income (loss)	(382,274)	1,411,901
Depreciation expense	(157,131)	(187,509)
Capital expenditures to be gifted to the City and County of San Francisco	(3,519,855)	(3,195,870)
Satisfaction of restrictions, capital	<u>2,420,105</u>	<u>1,681,871</u>
INCREASE (DECREASE) IN NET ASSETS WITHOUT DONOR RESTRICTIONS	<u>(1,434,826)</u>	<u>243,778</u>
NET ASSETS WITH DONOR RESTRICTIONS:		
Contributions	2,123,525	8,348,397
Investment income	53,428	37,314
Satisfaction of restrictions, operations	(747,797)	(634,878)
Satisfaction of restrictions, capital	<u>(2,420,105)</u>	<u>(1,681,871)</u>
INCREASE (DECREASE) IN NET ASSETS WITH DONOR RESTRICTIONS	<u>(990,949)</u>	<u>6,068,962</u>
INCREASE (DECREASE) IN NET ASSETS	(2,425,775)	6,312,740
NET ASSETS, Beginning of Year	<u>15,851,280</u>	<u>9,538,540</u>
NET ASSETS, End of Year	<u>\$ 13,425,505</u>	<u>\$ 15,851,280</u>

SAN FRANCISCO ZOOLOGICAL SOCIETY

STATEMENT OF FUNCTIONAL EXPENSES YEAR ENDED JUNE 30, 2019

	Program services			Supporting services		Total
	Animal care and management	Membership and visitor services	Education	General and administrative	Fundraising	
Personnel costs	\$ 7,961,174	\$ 1,760,773	\$ 893,056	\$ 1,402,301	\$ 352,792	\$ 12,370,096
Occupancy	2,736,454	478,441	125,762	292,369	57,192	3,690,218
Repairs and maintenance	1,351,941	90,458	52,592	15,778		1,510,769
Professional and contracted services	62,378	379,578	34,307	873,762	115,558	1,465,583
Animal care and exhibit costs	1,050,013					1,050,013
Horticulture	592,314	32,906	26,325	6,581		658,126
Advertising and public relations				576,666		576,666
Postage, printing, and supplies	306,432	134,705	44,997	39,296	26,019	551,449
Insurance	207,224	58,771	25,732	37,437	4,989	334,153
Rentals	73,137	7,927	13,239	34,148	106,284	234,735
Events		89,154		55,679	82,545	227,378
Travel, meals, and entertainment	35,861	5,118	12,803	31,283	121,402	206,467
Design					81,121	81,121
Dues and subscriptions	50,098		626	17,141	285	68,150
Laundry, uniforms, and clothing	3,000	3,513	17,097			23,610
Miscellaneous	274,641	64,555	5,028	63,281		407,505
	<u>\$ 14,704,667</u>	<u>\$ 3,105,899</u>	<u>\$ 1,251,564</u>	<u>\$ 3,445,722</u>	<u>\$ 948,187</u>	<u>\$ 23,456,039</u>
Total expenses	<u>\$ 14,704,667</u>	<u>\$ 3,105,899</u>	<u>\$ 1,251,564</u>	<u>\$ 3,445,722</u>	<u>\$ 948,187</u>	<u>\$ 23,456,039</u>

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

SAN FRANCISCO ZOOLOGICAL SOCIETY

STATEMENT OF FUNCTIONAL EXPENSES YEAR ENDED JUNE 30, 2018

	<u>Program services</u>			<u>Supporting services</u>		<u>Total</u>
	<u>Animal care and management</u>	<u>Membership and visitor services</u>	<u>Education</u>	<u>General and administrative</u>	<u>Fundraising</u>	
Personnel costs	\$ 7,838,535	\$ 1,818,705	\$ 1,020,526	\$ 1,100,445	\$ 381,732	\$ 12,159,943
Occupancy	2,596,916	496,690	124,816	331,239	57,009	3,606,670
Repairs and maintenance	1,275,793	164,811	32,216	26,847		1,499,667
Professional and contracted services	114,120	464,992	46,665	742,086	149,811	1,517,674
Animal care and exhibit costs	1,086,684					1,086,684
Horticulture	610,590	18,875	15,061	1,875		646,401
Advertising and public relations				538,367		538,367
Postage, printing, and supplies	195,458	144,778	45,356	45,658	47,322	478,572
Insurance	203,579	57,485	25,146	46,515	4,947	337,672
Rentals	55,657	9,134	15,554	35,514	101,275	217,134
Events		96,355		62,720	87,380	246,455
Travel, meals, and entertainment	77,475	1,846	39,497	26,115	130,775	275,708
Design					42,347	42,347
Dues and subscriptions	42,885		446	10,760	2,888	56,979
Laundry, uniforms, and clothing	27,964	2,384	33,231			63,579
Miscellaneous	523,419	79,231	7,376	66,214	2,500	678,740
Total expenses	<u>\$ 14,649,075</u>	<u>\$ 3,355,286</u>	<u>\$ 1,405,890</u>	<u>\$ 3,034,355</u>	<u>\$ 1,007,986</u>	<u>\$ 23,452,592</u>

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

SAN FRANCISCO ZOOLOGICAL SOCIETY

STATEMENTS OF CASH FLOWS YEARS ENDED JUNE 30, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase (decrease) in net assets	\$ (2,425,775)	\$ 6,312,740
Reconciliation to net cash used by operating activities:		
Depreciation	157,131	187,509
Net realized and unrealized (gain) loss on investments	559,249	(1,269,723)
Donated investments	(150,000)	(100,532)
Donated property and equipment		(15,356)
Loss on disposal of property and equipment	8,904	12,668
Changes in:		
Contributions receivable	(807,723)	(6,162,472)
Bequests and other receivables	419,639	(520,948)
Prepaid expenses	2,075	(77,869)
Accounts payable	52,932	(106,129)
Accrued expenses	(243,534)	340,630
Deferred revenue	203,113	71,246
Net cash used by operating activities	<u>(2,223,989)</u>	<u>(1,328,236)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investments	(1,776,467)	(3,302,235)
Proceeds from sale of investments	2,073,338	4,128,394
Purchases of property and equipment	<u>(4,600)</u>	<u>(25,447)</u>
Net cash provided by investing activities	<u>292,271</u>	<u>800,712</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayment on long-term debt	<u> </u>	<u>(148,482)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(1,931,718)	(676,006)
CASH AND CASH EQUIVALENTS, Beginning of Year	<u>2,969,319</u>	<u>3,645,325</u>
CASH AND CASH EQUIVALENTS, End of Year	<u>\$ 1,037,601</u>	<u>\$ 2,969,319</u>

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

SAN FRANCISCO ZOOLOGICAL SOCIETY

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2019 AND 2018

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 two classes of net assets:

Net assets without donor restrictions – Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Society. These net assets may be used at the discretion of management.

Net assets with donor restrictions – Net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity.

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 net assets with donor restrictions. Net assets with donor restrictions 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 purpose. Endowments 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.

Admissions revenue is recognized when earned. Retail revenue is recognized upon receipt. Education and special event revenue are 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.

SAN FRANCISCO ZOOLOGICAL SOCIETY

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2019 AND 2018

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 deposits held with financial institutions in excess of federal deposit insurance limits were \$1,023,066 and \$2,685,441 as of June 30, 2019 and 2018, respectively. 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.

Property and equipment is stated at cost or, if donated, at the estimated fair 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 the estimated useful lives of individual assets ranging from 3 to 39 years.

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

Functional expenses – The costs of providing the program and supporting services have been summarized on a functional basis in the statements of activities. Accordingly, personnel expenses are allocated based on estimates of employees' time incurred. Property insurance expenses are allocated based on square footage. Animal care and exhibit costs are allocated based on direct usage of resources. All other expenses are allocated based on management's estimate of the usage of resources.

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

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

Recent accounting pronouncements – On August 18, 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14, Not-for-Profit Entities (Topic 958) – *Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, information about liquidity and available resources, and the type of information provided about expenses and investment return. The Society has adjusted the presentation of these statements accordingly. ASU 2016-14 has been applied retrospectively to all periods presented, with the exception of the liquidity disclosures, which have not been applied for the year ended June 30, 2018 as allowed by the transition guidance of this ASU.

SAN FRANCISCO ZOOLOGICAL SOCIETY

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2019 AND 2018

Future accounting pronouncements – In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers* (Topic 606). The new accounting standard develops a common standard that will remove inconsistencies in revenue requirements, improve comparability of revenue recognition practices, provide more useful information to users of financial statements and simplify the preparation of financial statements. Application of this statement is effective for the year ending June 30, 2020. The Society is currently evaluating the impact this pronouncement will have on the financial statements.

In June 2018, the FASB issued ASU 2018-08, (Topic 958), *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The new accounting standard clarifies and improves the guidance for (1) evaluating whether transactions should be accounted for as contributions within the scope of Topic 958 or as exchange transactions subject to other guidance and (2) determining whether a contribution is conditional. Application of this statement is effective for transactions in which the entity serves as the resource recipient for the year ending June 30, 2020. For transactions in which the entity serves as the resource provider, the statement is effective for the year ending June 30, 2021. The Society is currently evaluating the impact this pronouncement will have on the financial statements.

Subsequent events have been evaluated through October 29, 2019, the date the financial statements were issued. Management concluded that no material subsequent events have occurred since June 30, 2019 that require recognition or disclosure in such financial statements.

Reclassification – Certain reclassifications have been made to the 2018 balances to conform to the 2019 presentation.

3. LIQUIDITY AND AVAILABILITY OF RESOURCES

The Society's financial assets available within one year of the statement of financial position date for general expenditure are as follows as of June 30, 2019:

Cash and cash equivalents	\$ 1,037,601
Contributions receivable, net	7,301,195
Bequests and other receivables	399,285
Investments	<u>7,417,598</u>
Total financial assets	16,155,679
Less:	
Amounts unavailable for general expenditures within one year, due to:	
Restriction by donors for time or purpose	(11,564,243)
Board designated endowment	<u>(1,838,239)</u>
Total financial assets available for general expenditure within one year	<u>\$ 2,753,197</u>

SAN FRANCISCO ZOOLOGICAL SOCIETY

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2019 AND 2018

The Society has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In addition, the Society invests cash in excess of monthly requirements in a short-term money market account. Additionally, the Society has board-designated endowments of \$2,442,181. Although the Society does not intend to spend from its board-designated endowments other than amounts appropriated annually for general expenditure as per its endowment spending policy, amounts could be made available if necessary. Both the board-designated endowments and donor-restricted permanent endowments contain investments with lock-up provisions that would reduce the total investments that could be made available. However, these investments constitute only a small portion of total investments.

4. CONTRIBUTIONS RECEIVABLE

The Society recognizes contributions at their estimated fair value, on a nonrecurring basis, at the time the promise is made. Fair value is determined by calculating the present value of the estimated future cash flows. The discount rate used in determining the net present value of long-term contributions receivable was 3.5% and 3.4% at June 30, 2019 and 2018, respectively.

The Society had one major donor that accounted for 73% and 98% of total contributions receivable in 2019 and 2018, respectively.

In 2019, the Society recorded a gift of a one-third beneficial interest in a note receivable held by the Frederick Stroh Memorial Foundation. The total value of the note was \$2,475,000 of which \$825,000 was recorded by the Society as the assigned gift. The note bears interest at 3.5% per annum.

Contributions receivable consist of the following:

	<u>2019</u>	<u>2018</u>
Gross contributions receivable	\$ 6,680,000	\$ 6,625,000
Beneficial interest in note receivable	785,890	
Less:		
Discount on contributions receivable	<u>(164,695)</u>	<u>(131,528)</u>
Contributions receivable, net	<u>\$ 7,301,195</u>	<u>\$ 6,493,472</u>

Contributions receivable are due to be collected as follows:

	<u>2019</u>	<u>2018</u>
Within one year	\$ 3,136,225	\$ 2,625,000
In one to five years	3,503,789	3,868,472
More than five years	<u>661,181</u>	<u> </u>
Contributions receivable, net	<u>\$ 7,301,195</u>	<u>\$ 6,493,472</u>

SAN FRANCISCO ZOOLOGICAL SOCIETY

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2019 AND 2018

5. INVESTMENTS

Investments consist of the following:

	<u>2019</u>	<u>2018</u>
Cash and cash equivalents	\$ 118,236	\$ 165,370
Common stock:		
Technology	1,083,446	967,833
Foreign large growth	1,024,762	1,408,169
Foreign large blend	908,778	873,471
Healthcare	510,652	412,926
Industrial goods	400,228	407,158
Consumer goods	293,197	323,144
Financial	151,473	146,505
Communication services	130,295	13,454
Consumer staples	72,843	67,165
Basic material	54,537	41,734
Utilities	48,651	34,870
Energy	41,858	50,122
Total common stock	4,720,720	4,746,551
Corporate fixed income securities:		
AAA		6,365
A		9,661
A-		20,162
BBB+		32,485
Total corporate fixed income securities		68,673
Government securities – AAA		133,763
Mutual funds:		
Intermediate-term bond	1,024,036	1,097,151
Multisector bond	960,499	194,556
Corporate bond	264,158	250,251
Total mutual funds	2,248,693	1,541,958
Alternative funds – hedge funds/limited partnership	329,949	1,467,403
Total investments	\$ 7,417,598	\$ 8,123,718

6. 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).

SAN FRANCISCO ZOOLOGICAL SOCIETY

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2019 AND 2018

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, 2019:	<u>Level 1</u>	<u>Level 2</u>	<u>NAV</u>	<u>Total</u>
Investments	<u>\$ 7,087,649</u>	<u>\$ _____</u>	<u>\$ 329,949</u>	<u>\$ 7,417,598</u>
Year ended June 30, 2018:	<u>Level 1</u>	<u>Level 2</u>	<u>NAV</u>	<u>Total</u>
Investments	<u>\$ 6,453,879</u>	<u>\$ 202,436</u>	<u>\$ 1,467,403</u>	<u>\$ 8,123,718</u>

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

The Society holds \$329,949 of alternative investments as of June 30, 2019, that include hedge funds invested in commingled funds. These investments are reported at the net asset value reported by the fund managers, which is used as a practical expedient to estimate the fair value. Hedge funds invested in commingled 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.

The Society held \$1,467,403 of alternative investments as of June 30, 2018, that included hedge funds invested in commingled funds, multi-strategy hedge funds and an investment in a limited partnership. These investments are reported at the net asset value reported by the fund managers, which is used as a practical expedient to estimate the fair value. Hedge funds invested in commingled 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 contains no lock-up provisions.

SAN FRANCISCO ZOOLOGICAL SOCIETY

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2019 AND 2018

7. PROPERTY AND EQUIPMENT

Property and equipment consist of the following, as of June 30:

	<u>2019</u>	<u>2018</u>
Machinery and equipment	\$ 1,212,616	\$ 1,309,296
Furniture and fixtures	284,216	284,216
Software	127,606	127,606
Other	207,287	197,769
Total	1,831,725	1,918,887
Less accumulated depreciation and amortization	<u>(1,506,578)</u>	<u>(1,432,305)</u>
Total	<u>\$ 325,147</u>	<u>\$ 486,582</u>

Management estimates that approximately 48% and 47% of depreciation expense relates to program services and 52% and 53% to supporting services for the years ended June 30, 2019 and 2018, respectively.

8. NET ASSETS

Net assets with donor restrictions are available for the following purposes:

	<u>2019</u>	<u>2018</u>
Time and purpose restricted:		
Capital program	\$ 6,982,253	\$ 7,570,024
Conservation	166,310	81,056
Other projects	64,300	552,732
Restricted into perpetuity:		
General operations	2,516,282	2,516,282
Conservation	1,000,000	1,000,000
Education	490,398	485,898
Other projects	<u>344,700</u>	<u>349,200</u>
Total net assets with donor restrictions	<u>\$ 11,564,243</u>	<u>\$ 12,555,192</u>

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

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

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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, 2019 and 2018:

	<u>Board Designated</u>	<u>Perpetually Restricted</u>
Year ended June 30, 2019:		
Endowment net assets, beginning of year	\$ 2,826,075	\$ 4,351,380
Contributions	194,000	
Investment income	176,975	
Realized and unrealized loss on investments	(559,249)	
Endowment expenditures	(195,620)	
Distribution to operations	(603,942)	
Endowment net assets, end of year	<u>\$ 1,838,239</u>	<u>\$ 4,351,380</u>
Year ended June 30, 2018:		
Endowment net assets, beginning of year	\$ 2,465,338	\$ 4,250,848
Contributions		100,532
Investment income	91,014	
Realized and unrealized gain on investments	1,269,723	
Endowment expenditures	(1,000,000)	
Endowment net assets, end of year	<u>\$ 2,826,075</u>	<u>\$ 4,351,380</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 net assets with donor restrictions. These deficits result from unfavorable market fluctuations and authorized appropriation that was deemed prudent. No such donor endowment deficits occurred in the fiscal years ending June 30, 2019 and 2018.

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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 to achieve its long-term objectives within prudent risk constraints.

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 5% of covered salaries and is funded by the purchase of insurance annuity contracts. Total plan costs were \$256,380 and \$231,288 in June 30, 2019 and 2018, respectively.

10. DONATED MATERIALS AND SERVICES

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

	<u>2019</u>	<u>2018</u>
Legal services	\$ 529,236	\$ 354,402
Marketing	122,000	
Auction items and catering services	46,667	36,587
Equipment		15,356
Other professional services	<u>15,350</u>	<u>1,346</u>
Total donated materials and services	<u>\$ 713,253</u>	<u>\$ 407,691</u>

11. CITY AND COUNTY OF SAN FRANCISCO

San Francisco Zoological Society 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 Agreement was extended on July 1, 2018. The next automatic extension of the Agreement is in 2023. 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.

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Under the Agreement, labor and utilities expenses were incurred with the City and County by the Society for the years ended June 30, 2019 and 2018, totaling \$1,090,293 and \$1,032,549, respectively.

12. FOOD, BEVERAGE AND CONCESSIONS AGREEMENT

The Society has a concessions agreement with Service Systems Associates, Inc. (SSA) to provide for the operation of food, beverage, gift shop, and rental concessions at the Zoo. SSA has agreed to pay the Society certain percentages of gross receipts based on the various types of concession sales. Retail concession revenues paid to the Society totaled \$1,442,877 and \$1,608,310 for the years ended June 30, 2019 and 2018, respectively.