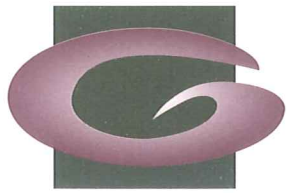


**SAN FRANCISCO
ZOOLOGICAL SOCIETY**

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

**YEARS ENDED
JUNE 30, 2010 AND 2009**



Gilbert Associates, Inc.
CPAs and Advisors

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying statements of financial position of the San Francisco Zoological Society (the Society) as of June 30, 2010 and 2009, and the related statements of activities and of cash flows for the years then ended. These financial statements are the responsibility of the Society's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the San Francisco Zoological Society as of June 30, 2010 and 2009, and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

**GILBERT ASSOCIATES, INC.
Sacramento, California**

October 6, 2010

SAN FRANCISCO ZOOLOGICAL SOCIETY

STATEMENTS OF FINANCIAL POSITION JUNE 30, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
CURRENT ASSETS:		
Cash and equivalents	\$ 3,669,282	\$ 2,584,147
Current portion of contributions receivable	345,000	156,000
Bequests and other receivables	567,493	1,005,882
Prepaid expenses	<u>223,375</u>	<u>203,096</u>
Total current assets	4,805,150	3,949,125
CONTRIBUTIONS RECEIVABLE, Net	785,000	31,957
CHARITABLE REMAINDER TRUST ASSETS	847,638	868,545
INVESTMENTS	6,520,967	5,677,217
PROPERTY AND EQUIPMENT, Net	<u>543,440</u>	<u>218,084</u>
TOTAL ASSETS	<u>\$ 13,502,195</u>	<u>\$ 10,744,928</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable	\$ 660,627	\$ 367,281
Accrued expenses	878,010	866,429
Deferred revenue	1,010,923	976,572
Current portion of liability to beneficiary	73,270	73,270
Current portion of long-term debt	224,629	850,000
Due to the City and County of San Francisco	<u>555,559</u>	<u></u>
Total current liabilities	3,403,018	3,133,552
LONG-TERM DEBT, Net	1,668,756	1,869,584
LIABILITY TO BENEFICIARY, Net	<u>291,595</u>	<u>341,631</u>
Total liabilities	<u>5,363,369</u>	<u>5,344,767</u>
NET ASSETS:		
Unrestricted	1,368,926	(461,397)
Temporarily restricted	2,608,006	1,705,664
Permanently restricted	<u>4,161,894</u>	<u>4,155,894</u>
Total net assets	<u>8,138,826</u>	<u>5,400,161</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 13,502,195</u>	<u>\$ 10,744,928</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, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
UNRESTRICTED NET ASSETS:		
REVENUES AND SUPPORT:		
Program revenues:		
Admissions	\$ 4,955,304	\$ 5,168,150
Membership dues	1,842,621	1,920,325
Retail commissions	985,633	1,169,518
Retail sales, rides and rentals	934,383	855,519
Parking	729,651	713,356
Fundraising and ticketed events (net of direct benefit to donors of \$332,359 in 2010 and \$404,578 in 2009)	428,342	577,987
Education	511,023	535,451
Children's Zoo	<u>55,336</u>	<u>63,106</u>
Total program revenue	<u>10,442,293</u>	<u>11,003,412</u>
Other support:		
Management fee	4,120,000	4,120,000
Contributions and bequests	1,639,502	3,101,966
Other income	21,770	17,683
Capital expenditure reimbursements from the City and County of San Francisco	769,650	
Satisfaction of restrictions, operations	<u>270,425</u>	<u>161,448</u>
Total revenues and support	<u>17,263,640</u>	<u>18,404,509</u>
OPERATING EXPENSES:		
Program services:		
Animals, collections and exhibits	8,768,045	9,105,490
Children's Zoo	1,007,163	1,096,565
Retail operations	723,823	985,036
Membership services	662,069	936,269
Education	827,185	852,724
Admissions and other program expenses	<u>887,935</u>	<u>720,777</u>
Total program services	<u>12,876,220</u>	<u>13,696,861</u>
Supporting services:		
General and administrative	1,347,084	1,716,931
Marketing	1,275,576	1,429,592
Fundraising	<u>630,047</u>	<u>649,667</u>
Total supporting services	<u>3,252,707</u>	<u>3,796,190</u>
Total operating expenses	<u>16,128,927</u>	<u>17,493,051</u>
INCOME FROM OPERATIONS	\$ 1,134,713	\$ 911,458

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, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
UNRESTRICTED NET ASSETS (CONTINUED):		
Investment income (loss)	791,383	(990,326)
Depreciation expense	(95,773)	(120,133)
Capital expenditures to be gifted to the City and County of San Francisco	(448,180)	(120,000)
Other capital expenditures	(7,733)	
Satisfaction of restrictions, capital	<u>455,913</u>	<u>106,000</u>
INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS	<u>1,830,323</u>	<u>(213,001)</u>
TEMPORARILY RESTRICTED NET ASSETS:		
Contributions	1,551,927	416,466
Investment income	47,624	77,497
Change in value of charitable remainder trust assets	29,129	(19,066)
Satisfaction of restrictions, operations	(270,425)	(161,448)
Satisfaction of restrictions, capital	<u>(455,913)</u>	<u>(106,000)</u>
INCREASE IN TEMPORARILY RESTRICTED NET ASSETS	<u>902,342</u>	<u>207,449</u>
PERMANENTLY RESTRICTED NET ASSETS:		
Contributions	<u>6,000</u>	<u>50,000</u>
INCREASE IN NET ASSETS	2,738,665	44,448
NET ASSETS, Beginning of Year	<u>5,400,161</u>	<u>5,355,713</u>
NET ASSETS, End of Year	<u><u>\$ 8,138,826</u></u>	<u><u>\$ 5,400,161</u></u>

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

SAN FRANCISCO ZOOLOGICAL SOCIETY

STATEMENTS OF CASH FLOWS YEARS ENDED JUNE 30, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase in net assets	\$ 2,738,665	\$ 44,448
Reconciliation to net cash and equivalents provided by operating activities:		
Depreciation and amortization	95,773	120,133
Net realized and unrealized (gain) loss on investments	(715,915)	1,170,538
Permanently restricted contributions	(6,000)	(50,000)
Donated property and equipment	(6,561)	
Accrued interest on long-term debt	23,801	
Loss on capital lease disposal		58,284
Changes in:		
Bequests and other receivables	438,389	(795,877)
Prepaid expenses	(20,279)	8,741
Contributions receivable	(942,043)	305,000
Charitable remainder trust assets	20,907	66,448
Accounts payable	293,346	(539,517)
Due to the City and County of San Francisco	555,559	1,294,130
Accrued expenses	11,581	125,885
Deferred revenue	34,351	99,470
Liability to beneficiary	(50,036)	(47,382)
Net cash and equivalents provided by operating activities	<u>2,471,538</u>	<u>1,860,301</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investments	(10,338,991)	(2,076,888)
Proceeds from sale of investments	10,211,156	1,781,164
Purchases of property and equipment	(414,568)	(33,273)
Net cash and equivalents used by investing activities	<u>(542,403)</u>	<u>(328,997)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Permanently restricted contributions	6,000	50,000
Repayment on long-term debt	(250,000)	
Repayment on line of credit	(600,000)	(100,000)
Net cash and equivalents used by financing activities	<u>(844,000)</u>	<u>(50,000)</u>
NET INCREASE IN CASH AND EQUIVALENTS	1,085,135	1,481,304
CASH AND EQUIVALENTS, Beginning of Year	<u>2,584,147</u>	<u>1,102,843</u>
CASH AND EQUIVALENTS, End of Year	<u>\$ 3,669,282</u>	<u>\$ 2,584,147</u>
SUPPLEMENTAL ACTIVITY:		
Cash paid for interest	<u>\$ 31,897</u>	<u>\$ 35,257</u>

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

SAN FRANCISCO ZOOLOGICAL SOCIETY

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2010 AND 2009

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 presentation – The financial statements are presented in conformity with Accounting Standards Codification (ASC) 958-205, *Not-For-Profit Entities – Presentation of Financial Statements*. Under ASC 958-205, 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 are recognized in full when received or unconditionally promised, in accordance with ASC 958-605, *Not-For-Profit Entities – Revenue Recognition*. All contributions are considered available for unrestricted use unless specifically restricted by donors for future periods or specific purposes. Donor-restricted amounts are reported as increases in temporarily or permanently restricted net assets. Temporarily restricted net assets become unrestricted, and are reported in the statement of activities as satisfaction of restrictions, when the time restrictions expire or the contributions are used for the restricted purposes. Permanently restricted net assets are those net assets whose use by the Society is restricted by donor-imposed stipulations that neither expire by the passage of time nor can be fulfilled and removed by the actions of the Society and consist of contributions to the Society's endowment fund.

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

Donated materials, equipment, and professional services are recorded as in-kind donations and recognized at the estimated fair value as of the date of donation or service. Contributed services that do not meet the criteria for recognition under ASC 958-605 are not reflected in the financial statements.

Cash and equivalents – For financial statement purposes, the Society considers all investments with a maturity at purchase of three months or less to be cash equivalents.

Investments are stated at fair value.

SAN FRANCISCO ZOOLOGICAL SOCIETY

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2010 AND 2009

Charitable remainder trust assets include the estimated fair value of irrevocable charitable trusts in which the Society is both the trustee and remainder beneficiary, as well as the estimated net present value of the Society's remainder interest in irrevocable trusts for which the Society is the remainder beneficiary. The fair value of the assets wherein the Society is not the trustee are determined using investment returns consistent with the composition of the asset portfolios, life expectancies, and the discount rates of 3.2% and 2.8% at June 30, 2010 and 2009, respectively. Irrevocable charitable trusts whose use is limited by the Society due to time or donor-imposed restrictions increase temporarily restricted net assets.

Liability to beneficiary represents the present value of the liability due to the primary beneficiary of the irrevocable charitable remainder trust for which the Society is both trustee and remainder beneficiary. On an annual basis, the Society reviews the need to revalue the liability to make distributions to the designated beneficiary based upon actuarial assumptions. The present value of the estimated future payments is calculated using a discount rate of 5.6% and applicable mortality tables.

Property and equipment are recorded at cost and depreciated using the straight-line method over estimated useful lives of 3 to 39 years. The Society's policy is to capitalize such items with a cost of \$1,500 or more.

Pursuant to the management agreement with the City of San Francisco (Note 13), property and equipment of the Society consists of furniture, furnishings and articles of movable personal property installed in the Zoo, by or for the account of the Society, without expense to the City, and which can be removed without structural or other material damage to the Zoo. The City retains title to all real property and all appurtenances, fixtures, improvements, equipment, additions and other property attached to or installed in the Zoo. Capital expenditures by the Society for property and equipment for which the Society does not retain title are expensed when incurred and are donated to the City as a gift upon completion.

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

Income taxes – The Society is publicly supported and exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code.

The Society adopted the accounting principles related to accounting for uncertainty in income taxes (as described under ASC 740-10) as of July 1, 2009 and has determined that there is no material impact on the financial statements for June 30, 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.

SAN FRANCISCO ZOOLOGICAL SOCIETY

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2010 AND 2009

Reclassifications – Certain 2009 amounts have been reclassified to conform with the 2010 financial statement presentation.

Subsequent events have been reviewed through the issuance date of the audit report.

Recent accounting pronouncements – The Financial Accounting Standards Board (FASB) issued FASB Accounting Standards Codification effective for financial statements issued for interim and annual periods ending after September 15, 2009. The ASC is an aggregation of previously issued authoritative U.S. generally accepted accounting principles (GAAP) in one comprehensive set of guidance organized by subject area. In accordance with the ASC, references to previously issued accounting standards have been replaced by ASC references. Subsequent revisions to GAAP will be incorporated into the ASC through Accounting Standards Updates.

3. CONTRIBUTIONS RECEIVABLE

The Society recognizes contributions receivable at their estimated fair value. Fair value is determined by calculating the present value of the estimated future cash flows. The discount rate used in determining the net present value of pledges receivable is 2.8%. Contributions receivable are due to be collected as follows:

	<u>2010</u>	<u>2009</u>
Within one year	\$ 345,000	\$ 156,000
In one to five years	<u>785,000</u>	<u>31,957</u>
Contributions receivable, net	<u>\$ 1,130,000</u>	<u>\$ 187,957</u>

4. CHARITABLE REMAINDER TRUST ASSETS

Charitable remainder trust assets consist of the following:

	<u>2010</u>	<u>2009</u>
Assets held in charitable remainder trust in which the Society is both trustee and remainder beneficiary	\$ 650,587	\$ 691,630
Charitable remainder interests receivable from third parties	<u>197,051</u>	<u>176,915</u>
Total	<u>\$ 847,638</u>	<u>\$ 868,545</u>

SAN FRANCISCO ZOOLOGICAL SOCIETY

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2010 AND 2009

5. INVESTMENTS

Investments consist of the following:

	<u>2010</u>	<u>2009</u>
Mutual funds invested in equity securities and government obligations	\$ 4,520,907	\$ 4,399,349
Money market accounts	1,901,440	744,515
Real estate investment funds		116,115
Other investments	<u>98,620</u>	<u>417,238</u>
Total investments	<u>\$ 6,520,967</u>	<u>\$ 5,677,217</u>

Investment income (loss) consists of the following:

Interest and dividends	\$ 123,092	\$ 257,709
Net realized and unrealized gain (loss)	<u>715,915</u>	<u>(1,170,538)</u>
Total investment income (loss)	<u>\$ 839,007</u>	<u>\$ (912,829)</u>

6. FAIR VALUE MEASUREMENTS

Assets and liabilities measured at fair value are recorded in accordance with ASC 820, which clarifies that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. As a basis for considering such assumptions, ASC 820 establishes a three-tier value hierarchy, which prioritizes the inputs used in measuring fair value as follows:

Level 1 Inputs	Unadjusted quoted prices in active markets that are accessible at the measurement date for identical assets or liabilities.
Level 2 Inputs	Inputs other than quoted prices in active markets that are observable either directly or indirectly.
Level 3 Inputs	Unobservable inputs in which there is little or no market data, which require management to develop their own assumptions.

SAN FRANCISCO ZOOLOGICAL SOCIETY

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2010 AND 2009

The Society's assets subject to ASC 820 are classified as follows:

Year ending June 30, 2010:	<u>Level 1</u>	<u>Level 3</u>
Investments	\$ 6,520,967	
Investments held in charitable remainder trusts in which the Society is both trustee and remainder beneficiary	650,587	
Charitable remainder interests receivable from third parties	<u> </u>	<u>\$ 197,051</u>
Total	<u>\$ 7,171,554</u>	<u>\$ 197,051</u>
 Year ending June 30, 2009:	 <u>Level 1</u>	 <u>Level 3</u>
Investments	\$ 5,677,217	
Investments held in charitable remainder trusts in which the Society is both trustee and remainder beneficiary	691,630	
Charitable remainder interests receivable from third parties	<u> </u>	<u>\$ 176,915</u>
Total	<u>\$ 6,368,847</u>	<u>\$ 176,915</u>

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

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

	<u>2010</u>	<u>2009</u>
July 1	\$ 176,915	\$ 212,191
Unrealized increase (decrease) in fair value	<u>20,136</u>	<u>(35,276)</u>
June 30	<u>\$ 197,051</u>	<u>\$ 176,915</u>

SAN FRANCISCO ZOOLOGICAL SOCIETY

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2010 AND 2009

7. PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	<u>2010</u>	<u>2009</u>
Machinery and equipment	\$ 1,025,292	\$ 739,458
Furniture and fixtures	353,192	353,192
Software	348,229	222,142
Other	<u>76,160</u>	<u>66,952</u>
Total	1,802,873	1,381,744
Less accumulated depreciation and amortization	<u>(1,259,433)</u>	<u>(1,163,660)</u>
Total	<u>\$ 543,440</u>	<u>\$ 218,084</u>

Management estimates that approximately 46% and 43% of depreciation expense relates to program services and 54% and 57% to supporting services for the years ended June 30, 2010 and 2009, respectively.

8. DONATED MATERIALS AND SERVICES

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

	<u>2010</u>	<u>2009</u>
Auction items and catering services	\$ 171,129	\$ 216,152
Advertising materials and services	14,630	147,000
Legal services	90,400	64,126
Other	<u>7,219</u>	<u>3,314</u>
Total donated materials and services	<u>\$ 283,378</u>	<u>\$ 430,592</u>

SAN FRANCISCO ZOOLOGICAL SOCIETY

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2010 AND 2009

9. NET ASSETS

Temporarily restricted net assets are available for the following purposes:

	<u>2010</u>	<u>2009</u>
Parrot/lorikeet research	\$ 511,178	\$ 511,178
Charitable remainder trust assets – time restricted	482,773	453,644
Capital program	1,131,047	269,700
Conservation	132,224	105,084
Other projects	<u>350,784</u>	<u>366,058</u>
Total	<u>\$ 2,608,006</u>	<u>\$ 1,705,664</u>

Permanently restricted net assets consist of the following:

General operations	\$ 2,516,282	\$ 2,516,282
Conservation	1,000,000	1,000,000
Education	472,712	472,712
Other projects	<u>172,900</u>	<u>166,900</u>
Total	<u>\$ 4,161,894</u>	<u>\$ 4,155,894</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:

SAN FRANCISCO ZOOLOGICAL SOCIETY

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2010 AND 2009

- 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, 2010 and 2009:

	Board Designated <u>Unrestricted</u>	Permanently <u>Restricted</u>
Year ending June 30, 2010:		
Endowment net assets, beginning of year	\$ 1,521,323	\$ 4,155,894
Investment income, net of fees	121,835	
Realized and unrealized gain on investments	715,915	
Contributions	<u> </u>	<u>6,000</u>
Endowment net assets, end of year	<u>\$ 2,359,073</u>	<u>\$ 4,161,894</u>
	Board Designated <u>Unrestricted</u>	Permanently <u>Restricted</u>
Year ending June 30, 2009:		
Endowment net assets, beginning of year	\$ 2,446,137	\$ 4,105,894
Investment income, net of fees	245,724	
Realized and unrealized loss on investments	(1,170,538)	
Contributions	<u> </u>	<u>50,000</u>
Endowment net assets, end of year	<u>\$ 1,521,323</u>	<u>\$ 4,155,894</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.

SAN FRANCISCO ZOOLOGICAL SOCIETY

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2010 AND 2009

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 equity-based 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 or Directors considered the expected long term rate of return on its endowment. Accordingly, over the long term, the Society expects the current spending policy to allow its endowment to grow at an average of 4% annually, consistent with its intention to maintain the purchasing power of the endowment assets as well as to provide additional real growth through new gifts.

10. JOINT FUNDRAISING AND EDUCATIONAL ACTIVITIES

The Society incurred joint costs for newsletters that included both fundraising appeals and educational messages. Educational messages are included in program services. In accordance with ASC 958-720-05, *Not-for-Profit Entities – Accounting for Costs of Activities that Include Fundraising*, joint costs were allocated as follows:

	<u>2010</u>	<u>2009</u>
Program services	\$ 68,570	\$ 63,311
Support services	<u>12,698</u>	<u>12,254</u>
Total	<u>\$ 81,268</u>	<u>\$ 75,565</u>

SAN FRANCISCO ZOOLOGICAL SOCIETY

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2010 AND 2009

11. LONG-TERM DEBT

Long-term debt consists of the following:

	<u>2010</u>	<u>2009</u>
Payable to the City, principal payment of \$250,000 paid on October 1, 2009, monthly payments of \$8,442 beginning July 2010, including principal and interest of 3.75% per annum, unpaid principal and interest due August 2018.	\$ 705,530	\$ 931,729
Payable to the San Francisco Public Utilities Commission (SFPUC), 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.	1,187,855	1,187,855
Revolving line of credit with a bank to finance capital expenditures and working capital, secured by \$1,000,000 of unrestricted assets, payable in monthly installments of interest only equal to the bank's prime rate plus 1.5% at the time of borrowing or LIBOR plus 1.5%. Paid in 2010.		<u>600,000</u>
Total	1,893,385	2,719,584
Less current portion	<u>(224,629)</u>	<u>(850,000)</u>
Long-term debt, net	<u>\$ 1,668,756</u>	<u>\$ 1,869,584</u>

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

Year ending June 30:

2011	\$ 224,629
2012	227,533
2013	230,549
2014	233,679
2015	236,932
Thereafter	<u>740,063</u>
Total	<u>\$ 1,893,385</u>

SAN FRANCISCO ZOOLOGICAL SOCIETY

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2010 AND 2009

12. PENSION PLAN

The Society has a defined contribution plan covering all full-time employees not covered by a collective bargaining agreement. The plan calls for contributions of five percent of covered salaries and is funded by the purchase of insurance annuity contracts. Total plan costs were \$122,852 and \$101,444 in June 30, 2010 and 2009, respectively.

13. CITY AND COUNTY OF SAN FRANCISCO

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

The Agreement originally expired on June 30, 1998, and provides for additional automatic extensions for successive periods of five years, not to exceed ninety-nine years. The next automatic extension of the Agreement is in 2013. Generally, under the Agreement, the Society receives an annual management fee from the City plus all admission fees, and in turn, is responsible for all operating and maintenance expenses incurred in the operation of the Zoo.

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

Operating expenses incurred by the City and paid by the Society for the years ended June 30, 2010 and 2009, were \$1,655,703 and \$1,552,377, 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, 2010 and 2009, 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 \$13,800 and \$3,370 for the years ended June 30, 2010 and 2009, respectively. The balance in the animal purchase and exchange fund was \$73,368 and \$69,593 at 2010 and 2009, respectively.

SAN FRANCISCO ZOOLOGICAL SOCIETY

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2010 AND 2009

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

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

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

14. FOOD, BEVERAGE AND CONCESSIONS AGREEMENT

The Society has a concessions agreement with Service Systems Associates, Inc. (SSA) to provide for the operation of food, beverage, gift shop, and rental concessions at the Zoo. SSA has agreed to pay the Society certain percentages of gross receipts based on the various types of concession sales. Retail concession revenues paid to the Zoo totaled \$985,633 and \$1,169,518 for the years ended June 30, 2010 and 2009, respectively.

15. COMMITMENTS AND CONTINGENCIES

In the course of conducting business, there may be certain claims, suits, and complaints filed against the Society. In 2009, a claim was made against the Society for a matter that may extend beyond coverage provided by the Society's insurance. The Society intends to vigorously defend its position in this matter. The likelihood of an unfavorable outcome resulting from these matters cannot be reasonably determined, however, should the Society be unsuccessful in its defense, any related claim liability could have a material impact on the Society's financial statements.

16. CONCENTRATIONS OF CASH

The Society maintains its cash in bank deposit accounts that, at times, may exceed federally insured limits. The Society has not experienced any losses in such accounts. Management believes the Society is not exposed to any significant credit risk related to cash.