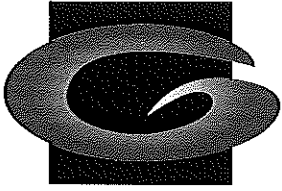


**SAN FRANCISCO
ZOOLOGICAL SOCIETY**

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

**YEARS ENDED
JUNE 30, 2009 AND 2008**



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 San Francisco Zoological Society (Society) as of June 30, 2009 and 2008, 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 San Francisco Zoological Society as of June 30, 2009 and 2008, and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Gilbert Associates, Inc.

GILBERT ASSOCIATES, INC.
Sacramento, California

November 6, 2009

SAN FRANCISCO ZOOLOGICAL SOCIETY

STATEMENTS OF FINANCIAL POSITION JUNE 30, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
CURRENT ASSETS:		
Cash and equivalents	\$ 2,584,147	\$ 1,102,843
Current portion of contributions receivable	156,000	380,167
Bequests and other receivables	991,600	191,047
Prepaid expenses	<u>203,096</u>	<u>211,837</u>
Total current assets	3,934,843	1,885,894
CONTRIBUTIONS RECEIVABLE, Net	46,239	131,748
CHARITABLE REMAINDER TRUST ASSETS	868,545	934,993
INVESTMENTS	5,677,217	6,552,031
PROPERTY AND EQUIPMENT, Net	<u>218,084</u>	<u>399,160</u>
TOTAL ASSETS	<u>\$ 10,744,928</u>	<u>\$ 9,903,826</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable	\$ 367,281	\$ 906,798
Accrued expenses	866,429	740,544
Deferred revenue	976,572	877,102
Current portion of liability to beneficiary	73,270	73,270
Current portion of long-term debt	850,000	
Capital lease obligations		35,932
Due to the City and County of San Francisco		<u>825,454</u>
Total current liabilities	3,133,552	3,459,100
LONG-TERM DEBT, Net	1,869,584	700,000
LIABILITY TO BENEFICIARY, Net	<u>341,631</u>	<u>389,013</u>
Total liabilities	<u>5,344,767</u>	<u>4,548,113</u>
NET ASSETS:		
Unrestricted	(496,397)	(283,396)
Temporarily restricted	1,740,664	1,533,215
Permanently restricted	<u>4,155,894</u>	<u>4,105,894</u>
Total net assets	<u>5,400,161</u>	<u>5,355,713</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 10,744,928</u>	<u>\$ 9,903,826</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, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
UNRESTRICTED NET ASSETS:		
REVENUES AND SUPPORT:		
Program revenues:		
Admissions	\$ 5,168,150	\$ 4,175,087
Membership dues	1,920,325	1,750,293
Retail commissions	1,169,518	1,321,954
Retail sales, rides and rentals	855,519	1,065,858
Parking	713,356	657,335
Fundraising and ticketed events (net of direct benefit to donors of \$404,578 in 2009 and \$365,154 in 2008)	577,987	886,552
Education	535,451	647,796
Children's Zoo	63,106	57,805
Total program revenue	<u>11,003,412</u>	<u>10,562,680</u>
Other support:		
Management fee	4,120,000	4,120,000
Contributions and bequests	3,101,966	3,228,340
Other income	17,683	203,736
Satisfaction of restrictions, operations	161,448	333,733
Total revenues and support	<u>18,404,509</u>	<u>18,448,489</u>
 OPERATING EXPENSES:		
Program services:		
Animals, collections and exhibits	9,105,490	10,373,560
Children's Zoo	1,096,565	1,147,222
Retail operations	985,036	1,078,771
Membership services	936,269	1,096,171
Education	852,724	962,989
Admissions and other program expenses	720,777	783,294
Total program services	<u>13,696,861</u>	<u>15,442,007</u>
Supporting services:		
General and administrative	1,716,931	2,563,394
Marketing	1,429,592	1,380,255
Fundraising	649,667	1,312,377
Total supporting services	<u>3,796,190</u>	<u>5,256,026</u>
Total operating expenses	<u>17,493,051</u>	<u>20,698,033</u>
 INCOME (LOSS) FROM OPERATIONS	 911,458	 (2,249,544)

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, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
UNRESTRICTED NET ASSETS (CONTINUED):		
Investment loss	\$ (990,326)	\$ (152,641)
Depreciation expense	(120,133)	(180,326)
Capital expenditures to be gifted to the City and County of San Francisco	(120,000)	(396,224)
Other capital expenditures		(68,917)
Satisfaction of restrictions, capital	<u>106,000</u>	<u>276,221</u>
DECREASE IN UNRESTRICTED NET ASSETS	<u>(213,001)</u>	<u>(2,771,431)</u>
TEMPORARILY RESTRICTED NET ASSETS:		
Contributions	416,466	915,530
Investment income	77,497	36,959
Change in value of charitable remainder trust assets	(19,066)	(35,891)
Satisfaction of restrictions, operations	(161,448)	(333,733)
Satisfaction of restrictions, capital	<u>(106,000)</u>	<u>(276,221)</u>
INCREASE IN TEMPORARILY RESTRICTED NET ASSETS	<u>207,449</u>	<u>306,644</u>
PERMANENTLY RESTRICTED NET ASSETS:		
Contributions	<u>50,000</u>	<u>500</u>
INCREASE (DECREASE) IN NET ASSETS	44,448	(2,464,287)
NET ASSETS, Beginning of Year	<u>5,355,713</u>	<u>7,820,000</u>
NET ASSETS, End of Year	<u>\$ 5,400,161</u>	<u>\$ 5,355,713</u>

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

SAN FRANCISCO ZOOLOGICAL SOCIETY

STATEMENTS OF CASH FLOWS YEARS ENDED JUNE 30, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase (decrease) in net assets	\$ 44,448	\$ (2,464,287)
Reconciliation to net cash and equivalents provided (used) by operating activities:		
Depreciation and amortization	120,133	180,326
Net realized and unrealized loss on investments	1,170,538	482,628
Permanently restricted contributions	(50,000)	(500)
Donated property and equipment		(21,672)
Loss on capital lease disposal	58,284	
Changes in:		
Bequests and other receivables	(800,553)	105,897
Prepaid expenses	8,741	(61,161)
Contributions receivable	309,676	416,798
Charitable remainder trust assets	66,448	35,893
Accounts payable	(539,517)	(756,641)
Due to the City and County of San Francisco	1,294,130	318,336
Accrued expenses	125,885	(175,734)
Deferred revenue	99,470	(24,711)
Liability to beneficiary	(47,382)	(2)
Net cash and equivalents provided (used) by operating activities	<u>1,860,301</u>	<u>(1,964,830)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investments	(2,076,888)	(2,505,718)
Proceeds from sale of investments	1,781,164	2,411,617
Purchases of property and equipment	(33,273)	(83,758)
Net cash and equivalents used by investing activities	<u>(328,997)</u>	<u>(177,859)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Permanently restricted contributions	50,000	500
Repayment of capital lease obligations		(32,870)
Repayment on line of credit	(100,000)	
Proceeds from line of credit		700,000
Net cash and equivalents provided (used) by financing activities	<u>(50,000)</u>	<u>667,630</u>
NET INCREASE (DECREASE) IN CASH AND EQUIVALENTS	1,481,304	(1,475,059)
CASH AND EQUIVALENTS, Beginning of Year	<u>1,102,843</u>	<u>2,577,902</u>
CASH AND EQUIVALENTS, End of Year	<u>\$ 2,584,147</u>	<u>\$ 1,102,843</u>
SUPPLEMENTAL ACTIVITY:		
Cash paid for interest	<u>\$ 35,257</u>	<u>\$ 15,226</u>

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

SAN FRANCISCO ZOOLOGICAL SOCIETY

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2009 AND 2008

1. ORGANIZATION AND OPERATIONS

The San Francisco Zoological Society (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 (City) at the San Francisco Zoological Gardens (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 Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-For-Profit Organizations*. Under SFAS No. 117, 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 SFAS No. 116, *Accounting for Contributions Received and Contributions Made*. 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 SFAS No. 116 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.

SAN FRANCISCO ZOOLOGICAL SOCIETY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009 AND 2008

Investments are stated at fair value based on quoted market prices and are held for long-term purposes.

Charitable remainder trust assets include the estimated fair value of irrevocable charitable trusts in which the Society is both the trustee and secondary beneficiary, as well as the estimated net present value of the Society's remainder interest in irrevocable trusts for which the Society is the secondary 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 2.8% and 3.8% at June 30, 2009 and 2008, 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 secondary 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 has elected to defer the application of Financial Accounting Standard Board (FASB) Interpretation 48, *Accounting for Uncertainty in Income Taxes* as allowed until July 1, 2009. The Society will evaluate any uncertain tax positions in conjunction with the preparation of the tax return.

SAN FRANCISCO ZOOLOGICAL SOCIETY

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2009 AND 2008

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

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

Recent accounting pronouncements – In September 2006, the Financial Accounting Standards Board (FASB) issued SFAS No. 157, *Fair Value Measurements* (SFAS 157), which defines fair value, establishes guidelines for measuring fair value and expands disclosures regarding fair value measurements. SFAS 157 does not require any new fair value measurements but rather eliminates inconsistencies in guidance found in various prior accounting pronouncements. The adoption of SFAS 157 for financial assets and liabilities on July 1, 2008 did not have a material impact on the Society's statement of financial position or the related statements of activities, functional expenses and cash flows.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* (SFAS 159), which expands opportunities to use fair value measurements in financial reporting and permits entities to choose to measure many financial instruments and certain other items at fair value. The adoption of SFAS 159 for financial assets and liabilities on July 1, 2008, did not have a material impact on the Society's financial statements as there were no new items selected for fair value presentation.

3. CONTRIBUTIONS RECEIVABLE

The Society recognizes contributions receivable at their estimated fair value at the date of the gift. Fair value is determined by calculating the present value of the estimated future cash flows. The discount rates used in determining the net present value of pledges range from 2.8% to 5.6%. Contributions receivable consist of the following:

	<u>2009</u>	<u>2008</u>
Gross contributions receivable	\$ 215,282	\$ 524,958
Less: Unamortized discount	<u>(13,043)</u>	<u>(13,043)</u>
Contributions receivable, net	<u>\$ 202,239</u>	<u>\$ 511,915</u>

Contributions receivable are due to be collected as follows:

Within one year	\$ 156,000	\$ 380,167
In one to five years	<u>46,239</u>	<u>131,748</u>
Contributions receivable, net	<u>\$ 202,239</u>	<u>\$ 511,915</u>

SAN FRANCISCO ZOOLOGICAL SOCIETY

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2009 AND 2008

4. CHARITABLE REMAINDER TRUST ASSETS

Charitable remainder trust assets consist of the following:

	<u>2009</u>	<u>2008</u>
Assets held in charitable remainder trust in which the Society is both trustee and secondary beneficiary	\$ 691,630	\$ 722,802
Charitable remainder interests receivable from third parties	<u>176,915</u>	<u>212,191</u>
Total	<u>\$ 868,545</u>	<u>\$ 934,993</u>

5. INVESTMENTS

Investments consist of the following:

	<u>2009</u>	<u>2008</u>
Mutual funds invested in equity securities and government obligations	\$ 4,399,349	\$ 4,685,534
Government bonds		656,110
Money market accounts	744,515	502,371
Real estate investment funds	116,115	232,022
Other investments	<u>417,238</u>	<u>475,994</u>
Total investments	<u>\$ 5,677,217</u>	<u>\$ 6,552,031</u>

Investment loss consists of the following:

Interest and dividends	\$ 257,709	\$ 366,946
Net realized and unrealized losses	<u>(1,170,538)</u>	<u>(482,628)</u>
Total investment loss	<u>\$ (912,829)</u>	<u>\$ (115,682)</u>

6. FAIR VALUE MEASUREMENTS

Assets and liabilities measured at fair value are recorded in accordance with SFAS 157, 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, SFAS 157 establishes a three-tier value hierarchy, which prioritizes the inputs used in measuring fair value as follows:

SAN FRANCISCO ZOOLOGICAL SOCIETY

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2009 AND 2008

- 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.

The Society's assets subject to SFAS 157 at June 30, 2009 are classified as follows:

	<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, 2009 consist of:

July 1, 2008	\$ 212,191
Unrealized decrease in fair value	<u>(35,276)</u>
June 30, 2009	<u>\$ 176,915</u>

SAN FRANCISCO ZOOLOGICAL SOCIETY

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2009 AND 2008

7. PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	<u>2009</u>	<u>2008</u>
Machinery and equipment	\$ 739,458	\$ 943,229
Furniture and fixtures	353,192	372,415
Software	222,142	222,142
Other	<u>66,952</u>	<u>62,403</u>
Total	1,381,744	1,600,189
Less accumulated depreciation and amortization	<u>(1,163,660)</u>	<u>(1,201,029)</u>
Total	<u>\$ 218,084</u>	<u>\$ 399,160</u>

Management estimates that approximately 43% and 40% of depreciation expense relates to program services and 57% and 60% to supporting services for the years ended June 30, 2009 and 2008, respectively.

8. DONATED MATERIALS AND SERVICES

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

	<u>2009</u>	<u>2008</u>
Auction items and catering services	\$ 216,152	\$ 171,564
Advertising materials and services	147,000	185,000
Legal services	64,126	486,856
Other	<u>3,314</u>	<u>44,477</u>
Total donated materials and services	<u>\$ 430,592</u>	<u>\$ 887,897</u>

SAN FRANCISCO ZOOLOGICAL SOCIETY

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2009 AND 2008

9. NET ASSETS

Temporarily restricted net assets are available for the following purposes:

	<u>2009</u>	<u>2008</u>
Parrot/lorikeet research	\$ 511,177	\$ 511,177
Charitable remainder trust assets -- time restricted	453,644	472,710
Capital program	279,701	103,881
Conservation	105,084	108,982
Other projects	<u>391,058</u>	<u>336,465</u>
Total	<u>\$ 1,740,664</u>	<u>\$ 1,533,215</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	472,212
Other projects	<u>166,900</u>	<u>116,900</u>
Total	<u>\$ 4,155,894</u>	<u>\$ 4,105,894</u>

The Society's endowments 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, 2009 AND 2008

- 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 year ended June 30, 2009:

	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>
	Board Designated <u>Unrestricted</u>	Permanently <u>Restricted</u>
Year ending June 30, 2008:		
Endowment net assets, beginning of year	\$ 2,835,164	\$ 4,105,394
Investment income, net of fees	93,601	
Realized and unrealized loss on investments	(482,628)	
Contributions	<u> </u>	<u>500</u>
Endowment net assets, end of year	<u>\$ 2,446,137</u>	<u>\$ 4,105,894</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, 2009 AND 2008

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. The Society expects its endowment funds over time, to provide an average rate of return of approximately 9% annually. Actual returns in any given year may vary from this amount.

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.

SAN FRANCISCO ZOOLOGICAL SOCIETY

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2009 AND 2008

10. LONG-TERM DEBT

Long-term debt consists of the following:

	<u>2009</u>	<u>2008</u>
Payable to the City, with the first principal payment of \$250,000 due on October 1, 2009, followed by monthly payments of \$8,442 beginning July 2010, including principal and interest of 3.75% per annum, unpaid principal and interest due August 2018.	\$ 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	
\$3,000,000 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%. Unpaid principal due January 2, 2010.	600,000	\$ 700,000
Capital lease obligation		35,932
Total	2,719,584	735,932
Less current portion	(850,000)	(35,932)
Long-term debt, net	<u>\$ 1,869,584</u>	<u>\$ 700,000</u>

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

Year ending June 30:

2010	\$ 850,000
2011	224,629
2012	227,533
2013	230,549
2014	233,679
Thereafter	953,194
Total	<u>\$ 2,719,584</u>

SAN FRANCISCO ZOOLOGICAL SOCIETY

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2009 AND 2008

At June 30, 2009, the Society failed to meet a loan covenant in the line of credit agreement causing the loan to be callable at the bank's discretion, however, the bank has waived their default rights with respect to this breach for the period ending June 30, 2009.

11. 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 Statement of Position (SOP) 98-2, *Accounting for Costs of Activities of Not-for-Profit Organizations and State and Local Governmental Entities That Include Fund-Raising*, joint costs were allocated as follows:

	<u>2009</u>	<u>2008</u>
Program services	\$ 63,311	\$ 95,733
Support services	<u>12,254</u>	<u>14,757</u>
Total	<u>\$ 75,565</u>	<u>\$ 110,490</u>

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 \$101,444 and \$145,976 in June 30, 2009 and 2008, respectively.

13. CITY AND COUNTY OF SAN FRANCISCO

San Francisco Zoo management agreement – The Society has negotiated a management agreement (Agreement) with the City and County of San Francisco (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.

SAN FRANCISCO ZOOLOGICAL SOCIETY

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2009 AND 2008

Operating expenses incurred by the City and paid by the Society as of June 30, 2009 and 2008, were \$258,246 and \$2,336,182, 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, 2009 and 2007, 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 \$3,370 and \$3,596 for the years ended June 30, 2009 and 2008, respectively. The balance in the animal purchase and exchange fund was \$69,593 and \$2,963 at 2009 and 2008, respectively.

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

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

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

14. **FOOD, BEVERAGE AND CONCESSIONS AGREEMENT**

The Society has a concessions agreement with Service Systems Associates, Inc. (SSA) to provide for the operation of food, beverage, gift shop and rental concessions at the Zoo. SSA has agreed to pay the Society certain percentages of gross receipts based on the various types of concession sales. Retail concession revenues paid to the Zoo totaled \$1,169,518 and \$1,321,954 for the years ended June 30, 2009 and 2008, respectively.

SAN FRANCISCO ZOOLOGICAL SOCIETY

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2009 AND 2008

15. COMMITMENTS AND CONTINGENCIES

In the course of conducting business, there may be certain claims, suits and complaints filed against the Society. In 2009, two claims were made against the Society for matters that may extend beyond coverage provided by the Society's insurance. The Society intends to vigorously defend its position in these matters. 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.