

**SAN FRANCISCO
ZOOLOGICAL SOCIETY**

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

**YEARS ENDED
JUNE 30, 2014 AND 2013**

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the San Francisco Zoological Society (the Society), which comprise the statements of financial position as of June 30, 2014 and 2013, and the related statements of activities and of cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the San Francisco Zoological Society as of June 30, 2014 and 2013, 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.

Gilbert Associates, Inc.

GILBERT ASSOCIATES, INC.
Sacramento, California

October 23, 2014

SAN FRANCISCO ZOOLOGICAL SOCIETY

STATEMENTS OF FINANCIAL POSITION JUNE 30, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
CURRENT ASSETS:		
Cash and cash equivalents	\$ 9,844,947	\$ 9,285,940
Current portion of contributions receivable	448,752	431,250
Bequests and other receivables	365,546	240,052
Prepaid expenses	<u>182,206</u>	<u>176,544</u>
Total current assets	10,841,451	10,133,786
 CONTRIBUTIONS RECEIVABLE, Net		 209,759
 CHARITABLE REMAINDER TRUST ASSETS		 233,388
 INVESTMENTS	 6,906,413	 6,806,893
 PROPERTY AND EQUIPMENT, Net	 <u>563,307</u>	 <u>436,302</u>
 TOTAL ASSETS	 <u>\$ 18,311,171</u>	 <u>\$ 17,820,128</u>
 LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable	\$ 744,918	\$ 654,345
Accrued expenses	1,421,108	1,154,532
Deferred revenue	1,111,943	1,005,330
Current portion of long-term debt	243,458	252,409
Due to the City and County of San Francisco	<u>188,724</u>	<u>188,451</u>
Total current liabilities	3,710,151	3,255,067
 LONG-TERM DEBT, Net	 <u>562,448</u>	 <u>805,905</u>
Total liabilities	<u>4,272,599</u>	<u>4,060,972</u>
 NET ASSETS:		
Unrestricted	6,335,804	5,404,894
Temporarily restricted	3,490,874	4,152,368
Permanently restricted	<u>4,211,894</u>	<u>4,201,894</u>
Total net assets	<u>14,038,572</u>	<u>13,759,156</u>
 TOTAL LIABILITIES AND NET ASSETS	 <u>\$ 18,311,171</u>	 <u>\$ 17,820,128</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, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
UNRESTRICTED NET ASSETS:		
REVENUES AND SUPPORT:		
Program revenues:		
Admissions	\$ 6,755,942	\$ 6,229,665
Membership dues	2,493,144	2,220,981
Retail commissions	1,432,912	1,366,132
Retail sales, rides and rentals	1,370,266	1,324,883
Parking	984,886	926,386
Education	604,590	544,092
Fundraising and ticketed events (net of direct benefit to donors of \$391,678 in 2014 and \$330,834 in 2013)	275,604	439,680
Children's Zoo	<u>45,278</u>	<u>51,954</u>
Total program revenue	13,962,622	13,103,773
Other support:		
Management fee	4,120,000	4,120,000
Contributions and bequests	2,765,635	2,286,358
Other income	20,932	21,041
Satisfaction of restrictions, operations	<u>428,374</u>	<u>147,194</u>
Total revenues and support	<u>21,297,563</u>	<u>19,678,366</u>
 OPERATING EXPENSES:		
Program services:		
Animals, collections and exhibits	11,280,470	9,799,359
Education	1,154,232	1,042,038
Children's Zoo	1,060,462	1,027,794
Retail operations	844,004	761,835
Membership services	792,565	829,301
Admissions and other program expenses	<u>1,589,560</u>	<u>1,193,583</u>
Total program services	<u>16,721,293</u>	<u>14,653,910</u>
Supporting services:		
General and administrative	1,571,714	1,541,451
Fundraising	1,043,957	735,412
Marketing	<u>996,246</u>	<u>986,701</u>
Total supporting services	<u>3,611,917</u>	<u>3,263,564</u>
Total operating expenses	<u>20,333,210</u>	<u>17,917,474</u>
 INCOME FROM OPERATIONS	 964,353	 1,760,892

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, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
UNRESTRICTED NET ASSETS (CONTINUED):		
Investment income	75,564	53,877
Depreciation expense	(109,007)	(97,150)
Capital expenditures to be gifted to the City and County of San Francisco	(1,940,760)	(2,564,449)
Other capital expenditures	(138,552)	(117,171)
Satisfaction of restrictions, capital	<u>2,079,312</u>	<u>2,681,620</u>
INCREASE IN UNRESTRICTED NET ASSETS	<u>930,910</u>	<u>1,717,619</u>
TEMPORARILY RESTRICTED NET ASSETS:		
Contributions	1,850,095	2,256,061
Investment income	15,249	17,618
Change in value of charitable remainder trust assets	(19,152)	31,124
Satisfaction of restrictions, operations	(428,374)	(147,194)
Satisfaction of restrictions, capital	<u>(2,079,312)</u>	<u>(2,681,620)</u>
DECREASE IN TEMPORARILY RESTRICTED NET ASSETS	<u>(661,494)</u>	<u>(524,011)</u>
PERMANENTLY RESTRICTED NET ASSETS:		
Contributions	<u>10,000</u>	<u>7,000</u>
INCREASE IN NET ASSETS	279,416	1,200,608
NET ASSETS, Beginning of Year	<u>13,759,156</u>	<u>12,558,548</u>
NET ASSETS, End of Year	<u>\$ 14,038,572</u>	<u>\$ 13,759,156</u>

SAN FRANCISCO ZOOLOGICAL SOCIETY

STATEMENTS OF CASH FLOWS YEARS ENDED JUNE 30, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase in net assets	\$ 279,416	\$ 1,200,608
Reconciliation to net cash provided by operating activities:		
Depreciation	109,007	97,150
Net realized and unrealized (gain) loss on investments	(24,052)	297
Permanently restricted contributions	(10,000)	(7,000)
Loss on disposal of property and equipment		3,326
Changes in:		
Bequests and other receivables	(125,494)	1,924,726
Prepaid expenses	(5,662)	(28,447)
Contributions receivable	192,257	477,883
Charitable remainder trust assets	233,388	(31,124)
Accounts payable	90,573	83,894
Accrued expenses	266,576	175,745
Deferred revenue	106,613	2,887
Due to the City and County of San Francisco	273	(186,606)
Net cash provided by operating activities	<u>1,112,895</u>	<u>3,713,339</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investments	(6,983,886)	(77,798)
Proceeds from sale of investments	6,908,418	
Purchases of property and equipment	(236,012)	(141,960)
Net cash used by investing activities	<u>(311,480)</u>	<u>(219,758)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Permanently restricted contributions	10,000	7,000
Repayment on long-term debt	(252,408)	(382,910)
Net cash used by financing activities	<u>(242,408)</u>	<u>(375,910)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	559,007	3,117,671
CASH AND CASH EQUIVALENTS, Beginning of Year	<u>9,285,940</u>	<u>6,168,269</u>
CASH AND CASH EQUIVALENTS, End of Year	<u>\$ 9,844,947</u>	<u>\$ 9,285,940</u>
SUPPLEMENTAL ACTIVITY:		
Cash paid for interest	<u>\$ 9,858</u>	<u>\$ 16,636</u>

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

SAN FRANCISCO ZOOLOGICAL SOCIETY

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2014 AND 2013

1. ORGANIZATION AND OPERATIONS

The San Francisco Zoological Society (the Society) is a nonprofit public benefit corporation organized in 1954 for charitable, scientific, and educational purposes for the study and promotion of zoology and wildlife conservation and for the education and recreation of the public.

The Society currently provides a wide range of services for the City and County of San Francisco (the City) at the San Francisco Zoological Gardens (the Zoo). The Society and the City have negotiated a management agreement, which incorporates animal care, management of all facilities, operations, community support, and public services.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting and financial statement presentation – The financial statements are prepared on the accrual basis of accounting and in conformity with professional standards applicable to not-for-profit entities. The Society reports information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted.

Revenue recognition – Contributions and bequests are recognized in full when received or unconditionally promised, in accordance with professional standards. All contributions are considered available for unrestricted use unless specifically restricted by donors for future periods or specific purposes. Donor-restricted amounts are reported as increases in temporarily or permanently restricted net assets. Temporarily restricted net assets become unrestricted, and are reported in the statement of activities as satisfaction of restrictions, when the time restrictions expire and/or the contributions are used for the restricted purposes. Permanently restricted net assets are those net assets whose use by the Society is restricted by donor-imposed stipulations that neither expire by the passage of time nor can be fulfilled and removed by the actions of the Society and consist of contributions to the Society's endowment fund.

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

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

Cash and cash equivalents – For financial statement purposes, the Society considers all investments with an initial maturity of three months or less at time of purchase to be cash equivalents, unless held for long-term purposes.

The Society minimizes credit risk associated with cash by periodically evaluating the credit quality of its primary financial institution. The balance at times may exceed federally insured limits. The Society has not experienced any losses in such accounts and management believes the Society is not exposed to any significant credit risk related to cash.

Investments are stated at fair value and are held for long-term purposes.

SAN FRANCISCO ZOOLOGICAL SOCIETY

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2014 AND 2013

Charitable remainder trust assets include the fair value of the Society's remainder interest in irrevocable trusts for which the Society is the secondary beneficiary. The fair value of the Society's remainder interest in irrevocable trusts is determined using investment returns consistent with the composition of the asset portfolios, life expectancies, and the discount rate of 1.2% at June 30, 2013. Irrevocable charitable trusts whose use is limited by the Society due to time or donor-imposed restrictions increase temporarily restricted net assets.

Property and equipment is stated at cost or, if donated, at the estimated fair market value at the date of donation. The Society capitalizes all expenditures for property and equipment in excess of \$1,500. Depreciation is computed using the straight-line method over estimated useful lives of individual assets ranging from 3 to 39 years.

Pursuant to the management agreement with the City of San Francisco (Note 12), 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 statements of activities. Certain costs have been allocated to program services based on estimates of employees' time incurred and management's estimate of the usage of resources.

Income taxes – The Society is publicly supported and exempt from income taxes under Internal Revenue Code Section 501(c)(3) and corresponding California state codes. The Society applies the principles related to the accounting for uncertainty in income taxes and has determined that there is no material impact on the financial statements. With some exceptions, the Society is no longer subject to U.S. federal and state income tax examinations by tax authorities for years prior to 2009.

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

Subsequent events have been evaluated through October 23, 2014, the date the financial statements were issued. Management concluded that no material subsequent events have occurred since June 30, 2014 that require recognition or disclosure in such financial statements.

SAN FRANCISCO ZOOLOGICAL SOCIETY

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2014 AND 2013

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 rates used in determining the net present value of contributions receivable ranged from 1.0% to 3.2%.

Contributions receivable are due to be collected as follows:

	<u>2014</u>	<u>2013</u>
Within one year	\$ 448,752	\$ 431,250
In one to five years	<u> </u>	<u>209,759</u>
Contributions receivable, net	<u>\$ 448,752</u>	<u>\$ 641,009</u>

4. CONDITIONAL PROMISES TO GIVE

In 2011, the Society received a \$1,000,000 conditional promise to give from a donor. The Society was required to raise certain matching funds as a condition of this promise to give. In accordance with professional standards, during the year ended June 30, 2012, the Society received and recognized \$500,000 of revenue related to this promise to give for which the conditions have been met. The remaining conditions were met in 2014 and \$500,000 was received and recognized.

5. PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	<u>2014</u>	<u>2013</u>
Machinery and equipment	\$ 1,332,538	\$ 1,100,336
Furniture and fixtures	317,488	348,091
Software	349,749	348,229
Other	<u>28,351</u>	<u>29,871</u>
Total	2,028,126	1,826,527
Less accumulated depreciation and amortization	<u>(1,464,819)</u>	<u>(1,390,225)</u>
Total	<u>\$ 563,307</u>	<u>\$ 436,302</u>

Management estimates that approximately 53% and 57% of depreciation expense relates to program services and 47% and 43% to supporting services for the years ended June 30, 2014 and 2013, respectively.

SAN FRANCISCO ZOOLOGICAL SOCIETY

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2014 AND 2013

6. INVESTMENTS

Investments consist of the following:

	<u>2014</u>	<u>2013</u>
Cash and cash equivalents	\$ 5,482,063	\$ 1,842,021
Common stock:		
Technology	77,789	
Financial	34,704	
Healthcare	39,192	
Consumer goods	55,118	
Industrial goods	27,250	
Basic material	24,588	
Services	47,546	
Utilities	7,128	
Other	74,868	
Corporate fixed income securities:		
A	4,125	
A-	9,483	
AA+	2,025	
AA-	4,001	
BBB+	2,061	
BBB	2,548	
Government securities – AAA	201,196	
Mutual funds:		
Foreign large blend	101,794	
Multisector bond	116,248	
Corporate bond	58,071	
Intermediate-term bond	49,648	
High yield bond	49,912	
World bond	35,055	
Alternative funds – hedge funds	400,000	
Fixed income mutual fund – short-term bond		2,590,678
Fixed income mutual fund – ultra-short bond		2,374,194
Total investments	<u>\$ 6,906,413</u>	<u>\$ 6,806,893</u>
Investment income consists of the following:		
Interest and dividends	\$ 66,761	\$ 71,792
Net realized and unrealized gains (losses)	<u>24,052</u>	<u>(297)</u>
Total investment income	<u>\$ 90,813</u>	<u>\$ 71,495</u>

SAN FRANCISCO ZOOLOGICAL SOCIETY

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2014 AND 2013

7. FAIR VALUE MEASUREMENTS

Fair value is a market-based measurement, not an entity-specific measurement. For some assets and liabilities, observable market transactions or market information might be available. For other assets and liabilities, observable market transactions and market information might not be available. However, the objective of a fair value measurement in both cases is the same—to estimate the price at which an orderly transaction to sell the asset or to transfer the liability would take place between market participants at the measurement date under current market conditions (that is, an exit price at the measurement date from the perspective of a market participant that holds the asset or owes the liability).

In order to increase consistency and comparability in fair value measurements, a fair value hierarchy that prioritizes observable and unobservable inputs is used to measure fair value into three broad levels, as follows:

- Level 1 Inputs Unadjusted quoted prices in active markets that are accessible at the measurement date for identical assets or liabilities.
- Level 2 Inputs Inputs other than quoted prices in active markets that are observable either directly or indirectly.
- Level 3 Inputs Unobservable inputs for the asset or liability.

When a price for an identical asset or liability is not observable, a reporting entity measures fair value using another valuation technique that maximizes the use of relevant observable inputs and minimizes the use of unobservable inputs. Because fair value is a market-based measurement, it is measured using the assumptions that market participants would use when pricing the asset or liability, including assumptions about risk. As a result, a reporting entity's intention to hold an asset or to settle or otherwise fulfill a liability is not relevant when measuring fair value.

The Society's assets are classified as follows:

Year ended June 30, 2014:	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments	\$ 6,280,973	\$ 225,440	\$ 400,000
Contributions receivable			448,752
Total	<u>\$ 6,280,973</u>	<u>\$ 225,440</u>	<u>\$ 848,752</u>
Year ended June 30, 2013:	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments	\$ 6,806,893		
Contributions receivable			\$ 641,009
Charitable remainder interests receivable from third parties			233,388
Total	<u>\$ 6,806,893</u>	<u>\$</u>	<u>\$ 874,397</u>

SAN FRANCISCO ZOOLOGICAL SOCIETY

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2014 AND 2013

The Society's investments classified within Level 1 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 are valued using a matrix pricing system to estimate the fair value. The Society's investments classified within Level 3 are valued by the underlying assets that form the basis for the investment and whose inputs are primarily unobservable. The Society's charitable remainder interest receivable from third parties and contributions receivable 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 assets measured at fair value on the recurring basis for the year ending June 30 consist of:

	<u>2014</u>	<u>2013</u>
July 1	\$ 233,388	\$ 202,264
Maturity of charitable remainder interest receivables	(233,388)	
Purchases	400,000	
Unrealized increase in fair value	<u> </u>	<u>31,124</u>
June 30	<u>\$ 400,000</u>	<u>\$ 233,388</u>

8. DONATED MATERIALS AND SERVICES

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

	<u>2014</u>	<u>2013</u>
Auction items and catering services	\$ 144,763	\$ 72,408
Legal services	31,400	8,000
Marketing services	24,000	
Other professional services	5,000	22,269
Other	<u>25,800</u>	<u>4,221</u>
Total donated materials and services	<u>\$ 230,963</u>	<u>\$ 106,898</u>

SAN FRANCISCO ZOOLOGICAL SOCIETY

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2014 AND 2013

9. NET ASSETS

Temporarily restricted net assets are available for the following purposes:

	<u>2014</u>	<u>2013</u>
Estate bequest – animal care	\$ 1,914,524	\$ 1,914,524
Capital program	1,062,546	1,450,699
Charitable remainder trust assets – time restricted		233,388
Conservation	103,992	96,216
Other projects	<u>409,812</u>	<u>457,541</u>
Total	<u>\$ 3,490,874</u>	<u>\$ 4,152,368</u>

SAN FRANCISCO ZOOLOGICAL SOCIETY

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2014 AND 2013

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>222,900</u>	<u>212,900</u>
 Total	 <u>\$ 4,211,894</u>	 <u>\$ 4,201,894</u>

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

The Board of Directors has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the original gift as of the gift date of the donor restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Society classifies as permanently restricted net assets, (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure of the Society in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Society considers the following factors in making a determination to appropriate or accumulate endowment funds:

- 1) The duration and preservation of the fund
- 2) The purposes of the Society and the donor-restricted endowment fund
- 3) General economic conditions
- 4) The possible effect of inflation and deflation
- 5) The expected total return from income and the appreciation of investments
- 6) Other resources of the Society
- 7) The investment policies of the Society

The Society had the following endowment activities during the years ended June 30, 2014 and 2013:

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

SAN FRANCISCO ZOOLOGICAL SOCIETY

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2014 AND 2013

Year ended June 30, 2013:	Board Designated Unrestricted	Permanently Restricted
Endowment net assets, beginning of year	\$ 2,534,498	\$ 4,194,894
Contributions		7,000
Investment income, net of fees	70,798	
Realized and unrealized loss on investments	<u>(297)</u>	<u> </u>
Endowment net assets, end of year	<u>\$ 2,604,999</u>	<u>\$ 4,201,894</u>

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the value of the initial and subsequent donor gift amounts (deficit). When donor endowment deficits exist, they are classified as a reduction of unrestricted net assets. These deficits resulted from unfavorable market fluctuations and authorized appropriation that was deemed prudent.

The Society has adopted endowment investment policies that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of endowment assets. Under this policy, the return objective for the endowment assets, measured over a full market cycle, shall be to maximize the return against a blended index, based on the endowment's target allocation applied to the appropriate individual benchmarks.

To achieve its long-term rate of return objectives, the Society relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized gains) and current yield (interest and dividends). The Society targets a diversified asset allocation that places greater emphasis on fixed income investments to achieve its long-term objectives within prudent risk constraints.

The Board of Directors of the Society determines the method to be used to appropriate board-designated endowment funds for expenditure. Calculations are performed for individual endowment funds at a rate of 5% of the average last three years ending endowment fund balance. The corresponding calculated spending allocations are distributed in the second quarter from the current net total or accumulated net total investment returns for individual endowment funds. In establishing this policy, the Board of Directors considered the expected long term rate of return on its endowment. Accordingly, over the long term, the Society expects the current spending policy to allow its endowment to grow at an average of 4% annually, consistent with its intention to maintain the purchasing power of the endowment assets as well as to provide additional real growth through new gifts.

SAN FRANCISCO ZOOLOGICAL SOCIETY

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2014 AND 2013

10. LONG-TERM DEBT

Long-term debt consists of the following:

	<u>2014</u>	<u>2013</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.	\$ 211,979	\$ 315,905
Payable to the San Francisco Public Utilities Commission, with 0% interest if scheduled payments are made as agreed and 5% per annum if scheduled payments are not made as agreed; principal payments of \$148,481 due annually beginning July 31, 2010, until maturity at July 31, 2017.	<u>593,927</u>	<u>742,409</u>
Total	805,906	1,058,314
Less current portion	<u>(243,458)</u>	<u>(252,409)</u>
Long-term debt, net	<u>\$ 562,448</u>	<u>\$ 805,905</u>

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

Year ending June 30:

2015	\$ 243,458
2016	247,082
2017	166,885
2018	<u>148,481</u>
Total	<u>\$ 805,906</u>

11. 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 \$182,354 and \$163,031 in June 30, 2014 and 2013, respectively.

12. CITY AND COUNTY OF SAN FRANCISCO

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

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The Agreement originally expired on June 30, 1998, and provides for additional automatic extensions for successive periods of five years, not to exceed ninety-nine years. The next automatic extension of the Agreement is in 2018. Generally, under the Agreement, the Society receives an annual management fee from the City plus all admission fees, and in turn, is responsible for all operating and maintenance expenses incurred in the operation of the Zoo.

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

Operating expenses incurred under the Agreement by the Society for the years ended June 30, 2014 and 2013, were \$1,346,755 and \$1,373,811, 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, 2014 and 2013, 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 \$2,340 and \$3,376 for the years ended June 30, 2014 and 2013, respectively. The balance in the animal purchase and exchange fund was \$78,494 and \$80,834 at June 30, 2014 and 2013, 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.

13. 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 \$1,432,912 and \$1,366,132 for the years ended June 30, 2014 and 2013, respectively.