

**SAN FRANCISCO
ZOOLOGICAL SOCIETY**

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

**YEARS ENDED
JUNE 30, 2018 AND 2017**

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the San Francisco Zoological Society (a nonprofit organization), which comprise the statements of financial position as of June 30, 2018 and 2017, 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.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the San Francisco Zoological Society as of June 30, 2018 and 2017, 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 17, 2018

SAN FRANCISCO ZOOLOGICAL SOCIETY

STATEMENTS OF FINANCIAL POSITION JUNE 30, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
CURRENT ASSETS:		
Cash and cash equivalents	\$ 2,969,319	\$ 3,645,325
Contributions receivable, current	2,625,000	331,000
Bequests and other receivables	818,924	297,976
Prepaid expenses	<u>409,453</u>	<u>331,584</u>
Total current assets	6,822,696	4,605,885
CONTRIBUTIONS RECEIVABLE, Net	3,868,472	
INVESTMENTS	8,123,718	7,579,622
PROPERTY AND EQUIPMENT, Net	<u>486,582</u>	<u>645,956</u>
TOTAL ASSETS	<u>\$ 19,301,468</u>	<u>\$ 12,831,463</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable	\$ 674,733	\$ 780,862
Accrued expenses	1,431,474	1,090,844
Deferred revenue	1,343,981	1,272,735
Current portion of long-term debt	<u> </u>	<u>148,482</u>
Total current liabilities	<u>3,450,188</u>	<u>3,292,923</u>
NET ASSETS:		
Unrestricted	3,296,088	3,052,310
Temporarily restricted	8,203,812	2,235,382
Permanently restricted	<u>4,351,380</u>	<u>4,250,848</u>
Total net assets	<u>15,851,280</u>	<u>9,538,540</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 19,301,468</u>	<u>\$ 12,831,463</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, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
UNRESTRICTED NET ASSETS:		
REVENUES AND SUPPORT:		
Program revenues:		
Admissions	\$ 7,710,703	\$ 7,556,979
Membership dues	2,657,715	2,683,611
Retail commissions	1,608,310	1,446,077
Parking	1,437,012	1,372,588
Retail sales, rides and rentals	1,358,428	1,390,204
Education	855,888	894,654
Fundraising and ticketed events (net of direct benefit to donors of \$385,817 in 2018 and \$427,073 in 2017)	398,932	639,034
Total program revenue	16,026,988	15,983,147
Other support:		
Management fee	4,120,000	4,120,000
Contributions and bequests	3,199,439	2,159,430
Other income	4,672	7,173
Satisfaction of restrictions, operations	634,878	535,002
Total revenues and support	23,985,977	22,804,752
 OPERATING EXPENSES:		
Program services:		
Animals, collections and exhibits	13,510,469	12,304,765
Education	1,405,890	1,289,296
Children's Zoo	1,138,606	1,244,893
Retail operations	972,728	937,928
Membership services	575,800	550,818
Admissions and other program expenses	1,806,758	2,094,154
Total program services	19,410,251	18,421,854
Supporting services:		
General and administrative	2,126,946	1,958,082
Marketing	907,409	1,070,983
Fundraising	1,007,986	910,383
Total supporting services	4,042,341	3,939,448
Total operating expenses	23,452,592	22,361,302
INCOME FROM OPERATIONS	533,385	443,450

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, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
UNRESTRICTED NET ASSETS (CONTINUED):		
Investment income	1,411,901	714,879
Depreciation expense	(187,509)	(175,498)
Capital expenditures to be gifted to the City and County of San Francisco	(3,195,870)	(2,103,427)
Other capital expenditures		(282,560)
Satisfaction of restrictions, capital	<u>1,681,871</u>	<u>2,099,054</u>
INCREASE IN UNRESTRICTED NET ASSETS	<u>243,778</u>	<u>695,898</u>
TEMPORARILY RESTRICTED NET ASSETS:		
Contributions	8,247,865	2,927,428
Investment income	37,314	28,104
Satisfaction of restrictions, operations	(634,878)	(535,002)
Satisfaction of restrictions, capital	<u>(1,681,871)</u>	<u>(2,099,054)</u>
INCREASE IN TEMPORARILY RESTRICTED NET ASSETS	<u>5,968,430</u>	<u>321,476</u>
PERMANENTLY RESTRICTED NET ASSETS:		
Contributions	<u>100,532</u>	<u>3,800</u>
INCREASE IN NET ASSETS	6,312,740	1,021,174
NET ASSETS, Beginning of Year	<u>9,538,540</u>	<u>8,517,366</u>
NET ASSETS, End of Year	<u>\$ 15,851,280</u>	<u>\$ 9,538,540</u>

SAN FRANCISCO ZOOLOGICAL SOCIETY

STATEMENTS OF CASH FLOWS YEARS ENDED JUNE 30, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase in net assets	\$ 6,312,740	\$ 1,021,174
Reconciliation to net cash used by operating activities:		
Depreciation	187,509	175,498
Net realized and unrealized gain on investments	(1,269,723)	(578,754)
Permanently restricted contributions		(3,800)
Donated investments	(100,532)	(824,118)
Donated property and equipment	(15,356)	
Loss on disposal of property and equipment	12,668	
Changes in:		
Contributions receivable	(6,162,472)	172,502
Bequests and other receivables	(520,948)	200,765
Prepaid expenses	(77,869)	(109,057)
Accounts payable	(106,129)	(315,079)
Accrued expenses	340,630	(221,177)
Deferred revenue	71,246	(19,462)
Net cash used by operating activities	<u>(1,328,236)</u>	<u>(501,508)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investments	(3,302,235)	(907,617)
Proceeds from sale of investments	4,128,394	1,566,827
Purchases of property and equipment	(25,447)	(209,629)
Net cash provided by investing activities	<u>800,712</u>	<u>449,581</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Permanently restricted contributions		3,800
Repayment on long-term debt	(148,482)	(166,887)
Net cash used by financing activities	<u>(148,482)</u>	<u>(163,087)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(676,006)	(215,014)
CASH AND CASH EQUIVALENTS, Beginning of Year	<u>3,645,325</u>	<u>3,860,339</u>
CASH AND CASH EQUIVALENTS, End of Year	<u>\$ 2,969,319</u>	<u>\$ 3,645,325</u>

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

SAN FRANCISCO ZOOLOGICAL SOCIETY

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018 AND 2017

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.

SAN FRANCISCO ZOOLOGICAL SOCIETY

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018 AND 2017

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.

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

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

Functional expenses – The costs of providing the program and supporting services have been summarized on a functional basis in the statements of activities. 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.

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 17, 2018, the date the financial statements were issued. Management concluded that no material subsequent events have occurred since June 30, 2018 that require recognition or disclosure in such financial statements.

Reclassification – Certain reclassifications have been made to the 2017 balances to conform to the 2018 presentation.

SAN FRANCISCO ZOOLOGICAL SOCIETY

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018 AND 2017

3. CONTRIBUTIONS RECEIVABLE

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

The Society had one major donor in 2018 that accounted for 98% of total contributions receivable. There were no significant concentrations of contributions receivable in 2017.

Contributions receivable consist of the following:

	<u>2018</u>	<u>2017</u>
Gross contributions receivable	\$ 6,625,000	\$ 331,000
Less:		
Discount on contributions receivable	<u>(131,528)</u>	<u> </u>
Contributions receivable, net	<u>\$ 6,493,472</u>	<u>\$ 331,000</u>

Contributions receivable are due to be collected as follows:

	<u>2018</u>	<u>2017</u>
Within one year	\$ 2,625,000	\$ 331,000
In one to five years	<u>3,868,472</u>	<u> </u>
Contributions receivable, net	<u>\$ 6,493,472</u>	<u>\$ 331,000</u>

SAN FRANCISCO ZOOLOGICAL SOCIETY

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018 AND 2017

4. INVESTMENTS

Investments consist of the following:

	<u>2018</u>	<u>2017</u>
Cash and cash equivalents	\$ 165,370	\$ 266,744
Common stock:		
Foreign large growth	1,408,169	
Technology	967,833	844,986
Foreign large blend	873,471	477,499
Healthcare	412,926	632,036
Industrial goods	407,158	381,702
Consumer goods	323,144	478,488
Financial	146,505	159,606
Consumer staples	67,165	74,743
Energy	50,122	105,241
Basic material	41,734	101,675
Utilities	34,870	38,309
Telecommunications	13,454	16,790
Large blend		<u>50,292</u>
Total common stock	<u>4,746,551</u>	<u>3,361,367</u>
Corporate fixed income securities:		
AAA	6,365	
AA+		24,909
AA		81,755
AA-		5,177
A	9,661	4,155
A-	20,162	74,449
BBB+	<u>32,485</u>	<u>34,189</u>
Total corporate fixed income securities	<u>68,673</u>	<u>224,634</u>
Government securities – AAA	<u>133,763</u>	<u>113,183</u>
Mutual funds:		
Intermediate-term bond	1,097,151	951,791
Corporate bond	250,251	255,048
Multisector bond	<u>194,556</u>	<u>243,516</u>
Total mutual funds	<u>1,541,958</u>	<u>1,450,355</u>
Alternative funds – hedge funds/limited partnership	<u>1,467,403</u>	<u>2,163,339</u>
Total investments	<u>\$ 8,123,718</u>	<u>\$ 7,579,622</u>
Investment income consists of the following:		
Interest and dividends	\$ 179,492	\$ 164,229
Net realized and unrealized gains	<u>1,269,723</u>	<u>578,754</u>
Total investment income	<u>\$ 1,449,215</u>	<u>\$ 742,983</u>

SAN FRANCISCO ZOOLOGICAL SOCIETY

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018 AND 2017

5. FAIR VALUE MEASUREMENTS

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

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

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

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

The Society's investments are classified as follows:

Year ended June 30, 2018:	<u>Level 1</u>	<u>Level 2</u>	<u>NAV</u>	<u>Total</u>
Investments	\$ 6,453,879	\$ 202,436	\$ 1,467,403	\$ 8,123,718
Year ended June 30, 2017:	<u>Level 1</u>	<u>Level 2</u>	<u>NAV</u>	<u>Total</u>
Investments	\$ 5,078,466	\$ 337,817	\$ 2,163,339	\$ 7,579,622

SAN FRANCISCO ZOOLOGICAL SOCIETY

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018 AND 2017

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

The Society holds \$1,467,403 and \$2,163,339 as of June 30, 2018 and 2017, respectively, of alternative investments that include hedge funds invested in commingled funds, multi-strategy hedge funds and an investment in a limited partnership. These investments are reported at the net asset value reported by the fund managers, which is used as a practical expedient to estimate the fair value. Hedge funds invested in comingled funds may be redeemed quarterly with 45 days prior notice and contain terms requiring one year soft lock-up with a 1% early redemption fee. Multi-strategy hedge funds may be redeemed quarterly with 65 days prior notice and contain no lock-up provisions. The investment in a limited partnership may be redeemed monthly with 7 days prior notice and contains no lock-up provisions.

6. PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	<u>2018</u>	<u>2017</u>
Machinery and equipment	\$ 1,309,296	\$ 1,358,577
Furniture and fixtures	284,216	290,838
Software	127,606	340,150
Other	<u>197,769</u>	<u>197,769</u>
Total	1,918,887	2,187,334
Less accumulated depreciation and amortization	<u>(1,432,305)</u>	<u>(1,541,378)</u>
Total	<u>\$ 486,582</u>	<u>\$ 645,956</u>

Management estimates that approximately 47% and 55% of depreciation expense relates to program services and 53% and 45% to supporting services for the years ended June 30, 2018 and 2017, respectively.

7. LONG-TERM DEBT

At June 30, 2017, the Society had a payable to the San Francisco Public Utilities Commission, with 0% interest if scheduled payments were made as agreed and 5% per annum if scheduled payments were not made as agreed. Principal payments of \$148,482 were due annually beginning July 31, 2010, until maturity. The debt was paid in full in July 2017.

SAN FRANCISCO ZOOLOGICAL SOCIETY

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018 AND 2017

8. NET ASSETS

Temporarily restricted net assets are available for the following purposes:

	<u>2018</u>	<u>2017</u>
Capital program	\$ 7,570,024	\$ 1,726,392
Conservation	81,056	140,397
Other projects	<u>552,732</u>	<u>368,593</u>
Total	<u>\$ 8,203,812</u>	<u>\$ 2,235,382</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	590,898	490,366
Other projects	<u>244,200</u>	<u>244,200</u>
Total	<u>\$ 4,351,380</u>	<u>\$ 4,250,848</u>

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

The Board of Directors has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the original gift as of the gift date of the donor restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Society classifies as permanently restricted net assets, (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance 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

SAN FRANCISCO ZOOLOGICAL SOCIETY

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018 AND 2017

The Society had the following endowment activities during the years ended June 30, 2018 and 2017:

	Board Designated Unrestricted	Permanently Restricted
Year ended June 30, 2018:		
Endowment net assets, beginning of year	\$ 2,465,338	\$ 4,250,848
Contributions		100,532
Investment income	91,014	
Realized and unrealized gain on investments	1,269,723	
Endowment expenditures	<u>(1,000,000)</u>	
Endowment net assets, end of year	<u>\$ 2,826,075</u>	<u>\$ 4,351,380</u>
	Board Designated Unrestricted	Permanently Restricted
Year ended June 30, 2017:		
Endowment net assets, beginning of year	\$ 1,753,686	\$ 4,247,048
Contributions		3,800
Investment income	132,898	
Realized and unrealized gain on investments	<u>578,754</u>	
Endowment net assets, end of year	<u>\$ 2,465,338</u>	<u>\$ 4,250,848</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 result from unfavorable market fluctuations and authorized appropriation that was deemed prudent. No such donor endowment deficits occurred in the fiscal years ending June 30, 2018 and 2017.

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.

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NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018 AND 2017

9. PENSION PLAN

The Society has a defined contribution plan covering all full-time employees not covered by a collective bargaining agreement. The plan calls for annual contributions of 5% of covered salaries and is funded by the purchase of insurance annuity contracts. Total plan costs were \$231,288 and \$210,762 in June 30, 2018 and 2017, respectively.

10. DONATED MATERIALS AND SERVICES

For the years ended June 30, 2018 and 2017, the Society received donated materials and services, which were used for the following activities:

	<u>2018</u>	<u>2017</u>
Legal services	\$ 354,402	\$ 39,409
Auction items and catering services	36,587	118,122
Equipment	15,356	47,870
Other professional services	1,346	
Animal food and enrichment		36,347
Consulting services	<u> </u>	<u>12,459</u>
Total donated materials and services	<u>\$ 407,691</u>	<u>\$ 254,207</u>

11. CITY AND COUNTY OF SAN FRANCISCO

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

The Agreement originally expired on June 30, 1998, and provides for additional automatic extensions for successive periods of five years, not to exceed ninety-nine years. The Agreement was extended on July 1, 2018. The next automatic extension of the Agreement is in 2023. Generally, under the Agreement, the Society receives an annual management fee from the City plus all admission fees, and in turn, is responsible for all operating and maintenance expenses incurred in the operation of the Zoo.

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

Under the Agreement, labor and utilities expenses were incurred with the City and County by the Society for the years ended June 30, 2018 and 2017, totaling \$1,032,549 and \$944,321, respectively.

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NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018 AND 2017

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, 2018 and 2017, 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 \$9,361 and \$418 for the years ended June 30, 2018 and 2017, respectively. The balance in the annual purchase and exchange fund was \$68,455 and \$77,816 at June 30, 2018 and 2017, respectively.

12. FOOD, BEVERAGE AND CONCESSIONS AGREEMENT

The Society has a concessions agreement with Service Systems Associates, Inc. (SSA) to provide for the operation of food, beverage, gift shop, and rental concessions at the Zoo. SSA has agreed to pay the Society certain percentages of gross receipts based on the various types of concession sales. Retail concession revenues paid to the Society totaled \$1,608,310 and \$1,446,077 for the years ended June 30, 2018 and 2017, respectively.