

**SANTA BARBARA
ZOOLOGICAL FOUNDATION
FINANCIAL STATEMENTS**

DECEMBER 31, 2014

SANTA BARBARA ZOOLOGICAL FOUNDATION

December 31, 2014

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditor's Report	1 - 2
Financial Statements:	
Statement of Financial Position	3
Statement of Activities and Changes in Net Assets	4
Statement of Cash Flows	5
Notes to Financial Statements	6 - 16



CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

111 E. Victoria Street 2nd Floor, Santa Barbara, CA 93101, (805) 962-9175, Fax: (805) 962-8925, www.mcgowan.com

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Santa Barbara Zoological Foundation
Santa Barbara, California

We have audited the accompanying statement of financial position of the Santa Barbara Zoological Foundation (a non-profit organization) as of December 31, 2014, and the related statements of activities and changes in net assets, and cash flows for the year 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 U.S. generally accepted accounting principles; 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 audit. We conducted our audit in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from 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 Santa Barbara Zoological Foundation as of December 31, 2014, and the changes in its net assets and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

Report on Summarized Comparative Information

We have previously audited the Santa Barbara Zoological Foundation 2013 financial statements, and we expressed an unmodified audit opinion on those statements in our report dated July 22, 2014. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2013 is consistent, in all material respects, with the audited financial statements from which it has been derived.

McGowan Guntermann

October 7, 2015

SANTA BARBARA ZOOLOGICAL FOUNDATION

STATEMENT OF FINANCIAL POSITION

December 31, 2014

(With Comparative Totals as of December 31, 2013)

ASSETS

	Unrestricted	Temporarily Restricted	Permanently Restricted	2014 Total	(Memo) 2013 Total
CURRENT ASSETS					
Cash and cash equivalents	\$ 1,110,081	\$ -	\$ -	\$ 1,110,081	\$ 1,286,378
Accounts receivable	74,546	-	-	74,546	72,991
Bequests and pledges receivable	-	144,387	-	144,387	355,058
Interest receivable	20,302	-	-	20,302	26,008
Inventory	319,010	-	-	319,010	263,547
Investments	1,581,014	1,446,878	1,245,935	4,273,827	4,220,719
Other receivables	11,864	-	-	11,864	10,926
Prepaid expenses	159,768	-	-	159,768	155,776
Total Current Assets	<u>3,276,585</u>	<u>1,591,265</u>	<u>1,245,935</u>	<u>6,113,785</u>	<u>6,391,403</u>
NON-CURRENT ASSETS					
Bequests and pledges receivable - net of current	-	95,147	-	95,147	239,534
Buildings and equipment, net	22,534,999	-	-	22,534,999	22,061,745
Collections	1	-	-	1	1
Total Non-Current Assets	<u>22,535,000</u>	<u>95,147</u>	<u>-</u>	<u>22,630,147</u>	<u>22,301,280</u>
TOTAL ASSETS	<u>\$ 25,811,585</u>	<u>\$ 1,686,412</u>	<u>\$ 1,245,935</u>	<u>\$ 28,743,932</u>	<u>\$ 28,692,683</u>

LIABILITIES AND NET ASSETS

	Unrestricted	Temporarily Restricted	Permanently Restricted	2014 Total	(Memo) 2013 Total
CURRENT LIABILITIES					
Accounts payable	\$ 263,666	\$ -	\$ -	\$ 263,666	\$ 982,173
Accrued liabilities	416,160	-	-	416,160	408,228
Current portion of post-retirement benefits payable	49,648	-	-	49,648	47,726
Current portion of line of credit	378,960	-	-	378,960	-
Total Current Liabilities	<u>1,108,434</u>	<u>-</u>	<u>-</u>	<u>1,108,434</u>	<u>1,438,127</u>
NON-CURRENT LIABILITIES					
Post-retirement benefits payable - long-term	330,352	-	-	330,352	332,274
Line of credit - long-term	436,369	-	-	436,369	-
Total Non-Current Liabilities	<u>766,721</u>	<u>-</u>	<u>-</u>	<u>766,721</u>	<u>332,274</u>
TOTAL LIABILITIES	<u>1,875,155</u>	<u>-</u>	<u>-</u>	<u>1,875,155</u>	<u>1,770,401</u>
NET ASSETS					
Unrestricted	23,936,430	-	-	23,936,430	23,713,088
Temporarily restricted	-	1,686,412	-	1,686,412	1,963,259
Permanently restricted	-	-	1,245,935	1,245,935	1,245,935
TOTAL NET ASSETS	<u>23,936,430</u>	<u>1,686,412</u>	<u>1,245,935</u>	<u>26,868,777</u>	<u>26,922,282</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 25,811,585</u>	<u>\$ 1,686,412</u>	<u>\$ 1,245,935</u>	<u>\$ 28,743,932</u>	<u>\$ 28,692,683</u>

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

SANTA BARBARA ZOOLOGICAL FOUNDATION

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

For the Year Ended December 31, 2014

(With Comparative Totals for the Year Ended December 31, 2013)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2014 Total	(Memo) 2013 Total
REVENUE, GAINS AND OTHER SUPPORT					
Admissions	\$ 4,833,258	\$ -	\$ -	\$ 4,833,258	\$ 4,530,452
Educational programs	564,189	-	-	564,189	495,949
Foster feeders income	199,639	-	-	199,639	217,819
Membership income	1,343,623	-	-	1,343,623	1,279,309
Contributions and grants	212,368	662,849	-	875,217	1,728,295
Special events (net of event expense of \$354,040 and \$373,423)	298,704	-	-	298,704	223,542
Food service and site rentals	1,241,269	-	-	1,241,269	1,219,877
Retail store sales	1,590,405	-	-	1,590,405	1,556,952
Other income	12,717	-	-	12,717	11,309
Net assets released from restrictions	<u>1,092,310</u>	<u>(1,092,310)</u>	<u>-</u>	<u>-</u>	<u>-</u>
 Total Revenue, Gains and Other Support	 <u>11,388,482</u>	 <u>(429,461)</u>	 <u>-</u>	 <u>10,959,021</u>	 <u>11,263,504</u>
 EXPENSES					
Program					
Zoo operations	2,855,616	-	-	2,855,616	2,516,167
Zoo operations salaries and benefits	5,166,946	-	-	5,166,946	4,782,237
Building and equipment maintenance	314,963	-	-	314,963	271,358
Food service and concessions	452,055	-	-	452,055	395,821
Membership and educational activities	225,639	-	-	225,639	236,169
Retail sales	510,330	-	-	510,330	561,446
Total Program Expenses	<u>9,525,549</u>	<u>-</u>	<u>-</u>	<u>9,525,549</u>	<u>8,763,198</u>
Supporting Services					
Management and general	1,133,432	-	-	1,133,432	1,104,346
Fundraising and development	691,205	-	-	691,205	623,970
Total Supporting Services	<u>1,824,637</u>	<u>-</u>	<u>-</u>	<u>1,824,637</u>	<u>1,728,316</u>
 Total Expenses	 <u>11,350,186</u>	 <u>-</u>	 <u>-</u>	 <u>11,350,186</u>	 <u>10,491,514</u>
 Excess (Deficit) of Revenue, Gains, and Other Support over Expenses before Other Changes in Net Assets	 <u>38,296</u>	 <u>(429,461)</u>	 <u>-</u>	 <u>(391,165)</u>	 <u>771,990</u>
 Other Changes in Net Assets					
Interest and dividends	84,873	54,178	-	139,051	168,668
Realized and unrealized gain on investments	102,376	98,436	-	200,812	56,134
Loss on disposition of property and equipment	<u>(2,203)</u>	<u>-</u>	<u>-</u>	<u>(2,203)</u>	<u>-</u>
Total Other Changes in Net Assets	<u>185,046</u>	<u>152,614</u>	<u>-</u>	<u>337,660</u>	<u>224,802</u>
 CHANGES IN NET ASSETS	 223,342	 (276,847)	 -	 (53,505)	 996,792
 NET ASSETS, BEGINNING OF YEAR	 <u>23,713,088</u>	 <u>1,963,259</u>	 <u>1,245,935</u>	 <u>26,922,282</u>	 <u>25,925,490</u>
 NET ASSETS, END OF YEAR	 <u>\$ 23,936,430</u>	 <u>\$ 1,686,412</u>	 <u>\$ 1,245,935</u>	 <u>\$ 26,868,777</u>	 <u>\$ 26,922,282</u>

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

SANTA BARBARA ZOOLOGICAL FOUNDATION

STATEMENT OF CASH FLOWS

For the Year Ended December 31, 2014

(With Comparative Totals for the Year Ended December 31, 2013)

	2014	(Memo) 2013
	<u>2014</u>	<u>2013</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (53,505)	\$ 996,792
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	1,308,617	1,085,040
Investment gain	(200,812)	(56,134)
Loss on asset disposition	2,203	-
Donated securities	(6,723)	-
Changes in:		
Accounts receivable	(1,555)	(36,293)
Bequests and pledges receivable	355,058	409,620
Interest receivable	5,706	41,902
Inventory	(55,463)	9,666
Other receivable	(938)	(6,045)
Prepaid expenses	(3,992)	(5,620)
Accounts payable and accrued expenses	(718,507)	496,599
Accrued liabilities	7,932	6,282
Post retirement benefits payable	<u>-</u>	<u>4,998</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>638,021</u>	<u>2,946,807</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Payments for equipment and building improvements	(1,784,075)	(4,793,537)
Proceeds from sale and maturities of investments	2,082,455	7,644,705
Purchases of investments	<u>(1,928,027)</u>	<u>(5,355,089)</u>
NET CASH USED BY INVESTING ACTIVITIES	<u>(1,629,647)</u>	<u>(2,503,921)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from line of credit	1,000,000	-
Payments on line of credit	<u>(184,671)</u>	<u>-</u>
NET CASH PROVIDED BY FINANCING ACTIVITIES	<u>815,329</u>	<u>-</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	(176,297)	442,886
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>1,286,378</u>	<u>843,492</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 1,110,081</u>	<u>\$ 1,286,378</u>
SUPPLEMENTAL CASH FLOW DISCLOSURE		
In kind donation of goods and services	\$ 23,833	\$ 112,233

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

SANTA BARBARA ZOOLOGICAL FOUNDATION

NOTES TO FINANCIAL STATEMENTS

Note 1 - ORGANIZATION

The Santa Barbara Zoological Foundation (the Zoo) was incorporated as a California nonprofit Public Benefit Zoo on May 28, 1964 and operates a Zoo Park on City of Santa Barbara, California property under an agreement with the City of Santa Barbara, as discussed in note 4. The Zoo is a private, nonprofit corporation directed by a twenty-one member Board of Directors. The Zoo facilities were designed to exhibit animals and horticulture in natural botanical settings for the education and entertainment of visitors.

Note 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The financial statements of the Zoo have been prepared on the accrual basis of accounting following accounting principles generally accepted in the United States of America (GAAP). The significant accounting policies are described below to enhance the usefulness of the financial statements to the reader.

Financial Statement Presentation

The Zoo has adopted GAAP provided for not-for-profit organizations, in order to enhance the relevance, understandability, and comparability of financial statements issued by Zoos. Those principles require that net assets and revenue, gains, expenses and losses be classified as unrestricted, temporarily restricted and permanently restricted as follows:

Unrestricted net assets represent the portion of expendable funds that are available for support of the operations of the Zoo.

Temporarily restricted net assets consist of contributions that are subject to donor-imposed stipulations that can be fulfilled by actions of the Zoo pursuant to those stipulations or that expire by the passage of time. Earnings on donor-restricted endowment funds that have not yet been appropriated are classified as temporarily restricted net assets. When a restriction expires temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as “net assets released from restrictions”.

Permanently restricted net assets consist of contributions subject to donor-imposed stipulations that must be maintained permanently by the Zoo.

Cash and Cash Equivalents

For purposes of the statement of cash flows, cash and cash equivalents include cash on hand, amounts in checking, savings, money market accounts, and certificates of deposit with maturities of ninety days or less.

SANTA BARBARA ZOOLOGICAL FOUNDATION

NOTES TO FINANCIAL STATEMENTS

Note 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Inventories

Merchandise and food service inventories are stated at the lower of cost or market. Cost is determined using the first-in, first-out method. Animal food costs are expensed currently in the statement of activity.

Investments

Investments in marketable securities with readily determinable fair values and all investments in marketable debt securities are valued at their fair values in the statement of financial position. Unrealized gains and losses are included in the change in net assets. Donated securities are recorded at their sales value as they are sold upon receipt.

Property and Equipment

Property and equipment are recorded at cost or, if donated, at fair market value at the time of the donation. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support.

Absent donor stipulations regarding how long those donated assets must be maintained, the Zoo reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Zoo reclassifies temporarily restricted net assets to unrestricted net assets at that time. It is management's policy to capitalize certain purchases and donations with a useful life greater than one year and a value greater than \$5,000.

Depreciation expense is computed using the straight-line method over estimated useful lives of assets, ranging from five to thirty-five years, totaling \$1,308,617 for 2014.

Animal and Horticulture Collections

In accordance with industry practice, animal and horticulture collections are recorded at the nominal amount of \$1, as there is no objective basis for establishing value. Additionally, animal and horticulture collections have numerous attributes, including species, age, sex, relationship and value to other animals, endangered status, and breeding potential, whereby it is impractical to assign value. Acquisitions are recorded as expenditures of the related operating activity. In an ongoing commitment to enhance the worldwide reproduction and preservation of animals, the Zoo shares animals with other accredited institutions. Consistent with industry practice, the Zoo does not record any receivable or liability for such sharing arrangements, as generally arrangements are without monetary consideration.

SANTA BARBARA ZOOLOGICAL FOUNDATION

NOTES TO FINANCIAL STATEMENTS

Note 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Contributions and Grants

All contributions and grants are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes.

Donated Goods and Services

Donated goods and services are recorded as contributions at their estimated values at the date of receipt. Donated services are recorded when an objective basis is available to measure the value of such services. The amount of in-kind contributions of goods received for 2014 totaled \$23,833.

Advertising Costs

The Organization charges the cost of advertising to Zoo operations expenses when incurred. Total advertising costs for 2014 were \$221,793.

Functional Expenses

The Zoo allocates its expenses on a functional basis among its various program and support services. Expenses that can be identified with a specific program and support service are allocated directly according to their expenditure classification. Other expenses that are common to several functions are allocated by various statistical bases.

Income Taxes

The Zoo is exempt from taxes on income under Internal Revenue Code section 501(c)(3) and California Revenue and Taxation Code 23701(d), therefore no amounts for income taxes are reflected in the accompanying financial statements. The Zoo is not a private foundation for income tax purposes. Management is not aware of any transactions that would affect the Zoo's tax-exempt status.

The Zoo evaluates uncertain tax positions, whereby the effect of the uncertainty would be recorded if the outcome was considered probably and reasonably estimable. As of December 31, 2014, the Zoo had no uncertain tax positions requiring accrual.

The Zoo files tax returns in California and U.S. federal jurisdictions. The Zoo is no longer subject to U.S. federal and state tax authorities for years before 2011 and 2010, respectively.

SANTA BARBARA ZOOLOGICAL FOUNDATION

NOTES TO FINANCIAL STATEMENTS

Note 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain amounts and disclosures. Accordingly, actual results could differ from those estimates.

Significant estimates used in the preparation of these financial statements include:

- Allocation of certain expenses by function
- Present value of post-retirement benefits payable
- Fair market value of certain investments
- Depreciable lives of property and equipment

Subsequent Events

In preparing these financial statements, the Zoo has evaluated events and transactions for potential recognition or disclosure through October 7, 2015, the date the financial statements were available for issuance.

Note 3 - PROMISES TO GIVE

Unconditional promises to give at December 31, 2014, represent temporarily restricted grants of \$250,000 which are expected to be paid in annual payments of \$25,000 to \$100,000 through 2016 and are considered fully collectible. These have been discounted for their present value of \$239,534 using a 1% discount rate. The amount receivable in less than one year is \$144,387, with the remaining \$95,147 receivable in two years. These pledges are restricted to building the Discovery Pavilion.

The Zoo has received approximately \$758,000 of conditional pledges to give from donors as of December 31, 2014. As the donors either retained the right to revise the intention to give or made the gift conditional upon a future event, the conditional pledges are not reported as pledges receivable or revenue in the accompanying financial statements. These pledges are restricted to building the Discovery Pavilion, Giraffe Barn and Education programs.

Note 4 - LEASE – CONTRIBUTED LAND

On July 3, 2012, the Santa Barbara City Council approved a new long-term land lease agreement with the City of Santa Barbara and the Zoo. The lease calls for no payments from the Zoo to the City. The lease provides for the Zoo to construct, maintain and operate the Zoo as a park for the benefit, education, amusement, convenience and enjoyment of the general public. This lease is for a period of thirty-five years with one fifteen-year option.

SANTA BARBARA ZOOLOGICAL FOUNDATION

NOTES TO FINANCIAL STATEMENTS

Note 5 - INVESTMENTS

Investments as of December 31, 2014, are recorded at market value based upon quoted market prices and are summarized as follows:

	<u>Cost</u>	<u>Market Value</u>	<u>Unrealized Gain (Loss)</u>
Fixed income			
Government and agencies	\$ 714,224	\$ 693,433	\$ (20,791)
Corporate bonds	<u>1,096,901</u>	<u>1,079,322</u>	<u>(17,579)</u>
Total Fixed income	1,811,125	1,772,755	(38,370)
Equities			
Domestic stock	1,608,581	1,968,285	359,704
Mutual funds	<u>414,509</u>	<u>424,074</u>	<u>9,565</u>
Total Equities	2,023,090	2,392,359	369,269
Temporary Cash Investments	<u>108,713</u>	<u>108,713</u>	<u>-</u>
 Total December 31, 2014	 <u>\$ 3,942,928</u>	 <u>\$ 4,273,827</u>	 330,899
Total December 31, 2013	<u>\$ 4,114,437</u>	<u>\$ 4,220,718</u>	<u>106,281</u>
 Unrealized gain on value of securities			 <u>\$ 224,618</u>

The following summarizes the fair market value investment return in the statement of activities for 2014:

Investment and dividend income	\$ 139,051
Realized loss on value of securities	(23,806)
Unrealized gain on value of securities	224,618
Investment fees	<u>(21,722)</u>
Net Investment Return	<u>\$ 318,141</u>

SANTA BARBARA ZOOLOGICAL FOUNDATION

NOTES TO FINANCIAL STATEMENTS

Note 6 - FAIR VALUE MEASUREMENT

Fair values of assets have been measured in accordance with GAAP, which establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets (level 1 measurement) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy are as follows:

- Level 1: Inputs that reflect unadjusted quoted prices in active markets for identical assets accessible at the measurement date;
- Level 2: Inputs other than quoted prices that are observable for the asset either directly or indirectly, including inputs in markets that are not considered to be active;
- Level 3: Inputs that are unobservable.

The asset's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following is a description of the valuation methodologies used for asset measured at fair value:

Government securities	Valued at the closing price reported in the active market in which the bond is traded
Corporate bonds	Certain corporate bonds are valued at the closing price reported in the active market in which the bond is traded. Other corporate bonds are valued based on yields currently available on comparable securities of issuers with similar credit ratings.
Equities	Certain common stocks are valued at the closing price reported in the active market in which the individual securities are traded.
Mutual Funds	Valued at the net asset value of shares held by the Zoo at year end

SANTA BARBARA ZOOLOGICAL FOUNDATION

NOTES TO FINANCIAL STATEMENTS

Note 6 - FAIR VALUE MEASUREMENT (continued)

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Zoo believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date. Gains and losses (realized and unrealized) are reported in net investment income on the statement of changes in net assets available for benefits.

The following table sets forth by level within the fair value hierarchy the Zoo's assets at fair values as of December 31, 2014:

<u>Description</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Fixed income				
Government and agencies	\$ 693,433	\$ -	\$ -	\$ 693,433
Corporate bonds	<u>1,079,322</u>	-	-	<u>1,079,322</u>
Total Fixed income	1,772,755	-	-	1,772,755
Equities				
Domestic stock	1,968,285	-	-	1,968,285
Mutual funds	<u>424,074</u>	-	-	<u>424,074</u>
Total Equities	<u>2,392,359</u>	-	-	<u>2,392,359</u>
Total assets measured at fair value	<u>\$ 4,165,114</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,165,114</u>

Note 7 - PROPERTY AND EQUIPMENT

A summary of property and equipment as of December 31, 2014 is as follows:

Buildings	\$ 13,657,280
Exhibits and permanent improvements	16,123,992
Roads, fences and landscaping	1,588,640
Park train	713,851
Park vehicles	372,203
Zoo equipment	1,956,761
Office equipment	636,641
Telephone equipment	50,139
Construction in progress	<u>506,463</u>
	35,605,970
Less accumulated depreciation	<u>(13,070,971)</u>
Net property and equipment	<u>\$ 22,534,999</u>

SANTA BARBARA ZOOLOGICAL FOUNDATION

NOTES TO FINANCIAL STATEMENTS

Note 8 - PENSION PLAN

The Zoo has adopted a policy of providing a pension plan for employees over age 21 with three years out of the prior five years of employment. This plan is fully funded by the Zoo every year under a Simplified Employee Pension arrangement contributing 8% of the eligible employee's salary to the plan. Total Zoo pension contributions for 2014 were \$260,807.

Note 9 – POST-RETIREMENT BENEFITS PAYABLE

In 1997, the Zoo entered into a retirement benefit package with a former employee for the Zoo to pay monthly retirement benefits for his lifetime. At December 31, 2014, it is anticipated that the Zoo's discounted present value obligation, based on a discount rate of 4.5% (current borrowing rate), to fulfill this agreement is \$380,000.

Note 10 - LINE OF CREDIT

The Zoo entered into a Commercial Non-Revolving Term Line of Credit for \$1,500,000 with Union Bank, N.A. on December 4, 2012, to assist with financing construction of the Discovery Pavilion until pledges are received, which converts to a fixed term note on December 4, 2013. This Note was extended on December 30, 2013 with all other terms and conditions the same. Interest only payments will be made monthly at one-quarter percent above the Wall Street Journal Prime Rate on the unpaid principal amount. As of June 4, 2014, the Line of Credit converted to a fixed rate loan for the aggregate unpaid amount of all advances. This is payable in equal installments comprised of principal and interest based on a 48-month amortization period and a fixed interest rate of 4.125%, ending on June 4, 2018. This Note is secured by a 1st Priority UCC-1 blanket filing. Covenants include minimum quarterly liquidity, minimum debt service coverage ratio and no additional funded debt. During 2014, \$1,000,000 was borrowed and \$184,671 was repaid in principal and \$26,783 in interest. The balance due as of December 31, 2014 was \$815,329

Note 11 - CONCENTRATION OF CREDIT RISK

The Zoo maintains several bank accounts covered by the Federal Deposit Insurance Corporation (FDIC) which insures up to \$250,000 for each owner in each financial institution. During the year the Zoo's balances in the checking accounts exceeded the federally insured limit.

Additionally the Zoo has cash in its investment portfolio that is insured up to \$500,000 by the Securities Investor Protection Corporation (SIPC). At various times during the year the Zoo's investment in money market funds exceeded the SIPC insured limit of \$500,000.

SANTA BARBARA ZOOLOGICAL FOUNDATION

NOTES TO FINANCIAL STATEMENTS

Note 12 - ENDOWMENT FUNDS

The Zoo's endowment consists of approximately four individual funds established for a variety of purposes. Its endowment includes both donor-restricted endowment funds and funds designated by the board of directors to function as endowments. As required by GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions, as well as funds designated by the board of directors to function as endowments.

Interpretation of Relevant Law

The Board of Trustees of the Zoo has interpreted the California adopted Universal Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value 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 Zoo 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 by the Zoo in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with California UPMIFA the Zoo considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund
- The purposes of the Zoo and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the Zoo
- The investment policies of the Zoo

As of December 31, 2014, endowment net asset composition by type of fund is:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor restricted	\$ -	\$ 785,859	\$ 1,245,935	\$ 2,031,794
Board restricted	<u>248,890</u>	<u>-</u>	<u>-</u>	<u>248,890</u>
Total endowment funds	<u>\$ 248,890</u>	<u>\$ 785,859</u>	<u>\$ 1,245,935</u>	<u>\$ 2,280,684</u>

SANTA BARBARA ZOOLOGICAL FOUNDATION

NOTES TO FINANCIAL STATEMENTS

Note 12 - ENDOWMENT FUNDS (continued)

Changes in Endowment Net Assets for the Year Ended December 31, 2014, are:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 230,203	\$ 633,245	\$1,245,935	\$2,109,383
Net investment return, (investment income, realized and unrealized gain/losses)	18,687	152,614	-	171,301
Contributions	-	-	-	-
Appropriation of endowment assets for expenditure	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Endowment net assets, end of year	<u>\$ 248,890</u>	<u>\$ 785,859</u>	<u>\$ 1,245,935</u>	<u>\$ 2,280,684</u>

Return Objectives and Risk Parameters

The Zoo has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Zoo must hold in perpetuity or for a donor-specified period as well as board-designated funds. Under this policy, as approved by the board of trustees, the endowment assets are invested in a manner that is intended to produce results that provide a reasonable balance between the quest for growth and the need to protect principal. The Zoo expects its endowment funds, over time, to provide an average rate of return of approximately five percent annually. Actual returns in any given year may vary from this amount.

Strategies Employed for Achieving Objectives

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

SANTA BARBARA ZOOLOGICAL FOUNDATION

NOTES TO FINANCIAL STATEMENTS

Note 12 - ENDOWMENT FUNDS (continued)

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Zoo has a policy for maximum distribution in any single year from the Endowment. Portfolio market values for the last three year-ends should be averaged and 5% applied to the moving three-year average. The level of distribution should not exceed 6%. In some instances, the Board may decide to defer appropriation. In establishing this policy, the Zoo considered the long-term expected return on its endowment. This is consistent with the Zoo's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return. During 2014, there was no appropriation of endowment assets for expenditure.

Note 13 - NET ASSETS

As of December 31, 2014, unrestricted net assets consist of the following:

Unrestricted	\$ 23,687,540
Board designated endowment	<u>248,890</u>
	<u>\$ 23,936,430</u>

At December 31, 2014, temporarily restricted net assets are available for the following purposes or periods:

Restriction

Animal care and maintenance	\$ 40,681
Building maintenance and exhibit projects	42,879
Education program	500,848
Train and related projects, other equipment	17,883
New buildings and exhibits	298,262
Unappropriated earnings on endowments	<u>785,859</u>
	<u>\$ 1,686,412</u>

Net assets released from restrictions during 2014 were comprised of the following:

Restriction

Animal care and maintenance	\$ 30,000
Education program	172,586
New buildings and exhibits	<u>889,724</u>
	<u>\$ 1,092,310</u>