

**SANTA BARBARA
ZOOLOGICAL FOUNDATION
FINANCIAL STATEMENTS**

DECEMBER 31, 2016

SANTA BARBARA ZOOLOGICAL FOUNDATION

December 31, 2016

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CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

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

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Santa Barbara Zoological Foundation
Santa Barbara, California

We have audited the accompanying financial statements of the Santa Barbara Zoological Foundation (a non-profit organization), which comprise the statement of financial position as of December 31, 2016, 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, 2016, 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 2015 financial statements, and we expressed an unmodified audit opinion on those statements in our report dated August 16, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2015 is consistent, in all material respects, with the audited financial statements from which it has been derived.

McGowan Guntermann

Santa Barbara, Ca
July 5, 2017

SANTA BARBARA ZOOLOGICAL FOUNDATION

STATEMENT OF FINANCIAL POSITION
December 31, 2016
(With Comparative Totals as of December 31, 2015)

ASSETS

	Unrestricted	Temporarily Restricted	Permanently Restricted	2016 Total	(Memo) 2015 Total
CURRENT ASSETS					
Cash and cash equivalents	\$ 1,921,683	\$ -	\$ -	\$ 1,921,683	\$ 1,039,918
Accounts receivable	117,670	-	-	117,670	115,914
Bequests and pledges receivable	-	241,333	-	241,333	376,278
Interest receivable	21,263	-	-	21,263	17,838
Inventory	431,395	-	-	431,395	339,192
Other receivables	26,085	-	-	26,085	12,133
Prepaid expenses	133,414	-	-	133,414	181,470
Total Current Assets	<u>2,651,510</u>	<u>241,333</u>	<u>-</u>	<u>2,892,843</u>	<u>2,082,743</u>
NON-CURRENT ASSETS					
Bequests and pledges receivable - net of current	-	10,571	-	10,571	15,453
Investments	1,269,124	2,530,218	1,295,935	5,095,277	4,760,919
Charitable remainder trust	-	-	726,477	726,477	726,477
Buildings and equipment, net	20,760,225	-	-	20,760,225	21,892,286
Collections	1	-	-	1	1
Total Non-Current Assets	<u>22,029,350</u>	<u>2,540,789</u>	<u>2,022,412</u>	<u>26,592,551</u>	<u>27,395,136</u>
TOTAL ASSETS	<u>\$ 24,680,860</u>	<u>\$ 2,782,122</u>	<u>\$ 2,022,412</u>	<u>\$ 29,485,394</u>	<u>\$ 29,477,879</u>

LIABILITIES AND NET ASSETS

	Unrestricted	Temporarily Restricted	Permanently Restricted	2016 Total	(Memo) 2015 Total
CURRENT LIABILITIES					
Accounts payable	\$ 313,072	\$ -	\$ -	\$ 313,072	\$ 269,555
Accrued liabilities	535,393	-	-	535,393	491,933
Current portion of post-retirement benefits payable	53,735	-	-	53,735	51,819
Current portion of long-term debt	37,463	-	-	37,463	467,839
Total Current Liabilities	939,663	-	-	939,663	1,281,146
NON-CURRENT LIABILITIES					
Post-retirement benefits payable - long-term	296,265	-	-	296,265	308,181
Long-term debt, net of current portion	-	-	-	-	37,450
Total Non-Current Liabilities	<u>296,265</u>	<u>-</u>	<u>-</u>	<u>296,265</u>	<u>345,631</u>
TOTAL LIABILITIES	<u>1,235,928</u>	<u>-</u>	<u>-</u>	<u>1,235,928</u>	<u>1,626,777</u>
NET ASSETS					
Unrestricted	23,444,932	-	-	23,444,932	23,483,708
Temporarily restricted	-	2,782,122	-	2,782,122	2,384,982
Permanently restricted	-	-	2,022,412	2,022,412	1,982,412
TOTAL NET ASSETS	<u>23,444,932</u>	<u>2,782,122</u>	<u>2,022,412</u>	<u>28,249,466</u>	<u>27,851,102</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 24,680,860</u>	<u>\$ 2,782,122</u>	<u>\$ 2,022,412</u>	<u>\$ 29,485,394</u>	<u>\$ 29,477,879</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, 2016

(With Comparative Totals for the Year Ended December 31, 2015)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2016 Total	(Memo) 2015 Total
REVENUE, GAINS AND OTHER SUPPORT					
Admissions	\$ 5,342,455	\$ -	\$ -	\$ 5,342,455	\$ 4,750,293
Educational programs	597,795	-	-	597,795	594,084
Foster feeders income	234,384	-	-	234,384	226,796
Membership income	1,617,030	-	-	1,617,030	1,443,751
Contributions and grants	231,060	838,208	40,000	1,109,268	1,729,911
Special events (net of event expense of \$386,657 and \$407,486)	364,505	-	-	364,505	309,613
Food service and site rentals	1,415,439	-	-	1,415,439	1,298,727
Retail store sales	1,782,570	-	-	1,782,570	1,664,907
Other income	16,750	-	-	16,750	11,500
Net assets released from restrictions	<u>590,901</u>	<u>(590,901)</u>	<u>-</u>	<u>-</u>	<u>-</u>
 Total Revenue, Gains and Other Support	 <u>12,192,889</u>	 <u>247,307</u>	 <u>40,000</u>	 <u>12,480,196</u>	 <u>12,029,582</u>
 EXPENSES					
Program					
Zoo operations	3,224,124	-	-	3,224,124	3,094,962
Zoo operations salaries and benefits	5,738,811	-	-	5,738,811	5,486,770
Building and equipment maintenance	278,695	-	-	278,695	250,945
Food service and concessions	448,215	-	-	448,215	460,504
Membership and educational activities	270,086	-	-	270,086	238,032
Retail sales	<u>541,615</u>	<u>-</u>	<u>-</u>	<u>541,615</u>	<u>582,100</u>
Total Program Expenses	<u>10,501,546</u>	<u>-</u>	<u>-</u>	<u>10,501,546</u>	<u>10,113,313</u>
Supporting Services					
Management and general	1,272,826	-	-	1,272,826	1,216,872
Fundraising and development	<u>621,699</u>	<u>-</u>	<u>-</u>	<u>621,699</u>	<u>596,711</u>
Total Supporting Services	<u>1,894,525</u>	<u>-</u>	<u>-</u>	<u>1,894,525</u>	<u>1,813,583</u>
 Total Expenses	 <u>12,396,071</u>	 <u>-</u>	 <u>-</u>	 <u>12,396,071</u>	 <u>11,926,896</u>
 Excess (Deficit) of Revenue, Gains, and Other Support over Expenses before Other Changes in Net Assets	 <u>(203,182)</u>	 <u>247,307</u>	 <u>40,000</u>	 <u>84,125</u>	 <u>102,686</u>
 Other Changes in Net Assets					
Interest and dividends	71,492	58,799	-	130,291	141,019
Realized and unrealized gain (loss) on investments	<u>92,914</u>	<u>91,034</u>	<u>-</u>	<u>183,948</u>	<u>(253,715)</u>
Total Other Changes in Net Assets	<u>164,406</u>	<u>149,833</u>	<u>-</u>	<u>314,239</u>	<u>(112,696)</u>
 CHANGES IN NET ASSETS	 <u>(38,776)</u>	 <u>397,140</u>	 <u>40,000</u>	 <u>398,364</u>	 <u>(10,010)</u>
 NET ASSETS, BEGINNING OF YEAR	 <u>23,483,708</u>	 <u>2,384,982</u>	 <u>1,982,412</u>	 <u>27,851,102</u>	 <u>27,861,112</u>
 NET ASSETS, END OF YEAR	 <u>\$ 23,444,932</u>	 <u>\$ 2,782,122</u>	 <u>\$ 2,022,412</u>	 <u>\$ 28,249,466</u>	 <u>\$ 27,851,102</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, 2016

(With Comparative Totals for the Year Ended December 31, 2015)

	<u>2016</u>	<u>(Memo)</u> <u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 398,364	\$ (10,010)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	1,428,162	1,390,216
Investment (gain) loss	(183,948)	253,715
Donated securities	-	(19,230)
Permanently restricted	(40,000)	(10,000)
Changes in:		
Accounts receivable	(1,756)	(41,368)
Bequests and pledges receivable	139,827	113,661
Interest receivable	(3,425)	2,464
Inventory	(92,203)	(20,182)
Other receivable	(13,952)	(269)
Prepaid expenses	48,056	(21,702)
Accounts payable	43,517	5,889
Accrued liabilities	43,460	75,773
Post retirement benefits payable	<u>(10,000)</u>	<u>(20,000)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>1,756,102</u>	<u>1,698,957</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Payments for equipment and building improvements	(296,101)	(747,503)
Proceeds from sale and maturities of investments	3,356,361	1,598,486
Purchases of investments	<u>(3,506,771)</u>	<u>(2,320,063)</u>
NET CASH USED BY INVESTING ACTIVITIES	<u>(446,511)</u>	<u>(1,469,080)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Permanently restricted	40,000	10,000
Proceeds from long-term debt	-	325,305
Payments on long-term debt	<u>(467,826)</u>	<u>(635,345)</u>
NET CASH USED BY FINANCING ACTIVITIES	<u>(427,826)</u>	<u>(300,040)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	881,765	(70,163)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>1,039,918</u>	<u>1,110,081</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 1,921,683</u>	<u>\$ 1,039,918</u>
SUPPLEMENTAL CASH FLOW DISCLOSURE		
Cash paid during the year for interest	\$ 11,620	\$ 32,781
In kind donation of goods and services	\$ 35,992	\$ 13,390

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 \$1,428,162 for 2016.

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 2016 totaled \$35,992.

Advertising Costs

The Organization charges the cost of advertising to Zoo operations expenses when incurred. Total advertising costs for 2016 were \$352,747.

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, 2016, 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 2013 and 2012, 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 July 5, 2017, the date the financial statements were available for issuance.

Note 3 - PROMISES TO GIVE

Unconditional promises to give at December 31, 2016, represent temporarily restricted commitments of \$252,500 which have been discounted for their present value of \$251,904 using a 1% discount rate. Unconditional promises to give of \$241,333 are expected to be paid in 2017. The remaining balance of \$10,571 will be paid in annual payments of \$2,000 to \$3,000 through 2021 and are considered fully collectible. The pledges are restricted to the Giraffe Management Facility, Education Programs, Heart of Asia, Gorilla Exhibit and Train Maintenance.

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, 2016, 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	\$ 576,816	\$ 557,239	\$ (19,577)
Corporate bonds	<u>1,730,412</u>	<u>1,629,891</u>	<u>(100,521)</u>
Total Fixed income	2,307,228	2,187,130	(120,098)
Equities			
Domestic stock	1,975,224	2,332,591	357,367
Mutual funds	<u>377,525</u>	<u>404,138</u>	<u>26,613</u>
Total Equities	2,352,749	2,736,729	383,980
Temporary Cash Investments	<u>171,418</u>	<u>171,418</u>	<u>-</u>
Total December 31, 2016	<u>\$ 4,831,395</u>	<u>\$ 5,095,277</u>	263,882
Total December 31, 2015	<u>\$ 4,634,265</u>	<u>\$ 4,760,920</u>	<u>126,655</u>
Net change in unrealized gain (loss)			<u>\$ 137,227</u>

The following summarizes the fair market value investment return in the statement of activities for 2016:

Investment and dividend income	\$ 130,291
Realized gain on value of securities	46,721
Unrealized gain on value of securities	137,227
Investment fees	<u>(27,025)</u>
Net Investment Return	<u>\$ 287,214</u>

Note 6 - INTEREST IN TRUSTS

Community Foundation Endowment Trust Interest

The Zoo is the beneficiary of an endowment held by Santa Barbara Foundation. Because the Santa Barbara Foundation has been granted variance power, the endowment asset is not recorded on the Zoo's financial statements. The income from the endowment is used to support general operations or is designated by the Zoo Executive Committee for priority projects. The Zoo is entitled to the income produced by the endowment in accordance with Santa Barbara Foundation's spending policy, but has no control or access to the principal. For the year ended December 31, 2016, the Zoo received \$74,463 in distributions from the endowment trust. The fair market value of the Zoo's principal portion of the endowment asset at December 31, 2016, has been estimated at \$1,428,000.

SANTA BARBARA ZOOLOGICAL FOUNDATION

NOTES TO FINANCIAL STATEMENTS

Note 7 – CHARITABLE REMIANDER TRUST AGREEMENT

The Zoo is the beneficiary of an irrevocable charitable remainder trust. Upon termination of the trust, the Zoo shall receive the assets remaining in the trust as designated in the trust agreement. The Zoo recognizes annually the change in the present value of the estimated future benefits to be received when the trust assets are distributed as increases or decreases in the value of charitable trust. The fair market value of the Zoo's assets in the trusts as of December 31, 2016, was \$726,477.

Note 8 - PROPERTY AND EQUIPMENT

A summary of property and equipment as of December 31, 2016, is as follows:

Buildings	\$ 13,778,930
Exhibits and permanent improvements	16,384,459
Roads, fences and landscaping	1,632,426
Park train	713,851
Park vehicles	372,203
Zoo equipment	2,115,279
Office equipment	1,002,371
Telephone equipment	50,139
Construction in progress	<u>396,935</u>
	36,446,593
Less accumulated depreciation	<u>(15,686,368)</u>
Net property and equipment	<u>\$ 20,760,225</u>

Note 9 - 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.

SANTA BARBARA ZOOLOGICAL FOUNDATION

NOTES TO FINANCIAL STATEMENTS

Note 9 - FAIR VALUE MEASUREMENT (continued)

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

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, 2016:

<u>Description</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Fixed income				
Government and agencies	\$ 557,239	\$ -	\$ -	\$ 557,239
Corporate bonds	<u>1,629,891</u>	<u>-</u>	<u>-</u>	<u>1,629,891</u>
Total Fixed income	2,187,130	-	-	2,187,130
Equities				
Domestic stock	2,332,591	-	-	2,332,591
Mutual funds	<u>404,138</u>	<u>-</u>	<u>-</u>	<u>404,138</u>
Total Equities	<u>2,736,729</u>	<u>-</u>	<u>-</u>	<u>2,736,729</u>
Total assets measured at fair value	<u>\$ 4,923,859</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,923,859</u>

SANTA BARBARA ZOOLOGICAL FOUNDATION

NOTES TO FINANCIAL STATEMENTS

Note 10 - 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 2016 were \$304,205.

Note 11 – 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, 2016, 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 \$350,000.

Note 12 – LONG-TERM DEBT

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 converted 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 2016, \$396,941 was repaid in principal and \$10,489 in interest. The balance due as of December 31, 2016 of \$37,463 will be repaid in full by February 2017.

On January 13, 2015 the Zoo entered into an Equipment Line of Credit with Union Bank, N.A., for up to \$400,000, for the purchase of new Point of Sale hardware and software, including online sales and ticketing software and customer/member interface integration software. The Note is secured by a perfected security interest in such real or personal collateral as required by the bank. After an initial three month draw period, with interest only payments, the loan converted to a three year fully amortized loan at a fixed interest rate of 4.47%. During 2015, \$325,305 was borrowed and \$254,420 was repaid in principal and \$6,275 in interest. The Zoo received a grant for \$200,000 to support this project which was applied to the loan. During 2016, \$70,885 was repaid in principle and \$1,115 in interest, retiring the balance in full as of August 2016.

SANTA BARBARA ZOOLOGICAL FOUNDATION

NOTES TO FINANCIAL STATEMENTS

Note 13 - 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.

Note 14 - 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

SANTA BARBARA ZOOLOGICAL FOUNDATION

NOTES TO FINANCIAL STATEMENTS

Note 14 - ENDOWMENT FUNDS (continued)

As of December 31, 2016, 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	\$ -	\$ 877,758	\$ 2,022,412	\$ 2,900,170
Board restricted	<u>260,036</u>	<u>-</u>	<u>-</u>	<u>260,036</u>
Total endowment funds	<u>\$ 260,036</u>	<u>\$ 877,758</u>	<u>\$ 2,022,412</u>	<u>\$ 3,160,206</u>

Changes in Endowment Net Assets for the Year Ended December 31, 2016, are:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 241,784	\$ 727,925	\$1,982,412	\$2,952,121
Net investment return, (investment income, realized and unrealized gain/losses)	18,252	149,833	-	168,085
Contributions	-	-	40,000	40,000
Appropriation of endowment assets for expenditure	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Endowment net assets, end of year	<u>\$ 260,036</u>	<u>\$ 877,758</u>	<u>\$ 2,022,412</u>	<u>\$ 3,160,206</u>

SANTA BARBARA ZOOLOGICAL FOUNDATION

NOTES TO FINANCIAL STATEMENTS

Note 14 - ENDOWMENT FUNDS (continued)

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.

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 2016, there was no appropriation of endowment assets for expenditure.

Note 15 - NET ASSETS

As of December 31, 2016, unrestricted net assets consist of the following:

Unrestricted	\$ 2,424,671
Property and equipment	20,760,225
Board designated endowment	260,036
	<u>\$ 23,444,932</u>

SANTA BARBARA ZOOLOGICAL FOUNDATION

NOTES TO FINANCIAL STATEMENTS

Note 15 - NET ASSETS (continued)

At December 31, 2016, temporarily restricted net assets are available for the following purposes or periods:

Restriction

Animal welfare, care and maintenance	\$ 927,619
Building maintenance and exhibit projects	100,368
Education program	548,187
Train and related projects, other equipment	137,946
New buildings and exhibits	190,244
Unappropriated earnings on endowments	877,758
	<u>\$ 2,782,122</u>

Net assets released from restrictions during 2016 were comprised of the following:

Restriction

Animal care and maintenance	\$ 25,459
Education program	100,538
New buildings and exhibits	413,903
Equipment	51,001
	<u>\$ 590,901</u>