

**SANTA BARBARA
ZOOLOGICAL FOUNDATION
FINANCIAL STATEMENTS**

DECEMBER 31, 2018

SANTA BARBARA ZOOLOGICAL FOUNDATION

December 31, 2018

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CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

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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, 2018, 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, 2018, 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 2017 financial statements, and we expressed an unmodified audit opinion on those statements in our report dated November 1, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2017 is consistent, in all material respects, with the audited financial statements from which it has been derived.

McGowan Guntermann

Santa Barbara, Ca
July 29, 2019

SANTA BARBARA ZOOLOGICAL FOUNDATION

STATEMENT OF FINANCIAL POSITION

December 31, 2018

(With Comparative Totals as of December 31, 2017)

ASSETS				(Memo)
	Without Donor Restrictions	With Donor Restrictions	2018 Total	2017 Total
CURRENT ASSETS				
Cash and cash equivalents	\$ 3,258,668	\$ -	\$ 3,258,668	\$ 2,406,644
Accounts receivable	160,347	-	160,347	67,224
Bequests and pledges receivable	-	18,555	18,555	294,271
Interest receivable	18,907	-	18,907	19,123
Inventory	444,752	-	444,752	428,906
Other receivables	8,384	-	8,384	7,141
Prepaid expenses	163,876	-	163,876	255,613
Total Current Assets	<u>4,054,934</u>	<u>18,555</u>	<u>4,073,489</u>	<u>3,478,922</u>
NON-CURRENT ASSETS				
Bequests and pledges receivable - net of current	-	2,582	2,582	3,873
Investments	1,273,678	5,835,169	7,108,847	5,856,646
Charitable remainder trust	-	-	-	771,838
Buildings and equipment, net	19,173,284	-	19,173,284	19,654,566
Collections	<u>1</u>	<u>-</u>	<u>1</u>	<u>1</u>
Total Non-Current Assets	<u>20,446,963</u>	<u>5,837,751</u>	<u>26,284,714</u>	<u>26,286,924</u>
TOTAL ASSETS	<u>\$ 24,501,897</u>	<u>\$ 5,856,306</u>	<u>\$ 30,358,203</u>	<u>\$ 29,765,846</u>
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES				
Accounts payable	\$ 126,411	\$ -	\$ 126,411	\$ 259,669
Accrued liabilities	705,904	-	705,904	565,286
Current portion of post-retirement benefits payable	59,127	-	59,127	56,297
Total Current Liabilities	<u>891,442</u>	<u>-</u>	<u>891,442</u>	<u>881,252</u>
NON-CURRENT LIABILITIES				
Post-retirement benefits payable - long-term	<u>252,873</u>	<u>-</u>	<u>252,873</u>	<u>263,703</u>
Total Non-Current Liabilities	<u>252,873</u>	<u>-</u>	<u>252,873</u>	<u>263,703</u>
TOTAL LIABILITIES	<u>1,144,315</u>	<u>-</u>	<u>1,144,315</u>	<u>1,144,955</u>
NET ASSETS				
Without Donor Restrictions	23,357,582	-	23,357,582	22,963,183
With Donor Restrictions	<u>-</u>	<u>5,856,306</u>	<u>5,856,306</u>	<u>5,657,708</u>
Total Net Assets	<u>23,357,582</u>	<u>5,856,306</u>	<u>29,213,888</u>	<u>28,620,891</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 24,501,897</u>	<u>\$ 5,856,306</u>	<u>\$ 30,358,203</u>	<u>\$ 29,765,846</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, 2018

(With Comparative Totals for the Year Ended December 31, 2017)

	Without Donor Restrictions	With Donor Restrictions	2018 Total	(Memo) 2017 Total
REVENUE, GAINS AND OTHER SUPPORT				
Admissions	\$ 5,122,394	\$ -	\$ 5,122,394	\$ 5,026,064
Educational programs	694,034	-	694,034	626,106
Foster feeders income	288,628	-	288,628	243,109
Membership income	1,711,051	-	1,711,051	1,557,357
Contributions and grants	357,076	2,107,928	2,465,004	1,376,821
Special events (net of event expense of \$433,182 and \$435,733)	408,863	-	408,863	377,689
Food service and site rentals	1,812,921	-	1,812,921	1,521,263
Retail store sales	1,794,249	-	1,794,249	1,733,303
Other income	154,564	-	154,564	16,500
Net assets released from restrictions	<u>1,657,996</u>	<u>(1,657,996)</u>	<u>-</u>	<u>-</u>
Total Revenue, Gains and Other Support	<u>14,001,776</u>	<u>449,932</u>	<u>14,451,708</u>	<u>12,478,212</u>
EXPENSES				
Program services	11,589,221	-	11,589,221	10,772,684
Management and general	1,324,880	-	1,324,880	1,274,198
Fundraising and development	<u>656,225</u>	<u>-</u>	<u>656,225</u>	<u>633,450</u>
Total Expenses	<u>13,570,326</u>	<u>-</u>	<u>13,570,326</u>	<u>12,680,332</u>
Excess (Deficit) of Revenue, Gains, and Other Support over Expenses before Other Changes in Net Assets	<u>431,450</u>	<u>449,932</u>	<u>881,382</u>	<u>(202,120)</u>
Other Changes in Net Assets				
Investment income (loss)	<u>(37,051)</u>	<u>(251,334)</u>	<u>(288,385)</u>	<u>573,545</u>
Total Other Changes in Net Assets	<u>(37,051)</u>	<u>(251,334)</u>	<u>(288,385)</u>	<u>573,545</u>
CHANGES IN NET ASSETS	394,399	198,598	592,997	371,425
NET ASSETS, BEGINNING OF YEAR	<u>22,963,183</u>	<u>5,657,708</u>	<u>28,620,891</u>	<u>28,249,466</u>
NET ASSETS, END OF YEAR	<u>\$ 23,357,582</u>	<u>\$ 5,856,306</u>	<u>\$ 29,213,888</u>	<u>\$ 28,620,891</u>

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

SANTA BARBARA ZOOLOGICAL FOUNDATION

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended December 31, 2018

(With Comparative Totals for the Year Ended December 31, 2017)

	Program Services	Management and General	Fundraising and Development	2018	(Memo) 2017
Salary	\$ 4,933,613	\$ 537,213	\$ 534,479	\$ 6,005,305	5,730,748
Benefits	1,105,843	151,511	42,927	1,300,281	1,240,295
Payroll taxes	385,485	54,264	23,513	463,262	437,147
Depreciation	1,161,983	231,570	-	1,393,553	1,442,801
Supplies	1,235,901	17,941	50,040	1,303,882	1,086,579
Occupancy	556,648	35,202	-	591,850	580,860
Advertising	408,231	-	-	408,231	365,158
Animal food	366,767	-	-	366,767	267,020
Animal health and maintenance	289,604	-	-	289,604	153,210
Membership	205,720	-	-	205,720	160,126
Education	193,998	-	-	193,998	128,445
Bank and credit card fees	191,555	-	-	191,555	139,736
Equipment rental and maintenance	114,309	60,264	-	174,573	375,281
Printing and publication	109,101	12,151	-	121,252	15,749
Conservation	112,697	-	-	112,697	118,502
Information technology	-	109,634	-	109,634	133,783
Insurance	82,621	9,180	-	91,801	93,912
Dues and subscriptions	61,072	-	-	61,072	55,738
Travel and conferences	46,392	-	1,519	47,911	52,436
Professional fees	11,431	36,208	-	47,639	32,811
Postage and delivery	-	19,240	-	19,240	23,312
Taxes and licenses	-	12,041	-	12,041	9,350
Other expenses	16,250	38,461	3,747	58,458	37,333
2018 TOTAL EXPENSES	\$ 11,589,221	\$ 1,324,880	\$ 656,225	\$ 13,570,326	
2017 TOTAL EXPENSES (MEMO)	\$ 10,772,684	\$ 1,274,198	\$ 633,450		\$ 12,680,332

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, 2018

(With Comparative Totals for the Year Ended December 31, 2017)

	<u>2018</u>	<u>(Memo)</u> <u>2017</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 592,997	\$ 371,425
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	1,393,552	1,442,800
Investment (gain) loss	457,710	(457,627)
Contributions with donor restrictions	-	(100,000)
Changes in:		
Accounts receivable	(93,123)	50,446
Bequests and pledges receivable	277,007	(46,240)
Interest receivable	216	2,140
Inventory	(15,846)	2,489
Other receivable	(1,243)	18,944
Prepaid expenses	91,737	(122,199)
Interests in trusts	771,838	(45,361)
Accounts payable	(133,258)	(53,403)
Accrued liabilities	140,618	29,893
Post retirement benefits payable	<u>(8,000)</u>	<u>(30,000)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>3,474,205</u>	<u>1,063,307</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Payments for equipment and building improvements	(912,270)	(337,141)
Proceeds from sale and maturities of investments	2,356,109	2,251,677
Purchases of investments	<u>(4,066,020)</u>	<u>(2,555,419)</u>
NET CASH USED BY INVESTING ACTIVITIES	<u>(2,622,181)</u>	<u>(640,883)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Contributions with donor restrictions	-	100,000
Payments on long-term debt	<u>-</u>	<u>(37,463)</u>
NET CASH PROVIDED BY FINANCING ACTIVITIES	<u>-</u>	<u>62,537</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	852,024	484,961
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>2,406,644</u>	<u>1,921,683</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 3,258,668</u>	<u>\$ 2,406,644</u>
SUPPLEMENTAL CASH FLOW DISCLOSURE		
Cash paid during the year for interest	\$ 500	\$ 773
In kind donation of goods and services	\$ 14,929	\$ 12,288

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.

New Accounting Pronouncements

During 2018, the Zoo adopted Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2016-14, Not-for-Profit Entities (Topic 958): Presentation of Financial Statements for Not-for-Profit Entities. This guidance is intended to improve the net asset classification requirements and the information presented in the financial statements and notes about a not-for-profit entity's liquidity, financial performance, and cash flows. Main provisions of this guidance include: presentation of two classes of net assets versus the previously required three; recognition of capital gifts for construction as a net asset without donor restrictions when the associated long-lived asset is placed in service; recognition of underwater endowment funds as a reduction in net assets with donor restrictions; and reporting investment income net of external and direct internal investment expenses. The guidance also enhances disclosures for board designated amounts, compositions of net assets with donor restrictions and how the restrictions affect the use of resources, qualitative and quantitative information about the liquidity and availability of financial assets to meet general expenditures within one year of the balance sheet (statement of financial position) date, and expenses by both their natural and functional classification, including methods used to allocate costs among program and support functions and underwater endowments.

SANTA BARBARA ZOOLOGICAL FOUNDATION

NOTES TO FINANCIAL STATEMENTS

Note 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

New Accounting Pronouncements (continued)

Due to the adoption of ASU 2016-14 as of December 31, 2018, net assets have been reclassified as of December 31, 2017 as follows:

Net Asset Classification 12/31/17	ASU 2016-14 Classifications		Total
	Without Donor Restrictions	With Donor Restrictions	Net Assets
Unrestricted	\$ 22,963,183	\$ -	\$ 22,963,183
Temporarily Restricted	-	3,489,935	3,489,935
Permanently Restricted	-	<u>2,167,773</u>	<u>2,167,773</u>
Net Assets as previously presented	22,963,183	5,657,708	28,620,891
 Net assets as reported after adoption of ASU 2016-14	 <u>\$ 22,963,183</u>	 <u>\$ 5,657,708</u>	 <u>\$ 28,620,891</u>

Description of Net Assets

The Zoo reports information regarding its financial position and activities in two classes of net assets - with donor restrictions and without donor restrictions - based on the existence or absence of donor-imposed restrictions.

Without Donor Restrictions

Net assets without donor restrictions represent net assets that are not subject to donor-imposed time or use restrictions. Net assets without donor restrictions include board designated funds.

With Donor Restrictions

Net assets with donor restrictions represent net assets that are subject to donor-imposed time or use restrictions. Net assets with donor restrictions generally include contributions and bequests receivable and planned gifts. Earnings on net assets with donor restrictions are reported as an increase in net assets with donor restrictions. Earnings on donor-restricted endowment funds that have not yet been appropriated are also classified as net assets with donor restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the Statement of Activities as “Net assets released from restrictions”. Net assets with donor restrictions include perpetual income trusts for which the related income is reported as contributions without donor restrictions when received on the Statement of Activities. The change in value of the underlying assets is recorded as an unrealized gain or loss in net assets with donor restrictions on the Statement of Activities. Net assets with donor restrictions also consist of those donor-restricted endowments held by the Zoo as defined under the Uniform Prudent Management of Institutional Funds Act (UPMIFA).

SANTA BARBARA ZOOLOGICAL FOUNDATION

NOTES TO FINANCIAL STATEMENTS

Note 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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 \$1,393,552 for 2018.

SANTA BARBARA ZOOLOGICAL FOUNDATION

NOTES TO FINANCIAL STATEMENTS

Note 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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 2018 totaled \$14,929.

Advertising Costs

The Zoo charges the cost of advertising to Zoo operations expenses when incurred. Total advertising costs for 2018 were \$408,231.

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.

SANTA BARBARA ZOOLOGICAL FOUNDATION

NOTES TO FINANCIAL STATEMENTS

Note 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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, 2018, 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 2015 and 2014, respectively.

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 29, 2019, the date the financial statements were available for issuance.

Note 3 - PROMISES TO GIVE

Unconditional promises to give at December 31, 2018, represent commitments with donor restrictions of \$21,137. Promises to give of \$18,555 are expected to be paid in 2019. The remaining balance of \$2,582 will be paid in annual payments through 2021 and are considered fully collectible. The pledges are restricted to the Giraffe Management Facility, Heart of Asia and Koala Exhibit.

SANTA BARBARA ZOOLOGICAL FOUNDATION

NOTES TO FINANCIAL STATEMENTS

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.

Note 5 - INVESTMENTS

Investments as of December 31, 2018, 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	\$ 2,314,854	\$ 2,248,670	\$ (66,184)
Corporate bonds	<u>185,146</u>	<u>177,416</u>	<u>(7,730)</u>
Total Fixed income	2,500,000	2,426,086	(73,914)
Equities			
Domestic stock	2,800,221	2,117,846	(682,375)
Mutual funds	<u>2,367,882</u>	<u>1,719,277</u>	<u>(648,605)</u>
Total Equities	5,168,103	3,837,123	(1,330,980)
Temporary Cash Investments	<u>845,638</u>	<u>845,638</u>	<u>-</u>
Total December 31, 2018	<u>\$ 8,513,741</u>	<u>\$ 7,108,847</u>	(1,404,894)
Total December 31, 2017	<u>\$ 5,193,808</u>	<u>\$ 5,856,646</u>	<u>662,838</u>
Net change in unrealized gain (loss)			<u>\$ (742,056)</u>

The following summarizes the fair market value investment return in the statement of activities for 2018:

Investment and dividend income	\$ 206,373
Realized gain on value of securities	284,346
Unrealized loss on value of securities	(742,056)
Investment fees	<u>(37,048)</u>
Net Investment Loss	<u>\$ (288,385)</u>

Note 6 – CHARITABLE REMIANDER TRUST AGREEMENT

The Zoo was the beneficiary of an irrevocable charitable remainder trust. Upon termination of the trust in 2018, the Zoo received the assets remaining in the trust as designated in the trust agreement.

SANTA BARBARA ZOOLOGICAL FOUNDATION

NOTES TO FINANCIAL STATEMENTS

Note 7 - 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, 2018, the Zoo received \$72,448 in distributions from the endowment trust. The fair market value of the Zoo's principal portion of the endowment asset at December 31, 2018, has been estimated at \$1,430,000.

Note 8 - PROPERTY AND EQUIPMENT

A summary of property and equipment as of December 31, 2018, is as follows:

Buildings	\$ 13,778,930
Exhibits and permanent improvements	16,532,541
Roads, fences and landscaping	1,739,965
Park train	713,851
Park vehicles	412,004
Zoo equipment	2,304,308
Office equipment	1,144,989
Telephone equipment	50,139
Construction in progress	<u>1,019,279</u>
	37,696,006
Less accumulated depreciation	<u>(18,522,722)</u>
Net property and equipment	<u>\$ 19,173,284</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, 2018:

<u>Description</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Fixed income				
Government and agencies	\$ 177,416	\$ -	\$ -	\$ 177,416
Corporate bonds	<u>2,248,670</u>	<u>-</u>	<u>-</u>	<u>2,248,670</u>
Total Fixed income	<u>2,426,086</u>	<u>-</u>	<u>-</u>	<u>2,426,086</u>
Equities				
Domestic stock	2,117,846	-	-	2,117,846
Mutual funds	<u>1,719,277</u>	<u>-</u>	<u>-</u>	<u>1,719,277</u>
Total Equities	<u>3,837,123</u>	<u>-</u>	<u>-</u>	<u>3,837,123</u>
Total assets measured at fair value	<u>\$ 6,263,209</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,263,209</u>

SANTA BARBARA ZOOLOGICAL FOUNDATION

NOTES TO FINANCIAL STATEMENTS

Note 10 - 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

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.

SANTA BARBARA ZOOLOGICAL FOUNDATION

NOTES TO FINANCIAL STATEMENTS

Note 10 - ENDOWMENT FUNDS (continued)

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 2018, there was no appropriation of endowment assets for expenditure.

Endowment net assets with donor restrictions totaled \$3,104,739, consisting of total original gift endowment contributions of \$2,167,773 and accumulated earnings of \$936,966 as of December 31, 2018. Endowment net assets without donor restrictions classified as board-restricted endowment funds totaled \$1,279,717 as of December 31, 2018.

Note 11 - 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 2018 were \$326,253.

Note 12 – 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, 2018, 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 \$312,000.

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. As of December 31, 2018, the Zoo's balances in the checking accounts exceeded the federally insured limit by approximately \$2,970,000.

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 – LIQUIDITY

Financial assets available to meet cash needs for general expenditure for the following year are comprised of current assets and investments, adjusted for amounts unavailable due to illiquidity, endowments and other funds spending policy appropriations beyond one year, and current liabilities payable to vendors, financial institutions, and nonprofit organizations.

Financial assets available to meet cash needs for general expenditures within one year as of December 31, 2018:

Current assets	
Cash and cash equivalents available within one year	\$ 3,258,668
Inventory	444,752
Prepaid expenses	163,876
Pledges and grants receivable, current portion	18,555
Other current assets	<u>187,638</u>
Total Current Assets	<u>4,073,489</u>
Investments	7,108,847
Less investments unavailable for general expenditures within one year:	
Endowments and other funds subject to spending policy appropriations beyond one year:	
With donor restrictions	<u>(2,167,773)</u>
Total Investments	<u>4,941,074</u>
Current liabilities	<u>(891,442)</u>
Financial assets available to meet cash needs for general expenditures within one year as of December 31, 2018	<u>\$ 8,123,121</u>

SANTA BARBARA ZOOLOGICAL FOUNDATION

NOTES TO FINANCIAL STATEMENTS

Note 15 - NET ASSETS

Net Assets Without Donor Restrictions

As of December 31, 2018, net assets without donor restrictions consist of the following:

Unrestricted	\$ 2,904,581
Property and equipment	19,173,284
Board designated endowment	<u>1,279,717</u>
	<u>\$ 23,357,582</u>

Net Assets With Donor Restrictions

As of December 31, 2018, net assets with donor restrictions consist of the following:

Restriction

Animal welfare, care and maintenance	\$ 1,328,744
Building maintenance and exhibit projects	53,232
Education program	874,798
Train and related projects, other equipment	183,041
New buildings and exhibits	311,752
Unappropriated earnings on endowments	936,966
Endowments	<u>2,167,773</u>
	<u>\$ 5,856,306</u>

Net assets released from restrictions during 2018 were comprised of the following:

Restriction

Animal welfare, care and maintenance	\$ 1,459,632
Education program	96,374
New buildings and exhibits	62,953
Equipment	<u>39,037</u>
	<u>\$ 1,657,996</u>