

**SANTA BARBARA
ZOOLOGICAL FOUNDATION
FINANCIAL STATEMENTS**

DECEMBER 31, 2019

SANTA BARBARA ZOOLOGICAL FOUNDATION

December 31, 2019

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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, 2019, 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, 2019, 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 2018 financial statements, and we expressed an unmodified audit opinion on those statements in our report dated July 29, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2018 is consistent, in all material respects, with the audited financial statements from which it has been derived.

A handwritten signature in cursive script, reading "McGowan Guntermann".

Santa Barbara, CA
August 27, 2020

SANTA BARBARA ZOOLOGICAL FOUNDATION

STATEMENT OF FINANCIAL POSITION

December 31, 2019

(With Comparative Totals as of December 31, 2018)

	ASSETS			(Memo)
	Without Donor Restrictions	With Donor Restrictions	2019 Total	2018 Total
CURRENT ASSETS				
Cash and cash equivalents	\$ 2,431,885	\$ -	\$ 2,431,885	\$ 3,258,668
Accounts receivable	25,753	-	25,753	160,347
Bequests and pledges receivable	-	179,587	179,587	18,555
Interest receivable	19,583	-	19,583	18,907
Inventory	429,528	-	429,528	444,752
Other receivables	11,008	-	11,008	8,384
Prepaid expenses	210,850	-	210,850	163,876
Total Current Assets	<u>3,128,607</u>	<u>179,587</u>	<u>3,308,194</u>	<u>4,073,489</u>
NON-CURRENT ASSETS				
Bequests and pledges receivable - net of current	-	25,000	25,000	2,582
Investments	2,580,120	5,804,261	8,384,381	7,108,847
Buildings and equipment, net	19,668,225	-	19,668,225	19,173,284
Collections	1	-	1	1
Total Non-Current Assets	<u>22,248,346</u>	<u>5,829,261</u>	<u>28,077,607</u>	<u>26,284,714</u>
TOTAL ASSETS	<u>\$ 25,376,953</u>	<u>\$ 6,008,848</u>	<u>\$ 31,385,801</u>	<u>\$ 30,358,203</u>
	LIABILITIES AND NET ASSETS			
CURRENT LIABILITIES				
Accounts payable	\$ 245,735	\$ -	\$ 245,735	\$ 126,411
Accrued liabilities	751,244	-	751,244	705,904
Current portion of post-retirement benefits payable	59,999	-	59,999	59,127
Total Current Liabilities	<u>1,056,978</u>	<u>-</u>	<u>1,056,978</u>	<u>891,442</u>
NON-CURRENT LIABILITIES				
Post-retirement benefits payable - long-term	233,001	-	233,001	252,873
Total Non-Current Liabilities	<u>233,001</u>	<u>-</u>	<u>233,001</u>	<u>252,873</u>
TOTAL LIABILITIES	<u>1,289,979</u>	<u>-</u>	<u>1,289,979</u>	<u>1,144,315</u>
NET ASSETS				
Without Donor Restrictions	24,086,974	-	24,086,974	23,357,582
With Donor Restrictions	-	6,008,848	6,008,848	5,856,306
Total Net Assets	<u>24,086,974</u>	<u>6,008,848</u>	<u>30,095,822</u>	<u>29,213,888</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 25,376,953</u>	<u>\$ 6,008,848</u>	<u>\$ 31,385,801</u>	<u>\$ 30,358,203</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, 2019

(With Comparative Totals for the Year Ended December 31, 2018)

	Without Donor Restrictions	With Donor Restrictions	2019 Total	(Memo) 2018 Total
REVENUE, GAINS AND OTHER SUPPORT				
Admissions	\$ 5,141,730	\$ -	\$ 5,141,730	\$ 5,122,394
Educational programs	923,723	-	923,723	694,034
Foster feeders income	208,312	-	208,312	288,628
Membership income	1,713,800	-	1,713,800	1,711,051
Contributions and grants	376,273	691,091	1,067,364	2,465,004
Special events (net of event expense of \$447,222 and \$433,182)	415,861	-	415,861	408,863
Food service and site rentals	2,045,154	-	2,045,154	1,812,921
Retail store sales	1,737,884	-	1,737,884	1,794,249
Other income	8,384	-	8,384	154,564
Net assets released from restrictions	<u>1,142,064</u>	<u>(1,142,064)</u>	<u>-</u>	<u>-</u>
Total Revenue, Gains and Other Support	<u>13,713,185</u>	<u>(450,973)</u>	<u>13,262,212</u>	<u>14,451,708</u>
EXPENSES				
Program services	11,475,230	-	11,475,230	11,589,221
Management and general	1,476,639	-	1,476,639	1,324,880
Fundraising and development	687,896	-	687,896	656,225
Total Expenses	<u>13,639,765</u>	<u>-</u>	<u>13,639,765</u>	<u>13,570,326</u>
Excess (Deficit) of Revenue, Gains, and Other Support over Expenses before Other Changes in Net Assets	<u>73,420</u>	<u>(450,973)</u>	<u>(377,553)</u>	<u>881,382</u>
Other Changes in Net Assets				
Investment income (loss)	<u>655,972</u>	<u>603,515</u>	<u>1,259,487</u>	<u>(288,385)</u>
Total Other Changes in Net Assets	<u>655,972</u>	<u>603,515</u>	<u>1,259,487</u>	<u>(288,385)</u>
CHANGES IN NET ASSETS	729,392	152,542	881,934	592,997
NET ASSETS, BEGINNING OF YEAR	<u>23,357,582</u>	<u>5,856,306</u>	<u>29,213,888</u>	<u>28,620,891</u>
NET ASSETS, END OF YEAR	<u>\$ 24,086,974</u>	<u>\$ 6,008,848</u>	<u>\$ 30,095,822</u>	<u>\$ 29,213,888</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, 2019

(With Comparative Totals for the Year Ended December 31, 2018)

	Program Services	Management and General	Fundraising and Development	2019	(Memo) 2018
Salary	\$ 4,967,702	\$ 670,553	\$ 541,224	\$ 6,179,479	\$ 6,005,305
Benefits	959,717	174,646	44,271	1,178,634	1,300,281
Payroll taxes	390,917	65,862	23,762	480,541	463,262
Depreciation	1,101,891	215,964	-	1,317,855	1,393,553
Supplies	1,345,805	19,016	64,194	1,429,015	1,303,882
Occupancy	597,177	36,161	-	633,338	591,850
Advertising	329,531	-	-	329,531	408,231
Animal food	337,183	-	-	337,183	366,767
Animal health and maintenance	254,416	-	-	254,416	289,604
Membership	192,419	-	-	192,419	205,720
Education	178,346	-	-	178,346	193,998
Bank and credit card fees	259,404	-	-	259,404	191,555
Equipment rental and maintenance	93,082	84,410	-	177,492	174,573
Printing and publication	119,430	18,074	-	137,504	121,252
Conservation	97,358	-	-	97,358	112,697
Information technology	-	120,475	-	120,475	109,634
Insurance	89,458	9,940	-	99,398	91,801
Dues and subscriptions	59,565	-	-	59,565	61,072
Travel and conferences	46,164	-	-	46,164	47,911
Professional fees	10,075	24,104	-	34,179	47,639
Postage and delivery	-	16,222	-	16,222	19,240
Taxes and licenses	-	12,492	-	12,492	12,041
Other expenses	45,590	8,720	14,445	68,755	58,458
	\$ 11,475,230	\$ 1,476,639	\$ 687,896	\$ 13,639,765	
2019 TOTAL EXPENSES	\$ 11,475,230	\$ 1,476,639	\$ 687,896	\$ 13,639,765	
 2018 TOTAL EXPENSES (MEMO)	 \$ 11,589,221	 \$ 1,324,880	 \$ 656,225		 \$ 13,570,326

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, 2019

(With Comparative Totals for the Year Ended December 31, 2018)

	<u>2019</u>	<u>(Memo)</u> <u>2018</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 881,934	\$ 592,997
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	1,317,855	1,393,552
Investment (gain) loss	(1,084,767)	457,710
Changes in:		
Accounts receivable	134,594	(93,123)
Bequests and pledges receivable	(183,450)	277,007
Interest receivable	(676)	216
Inventory	15,224	(15,846)
Other receivable	(2,624)	(1,243)
Prepaid expenses	(46,974)	91,737
Interests in trusts	-	771,838
Accounts payable	119,324	(133,258)
Accrued liabilities	45,340	140,618
Post retirement benefits payable	<u>(19,000)</u>	<u>(8,000)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>1,176,780</u>	<u>3,474,205</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Payments for equipment and building improvements	(1,812,796)	(912,270)
Proceeds from sale and maturities of investments	2,500,000	2,356,109
Purchases of investments	<u>(2,690,767)</u>	<u>(4,066,020)</u>
NET CASH USED BY INVESTING ACTIVITIES	<u>(2,003,563)</u>	<u>(2,622,181)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	(826,783)	852,024
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>3,258,668</u>	<u>2,406,644</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 2,431,885</u>	<u>\$ 3,258,668</u>
SUPPLEMENTAL CASH FLOW DISCLOSURE		
Cash paid during the year for interest	\$ 500	\$ 500
In kind donation of goods and services	\$ 123,275	\$ 14,929

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.

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 \$1,317,855 for 2019.

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.

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.

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 2019 totaled \$123,275.

Advertising Costs

The Zoo charges the cost of advertising to Zoo operations expenses when incurred. Total advertising costs for 2019 were \$329,531.

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, 2019, 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 2016 and 2015, respectively.

SANTA BARBARA ZOOLOGICAL FOUNDATION

NOTES TO FINANCIAL STATEMENTS

Note 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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 August 27, 2020, the date the financial statements were available for issuance.

Note 3 - PROMISES TO GIVE

Unconditional promises to give at December 31, 2019, represent commitments with donor restrictions of \$204,587. Promises to give of \$179,587 are expected to be paid in 2020. The remaining balance of \$25,000 will be paid in 2021 and is considered fully collectible. The pledges are restricted to the Giraffe Management Facility, Heart of Asia and Koala Exhibit.

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, 2019, 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	\$ 264,974	\$ 264,151	\$ (823)
Corporate bonds	<u>2,337,362</u>	<u>2,371,914</u>	<u>34,552</u>
Total Fixed income	2,602,336	2,636,065	33,729
Equities			
Domestic stock	1,953,400	2,760,135	806,735
Mutual funds	<u>2,010,077</u>	<u>2,103,364</u>	<u>93,287</u>
Total Equities	3,963,477	4,863,499	900,022
Temporary Cash Investments	<u>884,817</u>	<u>884,817</u>	<u>-</u>
 Total December 31, 2019	 <u>\$ 7,450,630</u>	 <u>\$ 8,384,381</u>	 933,751
Total December 31, 2018	<u>\$ 8,513,741</u>	<u>\$ 7,108,847</u>	<u>(1,404,894)</u>
 Net change in unrealized gain			 <u>\$ 2,338,645</u>

The following summarizes the fair market value investment return in the statement of activities for 2019:

Investment and dividend income	\$ 220,175
Realized loss on value of securities	(1,253,878)
Unrealized gain on value of securities	2,338,645
Investment fees	<u>(45,455)</u>
Net Investment Gain	<u>\$ 1,259,487</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, 2019, the Zoo received \$71,344 in distributions from the endowment trust. The fair market value of the Zoo's principal portion of the endowment asset at December 31, 2019, has been estimated at \$1,430,000.

SANTA BARBARA ZOOLOGICAL FOUNDATION

NOTES TO FINANCIAL STATEMENTS

Note 7 – CHARITABLE REMIANDER TRUST AGREEMENT

The Zoo was the beneficiary of an irrevocable charitable remainder trust. Upon termination of the trust in 2019, the Zoo received the assets remaining in the trust as designated in the trust agreement.

Note 8 - PROPERTY AND EQUIPMENT

A summary of property and equipment as of December 31, 2019, is as follows:

Buildings	\$ 15,422,184
Exhibits and permanent improvements	16,563,822
Roads, fences and landscaping	1,739,965
Park train	924,906
Park vehicles	552,679
Zoo equipment	2,513,736
Office equipment	1,228,904
Telephone equipment	50,139
Construction in progress	<u>512,467</u>
	39,508,802
Less accumulated depreciation	<u>(19,840,577)</u>
Net property and equipment	<u>\$ 19,668,225</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.

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.

SANTA BARBARA ZOOLOGICAL FOUNDATION

NOTES TO FINANCIAL STATEMENTS

Note 9 - FAIR VALUE MEASUREMENT (continued)

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, 2019:

<u>Description</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Fixed income				
Government and agencies	\$ 264,151	\$ -	\$ -	\$ 264,151
Corporate bonds	<u>2,371,914</u>	<u>-</u>	<u>-</u>	<u>2,371,914</u>
Total Fixed income	<u>2,636,065</u>	<u>-</u>	<u>-</u>	<u>2,636,065</u>
Equities				
Domestic stock	2,760,135	-	-	2,760,135
Mutual funds	<u>2,103,364</u>	<u>-</u>	<u>-</u>	<u>2,103,364</u>
Total Equities	<u>4,863,499</u>	<u>-</u>	<u>-</u>	<u>4,863,499</u>
Total assets measured at fair value	<u>\$ 7,499,564</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7,499,564</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 2019, there was no appropriation of endowment assets for expenditure.

Endowment net assets with donor restrictions totaled \$3,708,254, consisting of total original gift endowment contributions of \$2,167,773 and accumulated earnings of \$1,540,481 as of December 31, 2019. Endowment net assets without donor restrictions classified as board-restricted endowment funds totaled \$1,582,039 as of December 31, 2019.

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 2019 were \$311,307.

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, 2019, 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 \$293,000.

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, 2019, the Zoo's balances in the checking accounts exceeded the federally insured limit by approximately \$2,102,000.

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, 2019:

Current assets	
Cash and cash equivalents available within one year	\$ 2,431,885
Inventory	429,528
Prepaid expenses	210,850
Pledges and grants receivable, current portion	179,587
Other current assets	<u>56,344</u>
Total Current Assets	<u>3,308,194</u>
Investments	8,384,381
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>6,216,608</u>
Current liabilities	<u>(1,056,978)</u>
Financial assets available to meet cash needs for general expenditures within one year as of December 31, 2019	<u>\$ 8,467,824</u>

SANTA BARBARA ZOOLOGICAL FOUNDATION

NOTES TO FINANCIAL STATEMENTS

Note 15 - NET ASSETS

Net Assets Without Donor Restrictions

As of December 31, 2019, net assets without donor restrictions consist of the following:

Unrestricted	\$ 2,836,710
Property and equipment	19,668,225
Board designated endowment	<u>1,582,039</u>
	<u>\$ 24,086,974</u>

Net Assets With Donor Restrictions

As of December 31, 2019, net assets with donor restrictions consist of the following:

Restriction

Animal welfare, care and maintenance	\$ 721,069
Building maintenance and exhibit projects	45,588
Education program	1,004,743
Train and related projects, other equipment	75,188
New buildings and exhibits	454,006
Unappropriated earnings on endowments	1,540,481
Endowments	<u>2,167,773</u>
	<u>\$ 6,008,848</u>

Net assets released from restrictions during 2019 were comprised of the following:

Restriction

Animal welfare, care and maintenance	\$ 832,094
Education program	112,474
New buildings and exhibits	150,113
Equipment	<u>47,383</u>
	<u>\$ 1,142,064</u>

Note 16 – SBA LOAN UNDER PAYCHECK PROTECTION PROGRAM

On April 20, 2020, the Zoo received loan funding of \$1,506,767 under the Paycheck Protection Program as allowed under the CARES Tax Act, related to the 2020 COVID-19 pandemic. The loan allows for the loan proceeds to be used on allowable costs for the Zoo.

The loan will be fully forgiven if the funds are used for payroll costs, rent and utilities and at least 60% of the forgiven amount must be used for payroll. Loan payments will also be deferred for six months. No collateral or personal guarantees were required.

SANTA BARBARA ZOOLOGICAL FOUNDATION

NOTES TO FINANCIAL STATEMENTS

Note 16 – SBA LOAN UNDER PAYCHECK PROTECTION PROGRAM (continued)

Forgiveness will be based on maintaining or quickly rehiring employees and maintaining salary levels. Forgiveness will be reduced if full-time headcount declines, or if salaries and wages decrease. The loan has a maturity of five years and an interest rate of 1%. The Zoo intends to comply with all regulations to allow for the loan to be substantially forgiven.

Note 17 – SUBSEQUENT EVENTS

On March 11, 2020, the World Health Organization declared the novel strain of coronavirus (COVID-19) a global pandemic and recommended containment and mitigation measures worldwide. The Zoo was closed for three months starting in March 2020 and as of August 27, 2020, the Zoo's operations are open, subject to restrictions reducing attendance and disallowing portions of the operation. The Zoo will continue to follow state guidelines related to COVID-19 as they are released.

The Zoo cannot reasonably estimate the length or severity of this pandemic, or the extent to which the disruption may materially impact the Zoo's financial position, changes in net assets and cash flows in 2020 and the future.

On June 18, 2020, the Organization received an Economic Injury Disaster Loan (EIDL) in the amount of \$150,000. The loan is secured by tangible and intangible personal property and calls for monthly payments of principal and interest of \$628. Interest is calculated at a fixed rate of 2.75% per annum. Monthly payments are deferred for twelve months from date of the note and matures thirty years from the date of the note.