

**Zoological Society of San Diego
dba San Diego Zoo Global**

**Consolidated Financial Statements
and Independent Auditor's Report**

December 29, 2019

**Zoological Society of San Diego
dba San Diego Zoo Global**

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Independent Auditor's Report

To the Board of Trustees
Zoological Society of San Diego
dba San Diego Zoo Global

We have audited the accompanying consolidated financial statements of Zoological Society of San Diego dba San Diego Zoo Global ("SDZ Global"), which comprise the consolidated statement of financial position as of December 29, 2019, the related consolidated statements of activities and changes in net assets, functional expenses and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated 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 consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of SDZ Global as of December 29, 2019, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

CohnReznick LLP

San Diego, California
April 22, 2020

**Zoological Society of San Diego
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**Consolidated Statement of Financial Position
December 29, 2019
(In thousands)**

Assets

Cash and cash equivalents	\$ 178,928
Operating investments	24,587
Accounts receivable, net	12,430
Inventories, net	2,731
Prepaid expenses and other assets	9,767
Cash restricted for long-term capital projects and endowments	37,402
Unconditional promises to give, net	63,645
Split-interest agreements	33,236
Beneficial interests in assets held by others	10,538
Endowments	
Investments	144,164
Promises to give, net	15,990
Split-interest agreements	706
Property and equipment, net	<u>308,217</u>
Total assets	<u><u>\$ 842,341</u></u>

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**Consolidated Statement of Financial Position
December 29, 2019
(In thousands)**

Liabilities and Net Assets

Liabilities

Accounts payable	\$ 20,248
Accrued salaries and salary related expenses	29,944
Deferred support and revenue	22,174
Liabilities under split interest arrangements	14,511
Liability for pension benefits	74,752
Debt, net	41,020
Interest-rate swap	5,398
Other accrued expenses	1,034

Total liabilities	\$ 209,081
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Commitments and contingencies

Net assets

Without donor restrictions	
Undesignated	\$ 305,003
Designated by the Board for endowment	79,184
	384,187
With donor restrictions	
Perpetual in nature	95,249
Purpose restrictions	100,499
Time-restricted for future periods	53,325

Total net assets	249,073 633,260
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Total liabilities and net assets	\$ 842,341
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See Notes to Consolidated Financial Statements.

**Zoological Society of San Diego
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**Consolidated Statements of Activities and Changes in Net Assets
Year Ended December 29, 2019
(In thousands)**

	Without donor restrictions	With donor restrictions	Total
Revenues and support			
Admissions and memberships	\$ 132,113	\$ -	\$ 132,113
Auxiliary activities	128,572	-	128,572
Contributions	53,379	89,571	142,950
Tax revenue and other	18,886	-	18,886
Net assets released from restrictions	36,910	(36,910)	-
	<u>369,860</u>	<u>52,661</u>	<u>422,521</u>
Total revenue and support			
Expenses			
Program services expense			
Zoological habitat and wildlife care	234,947	-	234,947
Research and conservation	28,503	-	28,503
Education and outreach	8,563	-	8,563
	<u>272,013</u>	<u>-</u>	<u>272,013</u>
Total program services expense			
Supporting services expense			
Management and general	31,709	-	31,709
Fundraising and development	9,434	-	9,434
	<u>41,143</u>	<u>-</u>	<u>41,143</u>
Total supporting services expense			
Total expenses	<u>313,156</u>	<u>-</u>	<u>313,156</u>
Change in net assets from operating activities	56,704	52,661	109,365
Investment income, net	17,543	14,215	31,758
Interest expense	(1,768)	-	(1,768)
Change in value of split-interest agreements	-	2,967	2,967
Distributions from and change in value of beneficial interest in assets held by others	869	-	869
Change in value of interest-rate swaps	(1,101)	-	(1,101)
Pension-related change other than net periodic pension cost	(5,364)	-	(5,364)
	<u>66,883</u>	<u>69,843</u>	<u>136,726</u>
Change in net assets			
Net assets at beginning of year	<u>321,072</u>	<u>179,230</u>	<u>500,302</u>
Cumulative effect of accounting change	<u>(3,768)</u>	<u>-</u>	<u>(3,768)</u>
Net assets at beginning of year after cumulative effect of accounting change	<u>317,304</u>	<u>179,230</u>	<u>496,534</u>
Net assets at end of year	<u>\$ 384,187</u>	<u>\$ 249,073</u>	<u>\$ 633,260</u>

See Notes to Consolidated Financial Statements.

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**Consolidated Statement of Functional Expenses
Year Ended December 29, 2019
(In thousands)**

	Program services	Management and general	Fundraising and development	Total
Salaries and benefits	\$ 145,397	\$ 13,964	\$ 5096	\$ 164,457
Outside services and professional fees	10,853	6,269	805	17,926
Advertising and promotion	10,826	45	890	11,761
Operating supplies and equipment	10,310	57	37	10,404
Forage	4,269	-	-	4,269
Occupancy	10,991	1,245	52	12,288
Bank and credit card fees	4,367	199	9	4,575
Information technology	1,639	1,857	197	3,694
Insurance	2,066	2,991	37	5,093
Postage and freight	1,675	45	509	2,229
Grants and assistance to others	2,575	-	-	2,575
Depreciation and amortization	29,983	2,431	13	32,427
Repairs and maintenance	7,927	997	130	9,053
Travel	2,188	423	154	2,765
Office expense and meetings	2,380	1,191	1,532	5,102
Cost of goods sold	23,128	-	-	23,128
Fundraising direct costs for events	-	-	647	647
Other	1,441	(4)	(27)	1,409
Total expenses by function	272,013	31,709	10,081	313,803
Less expenses included with revenues				
Fundraising direct costs for events	-	-	(647)	(647)
Total expenses included in the expense section on the statement of activities	<u>\$ 272,013</u>	<u>\$ 31,709</u>	<u>\$ 9,434</u>	<u>\$ 313,156</u>

See Notes to Consolidated Financial Statements.

**Zoological Society of San Diego
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**Consolidated Statement of Cash Flows
Year Ended December 29, 2019
(In thousands)**

Cash flow from operating activities	
Change in net assets	\$ 136,725
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation and amortization	32,427
Amortization of debt issuance costs	17
Amortization of discount on bequests and contributions receivable	(1,662)
Provision for uncollectable receivables	890
Donated assets	701
Net realized (gain)/loss on sale of investments and investment income	(5,663)
Net gain on disposal of property and equipment	203
Interest earned on beneficial trust	(582)
Change in split interest	(2,967)
Net unrealized (gain)/loss on investments	(21,487)
Unrealized (gain) loss on swap transaction	1,101
Cash restricted for long-term capital projects and endowments	(13,887)
Changes in operating assets and liabilities:	
Accounts receivable, net	(2,799)
Inventories	(430)
Prepaid expenses and other assets	2,091
Unconditional promises to give, net	(43,011)
Split-interest agreements	(1,771)
Accounts payable and other accrued expenses	2,150
Accrued salaries and salary-related expenses	1,649
Deferred support and revenue	809
Liability for pension benefits	(1,627)
Net cash provided by operating activities	<u>82,877</u>
Cash flow from investing activities	
Proceeds from sale of marketable securities	41,634
Purchase of marketable securities	(40,280)
Purchase of property and equipment	(48,353)
Net cash used in investing activities	<u>(46,999)</u>

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**Consolidated Statement of Cash Flows
Year Ended December 29, 2019
(In thousands)**

Cash flow from financing activities	
Payments on bonds payable	(1,435)
Proceeds (payments) from loan	(1,891)
Endowment contributions	4,420
Contributions for long-term capital improvements	<u>9,467</u>
Net cash provided by financing activities	<u>10,561</u>
Net increases in cash, cash equivalents, and restricted cash	46,439
Cash, cash equivalents, and restricted cash at beginning of year	<u>169,891</u>
Cash, cash equivalents, and restricted cash at end of year	<u><u>\$ 216,330</u></u>
Supplemental schedule of noncash financing activities	
Cash paid for interest during the year	<u><u>\$ 1,768</u></u>
Change in accrued construction costs	<u><u>\$ (773)</u></u>

See Notes to Consolidated Financial Statements.

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**Notes to Consolidated Financial Statements
(All dollar amounts in thousands)
December 29, 2019**

Note 1 - Nature of operations

The Zoological Society of San Diego dba San Diego Zoo Global ("SDZ Global") was incorporated in 1916 as a private, nonprofit corporation directed by a Board of Trustees (the "Board"). Bringing species back from the brink of extinction is the goal of San Diego Zoo Global. As a leader in conservation, the work of San Diego Zoo Global includes on-site wildlife conservation efforts (representing both plants and animals) at the San Diego Zoo, San Diego Zoo Safari Park, and San Diego Zoo Institute for Conservation Research, as well as international field programs on six continents. These programs are supported largely through admissions, memberships, donations and grants, and sales at both facilities.

San Diego Zoo Global is accredited by the Association of Zoos and Aquariums and the American Association of Museums as a Botanical Garden. The San Diego Zoo is globally recognized and a San Diego icon, hosting close to four million guests each year. At the San Diego Zoo Safari Park, more than 1 million guests each year see animals in herds of mixed species in expansive habitats. Safari tours offer savanna views of African and Asian animals, and trails take visitors on treks to experience Australian and North American habitats. There are opportunities for up-close encounters and unique behind-the-scenes perspectives at both facilities. When visitors discover the rare and endangered species at the San Diego Zoo and the San Diego Zoo Safari Park, they are directly contributing, through admissions and on-grounds sales, to the efforts of San Diego Zoo Global, an international non-profit conservation organization that works to fight extinction through recovery efforts for plants and animals worldwide.

SDZ Global formed the Foundation of the Zoological Society of San Diego (the "Foundation") in 2007. The Foundation is a related supporting organization which conducts fund-raising activities for SDZ Global. Funds raised by the Foundation are received directly by SDZ Global and recorded as contribution revenue in SDZ Global's consolidated statements of activities and changes in net assets. The Foundation has no employees and is supported by volunteers.

SDZ Global formed San Diego Zoo Global - Peru ("SDZG Peru") in 2012. SDZG Peru is a related nonprofit association incorporated in Cusco, Peru. The purpose of SDZG Peru is to perform, in the Republic of Peru, the promotion and development of programs for the protection and conservation of the environment, including operating and managing the Cocha Cashu Biological Field Research Station.

The activities of the Foundation and SDZG Peru are included in SDZ Global's consolidated financial statements. All significant intercompany balances and transactions are eliminated in consolidation.

Note 2 - Basis of presentation and summary of significant accounting policies

Accounting period

SDZ Global reports on a 52-week fiscal year ending on a Sunday. A 53-week fiscal year is utilized every six to seven years as a catch up to keep the year-end close to December 31. The fiscal year ending December 29, 2019 ("2019") was 52 weeks and has been designated as 2019 in the accompanying consolidated financial statements.

Net asset classification

To ensure compliance with restrictions placed on the resources available to SDZ Global, SDZ Global's accounts are maintained in accordance with the principles of fund accounting, a procedure

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by which resources are classified for accounting and reporting into funds established according to their nature and purpose. SDZ Global reports information regarding its financial position and activities according to two classes of net assets: Without donor restrictions and with donor restrictions. They are described as follows:

Net Assets Without Donor Restrictions - Net assets for use in general operations and not subject to donor (or certain grantor) restrictions. The governing board may designate, from net assets without donor restrictions, net assets for an operating reserve through a board-designated endowment.

Net Assets with Donor Restrictions - Net assets subject to donor (or certain grantor) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time, purpose or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

Revenue recognition

SDZ Global records admissions, auxiliary activities, and grants as earned. The Organization recognizes revenue from ticket sales at the time of admission. Tickets sold in advance to travel and tourism companies are deferred until used. Membership dues, which are nonrefundable, are comprised of an exchange element based on the value of benefits provided, and a contribution element for the difference between the total dues paid and the exchange element. The Organization recognizes the exchange portion of membership dues over the membership period, and the contribution portion immediately.

SDZ Global records gifts of long-lived assets as revenue at their fair value when they are received. SDZ Global reports contributions of cash and other assets as contributions with donor restrictions if they are received with donor stipulations that limit the use of the donated assets. Assets with donor restrictions are reclassified to net assets without donor restrictions when an event occurs that satisfies the donor-imposed restriction. When a donor restriction expires, the related net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statements of activities and changes in net assets as net assets released from restrictions. Income with donor restrictions which is received and expended in the current year is recorded as unrestricted income.

SDZ Global recognizes contributions when cash, securities or other assets, an unconditional promise to give, or notification of a beneficial interest is received. Conditional promises to give, that is, those with a measurable performance or other barrier, and a right of return, are not recognized until the conditions on which they depend have been substantially met. Our federal and state contracts and grants are conditioned upon certain performance requirements and the incurrence of allowable qualifying expenses. Consequently, at December 29, 2019, conditional contributions with a present value of \$447, for which no amounts had been received in advance, have not been recognized in the accompanying consolidated financial statements.

Auxiliary activities

SDZ Global's auxiliary activities include retail merchandise, food and beverage, transportation operations, educational activities, Safari Park parking, and other similar support activities. The

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Organization recognizes revenue from auxiliary activities at the time of purchase by the customer. Cost of goods sold on retail merchandise and food and beverage is included in exhibition and animal care facility operations in the expense section of the consolidated statements of activities and changes in net assets and amounted to \$23,128 in 2019.

Tax revenue and other

SDZ Global receives partial funding from property taxes due to a voter-approved section of the San Diego City Charter ("Section 77a"). Section 77a was originally approved in 1934 and amended in 1941. Section 77a monies are used exclusively for the maintenance of zoological exhibits at the San Diego Zoo facility. SDZ Global recognized \$14,883 in Section 77a revenue in 2019. Tax revenue and other includes Section 77a property tax allocation, sponsorships, advertising and other miscellaneous activities.

Animal and horticultural collections

In accordance with customary practice among zoological organizations, animal and horticultural collections are recorded at the nominal amount of one dollar, as there is no objective basis for establishing value. Additionally, animal and horticultural collections have numerous attributes, including species, age, sex, relationship and value to other animals, endangered status, and breeding potential, whereby it is impracticable to assign value. Expenditures related to animal and horticultural acquisitions are expensed in the period of acquisition.

In an ongoing commitment to enhance the worldwide reproduction and preservation of animals, SDZ Global shares animals with other organizations. Consistent with industry practice, SDZ Global does not record any asset or liability for such sharing arrangements.

Cash and cash equivalents

SDZ Global considers short-term investments with a maturity date of 90 days or less from the date of purchase to be cash equivalents.

Reconciliation of cash and cash equivalents

Cash and cash equivalents totaled \$178,928, cash restricted for long-term capital projects and endowments totaled \$37,402, and are shown on the Consolidated Statement of Financial Position at December 29, 2019, the total of which is \$216,330 and is included on the Consolidated Statement of Cash Flows for the year ended December 29, 2019.

Cash restricted for long-term capital projects and endowments

Cash restricted for long-term capital projects and endowments primarily consists of contributions received that are restricted for the construction of major exhibits at the San Diego Zoo and the San Diego Zoo Safari Park facilities. In addition, SDZ Global held a small amount of contributions restricted in perpetuity for endowments as restricted cash. The endowment contributions were received just prior to the end of the fiscal year end and not yet transferred to the endowment investment account at year end.

Accounts receivable, net

Accounts receivable primarily consists of trade receivables and grants receivable. Trade receivables consist of outstanding balances from travel and tourism companies that purchase and then resell admission tickets to SDZ Global's facilities. Grants receivable consist of amounts billed and unbilled from government agencies and various foundations. The allowance for doubtful accounts totals \$235 at year-end 2019, which represents SDZ Global's estimate of uncollectible accounts receivable based

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on historical experience. Write-offs are deducted from the allowance for doubtful accounts, and subsequent recoveries are added.

At year-end 2019, SDZ Global has a receivable of \$5,626 of Section 77a property tax proceeds held by the City of San Diego (the "City").

Investments

Investments with readily determinable fair values are measured at fair value in the consolidated statement of financial position. Investment income or loss (including realized and unrealized gains and losses on investments, interest and dividends) is included in the consolidated statements of activities and changes in net assets. Investments without readily determinable fair values are measured using valuations provided by external investment managers. These investments are generally less liquid than other investments, and the values reported by the general partner or investment manager may differ from the values that would have been reported had a ready market for these securities existed. SDZ Global exercises due diligence in assessing the policies, procedures and controls implemented by its external investment managers and believes the carrying amount of these assets is a reasonable estimate of fair value.

Concentration of credit risk

Financial instruments that potentially subject SDZ Global to concentrations of credit risk consist primarily of cash and cash equivalents, investments, accounts receivable, split-interest agreements, and bequests and contributions receivable. SDZ Global maintains its cash and cash equivalents with various financial institutions and may be exposed from time to time to credit risk with bank deposits in excess of Federal Deposit Insurance Corporation ("FDIC") insurance limits. Investments are managed within guidelines established by the Board which, as a matter of policy, limits the amounts which may be invested with one issuer.

SDZ Global had cash and cash equivalents which exceeded FDIC insured limits at certain financial institutions totaling \$212,440 as of year-end 2019.

Approximately 46% of accounts receivable were from one payor as of year-end 2019. Approximately 62% of bequests and contributions receivable was from three donors as of year-end 2019.

SDZ Global had approximately 41 government contracts in 2019, from federal sources. The largest contract was for the federally funded program for the U.S. Army Corps of Engineers totaling approximately \$1,400 during 2019.

Inventories

SDZ Global's inventories are valued at the lower of cost or net realizable value, and accounted for using a weighted-average cost basis.

Property and equipment

Property and equipment with an acquisition cost of \$5 or greater are capitalized at cost and depreciated using the straight-line method over the estimated useful lives of the related assets, which are generally from three to 25 years. No depreciation is taken on assets until they are placed in service. Assets acquired under capital leases are recorded at the net present value of the minimum lease payments. Amortization expense is computed using the straight-line method over the shorter of the estimated useful lives of the assets or the period of the related lease.

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Impairment of long-lived assets and long-lived assets to be disposed of

SDZ Global assesses potential impairment to any of its long-lived assets when there is evidence that events or changes in circumstances have made full recovery of the asset's carrying value unlikely. An impairment loss would be recognized when the sum of the expected future undiscounted net cash flows is less than the carrying value of the asset. Should impairment exist, the impairment loss would be measured based on the excess of the carrying value of the asset over the asset's fair value. No impairment charges were recognized on long-lived assets during 2019.

Split-interest agreements

SDZ Global is licensed by the State of California Department of Insurance as a Grants and Annuities Society. As such, SDZ Global may issue charitable gift annuity contracts. SDZ Global had 81 outstanding annuity contracts entered into with 59 separate donors as of year-end 2019. The present value of the life annuities associated with these contracts is included in liabilities under split-interest agreements in the consolidated statements of financial position.

For charitable gift annuity agreements, SDZ Global receives cash or marketable securities from a donor in exchange for an annuity to be distributed for a fixed amount over the lifetime or lifetimes of the donor or other beneficiaries. Upon the death of the annuitant or survivor of the annuitant, SDZ Global is entitled to full use of the remainder. The issuance of gift annuities is regulated under the California Insurance Code. Pursuant to charitable gift annuity regulations, amounts held are invested in a trust account segregated from other assets and are within investment limitations, with equities allowed to comprise up to 50% of the reserve fund, and mutual funds allowed within that 50%. In addition, the reserves on the outstanding annuity agreements are at least equal to the reserves present value of annuity liabilities calculated using the prescribed mortality table and discount rate assumptions. Charitable gift annuity assets are recorded at fair value. A liability is then recorded for the amount of the annuity payments payable to the donor based on the actuarial life of the donor. The liability for charitable gift annuity agreements is included in liabilities under split-interest agreements in the consolidated statements of financial position and totaled \$14,511 at year-end 2019. Changes in charitable gift assets and liabilities are included in the change in value of split-interest agreements in the consolidated statements of activities and changes in net assets.

SDZ Global is the beneficiary of assets held in two irrevocable split-interest agreement pooled income funds administered by bank trustees. The assets of the pooled income funds are recorded at fair value. The difference between the fair market value of the assets in the pooled income fund and the present value of estimated future contributions to be received has been recorded as deferred revenue. The amortization of discount and changes in actuarial assumptions are included in the change in value of split-interest agreements in the consolidated statements of activities and changes in net assets.

SDZ Global is the beneficiary in 31 irrevocable charitable trusts in 2019 for which SDZ Global is not the trustee. Each trust names SDZ Global as a residual beneficiary following the death of one or more life income beneficiaries. The fair value of the assets to be received under each trust, discounted for the estimated time until receipt, is recorded in beneficial interest in charitable remainder trusts included in split-interest agreements in the consolidated statements of financial position and in temporarily restricted net assets until trust termination. The current year change in the valuation of beneficial interest in charitable remainder trusts is included in the change in value of split-interest agreements in the consolidated statements of activities and changes in net assets.

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SDZ Global estimates fair value of split-interest agreements by using net present value calculations with a discount rate of 3.34% for 2019 and estimated life expectancies based upon the mortality rate tables published by the Internal Revenue Service.

Beneficial interest in assets held by others

SDZ Global has beneficial interests in perpetual trusts held by third-party trustees. Under the perpetual trust arrangements, SDZ Global has recorded the assets and has recognized donor restricted contribution revenue at the fair value of SDZ Global's beneficial interest in the trusts' assets. Distributions received on the trusts' assets are recorded as donor restricted investment income in the consolidated statements of activities and changes in net assets. Subsequent changes in fair value of the beneficial interest in the trusts' assets are included in the change in value of split-interest agreements on the consolidated statements of activities and changes in net assets.

Unconditional promises to give, net

Promises to give are primarily comprised of bequest agreements, which include irrevocable trusts, and pledged gift agreements. Promises to give are recorded as revenue upon the receipt of the unconditional promise to give. Conditional promises to give are not recognized until the conditions are substantially met.

Promises to give that are expected to be collected in less than one year are recorded at net realizable value. Promises to give that are expected to be collected in more than one year are recorded at fair value at the date of promise. That fair value is computed using a present value technique applied to anticipated cash flows. Amortization of the resulting discount is recognized as additional contribution revenue. The allowance for uncollectible promises to give is determined based on management's evaluation of the collectability of individual promises.

Operating agreements

SDZ Global operates the San Diego Zoo and the San Diego Zoo Safari Park pursuant to lease and operating agreements with the City. The agreements provide that title to SDZ Global's collections, property, equipment and exhibits is vested in the City. However, SDZ Global's assets are recorded on the books of SDZ Global as SDZ Global is permitted to pledge these assets. The San Diego Zoo lease agreement expires in 2034.

The San Diego Zoo Safari Park operates under a renewable short-term operating agreement with the City of San Diego Water Utilities Department. Every five years, the fair rental value of the land is evaluated and the annual rent amount adjusted. SDZ Global paid \$165 as annual rent in 2019.

Consistent with prior years, the fair values of the leases have not been reflected in the accompanying consolidated financial statements because objective valuation information is not available due to the unique characteristics and public park locations of the facilities.

Income taxes

SDZ Global, a California nonprofit public benefit corporation, is exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code of 1954, as amended, and the Revenue and Taxation Code of the State of California.

In accordance with accounting standards for income taxes, income tax benefits and/or liabilities are recognized for income tax positions taken or expected to be taken in a tax return, only when it is determined that the income tax position will more-likely-than-not be sustained upon examination by

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taxing authorities. SDZ Global has analyzed the tax positions taken in its filings with the Internal Revenue Service and the California Franchise Tax Board. SDZ Global believes that its income tax filing positions will be sustained upon examination and does not anticipate any adjustments that would result in a material adverse effect on SDZ Global's consolidated financial condition, change in net assets or cash flows. Accordingly, SDZ Global has not recorded any reserve or related accruals for interest and penalties for uncertain income tax positions at year-end 2019.

SDZ Global's U.S. federal and state income tax returns prior to fiscal years 2017 and 2016, respectively, are closed. Management continually evaluates expiring statutes of limitations, audits, proposed settlements, changes in tax law and new authoritative rulings. Management is not aware of any pending reviews or examinations.

Debt issuance costs

Debt issuance costs, net of accumulated amortization, are reported as a direct deduction from the face amount of the debt to which such costs relate. Amortization of debt issuance costs is reported as a component of interest expense and is computed using an imputed interest rate on the related loan.

Interest rate swap

SDZ Global utilizes interest rate swap contracts to manage the risk associated with fluctuations in interest rates on its variable rate debt. Pursuant to these agreements, SDZ Global makes periodic payments to the swap counterparty at a fixed interest rate and receives payments at a variable rate computed in accordance with the contractual formula. SDZ Global's policy is not to utilize financial instruments for trading or speculative purposes. Accordingly, it designates its interest rate swap agreements as hedges of the underlying debt. Interest expense on the debt is adjusted to include the payments made or received under the interest rate swaps.

In June 2004, SDZ Global entered into a 30-year interest rate swap agreement converting a notional \$30,000 of floating-rate debt into fixed-rate debt that bears interest at 3.905%, covering approximately two-thirds of the outstanding debt. In May 2010, SDZ Global entered into another interest rate swap agreement converting the remaining one-third of outstanding floating-rate debt into fixed-rate debt that bears interest at 2.81%. On July 31, 2019, SDZ Global refinanced all of its variable rate bond debt into a fixed rate of 2.32% for the remaining term of the bonds through October 1, 2034, resulting in no floating-rate debt outstanding. The swap agreements remain in place as of year-end 2019.

For the valuation of the interest rate swaps, SDZ Global used significant other observable inputs as of the valuation date (Level 2), including prices of instruments of similar maturities and characteristics. The fair value of the interest rate swaps is recorded within the consolidated statements of financial position at each period end. Changes in the fair value of the interest rate swaps are reported as unrealized gain or loss on interest rate swaps on the consolidated statements of activities and changes in net assets. The valuation of the swaps remaining at year end resulted in an unrealized loss of \$1,100 in 2019. The fair value of the interest rate swaps is included in accounts payable and accrued expenses in the consolidated statements of financial position and totaled \$5,398 as of year-end 2019. Providing that SDZ Global holds the swaps to maturity, the value of the derivative will be zero. The swap agreements can be terminated at the market rate at any time during the term of the agreement.

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Advertising costs

Advertising costs are expensed as incurred and totaled \$11,829 for 2019. This includes transactions for bartered admission tickets valued at \$950.

Barter transactions

SDZ Global enters into barter transactions with certain vendors to receive goods or services in exchange for admission tickets to the San Diego Zoo or the San Diego Zoo Safari Park facilities. Fair market value ("FMV") is determined based upon the value of the goods or services received. If the FMV of goods or services received is not readily determinable, then the FMV of the admissions tickets is used as the basis for valuing the transaction. Barter transactions are recognized in the period in which they occur. For the year ended 2019, SDZ Global recorded barter transactions totaling \$1,121, in admissions and memberships, Zoological habitat and wildlife care, and administration in the consolidated statements of activities and changes in net assets.

Contributed services

Contributed services are reflected in the accompanying consolidated financial statements at the fair value of the services received, if the services create or enhance nonfinancial assets or require specialized skills that are provided by individuals possessing those skills and would otherwise need to be purchased if not provided by donation. Contributed services totaling \$25 was recorded for 2019, primarily for specialty veterinary care.

SDZ Global also receives contributed services through various volunteer programs at the facilities and on certain conservation projects. Volunteers contributed approximately 249,518 hours in 2019. Contributed services through volunteers are not recorded in the consolidated statements of activities and changes in net assets as they generally do not meet the criteria described above.

Functional allocation of expenses

The costs of program and supporting service activities have been summarized on a functional basis in the statement of functional expenses. The statement of functional expenses presents the natural classification detail of expenses by function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. Expenses are tracked using direct identification methodology of charging specific expenses as either program, management and general, or fundraising and development. The financial statements report certain categories of expense that are attributable to one or more programs of supporting functions. Those expenses include occupancy, which are allocated based on square footage, as well as the president's office, which is allocated based on estimates of time and effort.

Use of estimates

In accordance with its established practices, management of SDZ Global has made a number of estimates and assumptions relating to the reporting of assets, liabilities, revenue and expenses, and the disclosure of contingent assets and liabilities in order to prepare its consolidated financial statements in accordance with accounting principles generally accepted in the United States of America. Actual results could differ from these estimates.

Adoption of New Accounting Pronouncements

For the year ended December 29, 2019, SDZ Global has adopted the Financial Accounting Standards Board's Accounting Standards Update ("ASU") No. 2014-09 – FASB Accounting Standards Codification Topic 606, *Revenue from Contracts with Customers*, as amended, supersedes or replaces nearly all GAAP revenue recognition guidance. These standards establish a new contract

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and control-based revenue recognition model, change the basis for deciding when revenue is recognized over time or at a point in time, and expand disclosures about revenue. SDZ Global adopted the requirements of the new guidance as of January 1, 2019, utilizing the modified retrospective method of transition. The most significant impact of the standard relates to the accounting for donor club memberships that under the new guidance, SDZ Global identified additional performance obligations that are provided to customers. The value of these performance obligations is deferred initially and recognized as the performance obligations are delivered, which is over the membership period. As a result, under the modified retrospective method of adoption, SDZ Global recorded a cumulative effect of accounting change on the Statement of Activities to adjust net assets as of January 1, 2019, to reflect the effect of the new guidance on donor club memberships that existed as of January 1, 2019.

For the year ended December 29, 2019, SDZ Global has adopted the Financial Accounting Standards Board's ASU No. 2018-08. In June 2018, FASB issued ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This standard assists entities in evaluating whether transactions should be accounted for as contributions or exchange transactions and determining whether a contribution is conditional. We have implemented the provisions of ASU 2018-08 applicable to both contributions received and to contributions made in the accompanying consolidated financial statements under a modified prospective basis. Accordingly, there is no effect on net assets in connection with our implementation of ASU 2018-08.

In November 2016, FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230), Restricted Cash*. This ASU provides additional guidance related to transfers between cash and restricted cash and how entities present, in their statements of cash flows, the cash receipts and cash payments that directly affect the restricted cash accounts. We have adopted these provisions in the accompanying consolidated financial statements.

Note 3 - Liquidity and availability

Financial assets available for general expenditures, that is, without donor or other restrictions limiting their use, or due for release of restrictions within 12 months of the statement of financial position date, comprise the following:

Cash and cash equivalents	\$ 178,928
Accounts receivable, net	12,430
Operating investments	24,587
Promises to give	2,779
Long-term investments appropriated for current use	1,862
	<u>\$ 220,586</u>

SDZ Global's endowment funds consist of donor-restricted endowments and funds designated by the board as endowments. Income from donor-restricted endowments is restricted for specific purposes, with the exception of amounts available for general expenditure. Donor-restricted endowments funds are not available for general expenditure.

A portion of the board-designated endowments totaling \$56,495 is subject to an annual spending rate of 5% for 2020 as described in Note 12. In addition, the board-designated endowments include an additional emergency reserve of \$22,300, which is not subject to annual spending. Although SDZ

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Global does not intend to spend from these board-designated endowment (other than amounts appropriated for general expenditure as part of our board's annual budget approval and appropriation), these amounts could be made available if necessary. However, a portion of the board-designated endowments contain investments with lock-up provisions that would reduce the total investments that could be made available (see Note 2 or disclosures about investments).

As part of its liquidity management plan, SDZ Global invests in excess of daily requirements in short term investments, CDs, and money market funds. To help manage unanticipated liquidity needs, SDZ Global has committed a line of credit of \$10 million, which it could draw upon.

Note 4 - Fair value

Fair value of financial instruments

The following methods and assumptions were used to estimate fair value of each class of financial instruments for which it is practicable to estimate fair value:

- The carrying values of cash and cash equivalents and accounts and other receivables approximate the fair value of these financial instruments.
- Investments reported as Level 1 assets are reported at fair value based on quoted market prices. Investments reported as Level 2 assets are reported at fair value based on inputs other than Level 1 that are observable. Investments reported as Level 3 assets are reported at fair value based on unobservable inputs that are supported by little or no market activity.
- The interest rate swaps are reported at fair value based on other observable inputs.
- The carrying values of split-interest agreements and bequests and contributions receivable approximate fair value because these contributions, which are anticipated to be collected in cash, are either short-term receivables or are recorded at the net present value of the amounts pledged.
- The carrying value of the bonds payable obligation approximates fair value because the obligation is recorded based on adjustable rates that approximate market value.
- The carrying value of the term loan obligation approximates fair value because the obligation is recorded based on a fixed rate that determines market value.
- The carrying value of the line of credit obligation approximates fair value because the obligations are recorded at the net present value of future payments at market interest rates.

Fair value measurements

Fair value accounting standards define fair value, establish a framework for measuring fair value under accounting principles generally accepted in the United States of America, and enhance disclosures about fair value measurements. Fair value is defined under this standard as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Valuation techniques used to measure fair value under this standard must maximize the use of observable inputs and minimize the use of unobservable inputs.

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The guidance describes a fair value hierarchy based on three levels of inputs, of which the first two are considered observable and the last unobservable, that may be used to measure fair value:

Level 1: Quoted prices in active markets for identical assets or liabilities.

Level 2: Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3: Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Assets and liabilities measured at fair value are based on one or more of three valuation techniques noted in the tables below:

- a. Market approach: Prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities.
- b. Cost approach: Amount that would be required to replace the service capacity of an asset (replacement cost).
- c. Income approach: Techniques to convert future amounts to a single present amount based on market expectations (including present value techniques, option-pricing and excess earnings models).

Asset classes

SDZ Global invests across a broad range of asset classes, including domestic common stocks, foreign stocks, mutual funds - equity, mutual funds - fixed income, and partnerships and other. SDZ Global may invest directly in the securities of these asset classes, or indirectly through interests in funds and limited partnerships. Securities held directly by SDZ Global are valued at their observable market prices. The value of holdings in funds and limited partnerships are in accordance with valuations provided by their investment managers. Funds and limited partnerships may make investments in securities that are publicly traded, which are generally valued based on observable market prices, unless a restriction exists. Managers of investment funds and limited partnerships value those investments based upon the best information available for a given circumstance and may incorporate assumptions that are the investment manager's best estimates after consideration of a variety of internal and external factors. If no public market exists for the investments, the fair value is determined by the investment manager taking into consideration, among other things, the cost of the investment, prices of recent significant placements of similar investments of the same issuer and subsequent developments concerning the companies to which the investments relate.

Investments held by SDZ Global's investment pool are categorized as follows:

Domestic common stocks - This category includes investments in publicly traded equity securities of U.S. companies. These investments bring diversity to SDZ Global's portfolio with the objective of long-term growth in SDZ Global's endowment funds. The majority of these investments are highly liquid with settlements from 1 to 30 days.

Foreign stocks - This category includes investments in publicly traded equity securities of international entities including entities in emerging markets. The investments follow a value-based

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stock selection approach, buying companies whose shares appear under-valued on the basis of long-term earning power or asset backing. The majority of these investments are highly liquid with settlements from 1 to 30 days.

Mutual funds - equity - This category includes investments in funds that invest primarily in publicly traded equity securities of U.S.-based as well as international companies. These investments bring diversity to SDZ Global's portfolio with the objective of long-term growth in SDZ Global's endowment funds. The majority of these investments are highly liquid with settlements from 1 to 30 days.

Mutual funds - fixed income - This category includes investments in bond funds that invest in domestic instruments and sovereign debt instruments of global markets. These investments are both highly liquid with settlements from 1 to 30 days.

Mutual funds – balanced – This category includes investments in funds that are a mix of publicly traded equity securities, bonds, and/or a money market component. These investments are both highly liquid with settlements from 1 to 30 days.

Partnerships and other - This category includes investments in hedge funds, partnerships, and private equity funds that invest in many different holdings in a wide variety of industries. This category is intended to reduce volatility of the overall portfolio as well as provide for long-term growth. Investment redemptions within this category are varied, ranging from monthly to annually, with prior notification. Certain partnerships and private equity fund investments require long-term commitment of funds, usually over 10 years. SDZ Global does not have any redemption rights in these investments and the investments have remaining lives between 1 and 10 years.

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The following tables provide the method used to measure the fair value of certain assets and liabilities as of December 29, 2019. Only assets and liabilities measured at fair value are shown on the three-tier value hierarchy.

	Balance as of December 29, 2019	Fair value measurements at reporting date using			Valuation techniques (a,b,c)
		Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	
Investments					
Domestic common stocks	\$ 21,379	\$ 21,379	\$ -	\$ -	a
Foreign stocks	3,424	3,424	-	-	a
Mutual fund - equity	77,274	-	77,274	-	a
Mutual fund - fixed income	29,430	-	29,430	-	a
Mutual fund - balanced	1,124	-	1,124	-	a
Partnerships and other at NAV	36,120	(1)	(1)	(1)	c
Total investments	<u>\$ 168,751</u>	<u>\$ 24,803</u>	<u>\$ 107,828</u>	<u>\$ -</u>	
Split-interest agreements and beneficial interests					
Pooled income fund	\$ 3,997	\$ -	\$ 3,998	\$ -	a
Charitable gift annuities	20,137	19,952	185	-	a
Beneficial interest in perpetual trust	10,538	-	-	10,538	c
Beneficial interest in charitable trusts	9,808	-	-	9,808	c
Total split-interest agreements	<u>\$ 44,480</u>	<u>\$ 19,952</u>	<u>\$ 4,183</u>	<u>\$ 20,346</u>	
Liabilities					
Charitable gift liabilities ⁽²⁾	\$ 13,533	\$ -	\$ 13,533	\$ -	c
Interest rate swap	5,398	-	5,398	-	c
Total liabilities	<u>\$ 18,931</u>	<u>\$ -</u>	<u>\$ 18,931</u>	<u>\$ -</u>	

(1) Certain investments that are measured at fair value using net asset value per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented on this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the consolidated statement of financial position.

(2) Included as a component of liabilities under split-interest agreements on the accompanying consolidated statement of financial position.

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The following table sets forth a summary of changes in the fair value of SDZ Global's Level 3 assets for 2019:

	Beneficial interest in a perpetual trust	Charitable remainder trusts	Total
Balance, beginning	\$ 9,214	\$ 8,248	\$ 17,462
Contributions	-	-	-
Distributions	(435)	(250)	(685)
Gains included in change in net assets	1,759	1,810	3,569
Balance, end	<u>\$ 10,538</u>	<u>\$ 9,808</u>	<u>\$ 20,346</u>

The following table represents SDZ Global's Level 3 financial instruments, the valuation techniques used to measure the fair value of those financial instruments, and the significant unobservable inputs and the ranges of values for those inputs for 2019:

Instrument	Fair value	Principal valuation technique	Unobservable inputs	Significant input values	Weighted average
Beneficial interest in charitable remainder trusts	\$ 9,808	Valuation of underlying assets as provided by	Base price	N/A	N/A
Beneficial interest in perpetual trust held by others	\$ 10,538	Present value of expected cash flows	Investment yield Discount rate	3.34% 3.34%	N/A
		Valuation of as provided by	Base price	N/A	N/A

Fair value measurements of investments in certain entities that calculate net asset value per share (or its equivalent)

SDZ Global determines the fair value of investments that do not have a readily determinable fair value and has all the attributes of an investment company by estimating fair value using the investment's net asset value ("NAV") per share. The NAV should be calculated at the reporting entity's measurement date and, if not, the NAV must be adjusted for significant market events since its calculation. This precludes a reporting entity from using a practical expedient if it is probable that it will sell the investment at a price other than NAV.

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The following table lists investments in investment companies that are valued at NAV at December 29, 2019:

<u>Asset category</u>	<u>NAV in funds</u>	<u>No. of funds</u>	<u>Redemption terms</u>	<u>Redemption instructions</u>	<u>Redemption restrictions in place at year end</u>	<u>Unfunded commitments at year end</u>
Partnerships and other	\$26,785	21	Monthly to semi-annual	30 to 90 days notice	None	\$ -
Partnerships and other	9,335	10	Closed end funds not eligible for redemption	Not redeemable	Not redeemable	\$ 6,595
	<u>\$ 36,120</u>					<u>\$ 6,595</u>

Note 5 - Accounts receivable, net

Accounts receivable consist of the following at year-end 2019:

Trade receivables	\$ 1,374
City of San Diego (Section 77a) receivable	5,626
Grants receivable	3,151
Other	2,514
	<u>12,665</u>
Less allowance for doubtful accounts	<u>(235)</u>
Total accounts receivable, net	<u>\$12,430</u>

Note 6 - Inventories, net

Inventories consist of the following at year-end 2019:

Food and merchandise	\$ 2,666
Animal food and other	254
	<u>2,920</u>
Less inventory reserve	<u>(189)</u>
Total inventories, net	<u>\$ 2,731</u>

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Note 7 - Split-interest agreements and beneficial interests

Split-interest agreements consist of the following at year-end 2019:

Pooled income funds	\$ 3,997
Charitable gift annuities	20,137
Beneficial interest in perpetual trusts	10,538
Beneficial interest in charitable remainder trusts	<u>9,808</u>
 Total split-interest agreements	 <u><u>\$ 44,480</u></u>

Note 8 - Promises to give, net

Bequests and contributions receivable consist of the following at year-end 2019:

Irrevocable trusts	\$ 45,547
Pledged gift agreements	21,401
Endowments	<u>15,990</u>
	82,938
Allowance for uncollectible amounts	<u>(3,303)</u>
 Total promises to give, net	 <u><u>\$ 79,635</u></u>

Contributions receivable in the form of pledge gift agreements are unconditional promises to give. Pledges are recorded at the applicable risk-adjusted discount rates, which range from 2.76% to 10.66%, established in the year the gift was received and commensurate with the duration of the donor's payment plan.

Bequests and contributions receivable are expected to be collected as follows:

Due in one year	\$ 24,952
Due in two to five years	6,772
Due in more than five years	<u>82,482</u>
	114,206
Unamortized discount	<u>(31,268)</u>
 Net present value	 82,938
Allowance for uncollectible accounts	<u>(3,303)</u>
 Total promises to give, net	 <u><u>\$ 79,635</u></u>

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Note 9 - Property and equipment

Property and equipment consist of the following at year-end 2019:

Buildings, exhibits and improvements	\$558,875
Transportation and equipment	96,688
Land	3,802
Construction in progress	<u>40,035</u>
	699,400
Less accumulated depreciation and amortization	<u>(391,183)</u>
Total property and equipment, net	<u><u>\$308,217</u></u>

Depreciation and amortization expense totaled \$32,427 for 2019.

Note 10 - Debt

Tax-exempt bonds

Series 2012 Bonds: On October 1, 2012, SDZ Global issued \$40,165 in tax-exempt variable rate demand bonds ("Series 2012 Bonds") through the California Municipal Finance Authority ("CMFA") for the purpose of refinancing the outstanding principal of the Series 2004 Bonds. Under a financing agreement with a bank, the Series 2012 Bonds bear a variable interest rate, payable monthly to the bank, of 65.1% of one-month LIBOR plus 72 basis points (2.32% at year-end 2019). Principal payments are due on October 1 each year, based on an amortization schedule through October 1, 2034, the maturity date. On July 31, 2019, SDZ Global amended the financing agreement to eliminate the variable interest in exchange for a fixed rate of 2.32% through the maturity date on October 1, 2034. The outstanding balance as of year-end is \$31,330 and remain in place with CMFA.

SDZ Global was in compliance with all financial covenants under the financing agreement at year-end 2019.

Debt issuance costs, net of accumulated amortization, totaled \$17 at year-end 2019, and are related to the amendment in 2019 of the Series 2012 Bonds. Amortization of debt issuance costs is calculated using the straight-line method, which does not materially differ from the amortization that would be reported under the imputed interest method. The costs have been deferred and included in debt in the consolidated statements of financial position and amortized over the first seven-year put option term using the effective interest method.

Line of credit

SDZ Global has an unsecured financing agreement with its primary bank that permits multiple borrowings at variable rates of interest up to \$10,000. The financing agreement, which expires on December 1, 2021, provides that SDZ Global may elect for each individual borrowing on the line of credit to have interest calculated using the LIBOR Daily Floating Rate plus 0.90% (2.281% as of year-end 2019) or using an optional LIBOR rate plus 0.90% for a specific fixed time period. Any amounts not drawn under the line of credit are subject to an unused commitment fee of 0.15% payable monthly.

There was no outstanding balance at year-end 2019. The line of credit contains certain covenants with which SDZ Global was in full compliance at year-end. SDZ Global has outstanding letters of

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credit for \$3,551 under this agreement at year end for 2019, which reduce the amount available for borrowing. There were no amounts drawn on the letters of credit at year-end 2019.

Term loan

On June 2, 2014, SDZ Global amended the loan agreement to include an additional loan for \$18,000. The loan proceeds were used to construct certain onsite improvements that were completed in July 2015. The loan carries a fixed rate of 3.17%. Interest is paid monthly. Principal payments are made monthly and began July 1, 2015, utilizing an amortization schedule over 20 years. The outstanding balance was \$9,707 at year-end 2019.

Maturities of long-term debt in each of the five years subsequent to year-end 2019 and thereafter are as follows:

2020	\$	2,287
2021		2,443
2022		2,536
2023		2,635
2024		2,738
Thereafter		<u>28,397</u>
		41,037
Less unamortized debt issuance cost		<u>17</u>
	\$	<u><u>41,020</u></u>

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Note 11 - Net assets with donor restrictions

Net assets with donor restrictions are restricted for the following purposes as of December 29, 2019:

Subject to expenditure for specified purposes:

Facility operations:	
Construction of major exhibits	\$ 47,337
Zoological habitat and wildlife care	10,150
Research and conservation	8,829
Education and outreach	2,739
Promises to give, the proceeds from which have been restricted by donors for:	
Construction of major exhibits	16,324
Zoological habitat and wildlife care	4,176
Research and conservation	10,197
Education and outreach	747
	<hr/> 100,499 <hr/>

Subject to the passage of time:

Beneficial interests in charitable trusts held by others	9,160
Assets held under split-interest agreements	9,796
Donated property	2,350
Promises to give that are not restricted by donors, but which are unavailable for expenditure until due	32,019
	<hr/> 53,325 <hr/>

Endowments

Subject to appropriation and expenditures when a specified
event occurs and restricted by donors for:

Zoological habitat and wildlife care	3,811
Research and conservation	1,124
Education and outreach	11,760
	<hr/> 16,695 <hr/>

Subject to SDZ Global spending policy and appropriation:

Zoological habitat and wildlife care	17,221
Research and conservation	35,280
Education and outreach	15,515
	<hr/> 68,016 <hr/>

Total endowments	<hr/> 84,711 <hr/>
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Not subject to spending policy or appropriation:

Beneficial interest in assets held by community foundation	2,626
Beneficial interest in perpetual trusts	7,912
	<hr/> 10,538
	<hr/> \$ 95,249 <hr/>

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose or by the occurrence of the passage of time or other events specified by the donors as follows for the year ended December 29, 2019:

Satisfaction of purpose restrictions	
Construction of major exhibits	\$ 2,013
Zoological habitat and wildlife care	6,787
Research and conservation	14,625
Education and outreach	2,932
Distributions (proceeds not restricted by donors)	
Assets held under split-interest agreements	663
Promises to give, net	6,401
Restricted-purpose spending-rate distributions and appropriations	
Zoological habitat and wildlife care	886
Research and conservation	1,907
Education and outreach	696
	<hr/>
Net assets released from restrictions	<hr/> \$ 36,910 <hr/>

Note 12 - Endowment perpetual in nature

Endowment funds: SDZ Global's endowment funds were established by donor-restricted contributions to provide a permanent endowment, which is to provide a permanent source of income. The portion of a permanent endowment that must be maintained permanently, not used, expended, or otherwise exhausted, is classified as a donor restricted asset. In addition, the Board has earmarked a portion of the SDZ Global's net assets without donor restrictions as Board-designated endowment funds to be invested to provide income for a long, but not unspecified period. These designations include a fund for the San Diego Zoo Institute for Conservation Research to provide for conservation and research of rare and endangered species. In addition, the Board has designated amounts for an emergency reserve and a strategic reserve. The emergency reserve is to provide for unexpected or unanticipated expenditures when other sources of funds are not available. The strategic reserve is to provide for future operating needs. The Board-designated endowment funds that result from an internal designation, are not donor restricted and are classified as net assets without donor restrictions in the Statement of Financial Position.

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Donor-restricted endowment funds are restricted for the following purposes as of December 29, 2019:

Zoological habitat and wildlife care	\$ 26,798
Education and outreach	24,724
Research and conservation	<u>43,727</u>

Total donor-restricted endowment funds \$ 95,249

Funds with deficiencies: From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor requires SDZ Global to retain as a fund of perpetual duration. At December 29, 2019, there were no funds with deficiencies reported in net assets with donor restrictions.

Interpretation of relevant law: SDZ Global has interpreted the Uniform 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 fund absent explicit donor stipulations to the contrary. As a result of this interpretation, the SDZ Global has classified as net assets with donor restrictions (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. In accordance with UPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- a. The duration and preservation of the fund
- b. The purpose of SDZ Global and the donor-restricted endowment fund
- c. General economic conditions
- d. The possible effects of inflation and deflation
- e. The expected total return from income and the appreciation of investments
- f. Other resources of SDZ Global
- g. SDZ Global's investment policy

Return objectives and risk parameters: SDZ Global has adopted investment and spending policies for endowment assets that are meant to ensure that the endowment's purchasing power is maintained over time by keeping the long-term rate of annual spending from the endowment equal to or less than the long-term real (inflation-adjusted) investment return of the endowment fund.

Endowment assets include those assets of donor-restricted funds that SDZ Global must hold in perpetuity or for a donor-specified period as well as Board-designated funds.

The investment objectives of the assets are long-term in nature with an investment horizon of at least 7 to 10 years. The long-term objective is to earn a total rate of return (income plus capital gains) that

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will exceed the demands placed on the portfolio to support SDZ Global's goals in addition to exceeding the rate of inflation, as measured by the U.S. Consumer Price Index ("CPI"). The overall rate of return objective is a reasonable "real" rate consistent with the assumed level of risk. The return objective shall be to exceed the return of a custom index, net of fees. The custom index is defined as a blended benchmark portfolio that reflects the asset allocation targets. The minimum acceptable rate of return is that which equals or exceeds CPI by average spending over a market cycle of five to seven years. It is expected that the level of risk as measured by the annualized standard deviation of returns shall be no greater than that of the custom index as defined above. Spending is based on a total return strategy, which includes both income and appreciation (both realized and unrealized gains). The annual withdrawal target is 5% of the fund's value, based generally on an expected annual total return of approximately 8%, offset by estimated inflation of 3%. Actual returns in any given year may vary from this amount.

Strategies employed for achieving objectives: The asset allocation policies are designed to be consistent with the objectives of return and risk. These policies, which consider the historic relationships of return and risk among asset classes, are designed to provide the highest probability of meeting or exceeding the return objectives at the lowest possible risk.

The table below indicates the allowable ranges for each of the major asset categories:

	<u>Range</u>
Domestic common stocks	25 - 50%
Foreign stocks	15 - 40%
Mutual fund - equity	0 - 25%
Mutual fund - fixed income	10 - 40%
Cash	0 - 10%
Partnerships and other	10 - 40%

In order to maintain the risk and return characteristics of the asset allocation plan, it is the policy to rebalance the portfolio towards target allocations when contributions to or distributions from the portfolio are made or when the asset class allocations have fallen outside the allowable ranges established or if allocations have deviated from their target allocations by more than 20% or by more than five percentage points on an absolute basis.

The endowment net asset composition by type of fund consists of the following as of year-end 2019:

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 95,249	\$ 95,249
Board-designated endowment funds	79,184	-	79,184
Total endowment funds	<u>\$ 79,184</u>	<u>\$ 95,249</u>	<u>\$ 174,433</u>

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The following table sets forth a summary of changes in endowment net assets for 2019:

	Without donor restrictions	With donor restrictions	Total
Endowment net assets, beginning	\$ 69,965	\$ 78,779	\$ 148,744
Net investment income	1,035	1,641	2,677
Net appreciation (realized and unrealized)	10,860	13,898	24,758
Total investment income	11,895	15,539	27,434
Contributions	-	4,420	4,420
Appropriation of endowment assets for expenditure	(2,677)	(3,489)	(6,166)
Endowment net assets, end	\$ 79,184	\$ 95,249	\$ 174,433

Note 13 - Pension and benefit plans

SDZ Global has defined benefit pension plans that cover substantially all of its full-time employees. The plans provide benefits based upon years of service and earnings. SDZ Global recognizes the overfunded or underfunded status of its defined pension plans as an asset or liability in its consolidated statements of financial position, and recognizes changes in that funded status in the year in which the changes occur as changes in unrestricted net assets arising from defined benefit plans but not yet included in net periodic benefit cost in the consolidated statements of activities and changes in net assets.

The funded status of SDZ Global's pension plans was as follows:

Plan assets at fair value	\$ 211,394
Projected benefit obligation	(286,222)
Funded status	\$ (74,828)
Accumulated benefit obligation	\$ 256,020

Weighted-average assumptions were as follows:

Discount rate	3.67%
Expected return on plan assets	6.75%
Rate of compensation increase	3.00%

The discount rate is the estimated rate at which the obligation for pension benefits could effectively be settled. The expected return on plan assets reflects the average rate of earnings that SDZ Global estimates will be generated on the assets of the plans. The rate of compensation increase reflects

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SDZ Global's best estimate of the future compensation levels of the individual employees covered by the plans.

As plan sponsor, SDZ Global oversees and administers the assets held by the pension plan entities. Certain disclosures of pension plan assets are included in the consolidated financial statements, but pension plan assets are not included in the consolidated statements of financial position. Plan assets are invested in equity and debt securities using separate investment funds. SDZ Global's management and the Board's investment committee monitor performance against benchmark indices.

Return objectives and risk parameters: SDZ Global has adopted investment policies for pension assets that are meant to provide funding for pension retirement payments to current and future retirees of SDZ Global's pension plans. The primary objectives are to maximize long-term growth and minimize risk of loss of principal. In addition, SDZ Global seeks to limit the year-to-year volatility of fluctuations in market valuations, which can impact the cash contributions required to maintain certain funding levels.

Strategies employed for achieving objectives: To meet the objectives, SDZ Global maintains a diversified and balanced portfolio for pension investments. The amount of risk that can be controlled by allocating assets among different asset classes depends both on the risk level of each asset class and the degree of correlation between each asset class. An asset allocation model that recognizes the risk and return characteristics, as well as the correlation of each asset class, to create an "efficient" asset allocation target is utilized to develop the asset allocation for an efficient mix to provide the greatest return at each level of risk. The investment strategy utilizes several different asset classes with varying risk/return characteristics. The returns of the asset classes are not expected to move in parallel, which will allow the plan to take part in different parts of the global economic cycle. Equity investments range from 50% to 85% of the total portfolio, utilizing several investment advisors. Holdings include U.S. and foreign securities diversified across numerous industries. Fixed income investments range from 15% to 50% of the total portfolio. These include government and corporate debt securities.

The following table shows the asset allocation percentages for pension investments at year end:

Cash and cash equivalents	3%
Mutual fund - equity	21%
Mutual fund - fixed income	9%
Marketable equity securities	11%
Collective investment fund	56%
	<hr/>
	100.00%
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Assets and liabilities measured at fair value are based on one or more of three valuation techniques noted in the tables below:

- a. Market approach: Prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities.
- b. Cost approach: Amount that would be required to replace the service capacity of an asset (replacement cost).
- c. Income approach: Techniques to convert future amounts to a single present amount based on market expectations (including present value techniques, option-pricing and excess earnings models).

The following tables provide the method used to measure the fair value of certain assets as of year-end 2019. Only assets measured at fair value are shown on the three-tier value hierarchy.

Pension assets measured at fair value on a recurring basis are as follows as of year-end 2019:

	Total	Fair value measurements at reporting date using			Valuation techniques (a,b,c)
		Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	
Money market funds	\$ 6,517	\$ -	\$ 6,517	\$ -	a
Domestic common stocks	18,264	18,264	-	-	a
Foreign stocks	3,456	3,456	-	-	a
Mutual fund - equity	44,321	-	44,321	-	a
Mutual fund - fixed income	19,831	-	19,831	-	a
Collective investment fund	118,549	-	-	118,549	c
Partnerships and other at NAV	456	(1)	(1)	(1)	c
Total assets	\$ 211,394	\$ 21,720	\$ 70,669	\$ 118,549	

- (1) Certain investments that are measured at fair value using net asset value per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented on this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the consolidated statement of financial position.

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The following table sets forth benefit cost and benefits paid for 2019:

Components of net periodic benefit cost	
Actuarial charges (income)	
Interest cost	\$ 10,673
Expected return on assets	(11,086)
Net prior service cost amortization	604
Net loss amortization	<u>2,803</u>
Total actuarial charges	2,993
Employer service cost	<u>7,831</u>
Periodic benefit cost	<u>\$ 10,824</u>
Benefits paid	<u>\$ 6,191</u>
Administrative expenses paid	<u>\$ 105</u>
Employer contributions	<u>\$ 14,750</u>

Employer service costs of \$7,831, net prior service cost amortization of \$604 and net loss amortization of \$2,803, are recorded in pension expense for 2019. Prior service cost of \$3,638 and a cumulative actuarial loss of \$65,339 are included in net assets without donor restrictions at year-end 2019. SDZ Global expects to record \$574 of net prior service cost amortization and \$2,514 of net loss amortization in 2019.

SDZ Global expects to make a total of \$4,250 in pension contributions during 2020.

The following table shows the amounts recognized in the consolidated statements of financial position at year-end 2019:

Liability for pension benefits	<u>\$ 74,752</u>
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The following benefit payments are expected to be paid over the next ten fiscal years:

2020	\$ 8,398
2021	9,268
2022	10,065
2023	10,989
2024	11,947
2025-2029	<u>72,790</u>
	<u>\$ 123,457</u>

SDZ Global also maintains a 403(b) defined contribution plan, covering employees who meet certain age and service requirements. Eligible employees may contribute a portion of their earnings each plan year, subject to certain Internal Revenue Service limitations. The 403(b) defined contribution

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plan allows for employer matching contributions to eligible employees. Matching contributions totaled \$1,311 for 2019.

Note 14 - Collective bargaining agreement

SDZ Global is a party to a collective bargaining agreement with a labor union. The agreement term expired on February 28, 2017. A new agreement was ratified in January 2017 for the period starting February 1, 2017, through January 31, 2021. At year-end 2019, 1,826 employees, or approximately 64% of total employees, were represented by a labor union.

Note 15 - Commitments and contingencies

Claims and legal actions: SDZ Global is subject to claims and legal actions arising in the ordinary course of business. In the opinion of management, based in part upon the advice of legal counsel, these matters are of such a nature that unfavorable disposition would not have a material adverse effect on the consolidated financial position, results of operations, or cash flows of SDZ Global.

Lease agreements: SDZ Global has entered into certain noncancelable lease agreements for a warehouse facility and office space as well as cancelable and noncancelable lease agreements for computer equipment, vehicles, and office equipment. Rent expense totaled \$3,755 for 2019. Minimum lease payments under noncancelable operating leases as of year-end 2019 are as follows:

2020	\$	1,658
2021		1,470
2022		1,467
2023		1,082
2024		463
Thereafter		-
	\$	<u>6,140</u>

Self-Insurance: SDZ Global carries an excess workers' compensation liability policy that includes a \$250 retained limit per claim up to \$4,000 aggregate per year. SDZ Global employs a professional third-party administrator to manage workers' compensation claims incurred. SDZ Global accrued \$5,442 as an estimate of workers' compensation claims incurred but not yet paid or reported as of year-end 2019. The liability is reflected in accounts payable and accrued expenses on the accompanying consolidated statements of financial position.

Cooperative endeavor agreement: On January 15, 2013, SDZ Global and the Audubon Nature Institute entered into a cooperative endeavor agreement for the development of the Alliance for Sustainable Wildlife. It has been deemed that the infrastructure of the Freeport-McMoRan Audubon Species Survival Center in New Orleans lends itself to the development of husbandry areas that can house species that can make a valuable contribution to industry-wide conservation and sustainability goals. The terms of the agreement call for SDZ Global to provide a capital investment of at least \$6,000, but not to exceed \$10,000, in increments of not more than \$2,000 in any calendar year over the first five years of the agreement. Payments for capital improvements are included in property and equipment in the consolidated statements of financial position. SDZ Global is also required to contribute 50% of each year's operating budget, up to \$500 per year, during the same period.

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Payments of \$0 were due at year-end 2019, and payments of \$1,094 were made under the agreement in 2019.

Construction Commitments: As of year-end 2019, SDZ Global had outstanding commitments for future capital expenditures of \$68,294.

COVID-19: In December 2019 and early 2020, the coronavirus that causes COVID-19 was reported to have surfaced in China. The spread of this virus globally including in early 2020 has caused business disruption in the areas in which SDZ Global primarily operates. While the disruption is currently expected to be temporary, there is considerable uncertainty around the duration of this disruption. Therefore, while SDZ Global expects this matter to negatively impact SDZ Global's financial condition, results of operations, or cash flows, the extent of the financial impact and duration cannot be reasonably estimated at this time. (See Note 16)

Note 16 - Subsequent events

In preparing the consolidated financial statements, SDZ Global evaluated subsequent events through April 22, 2020, the date that these consolidated financial statements were available to be issued. On February 3, 2020, subsequent to year end, SDZ Global amended the loan agreement to change the fixed rate to 2.56% and to extend the loan through February 1, 2030, the maturity date.

On March 16, 2020, as a result of consideration of both state and federal COVID-19 guidelines, SDZ Global temporarily closed its facilities to the public. The closure has been extended indefinitely as SDZ Global continues to monitor the COVID-19 risks and state and federal guidelines to help combat COVID-19. The closures have resulted in a significant loss of revenue while SDZ Global continues to incur considerable ongoing operational costs to care for wildlife, maintain the facilities, and critical conservation activities. As a result, SDZ Global is unable to determine or predict the overall impact that the coronavirus will ultimately have on our operations, liquidity, and capital resources.



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