

**Zoological Society of San Diego
dba San Diego Zoo Wildlife Alliance**

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

December 31, 2021

**Zoological Society of San Diego
dba San Diego Zoo Wildlife Alliance**

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Independent Auditor's Report

To the Board of Trustees
Zoological Society of San Diego
dba San Diego Zoo Wildlife Alliance

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the accompanying consolidated financial statements of Zoological Society of San Diego dba San Diego Zoo Wildlife Alliance ("SDZWA"), which comprise the consolidated statement of financial position as of December 31, 2021, 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.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of SDZWA as of December 31, 2021, 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.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America ("GAAS"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of SDZWA and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about SDZWA's ability to continue as a going concern for one year after the date that the consolidated financial statements are issued.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit 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 SDZWA's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about SDZWA's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.



San Diego, California
April 15, 2022

**Zoological Society of San Diego
dba San Diego Zoo Wildlife Alliance**

**Consolidated Statement of Financial Position
December 31, 2021
(In thousands)**

Assets

Cash and cash equivalents	\$ 130,311
Investments	29,705
Accounts receivable, net	10,441
Inventories, net	4,360
Prepaid expenses and other assets	9,098
Cash restricted for long-term capital projects and endowments	36,961
Unconditional promises to give, net	14,900
Split-interest agreements	40,986
Beneficial interests in assets held by others	16,899
Endowments	
Investments	241,692
Promises to give, net	19,503
Split-interest agreements	706
Property and equipment, net	<u>350,255</u>
Total assets	<u>\$ 905,817</u>

**Zoological Society of San Diego
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**Consolidated Statement of Financial Position
December 31, 2021
(In thousands)**

Liabilities and Net Assets

Liabilities	
Accounts payable	\$ 23,579
Accrued salaries and salary related expenses	26,245
Deferred support and revenue	30,294
Liabilities under split interest arrangements	17,178
Liability for pension benefits	58,750
Debt, net	57,734
Other accrued expenses	715
	<hr/>
Total liabilities	214,495
	<hr/>
Commitments and contingencies	
Net assets	
Without donor restrictions	
Undesignated	341,523
Designated by the Board for endowment	96,449
	<hr/>
	437,972
With donor restrictions	
Perpetual in nature	163,136
Purpose restrictions	65,687
Time-restricted for future periods	24,527
	<hr/>
	253,350
Total net assets	691,322
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Total liabilities and net assets	\$ 905,817
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See Notes to Consolidated Financial Statements.

**Zoological Society of San Diego
dba San Diego Zoo Wildlife Alliance**

**Consolidated Statements of Activities and Changes in Net Assets
December 31, 2021
(In thousands)**

	Without donor restrictions	With donor restrictions	Total
Revenues and support			
Admissions and memberships	\$ 153,106	\$ -	\$ 153,106
Auxiliary activities	112,315	-	112,315
Contributions	13,222	49,600	62,822
Tax revenue and other	19,969	-	19,969
Net assets released from restrictions	104,838	(104,838)	-
Total revenue and support	403,450	(55,238)	348,212
Expenses			
Wildlife care and conservation	281,273	-	281,273
Management and general	27,516	-	27,516
Fundraising and development	8,330	-	8,330
Total expenses	317,119	-	317,119
Change in net assets from operating activities	86,331	(55,238)	31,093
Other changes in net assets			
Investment income, net	14,998	18,322	33,320
Interest expense	(1,033)	-	(1,033)
Net gain on sales of fixed and other assets	3,095	-	3,095
Change in value of split-interest agreements	-	2,876	2,876
Distributions from and change in value of beneficial interest in assets held by others	-	770	770
Pension-related change other than net periodic pension cost	59,773	-	59,773
Change in net assets	163,164	(33,270)	129,894
Net assets at beginning of year	274,808	286,620	561,428
Net assets at end of year	\$ 437,972	\$ 253,350	\$ 691,322

See Notes to Consolidated Financial Statements.

**Zoological Society of San Diego
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**Consolidated Statement of Functional Expenses
December 31, 2021
(In thousands)**

	Program Services wildlife care and conservation	Management and general	Fundraising and development	Total
Salaries and benefits	\$ 146,871	\$ 13,193	\$ 4,925	\$ 164,989
Outside services and professional fees	12,432	5,123	581	18,136
Advertising and promotion	14,277	42	765	15,084
Operating supplies and equipment	9,304	138	19	9,461
Forage	4,543	-	-	4,543
Occupancy	12,973	1,209	84	14,266
Bank and credit card fees	4,646	385	8	5,039
Information technology	1,152	2,976	431	4,559
Insurance	2,251	244	45	2,540
Postage and freight	1,213	31	376	1,620
Grants and assistance to others	3,129	-	-	3,129
Depreciation and amortization	31,434	2,008	-	33,442
Repairs and maintenance	7,999	720	81	8,800
Travel	448	37	8	493
Office expense and meetings	1,618	1,385	980	3,983
Cost of goods sold	25,983	-	-	25,983
Fundraising direct costs for events	-	-	562	562
Other	1,000	25	27	1,052
	<hr/>	<hr/>	<hr/>	<hr/>
Total expenses by function	281,273	27,516	8,892	317,681
Less expenses included with revenues on the statement of activities				
Fundraising direct costs for events	-	-	(562)	(562)
	<hr/>	<hr/>	<hr/>	<hr/>
Total expenses included in the expense section on the statement of activities	<u>\$ 281,273</u>	<u>\$ 27,516</u>	<u>\$ 8,330</u>	<u>\$ 317,119</u>

See Notes to Consolidated Financial Statements.

**Zoological Society of San Diego
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**Consolidated Statement of Cash Flows
December 31, 2021
(In thousands)**

Cash flow from operating activities	\$	129,894
Change in net assets		
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization		33,442
Amortization of debt issuance costs		33
Amortization of discount on bequests and contributions receivable		(2,280)
Provision for uncollectable receivables		634
Net realized gain on sale of investments and investment income		(12,815)
Net gain on sale of other assets		(2,728)
Net gain on disposal of property and equipment		(367)
Interest earned on beneficial trust		(770)
Change in split interest		(775)
Net unrealized gain on investments		(16,926)
Cash restricted for long-term capital projects and endowments		(11,281)
Changes in operating assets and liabilities:		
Accounts receivable, net		1,000
Inventories		(904)
Prepaid expenses and other assets		2,804
Unconditional promises to give, net		7,135
Split-interest agreements		(2,456)
Accounts payable		5,476
Accrued salaries and salary-related expenses		(2,312)
Deferred support and revenue		7,399
Liability for pension benefits		(62,594)
		<hr/>
Net cash provided by operating activities		71,609
		<hr/>
Cash flow from investing activities		
Proceeds from sale of marketable securities		49,168
Purchase of marketable securities		(48,846)
Proceeds from sale of property and equipment		12
Purchase of property and equipment		(40,966)
		<hr/>
Net cash used in investing activities		(40,632)
		<hr/>

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**Consolidated Statement of Cash Flows
December 31, 2021
(In thousands)**

Cash flow from financing activities	
Payment of debt	(1,986)
Endowment contributions	5,342
Contributions for long-term capital improvements	5,939
	<u>9,295</u>
Net cash provided by financing activities	<u>9,295</u>
Net increase in cash, cash equivalents, and restricted cash	40,272
Cash, cash equivalents, and restricted cash at beginning of year	127,000
	<u>167,272</u>
Cash, cash equivalents, and restricted cash at end of year	<u>\$ 167,272</u>
Cash and cash equivalents	\$ 130,311
Restricted cash	36,961
	<u>\$ 167,272</u>
Total cash, cash equivalents, and restricted cash	<u>\$ 167,272</u>
Supplemental schedule of noncash financing activities	
Cash paid for interest during the year	<u>\$ 902</u>
Change in accrued construction costs	<u>\$ (1,916)</u>

See Notes to Consolidated Financial Statements.

**Zoological Society of San Diego
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**Notes to Consolidated Financial Statements
(All dollar amounts in thousands)
December 31, 2021**

Note 1 - Nature of operations

The Zoological Society of San Diego dba San Diego Zoo Wildlife Alliance ("SDZWA") was incorporated in 1916 as a private, nonprofit corporation governed by a Board of Trustees (the "Board"). SDZWA is an international conservation organization with two front doors: the San Diego Zoo and the San Diego Zoo Safari Park. SDZWA is committed to saving species worldwide by uniting our expertise in animal care and conservation science with our dedication to inspiring passion for nature. Conservation is at the heart of everything SDZWA pursues and it starts with connecting people with wildlife through our zoological parks and education programs, inspiring and educating our guests every day. Because when wildlife thrives, all life thrives. SDZWA is dedicated to conservation work supporting eight hubs located around the globe, across six continents. Wildlife care and conservation science expertise anchors conservation projects in these regions driving greater impact for wildlife. Program activities are supported through admissions, memberships, donations, grants, partners, and sales at both facilities.

SDZWA is accredited by the Association of Zoos and Aquariums and the American Association of Museums as a museum and as a botanical garden. SDZWA formed the Foundation of the Zoological Society of San Diego (the "Foundation") in 2007. The Foundation is a related supporting organization which was formed to solely support fund-raising activities for SDZWA. Funds raised by the Foundation are received directly by SDZWA and recorded as contribution revenue in SDZWA's consolidated statements of activities and changes in net assets. SDZWA 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 SDZWA'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

Net asset classification

To ensure compliance with restrictions placed on the resources available to SDZWA, SDZWA's accounts are maintained in accordance with the principles of fund accounting, a procedure by which resources are classified for accounting and reporting into funds established according to their nature and purpose. SDZWA 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.

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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

SDZWA records admissions, auxiliary activities, and grants as earned. SDZWA 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. SDZWA recognizes the exchange portion of membership dues over the membership period, and the contribution portion immediately.

SDZWA records gifts of long-lived assets as revenue at their fair value when they are received. SDZWA 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 period is recorded as unrestricted income.

SDZWA 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. In addition, SDZWA has federal and state contracts and grants which are conditioned upon certain performance requirements and the incurrence of allowable qualifying expenses. At December 31, 2021, conditional contributions with a future value of \$4,572 for which no amounts had been received in advance, have not been recognized in the accompanying consolidated financial statements.

Auxiliary activities

SDZWA's auxiliary activities include retail merchandise, food and beverage, transportation operations, educational activities, Safari Park parking, and other similar support activities. SDZWA 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 zoological habitat and wildlife care in the expense section of the consolidated statements of activities and changes in net assets and amounted to \$25,983 in 2021.

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Tax revenue and other

SDZWA 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 habitats at the San Diego Zoo facility. SDZWA recognized \$16,127 in Section 77a revenue in 2021. 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, SDZWA shares animals with other organizations. Consistent with industry practice, SDZWA does not record any asset or liability for such sharing arrangements.

Cash and cash equivalents

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

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 habitats at the San Diego Zoo and the San Diego Zoo Safari Park facilities. In addition, SDZWA 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 the fiscal 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 SDZWA's facilities. Grants receivable consist of amounts billed and unbilled from government agencies and various foundations. The allowance for doubtful accounts totals \$100 at December 31, 2021, which represents SDZWA's estimate of uncollectible accounts receivable based on historical experience. Write-offs are deducted from the allowance for doubtful accounts, and subsequent recoveries are added. The accounts receivable balance as of December 31, 2021 was \$10,441.

As of December 31, 2021, SDZWA has a receivable of \$5,901 of Section 77a property tax proceeds held by the City of San Diego (the "City"). As of December 31, 2021, SDZWA has unbilled grant receivables of \$2,149.

**Zoological Society of San Diego
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**Notes to Consolidated Financial Statements
(All dollar amounts in thousands)
December 31, 2021**

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. SDZWA 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.

SDZWA has elected to measure certain investments without readily determinable fair values at cost minus impairment. These investments are reviewed on an annual basis on a qualitative basis considering impairment indicators to evaluate whether the investment is impaired. There was no impairment identified as of December 31, 2021.

Concentration of credit risk

Financial instruments that potentially subject SDZWA to concentrations of credit risk consist primarily of cash and cash equivalents, investments, accounts receivable, split-interest agreements, and bequests and contributions receivable. SDZWA 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 approved by the Board which, as a matter of policy, limits the amounts which may be invested with one issuer.

SDZWA had cash and cash equivalents which exceeded FDIC insured limits at certain financial institutions as of December 31, 2021.

Approximately 66% of accounts receivable was from two payors as of December 31, 2021. Approximately 57% of bequests and contributions receivable was from two donors as of December 31, 2021.

SDZWA had approximately 31 government contracts in 2021 from federal sources. The largest contract was for approximately \$812 during 2021. This contract ended in September 2021.

Inventories

SDZWA'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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**Notes to Consolidated Financial Statements
(All dollar amounts in thousands)
December 31, 2021**

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

SDZWA 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 2021.

Split-interest agreements

SDZWA is licensed by the State of California Department of Insurance as a Grants and Annuities Society. As such, SDZWA may issue charitable gift annuity contracts. SDZWA had 97 outstanding annuity contracts entered into 62 separate donors as of December 31, 2021. 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, SDZWA 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, SDZWA 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 \$16,413 at December 31, 2021. 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.

SDZWA 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.

SDZWA is the beneficiary in 10 irrevocable charitable trusts in 2021 for which SDZWA is not the trustee. Each trust names SDZWA 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 fiscal 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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SDZWA estimates fair value of split-interest agreements by using net present value calculations with a discount rate of 2.36% for 2021 and estimated life expectancies based upon the mortality rate tables published by the Internal Revenue Service.

Beneficial interests in assets held by others

SDZWA has beneficial interests in perpetual trusts held by third-party trustees. Under the perpetual trust arrangements, SDZWA has recorded the assets and has recognized donor restricted contribution revenue at the fair value of SDZWA'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

SDZWA 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 SDZWA's collections, property, equipment and habitats is vested in the City. However, SDZWA's assets are recorded on the books of SDZWA as SDZWA 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. SDZWA paid \$98 as annual rent in 2021.

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

SDZWA, 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.

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December 31, 2021**

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 taxing authorities. SDZWA has analyzed the tax positions taken in its filings with the Internal Revenue Service and the California Franchise Tax Board. SDZWA 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 SDZWA's consolidated financial condition, change in net assets or cash flows. Accordingly, SDZWA has not recorded any reserve or related accruals for interest and penalties for uncertain income tax positions at year-end 2021.

SDZWA's U.S. federal and state income tax returns prior to fiscal years 2019 and 2018, 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.

Advertising costs

Advertising costs are expensed as incurred and totaled \$15,084 for 2021. This includes transactions for bartered admission tickets valued at \$798.

Barter transactions

SDZWA 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 2021, SDZWA recorded barter transactions totaling \$988 in admissions and memberships, wildlife care and conservation, 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 \$18 was recorded for 2021, primarily for specialty veterinary care.

SDZWA also receives contributed services through various volunteer programs at the facilities and on certain conservation projects. Volunteers contributed approximately 264,000 hours in 2021. 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.

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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 consolidated 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 SDZWA 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.

New Accounting Pronouncements

In February 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-02, *Leases (Topic 842)*, which establishes the principles to report transparent and economically neutral information about the assets and liabilities that arise from leases. This guidance results in a more faithful representation of the rights and obligations arising from operating and capital leases in the balance sheet and to disclose qualitative and quantitative information about lease transaction, such as information about variable lease payments and options to renew and terminate leases. SDZWA has elected to apply the deferrals provided by ASU 2020-05, and therefore expects to adopt Topic 842 for fiscal years beginning after December 15, 2021 on a modified retrospective basis with a cumulative effect transition adjustment as of the beginning of the period that includes initial adoption of the standard. SDZWA is currently evaluating the potential impacts of adopting Topic 842 on its 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	\$ 130,311
Investments	29,705
Accounts receivable, net	10,441
Promises to give, current	210
Long-term investments appropriated for current use	<u>1,729</u>
	<u>\$ 172,396</u>

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SDZWA'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 endowment funds are not available for general expenditure.

A portion of the Board-designated endowments totaling \$74,149 is subject to an annual spending rate of 5% for 2022 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 SDZWA does not intend to spend from these Board-designated endowment (other than amounts appropriated for general expenditure as part of the 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 for disclosures about investments). In addition, security requirements under the credit facility may limit the amount of funds that can be made available (see Note 10 for disclosures about debt).

As part of its liquidity management plan, SDZWA invests in excess of daily requirements in short-term investments, CDs, and money market funds. To help manage unanticipated liquidity needs, SDZWA has committed a line of credit of \$40,000, 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:

1. The carrying values of cash and cash equivalents and accounts and other receivables approximate the fair value of these financial instruments.
2. 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.
3. 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.
4. The carrying value of the bonds payable obligation approximates fair value because the obligation is recorded based on a fixed rate that determines market value.
5. 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.
6. 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.

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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. 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

SDZWA 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. SDZWA may invest directly in the securities of these asset classes, or indirectly through interests in funds and limited partnerships. Securities held directly by SDZWA 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.

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Investments held by SDZWA'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 SDZWA's portfolio with the objective of long-term growth in SDZWA'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 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 SDZWA's portfolio with the objective of long-term growth in SDZWA'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 at NAV - 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. SDZWA does not have any redemption rights in these investments and the investments have remaining lives between 1 and 10 years.

Investments at cost - This category represents an investment in a limited partnership without readily determinable fair value that SDZWA has elected to record at cost, less any identified impairment. No impairment was identified as of December 31, 2021.

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The following tables provide the method used to measure the fair value of certain assets and liabilities as of December 31, 2021. Only assets and liabilities measured at fair value are shown on the three-tier value hierarchy.

	Balance as of December 31, 2021	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					
Communication services	\$ 2,158	\$ 2,158	\$ -	\$ -	a
Consumer discretionary	5,313	5,313	-	-	a
Consumer staples	2,639	2,639	-	-	a
Energy	1,037	1,037	-	-	a
Financials	3,205	3,205	-	-	a
Health care	4,004	4,004	-	-	a
Industrials	2,718	2,718	-	-	a
Information technology	5,738	5,738	-	-	a
Materials	785	785	-	-	a
Real estate	170	170	-	-	a
Utilities	302	302	-	-	a
Total domestic common stocks	28,069	28,069	-	-	
Foreign stocks	3,108	3,108	-	-	a
Mutual fund - equity	111,491	8,238	103,253	-	a
Mutual fund - fixed income	26,673	-	26,673	-	a
Mutual fund - balanced	11,161	-	11,161	-	a
Partnerships and other at NAV ⁽¹⁾	61,940	-	-	-	c
Investments at cost ⁽²⁾	28,955	-	-	-	(2)
Total investments	<u>\$ 271,397</u>	<u>\$ 39,415</u>	<u>\$ 141,087</u>	<u>\$ -</u>	
Split-interest agreements and beneficial interests					
Pooled income fund	\$ 3,984	\$ -	\$ 3,984	\$ -	a
Charitable gift annuities	26,320	26,135	185	-	a
Beneficial interests in perpetual trusts	16,899	-	-	16,899	c
Beneficial interest in charitable remainder trusts	11,388	-	-	11,388	c
Total split-interest agreements	<u>\$ 58,591</u>	<u>\$ 26,135</u>	<u>\$ 4,169</u>	<u>\$ 28,287</u>	
Liabilities					
Charitable gift liabilities ⁽³⁾	<u>\$ 16,413</u>	<u>\$ -</u>	<u>\$ 16,413</u>	<u>\$ -</u>	c
Total liabilities	<u>\$ 16,413</u>	<u>\$ -</u>	<u>\$ 16,413</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) Certain investments without readily determinable fair values are recorded at cost, less impairment. The fair value of 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.

(3) 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 SDZWA's Level 3 assets for 2021:

	Beneficial interests in perpetual trusts	Charitable remainder trusts	Total
Balance, beginning	\$ 15,377	\$ 11,315	\$ 26,692
Contributions	-	-	-
Distributions	(663)	(463)	(1,126)
Gains included in change in net assets	2,185	536	2,721
Balance, end	<u>\$ 16,899</u>	<u>\$ 11,388</u>	<u>\$ 28,287</u>

The following table represents SDZWA'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 2021:

Instrument	Fair value	Principal valuation technique	Unobservable inputs	Significant input values	Weighted average
Beneficial interests in perpetual trusts held by others	\$ 16,899	Valuation of underlying assets as provided by issuer	Base price	N/A	N/A
Beneficial interests in charitable remainder trusts	\$ 11,388	Present value of expected cash flows	Investment yield Discount rate	2.36% 2.36%	N/A

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

SDZWA 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 31, 2021:

<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	\$ 46,376	17	Monthly to semi-annual	30 to 90 days notice	None	\$ -
Partnerships and other	<u>44,519</u>	17	Closed end funds not eligible for redemption	Not redeemable	Not redeemable	<u>9,881</u>
	<u>\$ 90,895</u>					<u>\$ 9,881</u>

Note 5 - Accounts receivable, net

Accounts receivable consist of the following at December 31, 2021:

Trade receivables	\$ 2,003
City of San Diego (Section 77a) receivable	5,901
Grants receivable	<u>2,637</u>
	10,541
Less allowance for doubtful accounts	<u>(100)</u>
Total accounts receivable, net	<u>\$ 10,441</u>

Note 6 - Inventories, net

Inventories consist of the following at December 31, 2021:

Food and merchandise	\$ 4,207
Animal food and other	<u>307</u>
	4,514
Less inventory reserve	<u>(154)</u>
Total inventories, net	<u>\$ 4,360</u>

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Note 7 - Split-interest agreements and beneficial interests

Split-interest agreements consist of the following at December 31, 2021:

Pooled income funds	\$	3,984
Charitable gift annuities		26,320
Beneficial interests in perpetual trusts		16,899
Beneficial interest in charitable remainder trusts		11,388
 Total split-interest agreements	 \$	 <u><u>58,591</u></u>

Note 8 - Promises to give, net

Bequests and contributions receivable consist of the following at December 31, 2021:

Irrevocable trusts	\$	569
Pledged gift agreements		24,738
Endowments		12,755
		38,062
Allowance for uncollectible amounts		(3,659)
 Total promises to give, net	 \$	 <u><u>34,403</u></u>

Contributions receivable in the form of pledged gift agreements are unconditional promises to give. Pledges are recorded at the applicable risk-adjusted discount rates, which range from 1.82% 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	\$	4,620
Due in two to five years		7,273
Due in more than five years		48,275
		60,168
Unamortized discount		(22,105)
 Net present value		 38,063
Allowance for uncollectible accounts		(3,660)
 Total promises to give, net	 \$	 <u><u>34,403</u></u>

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Note 9 - Property and equipment

Property and equipment consist of the following at December 31, 2021:

Buildings, exhibits and improvements	\$ 636,017
Transportation and equipment	107,168
Land	3,802
Construction in progress	<u>34,319</u>
	781,306
Less accumulated depreciation and amortization	<u>(431,051)</u>
Total property and equipment, net	<u>\$ 350,255</u>

Depreciation and amortization expense totaled \$33,355 for the year ended December 31, 2021.

Note 10 - Debt

Tax-exempt bonds

In 2020, SDZWA issued \$35,000 in tax-exempt variable rate demand bonds ("Series 2020 Bonds") through the California Municipal Finance Authority ("CMFA") for the purpose of refinancing the outstanding principal of the Series 2012 Bonds. Under a credit facility with a bank, the Series 2020 Bonds bear a fixed rate of 1.43%, payable monthly to the bank. Principal payments are due on August 1 each year, based on a 25-year amortization schedule. SDZWA has the right to make additional prepayment amounts up to 10% of the principal balance each year without prepayment penalties. The maturity date is August 1, 2030, at which time any remaining balance will be due. The outstanding balance was \$33,830 at December 31, 2021.

Term loan

In 2020, SDZWA secured a term loan of \$25,000. Proceeds were used to pay off the prior term loan, the outstanding line of credit, and the prepayment termination fees. The loan carries a fixed rate of 1.63%. Interest is paid monthly. Principal payments are to be made monthly beginning August 1, 2021, utilizing an amortization schedule over 25 years. SDZWA has the right to make additional prepayment amounts up to 10% of the principal balance each year without prepayment penalties. The maturity date is August 1, 2030, at which time any remaining balance will be due. The outstanding balance was \$24,185 at December 31, 2021.

Line of credit

SDZWA has an unsecured financing agreement with its primary lender that permits multiple borrowings up to \$40,000 at variable rates of interest. The financing agreement, which expires on August 10, 2023, provides that SDZWA may elect for each individual borrowing on the line of credit to have interest calculated using the greater of 0.25% or LIBOR Monthly Reset Rate plus 1.5% (1.75% as of December 31, 2021). Any amounts not drawn under the line of credit are subject to an unused annual commitment fee of 0.25% payable monthly.

There was no outstanding balance at December 31, 2021. SDZWA has outstanding letters of credit for \$3,901 under this agreement at December 31, 2021, which reduce the amount available for borrowing. There were no amounts drawn on the letters of credit at December 31, 2021.

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Security Interest and financial covenants

The Series 2020 Bonds and the term loan are secured by certain investments. The security interest will be released upon achievement of certain operating performance measures at which time the Series 2020 Bonds and term loan will become unsecured. SDZWA was in compliance with all financial covenants under the financing agreements at December 31, 2021.

Debt issuance costs

Debt issuance costs, net of accumulated amortization, totaled \$33 at December 31, 2021, and are related to the Series 2020 Bonds and term loan issued in 2020. 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 statement of financial position and amortized over the ten-year term using the effective interest method.

Maturities of long-term debt in each of the five years subsequent to December 31, 2021 and thereafter are as follows:

	2022	\$	2,015
	2023		2,045
	2024		2,075
	2025		2,110
	2026		2,145
	Thereafter		<u>47,625</u>
			58,015
Less unamortized debt issuance cost			<u>(281)</u>
		\$	<u><u>57,734</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 31, 2021:

Subject to expenditure for specified purposes:

Construction of major projects	\$	29,757
Wildlife care and conservation programs		19,803
Promises to give, the proceeds from which have been restricted by donors for:		
Construction of major projects		14,680
Wildlife care and conservation programs		1,447
	\$	65,687

Subject to the passage of time

Beneficial interests in charitable trusts held by others	\$	10,743
Assets held under split-interest agreements		13,261
Promises to give that are not restricted by donors, but which are unavailable for expenditure until due		523
	\$	24,527

Endowments

Subject to appropriation and expenditures when a specified event occurs and restricted by donors for:		
Wildlife care and conservation programs	\$	20,209

Subject to SDZWA spending policy and appropriation:

Wildlife care and conservation programs	125,990
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Total endowments	146,199
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Not subject to spending policy or appropriation:

Beneficial interest in assets held by community foundation	3,227
Beneficial interest in perpetual trusts	13,710

Total beneficial interests held by others	16,937
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	\$	163,136
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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 31, 2021:

Satisfaction of purpose restrictions		
Construction of major projects	\$	61,013
Wildlife care and conservation programs		35,309
Distributions (proceeds not restricted by donors)		
Assets held under split-interest agreements		444
Promises to give, net		7,637
Restricted-purpose spending-rate distributions and appropriations		
Wildlife care and conservation programs		435
Net assets released from restrictions	\$	104,838

Note 12 - Endowment perpetual in nature

Endowment funds

SDZWA'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 SDZWA'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 conservation science 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.

Donor restricted endowment funds are restricted for the following purposes as of December 31, 2021:

Wildlife care and conservation	\$	163,136
Total donor-restricted endowment	\$	163,136

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 SDZWA to retain as a fund of perpetual duration. At December 31, 2021, there were no funds with deficiencies reported in net assets with donor restrictions.

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Interpretation of relevant law

SDZWA 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 SDZWA 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, SDZWA 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 SDZWA 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 SDZWA
- g. SDZWA's investment policy

Return objectives and risk parameters

SDZWA 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 SDZWA 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 will exceed the demands placed on the portfolio to support SDZWA'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.

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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:

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

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 December 31, 2021:

	Without donor restrictions	With donor restrictions	Total
Donor-restricted endowment funds	\$ -	\$ 163,136	\$ 163,136
Board-designated endowment funds	96,449	-	96,449
 Total endowment funds	\$ 96,449	\$ 163,136	\$ 259,585

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The following table sets forth a summary of changes in endowment net assets for 2021:

	Without donor restrictions	With donor restrictions	Total
Endowment net assets, beginning	\$ 86,599	\$ 138,958	\$ 225,557
Net investment income	1,001	2,318	3,319
Net appreciation (realized and unrealized)	10,395	18,190	28,585
Total investment income	11,396	20,508	31,904
Additions	-	6,245	6,245
Appropriation of endowment assets for expenditure	(1,546)	(2,575)	(4,121)
Endowment net assets, end	<u>\$ 96,449</u>	<u>\$ 163,136</u>	<u>\$ 259,585</u>

Note 13 - Pension and benefit plans

SDZWA 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. SDZWA recognizes the overfunded or underfunded status of its defined pension plans as an asset or liability in its consolidated statement of financial position, and recognizes changes in that funded status in the year in which the changes occur as changes in net assets without donor restrictions 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.

Effective December 31, 2021 both defined benefit pension plans were closed to new participants and future benefit accruals were frozen for active plan participants. Additionally in 2021, a temporary full lump sum option was available to certain former employees who had terminated under early retirement and voluntary severance programs by SDZWA in 2020. Due to the plan freeze effective December 31, 2021, a \$2,777 curtailment was recognized during the year and the remaining prior service cost was fully recognized as part of the curtailment. Due to the lump sums paid during the year, a settlement charge was recognized at both July 1, 2021 and December 31, 2021, totaling \$5,209.

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

Plan assets at fair value	\$ 232,185
Projected benefit obligation	<u>(290,935)</u>
Funded status	<u>\$ (58,750)</u>
Accumulated benefit obligation	<u>\$ 290,935</u>

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Weighted-average assumptions were as follows:

Discount rate	2.85%
Expected return on plan assets	6.25%
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 SDZWA estimates will be generated on the assets of the plans. The rate of compensation increase reflects SDZWA's best estimate of the future compensation levels of the individual employees covered by the plans.

As plan sponsor, SDZWA 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. SDZWA's management and the Board's investment committee monitor performance against benchmark indices.

Return objectives and risk parameters

SDZWA has adopted investment policies for pension assets that are meant to provide funding for pension retirement payments to current and future retirees of SDZWA's pension plans. The primary objectives are to maximize long-term growth and minimize risk of loss of principal. In addition, SDZWA 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, SDZWA 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. Alternative asset investments range from 0% to 5% of the total portfolio, including real estate investments.

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

Cash and cash equivalents	2%
Mutual fund - equity	37%
Mutual fund - fixed income	10%
Collective investment fund	51%
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	100%
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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 December 31, 2021. 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 December 31, 2021:

	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	\$ 3,246	\$ -	\$ 3,246	\$ -	a
Mutual fund - equity	86,570	-	86,570	-	a
Mutual fund - fixed income	23,088	-	23,088	-	a
Collective investment fund	118,959	-	-	118,959	c
Partnerships and other at NAV ⁽¹⁾	322	-	-	-	c
Total assets	\$ 232,185	\$ -	\$ 112,904	\$ 118,959	

⁽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 2021:

Components of net periodic benefit cost	
Actuarial charges (income)	
Interest cost	\$ 8,613
Expected return on assets	(14,027)
Net prior service cost amortization	287
Net loss amortization	<u>3,476</u>
Total actuarial charges	(1,651)
Employer service cost	9,179
Immediate recognition of benefit cost due to special events	<u>7,986</u>
Periodic benefit cost	<u>\$ 15,514</u>
Benefits paid	<u>\$ 39,210</u>
Administrative expenses paid	<u>\$ 131</u>
Employer contributions	<u>\$ 12,000</u>

Amounts recognized in the consolidated statement of activities consist of the following as of December 31, 2021:

Service cost	\$ 9,179
Interest cost	8,613
Expected return on plan assets	(14,027)
Amortization of prior service cost	287
Amortization of net loss	<u>3,476</u>
Net postretirement benefit cost ("NPBC")	<u>\$ 7,528</u>

Employer service costs of \$9,179, net prior service cost amortization of \$287 and net loss amortization of \$3,476, are recorded in pension expense for 2021. Prior service cost of \$0 and a cumulative actuarial loss of \$50,235 are included in net assets without donor restrictions at December 31, 2021. SDZWA expects to record \$0 of net prior service cost amortization and \$1,320 of net loss amortization in 2022.

SDZWA expects to make a total of \$12,000 in pension contributions during 2022.

The following table shows the amounts recognized in the consolidated statements of financial position at December 31, 2021:

Liability for pension benefits	<u>\$ 58,750</u>
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The following benefit payments are expected to be paid over the next ten fiscal years:

2022	\$	10,590
2023		10,888
2024		11,283
2025		11,618
2026		11,921
2027-2031		<u>65,120</u>
	\$	<u>121,420</u>

SDZWA 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 plan allows for employer matching contributions to eligible employees. Matching contributions totaled \$1,353 for 2021.

Effective January 1, 2022, the 403(b) defined contribution plan benefits have been enhanced to increase the potential employer matching contribution to eligible employees from 2% of earnings to 3% of earnings. The plan also added a 2% of earnings non-elective employer contribution.

Note 14 - Collective bargaining agreement

SDZWA is a party to a collective bargaining agreement with a labor union. The agreement was recently renewed for an extended period starting February 1, 2021 through January 31, 2025. At December 31, 2021, 1,861 employees, or approximately 65% of total employees, were represented by a labor union.

Note 15 - Commitments and contingencies

Claims and legal actions

SDZWA 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 SDZWA.

Lease agreements

SDZWA 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,

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and office equipment. Rent expense totaled \$3,625 for 2021. Minimum lease payments under noncancelable operating leases as of December 31, 2021 are as follows:

2022	\$	1,698
2023		1,233
2024		480
2025		3
2026		2
		<hr/>
	\$	3,416
		<hr/>

Self-Insurance

SDZWA carries an excess workers' compensation liability policy that includes a \$250 retained limit per claim up to \$4,000 aggregate per year. SDZWA employs a professional third-party administrator to manage workers' compensation claims incurred. SDZWA accrued \$6,208 as an estimate of workers' compensation claims incurred but not yet paid or reported as of December 31, 2021. The liability is reflected in accrued salaries and salary related expenses on the accompanying consolidated statements of financial position.

Cooperative endeavor agreement

In 2013, SDZWA entered into a 10-year cooperative endeavor agreement with another conservation organization. The terms of the agreement call for SDZWA to provide a capital investment during the initial five years, which has been met. Payments for capital improvements are included in property and equipment in the consolidated statements of financial position. SDZWA is also required to contribute 50% of each year's operating budget, up to \$500 per year, through the term of the agreement. Payments of \$510 were made under the agreement in 2021. No outstanding amounts were due at December 31, 2021.

Construction Commitments

As of December 31, 2021, SDZWA had outstanding commitments for future capital expenditures of \$11,890.

COVID-19

The COVID-19 virus has caused business disruption in the areas in which SDZWA primarily operates. In consideration of both state and federal ("COVID-19") guidelines, SDZWA temporarily closed its facilities to the public two times in 2020. The second closure of facilities to the public on December 7, 2020, resulted in a significant loss of revenue while SDZWA continued to incur considerable ongoing operation costs to care for wildlife, maintain the facilities, and performed critical conservation activities. The closure of SDZWA facilities to the public due to compliance with federal and state COVID-19 guidelines extended through January 29, 2021, and the facilities reopened on January 30, 2021. Compliance measures remained in place during 2021 with varying level of restrictions. Certain operations were impacted during periods of tightened restrictions. Compliance measures remain in place, and the duration and extent of COVID-related restrictions remain unknown at this time.

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Note 16 - Subsequent events

In preparing the consolidated financial statements, SDZWA evaluated subsequent events through April 15, 2022, the date that these consolidated financial statements were available to be issued.

Release of security interest

The Series 2020 Bonds and the term loan are secured by certain investments. The security interest will be released upon achievement of certain operating performance measures. SDZWA anticipates the release of the security interest by the bank in 2022. The Series 2020 Bonds and the term loan are secured as of the date the consolidated financial statements were available to be issued.



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