

Houston Zoo, Inc.

Financial Statements
and Independent Auditors' Report
for the years ended December 31, 2019 and 2018

Houston Zoo, Inc.

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Independent Auditors' Report

To the Board of Directors of
Houston Zoo, Inc.:

We have audited the accompanying financial statements of Houston Zoo, Inc., which comprise the statements of financial position as of December 31, 2019 and 2018 and the related statements of activities, of cash flows, and of functional expenses for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements – Management is responsible for the preparation and fair presentation of these financial statements in accordance with 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 financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility – Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform our audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion – In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Houston Zoo, Inc. as of December 31, 2019 and 2018 and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Blazek & Vetterling

May 18, 2020

Houston Zoo, Inc.

Statement of Activities for the year ended December 31, 2019

	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL
REVENUE:			
Fees and program revenue:			
Admission fees	\$ 15,322,836		\$ 15,322,836
City management fee	10,127,489		10,127,489
Guest program fees	9,252,639		9,252,639
Membership admission fees	7,538,100		7,538,100
Concession contract income	3,956,216		3,956,216
Educational program fees	1,434,363		1,434,363
Contributions	2,474,573	\$ 21,163,978	23,638,551
Special events	1,613,342		1,613,342
Cost of benefits provided to donors	(382,518)		(382,518)
Net investment return	1,510,483	1,117,956	2,628,439
Other income	106,134		106,134
	<hr/>	<hr/>	<hr/>
Total revenue	52,953,657	22,281,934	75,235,591
Net assets released from restrictions:			
Capital expenditures	13,347,729	(13,347,729)	
Program expenses	2,629,459	(2,629,459)	
Expiration of time restrictions	830,888	(830,888)	
	<hr/>	<hr/>	<hr/>
Total	69,761,733	5,473,858	75,235,591
EXPENSES:			
Zoo programs:			
Exhibition facility operations	20,276,391		20,276,391
Depreciation	8,754,158		8,754,158
Education and conservation programs	6,376,534		6,376,534
Admissions and guest relations	4,642,142		4,642,142
Guest program events	3,359,682		3,359,682
	<hr/>		<hr/>
Total zoo programs	43,408,907		43,408,907
Advertising and marketing costs	2,582,640		2,582,640
Membership development	1,713,970		1,713,970
Management and general	2,811,109		2,811,109
Fundraising	2,274,550		2,274,550
	<hr/>		<hr/>
Total expenses	52,791,176		52,791,176
CHANGES IN NET ASSETS	16,970,557	5,473,858	22,444,415
Net assets, beginning of year	144,066,349	72,884,305	216,950,654
Net assets, end of year	<u>\$ 161,036,906</u>	<u>\$ 78,358,163</u>	<u>\$ 239,395,069</u>

See accompanying notes to financial statements.

Houston Zoo, Inc.

Statement of Activities for the year ended December 31, 2018

	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL
REVENUE:			
Fees and program revenue:			
Admission fees	\$ 13,659,788		\$ 13,659,788
City management fee	9,973,836		9,973,836
Guest program fees	7,939,457		7,939,457
Membership admission fees	7,221,576		7,221,576
Concession contract income	3,539,267		3,539,267
Educational program fees	1,362,069		1,362,069
Contributions	3,955,381	\$ 53,167,631	57,123,012
Special events	1,878,219		1,878,219
Cost of benefits provided to donors	(513,367)		(513,367)
Net investment return	(258,307)	(412,560)	(670,867)
Other income	206,187		206,187
Total revenue	48,964,106	52,755,071	101,719,177
Net assets released from restrictions:			
Capital expenditures	10,006,119	(10,006,119)	
Program expenses	2,351,169	(2,351,169)	
Expiration of time restrictions	747,653	(747,653)	
Total	62,069,047	39,650,130	101,719,177
EXPENSES:			
Zoo programs:			
Exhibition facility operations	19,176,662		19,176,662
Depreciation	8,429,292		8,429,292
Education and conservation programs	6,163,732		6,163,732
Admissions and guest relations	4,185,475		4,185,475
Guest program events	2,847,626		2,847,626
Total zoo programs	40,802,787		40,802,787
Advertising and marketing costs	2,446,129		2,446,129
Membership development	1,703,899		1,703,899
Management and general	2,755,245		2,755,245
Fundraising	2,052,838		2,052,838
Total expenses	49,760,898		49,760,898
CHANGES IN NET ASSETS	12,308,149	39,650,130	51,958,279
Net assets, beginning of year	131,758,200	33,234,175	164,992,375
Net assets, end of year	\$ 144,066,349	\$ 72,884,305	\$ 216,950,654

See accompanying notes to financial statements.

Houston Zoo, Inc.

Statements of Cash Flows for the years ended December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	\$ 22,444,415	\$ 51,958,279
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	8,754,159	8,429,292
Net realized and unrealized (gain) loss on investments	(2,132,564)	1,112,178
Contributions restricted for capital acquisitions	(16,415,742)	(51,675,436)
Contributions for permanent endowment funds	(2,000)	(2,000)
Changes in operating assets and liabilities:		
Accounts receivable	(44,724)	(93,490)
Accounts receivable from the City of Houston		2,500,000
Prepaid insurance and other assets	(22,564)	(168,737)
Operating contributions receivable	(807,993)	(1,211,623)
Accounts payable	(587,075)	399,474
Accrued salaries and benefit costs	273,181	73,236
Funds held for others	37,296	(95,642)
Deferred revenue	<u>387,374</u>	<u>(227,209)</u>
Net cash provided by operating activities	<u>11,883,763</u>	<u>10,998,322</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(26,206,901)	(18,167,276)
Purchases of investments	(16,746,065)	(15,271,709)
Proceeds from sale of investments	14,302,145	14,966,892
Net change in money market mutual funds held as investments	<u>388,074</u>	<u>(127,735)</u>
Net cash used by investing activities	<u>(28,262,747)</u>	<u>(18,599,828)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from contributions restricted for capital acquisitions	12,199,247	16,520,308
Proceeds from notes payable	832,307	
Proceeds from contributions received for permanent endowment funds	<u>2,000</u>	<u>2,000</u>
Net cash provided by financing activities	<u>13,033,554</u>	<u>16,522,308</u>
NET CHANGE IN CASH	(3,345,430)	8,920,802
Cash, beginning of year	<u>32,945,996</u>	<u>24,025,194</u>
Cash, end of year	<u>\$ 29,600,566</u>	<u>\$ 32,945,996</u>
<i>Reconciliation of cash:</i>		
Restricted or designated cash	\$ 24,478,150	\$ 28,662,067
Other cash	<u>5,122,416</u>	<u>4,283,929</u>
Total cash	<u>\$ 29,600,566</u>	<u>\$ 32,945,996</u>
<i>Supplemental disclosure of cash flow information:</i>		
Contributions of marketable securities	\$5,011,837	\$4,225,096

See accompanying notes to financial statements.

Houston Zoo, Inc.

Statement of Functional Expenses for the year ended December 31, 2019

	ZOO PROGRAMS	ADVERTISING AND MARKETING COSTS	MEMBERSHIP DEVELOPMENT	MANAGEMENT AND GENERAL	FUNDRAISING	TOTAL
Salaries, related taxes, and benefits	\$ 22,529,792	\$ 712,662	\$ 969,987	\$ 1,668,222	\$ 1,622,835	\$ 27,503,498
Depreciation	8,754,159					8,754,159
Professional fees and contract labor	2,876,789	127,478	243,953	798,997	226,445	4,273,662
Conservation grants made	3,383,437					3,383,437
Supplies, materials and equipment	2,858,191	56,481	20,519	83,779	19,427	3,038,397
Advertising and promotion	19,187	1,515,798	3,854	16,076	4,834	1,559,749
Occupancy	914,043	2,708	5,416	21,662	2,708	946,537
Credit card fees	487,696	2	176,942	6	27,735	692,381
Printing and postage	177,547	114,589	229,723	29,627	95,740	647,226
Insurance	564,959	14,157	19,820	31,145	13,213	643,294
Conferences, conventions, and meetings	323,563	342	7,452	3,279	200,757	535,393
Information technology	158,632	22,499	35,625	137,344	43,252	397,352
Travel	311,000	15,924	679	13,360	17,604	358,567
Other	49,912			7,612		57,524
Total expenses	<u>\$ 43,408,907</u>	<u>\$ 2,582,640</u>	<u>\$ 1,713,970</u>	<u>\$ 2,811,109</u>	<u>\$ 2,274,550</u>	52,791,176
Cost of benefits provided to donors						<u>382,518</u>
Total						<u>\$ 53,173,694</u>

See accompanying notes to financial statements.

Houston Zoo, Inc.

Statement of Functional Expenses for the year ended December 31, 2018

	ZOO PROGRAMS	ADVERTISING AND MARKETING COSTS	MEMBERSHIP DEVELOPMENT	MANAGEMENT AND GENERAL	FUNDRAISING	TOTAL
Salaries, related taxes, and benefits	\$ 21,194,298	\$ 723,272	\$ 944,108	\$ 1,708,543	\$ 1,481,862	\$ 26,052,083
Depreciation	8,429,292					8,429,292
Professional fees and contract labor	2,333,328	121,132	155,290	559,184	225,483	3,394,417
Conservation grants made	2,950,497					2,950,497
Supplies, materials and equipment	3,155,275	28,672	15,118	111,382	35,726	3,346,173
Advertising and promotion	41,807	1,403,337	4,259	17,458	4,727	1,471,588
Occupancy	852,060	3,552	7,104	28,416	3,552	894,684
Credit card fees	424,451		164,896	49	43,540	632,936
Printing and postage	146,846	131,306	352,591	6,539	60,122	697,404
Insurance	567,132	10,136	21,194	25,802	12,901	637,165
Conferences, conventions, and meetings	286,755	746	11,758	1,378	104,816	405,453
Information technology	100,064	11,333	20,339	271,951	54,554	458,241
Travel	<u>320,982</u>	<u>12,643</u>	<u>7,242</u>	<u>24,543</u>	<u>25,555</u>	<u>390,965</u>
Total expenses	<u>\$ 40,802,787</u>	<u>\$ 2,446,129</u>	<u>\$ 1,703,899</u>	<u>\$ 2,755,245</u>	<u>\$ 2,052,838</u>	49,760,898
Cost of benefits provided to donors						<u>513,367</u>
Total						<u>\$ 50,274,265</u>

See accompanying notes to financial statements.

Houston Zoo, Inc.

Notes to Financial Statements for the years ended December 31, 2019 and 2018

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization – Ninety-seven years ago, the City of Houston (the City) created a zoo program and facility to benefit the citizens of Houston and surrounding areas. In 2002, the zoo was privatized by order of the City and operates as Houston Zoo, Inc. (the Houston Zoo).

The Houston Zoo is a conservation, education, and recreation organization dedicated to the reproduction, protection, and exhibition of animals in their habitats. The Houston Zoo provides a fun, unique and inspirational experience fostering appreciation, knowledge and care for the natural world 363 days a year.

Federal income tax status – The Houston Zoo is exempt from federal income tax under §501(c)(3) of the Internal Revenue Code and is classified as a public charity under §509(a)(2).

Cash – Bank deposits exceed the federally insured limit per depositor per institution.

Accounts receivable primarily represents amounts due from a concession contract and is based on amounts that reflect the consideration to which the Houston Zoo expects to be entitled to in exchange for performance obligations already satisfied. The Houston Zoo assesses collectability of concessionaires at contract inception, does not require collateral or provide financing. An allowance for accounts receivable is established when changed circumstances indicate that the balance may no longer be collected in full. The Houston Zoo believes that all accounts receivable at December 31, 2019 will be fully collected. Accordingly, no allowance for doubtful accounts has been provided.

Contributions receivable that are expected to be collected within one year are reported at net realizable value. Amounts expected to be collected in future years are discounted to estimate the present value of future cash flows. Discounts are computed using risk-free interest rates applicable to the years in which the promises are received. Amortization of discounts is included in contributions revenue. An allowance for uncollectible receivables is provided when it is believed balances may not be collected in full. The adequacy of the allowance at the end of each period is determined using a combination of historical loss experience and donor-by-donor analysis of balances. At December 31, 2019, management has determined that allowance is not required.

Investments are reported at fair value. Net investment return consists of interest and dividends, realized and unrealized gains and losses, net of external and direct internal investment expenses.

Property and equipment are reported at cost, if purchased, or at fair value at the date of gift, if donated. The Houston Zoo capitalizes property and equipment that has a cost or fair value of \$10,000 or greater and an estimated useful life of more than one year. The Houston Zoo recognizes depreciation using the straight-line method over the estimated useful lives of the assets, ranging from 3 to 30 years.

Animal and horticultural collections – In accordance with industry practice, the Houston Zoo does not capitalize animal and horticultural collections; acquisitions are reported as expenditures in the period of acquisition. The Houston Zoo is responsible for the health and welfare of its animal and horticultural collections. The Houston Zoo maintains records of its collections and any exchanges with other organizations. Under the direction of the Board of Directors, the President, and the curatorial staff, collections continue to be cared for, used, and expanded. In 2019 and 2018, the Houston Zoo expended approximately \$25,000 and \$32,000, respectively, to expand its collections.

In an ongoing commitment to enhance worldwide reproduction and conservation of animals, the Houston Zoo exchanges animals with other organizations. Consistent with industry practice, the Houston Zoo does not record any liability for such exchange arrangements as generally these arrangements are without monetary consideration.

Funds held for others – The Houston Zoo holds funds for several organizations. Funds held for others are included in the Houston Zoo’s cash and as a liability of the Houston Zoo.

Deferred membership fees and guest program fees result from payments received before the performance obligations are satisfied and are expected to be recognized as revenue in the following year. At December 31, 2019, 2018 and 2017, deferred membership fees were \$3,708,382, \$3,281,255, and \$3,300,535, respectively. At December 31, 2019, 2018 and 2017, deferred guest program fees were \$291,677, \$247,825, and \$363,489, respectively.

Net asset classification – Net assets, revenue, gains, and losses are classified based on the existence or absence of donor-imposed restrictions, as follows:

- *Net assets without donor restrictions* are not subject to donor-imposed restrictions even though their use may be limited in other respects such as by contract or board designation.
- *Net assets with donor restrictions* are subject to donor-imposed restrictions. Restrictions may be temporary in nature, such as those that will be met by the passage of time or use for a purpose specified by the donor, or may be perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Net assets are released from restrictions when the stipulated time has elapsed, or purpose has been fulfilled, or both. Contributions of long-lived assets and of assets restricted for acquisition of long-lived assets are released when those assets are placed in service. Donor-restricted endowment earnings are released when those earnings are appropriated in accordance with spending policies and are used for the stipulated purpose.

Fees and program revenue are derived primarily from admission to the zoo, park management services, guest program services, concessions, and educational programs. Revenue is recognized when the services are provided in an amount that reflects the consideration that the Houston Zoo expects to be entitled to in exchange for those services. The nature of these services does not give rise to contract costs, refunds, warranties or other related obligations.

Admission Fees are from residents of Houston and the surrounding area for access to the Houston Zoo. Admission fees, which entitle visitors to a single day access to the zoo and are collected and recognized as revenue at the point of sale.

Membership Admission Fees – Membership dues are comprised of an exchange element based on the value of benefits provided, and a contribution element for the difference between the total membership fees paid and the exchange element and are due at the time of purchase. Memberships provide various benefits based on membership level such as admission to zoo, discounted tickets for admission, special exhibits and events, private tours, discounted facility rentals, discount at the gift shop and restaurants, and invitations to private events. Membership admission fees represents the fair value of benefits provided to members and are recognized ratably over the annual membership period based on the output method. The fair value of each benefit is based on the expected utilization. Payments for membership admission fees received for performance obligations not yet satisfied are reported as deferred revenue. The excess of membership dues paid over membership admissions fees is recognized upon receipt and is reported with contributions.

City Management Fee – The Houston Zoo has a 50-year operating agreement with the Houston Zoo Development Corporation (HZDC), a local government corporation created by the City, to operate, maintain, manage, and develop the zoo premises. HZDC has a 50-year lease agreement with the City for the land, buildings, and improvements of the zoo premises. Under the operating agreement with HZDC, the Houston Zoo receives an annual management fee that increases annually based on the Consumer Price Index. The management fee is subject to annual appropriation and budget approval by the City. The operating agreement can be terminated by the Houston Zoo if the annual appropriation is not approved by the City. Revenue under the operating agreement is recognized ratably over time based on the output method as management services are performed. Payment is due monthly from HZDC.

Guest Program Fees – Guest program fees are recognized at a point in time when the admission or event occurs or service is provided and include admission fees for special exhibits, special events such as Zoo Lights and Feast with the Beast, children carousel rides, giraffe feeding, and facility and stroller rentals. Payment for guest program fees is due when admission occurs, or services are provided. Facility rentals require a non-refundable deposit due upon execution of a contract with the remaining balance due prior to the event.

The Houston Zoo allows visitors to purchase pre-paid tickets for admission as well as other guest programs. Pre-paid tickets for admission must be utilized within 6 months. Payments received for pre-paid tickets is reported as deferred guest program fee revenue until the ticket is utilized or 6 months lapses for pre-paid admission tickets.

Concession Contract Income – The Houston Zoo has a contract with a concessionaire to operate the gift shop and provide food services. The contract runs through 2027 but by mutual consent can be extended for up to two additional five-year terms. The terms of the agreement provide for variable consideration based on sales by category of goods sold and range of total sales. If the Houston Zoo achieves specified attendance benchmarks it is entitled to receive a minimum annual guarantee regardless of amount of goods sold. Revenue is recognized over a period of time based on sales for the month. Payment is due monthly based on the prior month's sales.

Educational Program Fees – The Houston Zoo offers educational experiences including summer camps, training for teens as volunteers for teen zoo crew, overnight campouts, animal encounters and other experiences. Educational program fees are due prior to the scheduled event. Animal encounter fees are recognized when the event occurs while other educational program fees are recognized ratably over the period of time that the program occurs.

Discounts provided to Houston Zoo members and staff for admission, guest program fees, and educational program fees reduces the amount of consideration the Houston Zoo expects to be entitled to receive and the related revenue is presented net of discounts. Admission discounts are also provided to schools, military personnel, METRO riders, City Pass, groups, and corporate partners. Admission fees is reported net of these discounts.

Contributions are recognized as revenue at fair value when an unconditional commitment is received from the donor. Contributions received with donor stipulations that limit their use are classified as *net assets with donor restrictions*. Conditional contributions are subject to one or more barriers that must be overcome before the organization is entitled to receive or retain funding. Conditional contributions are recognized as revenue at fair values when conditions have been met.

Donated materials, use of facilities and services – Donated materials and use of facilities are recognized at fair value as unrestricted contributions when an unconditional commitment is received from the donor. The related expense is recognized as the item is used. Contributions of services are recognized when services received (a) create or enhance nonfinancial assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation.

During 2019, approximately 940 volunteers contributed approximately 58,500 hours in connection with programs. During 2018, approximately 1,300 volunteers contributed approximately 65,000 hours in connection with programs. No amount has been recorded in the financial statements because the services did not meet the criteria for recognition under generally accepted accounting principles.

Special event revenue is the total amount paid by sponsors and attendees of an event and includes elements of both contributions and exchange transactions. Special event revenue is recognized when the event occurs. Amounts received for future events represent conditional contributions and are reported in the statement of financial position as deferred revenue until earned. Direct donor benefit costs represent the cost of goods and services provided to attendees of special events.

Grants made are recognized as expense at fair value when the Houston Zoo approves an unconditional commitment to a grant recipient. Commitments made but not yet funded are recorded as grants payable and are discounted, if material, to estimate the present value of future cash flows.

Advertising and marketing costs are expensed as incurred.

Functional allocation of expenses – Expenses are reported by their functional classification. Program services are the direct conduct or supervision of activities that fulfill the purposes for which the organization exists. Fundraising activities include the solicitation of contributions of money, securities, materials, facilities, other assets, and time. Membership development activities include soliciting for prospective members and membership dues, membership relations, and similar activities. Management and general activities are not directly identifiable with specific program or other supporting activities. Expenses that are attributable to more than one activity are allocated among the activities benefitted. Salaries and related costs are allocated on the basis of estimated time and effort expended. Training, postage and delivery, telephone, fuel, uniforms and insurance is allocated based on employee headcount of each department. Information technology costs are allocated based on estimates of time and costs of specific technology utilized.

Estimates – Management must make estimates and assumptions to prepare financial statements in accordance with generally accepted accounting principles. These estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, the amounts reported as revenue and expenses, and the allocation of expenses among various functions. Actual results could vary from the estimates that were used.

NOTE 2 – ADOPTION OF ACCOUNTING STANDARDS

The Houston Zoo adopted Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)*. This ASU and all subsequently clarifying ASU's replaced most existing revenue recognition guidance in generally accepted accounting principles. The ASU also required expanded disclosures related to the nature, amount, timing and uncertainty of revenue and cash flows from contracts with customers. The Houston Zoo adopted the new standard effective January 1, 2018, using the full retrospective method. The timing and amount of revenue recognized previously is consistent with how revenue is recognized under this ASU and therefore adoption of this ASU had no impact on total net assets

or total changes in net assets in 2018 but resulted in reclassification of previously reported activities to conform to the 2019 presentation and additional disclosures.

The Houston Zoo also adopted ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The amendments in this ASU clarify and improve current guidance about whether a transfer of assets (or the reduction, settlement, or cancellation of liabilities) is a contribution or an exchange transaction and provide additional guidance on determining whether a contribution is conditional or unconditional. The Houston Zoo adopted the new standard effective January 1, 2018. Adoption of this ASU had no impact on total net assets or changes in net assets for 2018.

NOTE 3 – LIQUIDITY AND AVAILABILITY OF RESOURCES

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use within one year of December 31 comprise the following:

	<u>2019</u>	<u>2018</u>
Financial assets:		
Cash	\$ 5,122,416	\$ 4,283,929
Accounts receivable	603,175	558,451
Operating contributions receivable	3,573,541	2,765,548
Restricted or designated cash	24,478,150	28,662,067
Contributions receivable for capital acquisitions	56,043,379	51,826,884
Investments	<u>23,640,790</u>	<u>19,452,380</u>
Total financial assets	113,461,451	107,549,259
Less financial assets not available for general expenditure:		
Funds held for others	(107,779)	(70,483)
Donor-restricted for capital acquisitions	(56,574,379)	(53,764,382)
Board-designated reserves	(29,159,775)	(31,023,228)
Board-designated endowment funds	(8,305,892)	(5,837,210)
Donor-restricted endowment funds	(6,921,996)	(5,872,212)
Donor-restricted not expected to be used within one year	<u>(3,447,989)</u>	<u>(2,532,835)</u>
Total financial assets available for general expenditure	<u>\$ 8,943,641</u>	<u>\$ 8,448,909</u>

For purposes of analyzing resources available to meet general expenditures over a 12-month period, the Houston Zoo considers all expenditures related to its ongoing activities of exhibition facility operations, education and conservation programs, admissions and guest relations and guest program events, as well as the conduct of services undertaken to support these activities other than capital expenditures, to be general expenditures.

As part of the Houston Zoo's liquidity management, financial assets have been structured to be available as its general expenditures, liabilities, and other obligations become due by maintaining a significant portion of its assets in cash. Financial assets available for general expenditures of \$8,943,641 will be used for ongoing maintenance of the Houston Zoo and new exhibits and also includes approximately \$2.5 million of restricted contributions received for restricted projects scheduled for completion in fiscal year 2020.

The Houston Zoo's Board of Directors has designated a portion of its unrestricted resources for endowment and other purposes. These board-designated funds, other than the board-designated maintenance endowment fund, are invested for long-term appreciation and current income but remain available to be spent at the Board of Directors' discretion. The board-designated maintenance endowment is invested for the long term, but its use is subject to the terms of the contract with HZDC and the City.

NOTE 4 – CONTRIBUTIONS RECEIVABLE

Contributions receivable are as follows:

	<u>2019</u>	<u>2018</u>
Contributions receivable	\$ 66,195,494	\$ 62,056,283
Discount to net present value at 0.36% to 2.46%	<u>(6,578,574)</u>	<u>(7,463,851)</u>
Contributions receivable, net	59,616,920	54,592,432
Operating contributions receivable, net	<u>(3,573,541)</u>	<u>(2,765,548)</u>
Contributions receivable for capital acquisitions, net	<u>\$ 56,043,379</u>	<u>\$ 51,826,884</u>

Contributions receivable at December 31, 2019 are expected to be collected as follows:

Receivable in less than one year	\$ 8,418,239
Receivable in one to five years	27,727,997
Receivable in more than five years	<u>30,049,258</u>
Total contributions receivable	<u>\$ 66,195,494</u>

At December 31, 2019, approximately 72% of contributions receivable is due from one foundation. At December 31, 2018, approximately 80% of contributions receivable was due from one foundation. During 2019, contributions from two foundations comprised 30% of total contributions and is for the *Centennial* capital campaign. During 2018, contributions from one foundation comprised 88% of total contributions and is for the *Centennial* capital campaign.

At December 31, 2019, \$290,000 in conditional contributions receivable have not been recognized in the statement of activities because the conditions have not yet been met as qualifying expenses have not been incurred.

NOTE 5 – INVESTMENTS

Investments consist of the following:

	<u>2019</u>	<u>2018</u>
Equity mutual funds	\$ 9,062,234	\$ 7,145,629
Corporate bonds and notes	4,614,251	4,694,637
Fixed-income mutual funds	4,063,972	2,952,936
U. S. Treasury notes	2,521,865	2,137,007
Money market mutual funds	1,397,577	1,785,651
Limited partnership select equity funds	1,060,347	
Exchange-traded funds	<u>920,544</u>	<u>736,520</u>
Total investments	<u>\$ 23,640,790</u>	<u>\$ 19,452,380</u>

Investments at December 31, 2019 and 2018 are held for the endowment and board-designated operating reserves.

Investments are exposed to various risks such as interest rate, market, and credit risks. Because of these risks, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statement of financial position and statement of activities.

NOTE 6 – FAIR VALUE MEASUREMENTS

Generally accepted accounting principles require that certain assets and liabilities be reported at fair value and establish a hierarchy that prioritizes inputs used to measure fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In accordance with ASU 2015-07, *Fair Value Measurements*, investments for which fair value is measured at net asset value per share (or its equivalent) using the practical expedient have not been categorized in the fair value hierarchy. The three levels of the fair value hierarchy are as follows:

- *Level 1* – Inputs are unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the reporting date. The types of investments included in Level 1 are securities traded and valued based upon a public exchange.
- *Level 2* – Inputs are quoted prices in nonactive markets or in active markets for similar assets or liabilities, or inputs which are either directly or indirectly observable with observable market data at the reporting date.
- *Level 3* – Inputs are not observable and are based on the reporting entity’s assumptions about the inputs market participants would use in pricing the asset or liability.

Assets measured at fair value at December 31, 2019 are as follows:

	<u>LEVEL 1</u>	<u>LEVEL 2</u>	<u>LEVEL 3</u>	<u>TOTAL</u>
Investments:				
Equity mutual funds:				
Developed international	\$ 3,848,576			\$ 3,848,576
Domestic large-cap value	2,407,636			2,407,636
Domestic large-cap growth	2,400,278			2,400,278
Domestic small-cap	215,844			215,844
Real estate	189,900			189,900
Corporate bonds and notes:				
A-rated		\$ 2,270,836		2,270,836
BAA-rated		2,193,239		2,193,239
Other ratings		150,176		150,176
Fixed-income mutual funds:				
Inflation protected	1,033,818			1,033,818
High yield bond	1,020,128			1,020,128
Corporate bond	767,739			767,739
Government bond	621,363			621,363
Asset-backed securities	620,924			620,924
U. S. Treasury notes	2,521,865			2,521,865
Money market mutual funds	1,397,577			1,397,577
Exchange-traded funds	920,544			920,544
Total investments assets in fair value hierarchy	<u>\$ 17,966,192</u>	<u>\$ 4,614,251</u>	<u>\$ 0</u>	22,580,443
Limited partnership select equity funds measured at net asset value using the practical expedient (a)				<u>1,060,347</u>
Total assets measured at fair value				<u>\$ 23,640,790</u>

Assets measured at fair value at December 31, 2018 are as follows:

	<u>LEVEL 1</u>	<u>LEVEL 2</u>	<u>LEVEL 3</u>	<u>TOTAL</u>
Investments:				
Equity mutual funds:				
Developed international	\$ 2,655,857			\$ 2,655,857
Domestic large-cap value	1,693,157			1,693,157
Domestic large-cap growth	2,179,705			2,179,705
Domestic small-cap	197,432			197,432
Real estate	159,906			159,906
Commodity	259,572			259,572
Corporate bonds and notes:				
A-rated		\$ 1,746,101		1,746,101
BAA-rated		2,445,139		2,445,139
Other ratings		503,397		503,397
Fixed-income mutual funds:				
Inflation protected	741,049			741,049
High yield bond	801,176			801,176
Corporate bond	524,536			524,536
Government bond	465,621			465,621
Asset-backed securities	420,554			420,554
U. S. Treasury notes	2,137,007			2,137,007
Money market mutual funds	1,785,651			1,785,651
Exchange-traded funds	736,520			736,520
Total assets measured at fair value	<u>\$ 14,757,743</u>	<u>\$ 4,694,637</u>	<u>\$ 0</u>	<u>\$ 19,452,380</u>

- (a) The objective of this fund is to generate long-term growth in assets by investing primarily in equity and equity-related securities. Redemptions are generally allowed quarterly following the lock-up period of at least 12 months. Redemptions shall require no less than 90 days prior written notice, but may be restricted in amount at any given date. The capital available for redemption may be subject to redemption charges and may not include capital attributable to funds participating in illiquid investments. There are no unfunded commitments at December 31, 2019.

Valuation methods used for assets measured at fair value are as follows:

- *Mutual funds* are valued at the net asset value of shares held at year end.
- *Corporate bonds and notes* are valued using prices obtained from independent quotation bureaus that use computerized valuation formulas to calculate fair values.
- *U. S. Treasury notes* are valued using prices obtained from active market maker and inter-dealer brokers on a daily basis.
- *Exchange-traded funds* are valued at the closing price reported on the active market on which the individual securities are traded.
- *Limited partnership select equity funds* are valued using the net asset value per share (or its equivalent) as a practical expedient to determine the fair value of investments in partnerships or funds that do not have a readily determinable fair value. The fair value is based on information provided by the general partners or fund manager of each fund.

These valuation methods may produce a fair value that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Houston Zoo believes its valuation methods are appropriate, the use of different methods or assumptions could result in a different fair value measurement at the reporting date.

NOTE 7 – PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	<u>2019</u>	<u>2018</u>
Leasehold improvements	\$ 163,709,822	\$ 150,207,958
Furniture, fixtures and equipment	14,352,269	13,797,765
Construction in progress	<u>27,206,544</u>	<u>11,381,040</u>
Total property and equipment, at cost	205,268,635	175,386,763
Accumulated depreciation	<u>(66,498,745)</u>	<u>(57,744,586)</u>
Property and equipment, net	<u>\$ 138,769,890</u>	<u>\$ 117,642,177</u>

NOTE 8 – NOTES PAYABLE

In September 2019, the Houston Zoo entered into a \$30 million tax-exempt loan agreement with a bank. Proceeds from the loan are being used to finance the construction of a new garage and administration building. The loan bears interest at 87.4% of LIBOR plus 0.8611% (2.43% at December 31, 2019). Interest is due monthly until September 2024 when principal and accrued interest are due monthly. The loan matures in September 2034. The loan is secured by a security interest in the Houston Zoo's gross revenue, certain depository accounts, and proceeds from the contributions and pledges related to the *Centennial* capital campaign.

In September 2019, the Houston Zoo entered into a line of credit agreement with a bank to borrow up to \$55 million on a revolving basis during the period from September 2019 through September 2024. Proceeds from the line of credit are to be used to finance the construction of the *Centennial* capital campaign projects. The line of credit bears interest at LIBOR plus 1.20%. Interest is due monthly until September 2024 when principal and accrued interest are due monthly. The line of credit matures in September 2029. The line of credit is secured by a security interest in the Houston Zoo's gross revenue, certain depository accounts, and proceeds from the contributions and pledges related to the *Centennial* capital campaign. There were no draws during 2019 and no amounts outstanding on the line of credit at December 31, 2019.

NOTE 9 – NET ASSETS WITHOUT DONOR RESTRICTIONS

Net assets without donor restrictions are comprised of the following:

	<u>2019</u>	<u>2018</u>
Property and equipment, net	\$ 111,426,129	\$ 105,387,819
Zoo operations	12,145,110	1,818,092
Board-designated for strategic operating and capital initiatives (2017-2022)	20,746,873	22,936,466
Board-designated operating reserve	8,412,902	8,086,762
Board-designated endowment funds:		
Maintenance	5,954,098	3,890,733
General	<u>2,351,794</u>	<u>1,946,477</u>
Total net assets without donor restrictions	<u>\$ 161,036,906</u>	<u>\$ 144,066,349</u>

The Houston Zoo has a policy regarding establishing board-designated endowments to fund maintenance reserves in accordance with the terms of the contract with HZDC and the City. For any exhibits that include \$500,000 or more in construction costs, the Houston Zoo must establish a maintenance reserve equal to 5% of the construction cost. In addition, the Board of Directors established a policy for the general endowment fund, whereby any bequest received that is not donor restricted is to be added to the general endowment fund unless otherwise approved by the Houston Zoo's Finance Committee.

The Board of Directors does not have a specific policy in regards to establishing other reserves. However, the Board of Directors designates excess cash flows for reserves or specific projects as deemed prudent. Use of board-designated reserves must be approved by the Board of Directors.

NOTE 10 – NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are restricted as follows:

	<u>2019</u>	<u>2018</u>
Subject to expenditure for specified purpose:		
Capital acquisitions	\$ 64,909,788	\$ 61,841,775
Conservation	4,409,695	3,571,900
Animal care	587,477	
John P. McGovern Children's Zoo	531,000	523,810
Other	<u>98,232</u>	<u>80,261</u>
Total subject to expenditure for specified purpose	<u>70,536,192</u>	<u>66,017,746</u>
Subject to passage of time:		
Contributions receivable that are not restricted by donors, but which are unavailable for expenditures until due	<u>899,975</u>	<u>994,347</u>
Endowments:		
Subject to spending policy and appropriation:		
Jane Block Endowment for the Children's Zoo	3,502,097	2,966,115
Conservation programs	1,278,124	1,073,776
Clark and Gordon Memorial special event endowment	976,816	870,612
Zoo Friends education exhibits	405,377	318,226
Martel Lecture Series	185,008	159,506
Fred Maier Beautification Fund	152,555	128,216
Morris Doцент Education Award	100,677	85,488
Alban Heiser Conservation Award	66,487	55,807
Carter Education Internship	48,286	41,545
Other endowments	<u>206,569</u>	<u>172,921</u>
Total endowments	<u>6,921,996</u>	<u>5,872,212</u>
Total net assets with donor restrictions	<u>\$ 78,358,163</u>	<u>\$ 72,884,305</u>

NOTE 11 – ENDOWMENT FUNDS

The Houston Zoo's endowment (the Endowment) was established for the purpose of supporting operating needs and program services that are consistent with the Houston Zoo's mission, and to provide growth and expansion of programs and/or creation of new programs. The Endowment includes both donor-restricted

endowment funds and funds designated by the Board of Directors (the Board) of the Houston Zoo to function as endowments.

Donor-restricted endowment funds are subject to the Texas Uniform Prudent Management of Institutional Funds Act (TUPMIFA). The Board has interpreted TUPMIFA as allowing the Houston Zoo to appropriate for expenditure or accumulate as much of an endowment fund as it determines is prudent for the uses, benefits, purposes, and duration for which the endowment fund was established, subject to explicit donor stipulations.

Donor-restricted endowment net assets are classified as *net assets with donor restrictions* until appropriated in accordance with spending policies and used for the stipulated purpose, if any. The Houston Zoo classifies contributions to an endowment plus any donor-stipulated accumulations as *net assets with donor restrictions required to be maintained in perpetuity*. The unappropriated investment earnings on donor-restricted endowments are classified as *net assets with donor restrictions accumulated net investment return*. The Board has interpreted TUPMIFA as not precluding the Houston Zoo from spending below the amount required to be maintained in perpetuity subject to prudent standards. An endowment fund is *underwater* if the fair value of the fund's investments falls below the amount required to be maintained in perpetuity because of declines in the fair value of investments and/or continued appropriation and spending in accordance prudent measures.

Board-designated endowment funds are classified as *net assets without donor restrictions* and represents the funds the Board has internally designated to be invested to provide support for the Houston Zoo generally for a long-term but not necessarily a specified period of time. The Board retains discretion over the use of these funds.

Investment Objectives

The Houston Zoo has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to enhance its real (inflation-adjusted) value over time. Under this policy, as approved by the Board, the endowment assets are invested in a manner that is intended to produce results that are the greater of the Consumer Price Index plus 4% to 5% or a custom index, while assuming a moderate level of investment risk. The Houston Zoo expects its endowment funds, over time, to provide a real return of approximately 4% to 5% over the long term. Actual returns in any given year may vary from this amount.

Endowment funds are maintained in investment accounts which are managed by independent financial advisors that follow guidance provided in an investment policy approved by the Board of Directors. To satisfy its long-term rate-of-return objectives, the Houston Zoo relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Houston Zoo targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Spending Policy

The Houston Zoo has a policy of appropriating for distribution each year up to 3% of its endowment fund's average fair value over the prior 12 quarters through the calendar year end preceding the fiscal year in which the distribution is planned, but may not exceed the cumulative actual earnings and appreciation of the funds. In establishing this policy, the Houston Zoo considered the long-term expected return on its endowment. The Houston Zoo's objective is to enhance the real (inflation-adjusted) value over time of the endowment assets held in perpetuity or for a specified term through new gifts and investment return.

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or TUPMIFA requires the Houston Zoo to retain as a fund of perpetual duration. In accordance with generally accepted accounting principles, deficiencies of this nature are reported in *net assets with donor restrictions*, if any.

Changes in endowment net assets are as follows:

	BOARD- DESIGNATED ENDOWMENT	WITH DONOR RESTRICTIONS		TOTAL
		ACCUMULATED NET INVESTMENT RETURN	REQUIRED TO BE MAINTAINED IN PERPETUITY	
Endowment net assets, December 31, 2017	\$ 6,182,469	\$ 2,764,873	\$ 3,526,099	\$ 12,473,441
Contributions	31,368		2,000	33,368
Net investment return	(376,627)	(410,588)	(1,972)	(789,187)
Distributions		(8,200)		(8,200)
Endowment net assets, December 31, 2018	5,837,210	2,346,085	3,526,127	11,709,422
Contributions/transfers	1,267,019	23,810	2,000	1,292,829
Net investment return	1,201,663	1,112,616	5,340	2,319,619
Distributions		(93,982)		(93,982)
Endowment net assets, December 31, 2019	<u>\$ 8,305,892</u>	<u>\$ 3,388,529</u>	<u>\$ 3,533,467</u>	<u>\$ 15,227,888</u>

NOTE 12 – FEES AND PROGRAM REVENUE

The Houston Zoo disaggregates revenue by type of revenue as this depicts the nature, amount and timing and uncertainty and cash flows affected by economic factors. Revenue from contracts with customers consist of the following for the years ended December 31, 2019 and 2018.

	2019		
	OVER TIME	POINT-IN-TIME	TOTAL
Admission fees		\$ 15,322,836	\$ 15,322,836
Membership fees	\$ 7,538,100		7,538,100
City management fee	10,127,489		10,127,489
Guest program fees		9,252,639	9,252,639
Concession contract income	3,956,216		3,956,216
Education program fees	<u>1,201,400</u>	<u>232,963</u>	<u>1,434,363</u>
Total	<u>\$ 22,823,205</u>	<u>\$ 24,808,438</u>	<u>\$ 47,631,643</u>
	2018		
	OVER TIME	POINT-IN-TIME	TOTAL
Admission fees		\$ 13,659,788	\$ 13,659,788
Membership fees	\$ 7,221,576		7,221,576
City management fee	9,973,836		9,973,836
Guest program fees		7,939,457	7,939,457
Concession contract income	3,539,267		3,539,267
Education program fees	<u>1,131,539</u>	<u>230,530</u>	<u>1,362,069</u>
Total	<u>\$ 21,866,218</u>	<u>\$ 21,829,775</u>	<u>\$ 43,695,993</u>

NOTE 13 – RETIREMENT PLAN

The Houston Zoo's retirement savings plan is qualified under §401(k) of the Internal Revenue Code. The plan allows eligible employees to contribute a portion of their earnings each plan year subject to certain Internal Revenue Service limitations and to defer federal income taxes on the contributions. The Houston Zoo matches 100% of the first 3% of employee contributions and matches 50% of contributions from 3% to 5%. The employee is immediately 100% vested in the employer's contributions. The Houston Zoo contributed approximately \$740,000 and \$672,000 to the plan during 2019 and 2018, respectively.

NOTE 14 – COMMITMENTS

As of December 31, 2019, the Houston Zoo has entered into various construction commitments totaling approximately \$67.5 million. The unrecognized balance of these commitments at December 31, 2019 was approximately \$26.4 million.

NOTE 15 – SUBSEQUENT EVENTS

On March 11, 2020, the Director-General of the World Health Organization declared a pandemic related to the global outbreak of the new coronavirus COVID-19 and on March 13, 2020, a national emergency was declared in the United States.

Financial markets have been severely impacted by fears that the COVID-19 pandemic will push the global economy into recession in addition to the decline in the price of oil. The U. S. stock market experienced a significant decline and remains volatile resulting in a substantial decline in the fair value of the Houston Zoo's investments subsequent to December 31, 2019. The Houston Zoo temporarily closed to protect its visitors from the potential spread of COVID-10 and subsequently as a result of the state-wide stay-at-home orders. There will be a decrease in revenue as a result of being closed for approximately 2 1/2 months and the ongoing reduction in visitors without a corresponding decrease in costs as the Houston Zoo continues to pay its workforce. The Houston Zoo was granted a loan of approximately \$5.2 million under the Paycheck Protection Program legislation passed by the Federal government in order to continue to pay its employees in the short-term. The loan accrues interest at 1% and is payable over two years. The loan may be forgiven if used for qualifying expenses.

The extent of the impact of COVID-19 on the Houston Zoo's operational and financial performance will depend on developments such as the duration and spread of the outbreak, impact on visitors, donors, employees, and vendors all of which are uncertain and cannot be predicted. Therefore, while the Houston Zoo expects this matter to negatively impact its operating results and financial position, the financial impact cannot be reasonably estimated at this time.

Subsequent to year end, the Houston Zoo borrowed \$1.2 million from its \$30 million loan agreement and \$2 million from its \$55 million revolving line of credit to finance constructions costs.

Management has evaluated subsequent events through May 18, 2020, which is the date that the financial statements were available for issuance. No other events were identified that are required to be disclosed or would have a material impact on reported net assets or changes in net assets.