

**Houston Zoo, Inc.**

Financial Statements  
and Independent Auditors' Report  
for the years ended December 31, 2020 and 2019

# 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, 2020 and 2019 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, 2020 and 2019 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 21, 2021



## Houston Zoo, Inc.

### Statement of Activities for the year ended December 31, 2020

	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL
<b>REVENUE:</b>			
Fees and program revenue <i>(Note 11)</i> :			
City management fee	\$ 10,317,516		\$ 10,317,516
Admission fees	9,342,777		9,342,777
Membership admission fees	5,056,070		5,056,070
Guest program fees	4,409,409		4,409,409
Concession contract income	1,924,771		1,924,771
Educational program fees	243,600		243,600
Contributions	3,921,956	\$ 11,950,428	15,872,384
Government grant contributions		5,665,025	5,665,025
Special events	1,036,276		1,036,276
Cost of benefits provided to donors	(69,676)		(69,676)
Net investment return	1,272,973	849,850	2,122,823
Loss on disposal of property and equipment	(261,306)		(261,306)
Other income	39,978		39,978
Total revenue	<u>37,234,344</u>	<u>18,465,303</u>	<u>55,699,647</u>
Net assets released from restrictions:			
Capital expenditures	18,562,449	(18,562,449)	
Program expenses	9,869,284	(9,869,284)	
Expiration of time restrictions	899,256	(899,256)	
Total	<u>66,565,333</u>	<u>(10,865,686)</u>	<u>55,699,647</u>
<b>EXPENSES:</b>			
Zoo programs:			
Exhibition facility operations	20,709,344		20,709,344
Depreciation	8,883,772		8,883,772
Education and conservation programs	3,705,135		3,705,135
Admissions and guest relations	3,371,708		3,371,708
Guest program events	1,795,340		1,795,340
Total zoo programs	<u>38,465,299</u>		<u>38,465,299</u>
Advertising and marketing costs	1,953,184		1,953,184
Membership development	1,155,481		1,155,481
Management and general	2,282,092		2,282,092
Fundraising	1,482,037		1,482,037
Total expenses	<u>45,338,093</u>		<u>45,338,093</u>
CHANGES IN NET ASSETS	21,227,240	(10,865,686)	10,361,554
Net assets, beginning of year	<u>161,036,906</u>	<u>78,358,163</u>	<u>239,395,069</u>
Net assets, end of year	<u>\$ 182,264,146</u>	<u>\$ 67,492,477</u>	<u>\$ 249,756,623</u>

*See accompanying notes to financial statements.*

## Houston Zoo, Inc.

### Statement of Activities for the year ended December 31, 2019

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	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL
REVENUE:			
Fees and program revenue (Note 11):			
City management fee	\$ 10,127,489		\$ 10,127,489
Admission fees	15,322,836		15,322,836
Membership admission fees	7,538,100		7,538,100
Guest program fees	9,252,639		9,252,639
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
	<u>52,953,657</u>	<u>22,281,934</u>	<u>75,235,591</u>
Total revenue			
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)	
	<u>69,761,733</u>	<u>5,473,858</u>	<u>75,235,591</u>
Total			
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
	<u>43,408,907</u>		<u>43,408,907</u>
Total zoo programs			
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
	<u>52,791,176</u>		<u>52,791,176</u>
Total expenses			
CHANGES IN NET ASSETS	16,970,557	5,473,858	22,444,415
Net assets, beginning of year	<u>144,066,349</u>	<u>72,884,305</u>	<u>216,950,654</u>
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.*

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## Houston Zoo, Inc.

### Statements of Cash Flows for the years ended December 31, 2020 and 2019

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	<u>2020</u>	<u>2019</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Changes in net assets	\$ 10,361,554	\$ 22,444,415
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	8,883,772	8,754,159
Net realized and unrealized gain on investments	(1,809,418)	(2,132,564)
Contributions restricted for <i>Centennial</i> campaign	(8,649,916)	(16,415,742)
Contributions restricted for permanent endowment funds	(100,000)	(2,000)
Loss on disposal of property and equipment	261,306	
Changes in operating assets and liabilities:		
Accounts receivable	36,703	(44,724)
Prepaid insurance and other assets	203,206	(22,564)
Operating contributions receivable	(232,634)	(807,993)
Accounts payable	(719,787)	(587,075)
Accrued salaries and benefit costs	(318,216)	273,181
Funds held for others	(47,400)	37,296
Deferred revenue	<u>5,080,235</u>	<u>387,374</u>
Net cash provided by operating activities	<u>12,949,405</u>	<u>11,883,763</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchases of property and equipment	(33,533,703)	(26,206,901)
Purchases of investments	(15,401,433)	(16,746,065)
Proceeds from sale of investments	15,009,564	14,302,145
Net change in money market mutual funds held as investments	<u>(21,688)</u>	<u>388,074</u>
Net cash used by investing activities	<u>(33,947,260)</u>	<u>(28,262,747)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from contributions restricted for <i>Centennial</i> campaign	9,894,332	12,199,247
Proceeds from notes payable	12,418,482	832,307
Proceeds from contributions restricted for permanent endowment funds	<u>100,000</u>	<u>2,000</u>
Net cash provided by financing activities	<u>22,412,814</u>	<u>13,033,554</u>
<b>NET CHANGE IN CASH</b>	1,414,959	(3,345,430)
Cash, beginning of year	<u>29,600,566</u>	<u>32,945,996</u>
Cash, end of year	<u>\$ 31,015,525</u>	<u>\$ 29,600,566</u>
<i>Reconciliation of cash:</i>		
Restricted or designated cash	\$ 26,100,918	\$ 24,478,150
Other cash	<u>4,914,607</u>	<u>5,122,416</u>
Total cash	<u>\$ 31,015,525</u>	<u>\$ 29,600,566</u>
<i>Supplemental disclosure of cash flow information:</i>		
Contributions of marketable securities	\$1,233,009	\$5,011,837

*See accompanying notes to financial statements.*

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## Houston Zoo, Inc.

### Statement of Functional Expenses for the year ended December 31, 2020

	ZOO PROGRAMS	ADVERTISING AND MARKETING COSTS	MEMBERSHIP DEVELOPMENT	MANAGEMENT AND GENERAL	FUNDRAISING	TOTAL
Salaries, related taxes, and benefits	\$ 20,111,946	\$ 580,315	\$ 697,404	\$ 1,521,507	\$ 1,122,987	\$ 24,034,159
Depreciation	8,883,772					8,883,772
Professional fees and contract labor	2,034,884	38,574	193,164	432,588	125,651	2,824,861
Supplies, materials and equipment	2,692,979	4,000	12,520	90,671	15,714	2,815,884
Grants made	2,228,013					2,228,013
Advertising and promotion	4,064	1,235,529	562	2,247	548	1,242,950
Occupancy	1,199,613	803	1,605	6,421	803	1,209,245
Insurance	538,428	8,773	24,125	32,898	13,159	617,383
Credit card fees	313,282		114,809	261	37,882	466,234
Information technology	170,263	55,511	35,538	142,151	20,196	423,659
Printing and postage	125,992	26,778	70,984	17,181	61,161	302,096
Conferences, conventions, and meetings	85,002	307	4,700	7,974	77,537	175,520
Travel	77,061	2,594	70	4,651	944	85,320
Other				23,542	5,455	28,997
Total expenses	<u>\$ 38,465,299</u>	<u>\$ 1,953,184</u>	<u>\$ 1,155,481</u>	<u>\$ 2,282,092</u>	<u>\$ 1,482,037</u>	45,338,093
Cost of benefits provided to donors						<u>69,676</u>
Total						<u>\$ 45,407,769</u>

*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
Supplies, materials and equipment	2,858,191	56,481	20,519	83,779	19,427	3,038,397
Grants made	3,383,437					3,383,437
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
Insurance	564,959	14,157	19,820	31,145	13,213	643,294
Credit card fees	487,696	2	176,942	6	27,735	692,381
Information technology	158,632	22,499	35,625	137,344	43,252	397,352
Printing and postage	177,547	114,589	229,723	29,627	95,740	647,226
Conferences, conventions, and meetings	323,563	342	7,452	3,279	200,757	535,393
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.

Notes to Financial Statements for the years ended December 31, 2020 and 2019

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### NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization – Ninety-eight 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 represent 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 and 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, 2020 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 contribution 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, 2020, management has determined that an allowance for uncollectible contribution receivables is not necessary.

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 Board) of the Houston Zoo, the President,

and the curatorial staff, collections continue to be cared for, used, and expanded. In 2020 and 2019, the Houston Zoo expended approximately \$9,100 and \$25,000, 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 City management fee, 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, 2020, the deferred City management fee was \$5,203,811. At December 31, 2020, 2019 and 2018, deferred membership fees are \$3,324,528, \$3,708,382, and \$3,281,255, respectively. At December 31, 2020, 2019 and 2018, deferred guest program fees are \$524,675, \$291,677, and \$247,825, 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.

*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.

*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 the zoo, discounted tickets for admission, special exhibits and events, private tours, discounted facility rentals, discounts at the gift shop and restaurants, and invitations to private events. Membership admission fees represent 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 admission fees is recognized upon receipt and is reported with contributions.

*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 the 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 lapse for pre-paid admission tickets. At December 31, 2020, 2019, and 2018, deferred guest program fees were \$524,675, \$291,677, and \$247,825.

*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 reduce the amount of consideration the Houston Zoo expects to be entitled to receive and the related revenue is presented net of discounts. Admission discounts also are provided to schools, military personnel, METRO riders, City Pass, groups, and corporate partners. Admission fees are reported net of the 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 value 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 2020, approximately 560 volunteers contributed approximately 15,000 hours in connection with programs. During 2019, approximately 940 volunteers contributed approximately 58,500 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 are 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 – 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>2020</u>	<u>2019</u>
Financial assets:		
Cash	\$ 4,914,607	\$ 5,122,416
Accounts receivable	566,472	603,175
Operating contributions receivable, net	3,806,175	3,573,541
Restricted or designated cash	26,100,918	24,478,150
Contributions receivable for <i>Centennial</i> campaign, net	54,798,963	56,043,379
Investments	<u>25,863,765</u>	<u>23,640,790</u>
Total financial assets	116,050,900	113,461,451
Less financial assets not available for general expenditure:		
Funds held for others	(60,379)	(107,779)
Donor-restricted for <i>Centennial</i> campaign and capital acquisitions	(55,329,963)	(56,574,379)
Board-designated reserves	(32,049,617)	(29,159,775)
Board-designated endowment funds	(9,562,467)	(8,305,892)
Donor-restricted endowment funds	(7,870,846)	(6,921,996)
Donor-restricted not expected to be used within one year	<u>(2,041,291)</u>	<u>(3,447,989)</u>
Total financial assets available for general expenditure	<u>\$ 9,136,337</u>	<u>\$ 8,943,641</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, 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 \$9,136,337 will be used for ongoing maintenance of the Houston Zoo and new exhibits.

The Houston Zoo’s Board 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’s 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.

In March 2020, the Director-General of the World Health Organization declared a pandemic related to the global outbreak of the new coronavirus COVID-19 and a national emergency was declared in the United States. As a result of stay-at-home orders and other restrictions, the Houston Zoo temporarily closed its facilities resulting in a decrease in program revenue. The Houston Zoo implemented pay reductions and furloughed some staff and/or eliminated some positions due to the duration of the pandemic and the resulting shift in operations. The extent of the impact of COVID-19 on the Houston Zoo’s future operational and financial performance will depend on developments such as the duration and spread of the outbreak, as well as the Houston Zoo’s donors, employees, and vendors, all of which are uncertain and cannot be predicted. 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.

The Houston Zoo received a \$5,204,500 Paycheck Protection Program (PPP) loan through the Small Business Administration (SBA) in April 2020. PPP loan principal and interest may be forgiven, in whole or in part, if the Houston Zoo meets eligibility requirements and uses the loan to fund qualified payroll and other eligible costs. Management believes it has met all criteria to be eligible to receive full forgiveness and recognized \$5,204,500 as a contribution during 2020. In June 2021, the Houston Zoo was notified that the \$5,204,500 PPP loan had been fully forgiven. In addition, the Houston Zoo received an Employee Retention Credit grant under the Coronavirus Aid, Relief, and Economic Security Act in the amount of \$460,525 in 2020 and \$2,295,251 in 2021.

### NOTE 3 – CONTRIBUTIONS RECEIVABLE

Contributions receivable are as follows:

	<u>2020</u>	<u>2019</u>
Contributions receivable	\$ 64,008,215	\$ 66,195,494
Discount to net present value at 0.17% to 2.46%	<u>(5,403,077)</u>	<u>(6,578,574)</u>
Contributions receivable, net	58,605,138	59,616,920
Operating contributions receivable, net	<u>(3,806,175)</u>	<u>(3,573,541)</u>
Contributions receivable for <i>Centennial</i> campaign, net	<u>\$ 54,798,963</u>	<u>\$ 56,043,379</u>

Contributions receivable at December 31, 2020 are expected to be collected as follows:

Receivable in less than one year	\$ 9,220,398
Receivable in one to five years	24,738,559
Receivable in more than five years	<u>30,049,258</u>
Total contributions receivable	<u>\$ 64,008,215</u>

At December 31, 2020 and 2019, approximately 72% of contributions receivable is due from one foundation.

At December 31, 2020, approximately \$511,000 in conditional contributions 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 4 – INVESTMENTS

Investments consist of the following:

	<u>2020</u>	<u>2019</u>
Equity mutual funds	\$ 10,023,703	\$ 9,062,234
Fixed-income mutual funds	4,191,414	4,063,972
Corporate bonds and notes	3,955,564	4,614,251
U. S. Treasury notes	3,464,212	2,521,865
Limited partnership select equity funds	1,868,770	1,060,347
Money market mutual funds	1,419,265	1,397,577
Exchange-traded funds	<u>940,837</u>	<u>920,544</u>
Total investments	<u>\$ 25,863,765</u>	<u>\$ 23,640,790</u>

Investments at December 31, 2020 and 2019 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 5 – 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 Accounting Standards Update 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, 2020 are as follows:

	<u>LEVEL 1</u>	<u>LEVEL 2</u>	<u>LEVEL 3</u>	<u>TOTAL</u>
Investments:				
Equity mutual funds:				
Domestic large-cap growth	\$ 5,762,955			\$ 5,762,955
Developed international	4,260,748			4,260,748
Corporate bonds and notes:				
A-rated		\$ 2,231,635		2,231,635
BAA-rated		1,387,868		1,387,868
Other ratings		336,061		336,061
Fixed-income mutual funds:				
Inflation protected	1,108,987			1,108,987
High yield bond	1,103,628			1,103,628
Corporate bond	716,480			716,480
Government bond	663,711			663,711
Asset-backed securities	598,608			598,608
U. S. Treasury notes	3,464,212			3,464,212
Money market mutual funds	1,419,265			1,419,265
Exchange-traded funds	940,837			940,837
Total investments assets in fair value hierarchy	<u>\$ 20,039,431</u>	<u>\$ 3,955,564</u>	<u>\$ 0</u>	23,994,995
Limited partnership select equity funds measured at net asset value using the practical expedient (a)				<u>1,868,770</u>
Total assets measured at fair value				<u>\$ 25,863,765</u>



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:				
Domestic large-cap growth	\$ 2,400,278			\$ 2,400,278
Developed international	3,848,576			3,848,576
Domestic large-cap value	2,407,636			2,407,636
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	<u>920,544</u>			<u>920,544</u>
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>

(a) The objective of these funds are 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, 2020.

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 6 – PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	<u>2020</u>	<u>2019</u>
Leasehold improvements	\$ 199,012,826	\$ 163,709,822
Furniture, fixtures and equipment	15,692,571	14,352,269
Construction in progress	<u>28,516,519</u>	<u>27,206,544</u>
Total property and equipment, at cost	243,221,916	205,268,635
Accumulated depreciation	<u>(74,704,623)</u>	<u>(66,498,745)</u>
Property and equipment, net	<u>\$ 168,517,293</u>	<u>\$ 138,769,890</u>

## NOTE 7 – 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% (0.99% at December 31, 2020). 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* campaign. At December 31, 2020 and 2019, the outstanding principal balance was \$2,319,565 and \$832,307, respectively.

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* campaign projects. The line of credit bears interest at LIBOR plus 1.20% (1.35% at December 31, 2020). 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* campaign. At December 31, 2020, the outstanding principal balance was \$10,931,224.

In September 2020, the Houston Zoo entered into a line of credit agreement with Frost Bank to borrow up to \$10 million on a revolving basis from time to time during the period September 2020 through March 2022. Interest is due monthly starting in October 2020 until the maturity date in March 2022, when the remaining principal and interest is due. The line of credit bears interest at LIBOR plus 1.90%. There were no draws during 2020 and no amounts outstanding on the line of credit at December 31, 2020.

Principal maturities of notes payable are due as follows:

2024	\$ 604,550
2025	2,418,201
Thereafter	<u>10,228,038</u>
Total	<u>\$ 13,250,789</u>

Capitalized interest totaled approximately \$66,000 in 2020. Interest recognized as expense totaled approximately \$22,000 in 2020 and \$7,600 in 2019.

**NOTE 8 – NET ASSETS WITHOUT DONOR RESTRICTIONS**

Net assets without donor restrictions are comprised of the following:

	<u>2020</u>	<u>2019</u>
Property and equipment, net	\$ 134,194,162	\$ 111,426,129
Zoo operations	6,457,900	12,145,110
Board-designated for strategic operating and capital initiatives (2017-2022)	23,369,165	20,746,873
Board-designated operating reserve	8,680,452	8,412,902
Board-designated endowment funds:		
Maintenance	6,626,612	5,954,098
General	<u>2,935,855</u>	<u>2,351,794</u>
Total net assets without donor restrictions	<u>\$ 182,264,146</u>	<u>\$ 161,036,906</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 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 does not have a specific policy in regard to establishing other reserves. However, the Board designates excess cash flows for reserves or specific projects, as deemed prudent. Use of board-designated reserves must be approved by the Board.

**NOTE 9 – NET ASSETS WITH DONOR RESTRICTIONS**

Net assets with donor restrictions are restricted as follows:

	<u>2020</u>	<u>2019</u>
Subject to expenditure for specified purpose:		
<i>Centennial</i> campaign	\$ 54,748,963	\$ 64,909,788
Conservation	3,117,596	4,409,695
John P. McGovern Children’s Zoo	581,000	531,000
Animal care	491,773	587,477
Other	<u>119,080</u>	<u>98,232</u>
Total subject to expenditure for specified purpose	<u>59,058,412</u>	<u>70,536,192</u>
Subject to passage of time:		
Contributions receivable that are not restricted by donors, but which are unavailable for expenditures until due	<u>563,219</u>	<u>899,975</u>
Endowments:		
Subject to spending policy and appropriation:		
Jane Block Endowment for the Children’s Zoo	3,926,070	3,502,097
Conservation programs	1,432,858	1,278,124
Clark and Gordon Memorial special event endowment	1,095,072	976,816
Zoo Friends education exhibits	454,453	405,377
Martel Lecture Series	207,407	185,008
Fred Maier Beautification Fund	171,025	152,555
David Roth Animal Care	111,892	
Morris Docent Education Award	111,826	100,677
Alban Heiser Conservation Award	74,535	66,487
Carter Education Internship	54,131	48,286
Other	<u>231,577</u>	<u>206,569</u>
Total endowments	<u>7,870,846</u>	<u>6,921,996</u>
Total net assets with donor restrictions	<u>\$ 67,492,477</u>	<u>\$ 78,358,163</u>

**NOTE 10 – 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 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 the long term, but not necessarily a specified period of time. The Board retains discretion over the use of these funds. There were no underwater funds at December 31, 2020 and 2019.

### 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. 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, 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		<u>(93,982)</u>		<u>(93,982)</u>
Endowment net assets, December 31, 2019	8,305,892	3,388,529	3,533,467	15,227,888
Contributions	618,500		100,000	718,500
Net investment return	1,005,575	845,826	4,024	1,855,425
Distributions	<u>(367,500)</u>	<u>(1,000)</u>		<u>(368,500)</u>
Endowment net assets, December 31, 2020	<u>\$ 9,562,467</u>	<u>\$ 4,233,355</u>	<u>\$ 3,637,491</u>	<u>\$ 17,433,313</u>

#### NOTE 11 – 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 factions. Revenue from contracts with customers consist of the following for the years ended December 31:

	2020		
	OVER TIME	POINT-IN- TIME	TOTAL
City management fee	\$ 10,317,516		\$ 10,317,516
Admission fees		\$ 9,342,777	9,342,777
Membership fees	5,056,070		5,056,070
Guest program fees		4,409,409	4,409,409
Concession contract income	1,924,771		1,924,771
Education program fees	<u>170,145</u>	<u>73,455</u>	<u>243,600</u>
Total	<u>\$ 17,468,502</u>	<u>\$ 13,825,641</u>	<u>\$ 31,294,143</u>
	2019		
	OVER TIME	POINT-IN- TIME	TOTAL
City management fee	\$ 10,127,489		\$ 10,127,489
Admission fees		\$ 15,322,836	15,322,836
Membership fees	7,538,100		7,538,100
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>

#### **NOTE 12 – 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 \$359,000 and \$740,000 to the plan during 2020 and 2019, respectively.

#### **NOTE 13 – COMMITMENTS**

As of December 31, 2020, the Houston Zoo has entered into various construction commitments totaling approximately \$124.7 million. The unrecognized balance of these commitments at December 31, 2020 was approximately \$47.9 million.

#### **NOTE 14 – SUBSEQUENT EVENTS**

Subsequent to year end, the Houston Zoo borrowed \$7,589,969 from its \$55 million revolving line of credit to finance construction costs.

Management has evaluated subsequent events through May 21, 2021, which is the date that the financial statements were available for issuance. No events, other than as disclosed above and in Note 2, were identified that are required to be disclosed or would have a material impact on reported net assets or changes in net assets.

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