

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

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

**December 27, 2015 and December 28, 2014**

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**COHN  REZNICK**  
ACCOUNTING • TAX • ADVISORY

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

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Independent Auditor's Report

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

We have audited the accompanying consolidated financial statements of Zoological Society of San Diego dba San Diego Zoo Global ("SDZ Global"), which comprise the consolidated statements of financial position as of December 27, 2015 and December 28, 2014, and the related consolidated statements of activities and changes in net assets and cash flows 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 consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

*Auditor's Responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our 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 the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

*Opinion*

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of SDZ Global as of December 27, 2015 and December 28, 2014, 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.



San Diego, California  
April 12, 2016

**Zoological Society of San Diego  
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**Consolidated Statements of Financial Position  
December 27, 2015 and December 28, 2014  
(In Thousands)**

	<u>2015</u>	<u>2014</u>
<u>Assets</u>		
Cash and cash equivalents	\$ 122,981	\$ 95,696
Accounts receivable, net	8,515	9,035
Inventories, net	2,424	2,373
Prepaid expenses and other assets	7,393	6,307
Investments	127,371	143,544
Split-interest agreements	31,938	29,686
Bequests and contributions receivable, net	27,535	31,643
Property and equipment, net	217,050	197,709
	<u>217,050</u>	<u>197,709</u>
Total assets	<u>\$ 545,207</u>	<u>\$ 515,993</u>
<u>Liabilities and Net Assets</u>		
Liabilities		
Accounts payable and accrued expenses	\$ 28,422	\$ 27,840
Accrued salaries and salary-related expenses	24,289	22,690
Deferred support and revenue	17,840	17,360
Liability for pension benefits	70,152	68,979
Debt	54,334	55,915
	<u>54,334</u>	<u>55,915</u>
Total liabilities	<u>195,037</u>	<u>192,784</u>
Commitments and contingencies	-	-
Net assets		
Unrestricted	226,453	202,315
Temporarily restricted	78,617	76,759
Permanently restricted	45,100	44,135
	<u>45,100</u>	<u>44,135</u>
Total net assets	<u>350,170</u>	<u>323,209</u>
Total liabilities and net assets	<u>\$ 545,207</u>	<u>\$ 515,993</u>

See Notes to Consolidated Financial Statements.

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**Consolidated Statement of Activities and Changes in Net Assets  
Year Ended December 27, 2015  
(In Thousands)**

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Revenues and support				
Admissions and memberships	\$ 101,086	\$ -	\$ -	\$ 101,086
Auxiliary activities	113,937	-	-	113,937
Contributions	13,771	27,583	965	42,319
Grant revenue for services	5,976	-	-	5,976
Tax revenue and other	18,305	-	-	18,305
Net assets released from restrictions	23,850	(23,850)	-	-
	<u>276,925</u>	<u>3,733</u>	<u>965</u>	<u>281,623</u>
Total revenues and support				
Expenses				
Exhibition and animal care facility operations	195,360	-	-	195,360
Research and conservation activities	23,027	-	-	23,027
Educational programs	4,894	-	-	4,894
Administration	27,036	-	-	27,036
Actuarial charges for pension	4,537	-	-	4,537
	<u>254,854</u>	<u>-</u>	<u>-</u>	<u>254,854</u>
Total expenses				
Change in net assets from operations	22,071	3,733	965	26,769
Investment loss	(1,348)	(544)	-	(1,892)
Loss on sale of other assets	(153)	-	-	(153)
Change in value of split-interest agreements	-	(1,331)	-	(1,331)
Interest expense	(1,832)	-	-	(1,832)
Unrealized gain on swap transaction	169	-	-	169
Pension-related changes other than net periodic pension cost	5,231	-	-	5,231
	<u>24,138</u>	<u>1,858</u>	<u>965</u>	<u>26,961</u>
Change in net assets				
Net assets, beginning of year	202,315	76,759	44,135	323,209
Net assets, end of year	<u>\$ 226,453</u>	<u>\$ 78,617</u>	<u>\$ 45,100</u>	<u>\$ 350,170</u>

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**Consolidated Statement of Activities and Changes in Net Assets  
Year Ended December 28, 2014  
(In Thousands)**

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Revenues and support				
Admissions and memberships	\$ 93,381	\$ -	\$ -	\$ 93,381
Auxiliary activities	107,685	-	-	107,685
Contributions	14,875	24,979	7,458	47,312
Grant revenue for services	7,551	-	-	7,551
Tax revenue and other	17,918	-	-	17,918
Net assets released from restrictions	13,806	(13,806)	-	-
	<u>255,216</u>	<u>11,173</u>	<u>7,458</u>	<u>273,847</u>
Total revenues and support				
Expenses				
Exhibition and animal care facility operations	185,176	-	-	185,176
Research and conservation activities	21,536	-	-	21,536
Educational programs	4,590	-	-	4,590
Administration	24,655	-	-	24,655
Actuarial charges for pension	(368)	-	-	(368)
	<u>235,589</u>	<u>-</u>	<u>-</u>	<u>235,589</u>
Total expenses				
Change in net assets from operations	19,627	11,173	7,458	38,258
Investment income	4,226	2,993	-	7,219
Gain on sale of other assets	491	-	-	491
Change in value of split-interest agreements	-	(1,891)	-	(1,891)
Interest expense	(1,883)	-	-	(1,883)
Unrealized loss on swap transaction	(2,097)	-	-	(2,097)
Pension-related changes other than net periodic pension cost	(37,878)	-	-	(37,878)
	<u>(17,514)</u>	<u>12,275</u>	<u>7,458</u>	<u>2,219</u>
Change in net assets				
Net assets, beginning of year	219,829	64,484	36,677	320,990
Net assets, end of year	<u>\$ 202,315</u>	<u>\$ 76,759</u>	<u>\$ 44,135</u>	<u>\$ 323,209</u>

See Notes to Consolidated Financial Statements.

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**Consolidated Statements of Cash Flows  
Years Ended December 27, 2015 and December 28, 2014  
(In Thousands)**

	2015	2014
Operating activities		
Change in net assets	\$ 26,961	\$ 2,219
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	22,041	20,263
Accretion of discount on bequests and contributions receivable	(1,297)	(1,135)
Provision for uncollectible receivables	305	993
Net realized gain on sale of investments and investment income	(2,779)	(28,937)
Net loss (gain) on sale of other assets	153	(491)
Net loss (gain) on disposal of property and equipment	212	(4)
Interest earned on beneficial interest in perpetual trust	(288)	(288)
Change in value of split-interest agreements	1,331	1,891
Net unrealized loss on investments	6,670	25,172
Unrealized loss (gain) on swap transaction	(169)	2,097
Restricted contributions for endowments and capital improvements	(16,640)	(19,029)
Changes in operating assets and liabilities		
Accounts receivable, net	376	(1,679)
Inventories, net	(51)	(92)
Prepaid expenses and other assets	(1,239)	2,023
Split-interest agreements	(3,295)	(8,645)
Bequests and contributions receivable, net	5,244	(5,116)
Accounts payable and accrued expenses	(2,314)	6,415
Accrued salaries and salary-related expenses	1,599	846
Deferred support and revenue	480	568
Liability for pension benefits	1,173	36,164
Net cash provided by operating activities	38,473	33,235
Investing activities		
Proceeds from sale of marketable securities	54,966	146,032
Purchases of marketable securities	(42,684)	(181,771)
Proceeds from sale of property and equipment	8	4
Purchases of property and equipment	(38,537)	(28,135)
Net cash used in investing activities	(26,247)	(63,870)
Financing activities		
Payments on line of credit	-	(600)
Payments on bonds payable	(1,205)	(1,150)
Proceeds from loan	-	18,000
Payments on loan	(376)	-
Restricted contributions for endowments	965	7,458
Restricted contributions for capital improvements	15,675	11,571
Net cash provided by financing activities	15,059	35,279
Net increase in cash and cash equivalents	27,285	4,644
Cash and cash equivalents, beginning of year	95,696	91,052
Cash and cash equivalents, end of year	\$ 122,981	\$ 95,696
Supplemental disclosure of cash flow information		
Interest paid	\$ 2,114	\$ 1,889
Capitalized interest	\$ 282	\$ 29
Supplemental disclosure of noncash investing activities		
Construction in progress activities incurred but not yet paid	\$ 3,065	\$ -

See Notes to Consolidated Financial Statements.

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**Notes to Consolidated Financial Statements  
(All Dollar Amounts in Thousands)  
December 27, 2015 and December 28, 2014**

**Note 1 - Nature of operations**

The Zoological Society of San Diego dba San Diego Zoo Global ("SDZ Global") was incorporated in 1916 as a private, nonprofit corporation directed by a Board of Trustees (the "Board"). SDZ Global operates two exhibition and animal care facilities, the San Diego Zoo and the San Diego Zoo Safari Park, and conducts world-wide conservation and research programs through the San Diego Zoo Institute for Conservation Research. These programs are supported largely through admissions, memberships, donations and grants, and sales at both facilities. SDZ Global exhibits animals and plants in natural botanical settings for the education and entertainment of visitors; generates, shares, and applies scientific knowledge vital to the conservation of animals, plants, and habitats worldwide; and is dedicated to bringing endangered species back from the brink of extinction.

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

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

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

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

**Accounting period**

SDZ Global reports on a 52-week fiscal year ending on a Sunday. A 53-week fiscal year is utilized every six to seven years as a catch up to keep the year end close to December 31. The fiscal years ended December 27, 2015 ("2015") and December 28, 2014 ("2014") included 52 weeks each and has been designated as 2015 and 2014, respectively, in the accompanying consolidated financial statements.

**Fund accounting and net asset classification**

To ensure compliance with restrictions placed on the resources available to SDZ Global, SDZ Global's accounts are maintained in accordance with the principles of fund accounting, a procedure by which resources are classified for accounting and reporting into funds established according to their nature and purpose. In the consolidated financial statements, funds that have similar characteristics are combined into three net asset categories:

- Unrestricted net assets are not restricted by donors or the donor-imposed restrictions have expired.
- Temporarily restricted net assets contain donor-imposed restrictions that permit SDZ Global to use or expend the assets only as specified. These restrictions are satisfied either by the passage of time or by SDZ Global's expenditure for the specified purpose.



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- Permanently restricted net assets contain donor-imposed restrictions and stipulate that the resources be maintained permanently but permit SDZ Global to use or expend part or all of the income derived from the donated assets for either specified or unspecified purposes.

**Revenue recognition**

SDZ Global records admissions, auxiliary activities and grants as earned. Tickets sold in advance to travel and tourism companies are deferred until used. Membership revenue is deferred over the term of the membership, typically one year.

In addition, SDZ Global records gifts of long-lived assets as revenue at their fair value when they are received unconditionally. SDZ Global reports contributions of cash and other assets as temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, the related temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statements of activities and changes in net assets as net assets released from restrictions. Temporarily restricted income which is received and expended in the current year is recorded as unrestricted income.

Donations with donor-imposed restrictions are reported as temporarily or permanently restricted revenue. Temporarily restricted net assets are reclassified to unrestricted net assets when an event occurs which satisfies the donor-imposed restriction. Donations of long-lived assets are recorded at fair value when received.

Contributions, including unconditional promises to give, are recognized when received. All contributions are reported as increases in unrestricted net assets unless use of the contributed assets is specifically restricted by the donor. Amounts received that are restricted by the donor to use in future periods or for specific purposes are reported as increases in either temporarily restricted or permanently restricted net assets consistent with the nature of the restriction. Unconditional promises with payments due in future years have an implied restriction to be used in the year the payment is received and, therefore, are reported as temporarily restricted until the payment is received unless the contribution is received with permanent restrictions. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of estimated future cash flows.

**Auxiliary activities**

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

**Tax revenue and other**

SDZ Global receives partial funding from property taxes due to a voter-approved section of the San Diego City Charter ("Section 77a"). Section 77a was originally approved in 1934 and amended in 1941. Section 77a monies are used exclusively for the maintenance of zoological exhibits at the San Diego Zoo facility. SDZ Global recognized \$11,476 and \$10,974 in Section 77a revenue in 2015 and 2014, respectively. Tax revenue and other includes Section 77a property tax allocation, revenues from advisory services, sponsorships, advertising and other miscellaneous activities.

**Animal and horticultural collections**

In accordance with customary practice among zoological organizations, animal and horticultural collections are recorded at the nominal amount of one dollar, as there is no objective basis for establishing value. Additionally, animal and horticultural collections have numerous attributes,

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including species, age, sex, relationship and value to other animals, endangered status, and breeding potential, whereby it is impracticable to assign value. Expenditures related to animal and horticultural acquisitions are expensed in the period of acquisition.

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

**Cash and cash equivalents**

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

**Accounts receivable and allowance for doubtful accounts**

Accounts receivable primarily consists of trade receivables and grants receivable. Trade receivables consist of outstanding balances from travel and tourism companies that purchase and then resell admission tickets to SDZ Global's facilities. Grants receivable consist of amounts billed and unbilled from government agencies and various foundations. The allowance for doubtful accounts totals \$298 and \$181 at year end 2015 and 2014, respectively, which represents SDZ Global's estimate of uncollectible accounts receivable based on historical experience. Write-offs are deducted from the allowance for doubtful accounts, and subsequent recoveries are added.

At year end 2015 and 2014, SDZ Global has a receivable of approximately \$5,086 and \$4,802, respectively, of Section 77a property tax proceeds held by the City of San Diego (the "City").

**Investments**

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

**Concentration of credit risk**

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

SDZ Global had cash and cash equivalents which exceeded FDIC insured limits at certain financial institutions totaling \$118,069 and \$91,198 as of year end 2015 and 2014, respectively.

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Approximately 60% and 53% of accounts receivable was from one payor as of year end 2015 and 2014, respectively. Approximately 65% and 71% of bequests and contributions receivable were from three donors as of year end 2015 and 2014, respectively.

SDZ Global had approximately 28 government contracts in 2015 and 2014, respectively, from federal sources. During 2015, the largest contract was for the federally funded program for the U.S. Army Corp of Engineers totaling approximately \$1,240. During 2014, the largest contract was for the federally funded program for Fish and Wildlife Management Assistance totaling approximately \$1,350.

**Inventories**

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

**Property and equipment**

Property and equipment with an acquisition cost of \$5,000 or greater are capitalized at cost and depreciated using the straight-line method over the estimated useful lives of the related assets, which are generally from 3 to 25 years. No depreciation is taken on assets until they are placed in service. Assets acquired under capital leases are recorded at the net present value of the minimum lease payments. Amortization expense is computed using the straight-line method over the shorter of the estimated useful lives of the assets or the period of the related lease.

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

SDZ Global assesses potential impairment to any of its long-lived assets when there is evidence that events or changes in circumstances have made full recovery of the asset's carrying value unlikely. An impairment loss would be recognized when the sum of the expected future undiscounted net cash flows is less than the carrying value of the asset. Should impairment exist, the impairment loss would be measured based on the excess of the carrying value of the asset over the asset's fair value. No impairment charges were recognized on long-lived assets during 2015 or 2014.

**Split-interest agreements**

SDZ Global is licensed by the State of California Department of Insurance as a Grants and Annuities Society. As such, SDZ Global may issue charitable gift annuity contracts. SDZ Global had 85 and 80 outstanding annuity contracts entered into with 60 and 58 separate donors as of year end 2015 and 2014, respectively. The present value of the life annuities associated with these contracts is included in accounts payable and accrued expenses in the consolidated statements of financial position.

For charitable gift annuity agreements, SDZ Global receives cash or marketable securities from a donor in exchange for an annuity to be distributed for a fixed amount over the lifetime or lifetimes of the donor or other beneficiaries. Upon the death of the annuitant or survivor of the annuitant, SDZ Global is entitled to full use of the remainder. Charitable gift annuity assets are recorded at fair value. A liability is then recorded for the amount of the annuity payments payable to the donor based on the actuarial life of the donor. The liability for charitable gift annuity agreements is included in accounts payable and accrued expenses in the consolidated statements of financial position and totaled \$7,316 and \$7,487 at year end 2015 and 2014, respectively. Changes in charitable gift assets and liabilities are included in the change in value of split-interest agreements in the consolidated statements of activities and net assets.

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

SDZ Global is the beneficiary in 42 irrevocable charitable trusts, for which SDZ Global is not the trustee. Each trust names SDZ Global as a residual beneficiary following the death of one or more life income beneficiaries. The fair value of the assets to be received under each trust, discounted for the estimated time until receipt, is recorded in beneficial interest in charitable remainder trusts included in split-interest agreements in the consolidated statements of financial position and in temporarily restricted net assets until trust termination. The current year change in the valuation of beneficial interest in charitable remainder trusts is included in the change in value of split-interest agreements in the consolidated statements of activities and net assets.

SDZ Global estimates fair value of split-interest agreements by using net present value calculations with discount rates of 3.3% to 6.0% for 2015 and 2014 and estimated life expectancies based upon the mortality rate tables published by the Internal Revenue Service.

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

**Bequests and contributions receivable**

Bequests and contributions receivable are primarily comprised of bequest agreements, which include irrevocable trusts, and pledged gift agreements, which are both conditional and unconditional promises to give. Bequests and contributions receivable are recorded as revenue upon the receipt of the unconditional promise to give. Conditional promises to give are recognized when conditions are substantially met.

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

**Operating agreements**

SDZ Global operates the San Diego Zoo and the San Diego Zoo Safari Park pursuant to lease and operating agreements with the City of San Diego (the "City"). The agreements provide that title to SDZ Global's collections, property, equipment and exhibits is vested in the City. However, SDZ

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Global's assets are recorded on the books of SDZ Global as the organization is permitted to pledge these assets. The San Diego Zoo lease agreement expires in 2034.

The San Diego Zoo Safari Park operates under a renewable short-term operating agreement with the City of San Diego Water Utilities Department. Every five years, the fair rental value of the land is evaluated and the annual rent amount adjusted. SDZ Global paid \$159 and \$195 as annual rent in 2015 and 2014, respectively.

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

**Income taxes**

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

In accordance with accounting standards for income taxes, income tax benefits and/or liabilities are recognized for income tax positions taken or expected to be taken in a tax return, only when it is determined that the income tax position will more-likely-than-not be sustained upon examination by taxing authorities. SDZ Global has analyzed the tax positions taken in its filings with the Internal Revenue Service and the California Franchise Tax Board. SDZ Global believes that its income tax filing positions will be sustained upon examination and does not anticipate any adjustments that would result in a material adverse effect on SDZ Global's consolidated financial condition, change in net assets or cash flows. Accordingly, SDZ Global has not recorded any reserve or related accruals for interest and penalties for uncertain income tax positions at year end 2015 and 2014.

SDZ Global's U.S. federal and state income tax returns prior to fiscal years 2012 and 2011, respectively, are closed. Management continually evaluates expiring statutes of limitations, audits, proposed settlements, changes in tax law and new authoritative rulings. Management is not aware of any pending reviews or examinations.

**Debt issuance costs**

The costs related to the issuance of debt are capitalized and amortized to interest expense using the effective interest method over the life of the related debt.

**Interest rate swaps**

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

A substantial portion of SDZ Global's interest-bearing debt carries a floating interest rate. Therefore, in the normal course of business, SDZ Global is exposed to changes in short-term interest rates that can create uncertainty and variability in its cash flows. To mitigate this exposure, in June 2004, SDZ Global entered into a 30-year interest rate swap agreement converting a notional \$30,000 of

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floating-rate debt into fixed-rate debt that bears interest at 3.905%, covering approximately two-thirds of the outstanding debt. In May 2010, SDZ Global entered into another interest rate swap agreement converting the remaining one-third of outstanding floating-rate debt into fixed rate debt that bears interest at 2.81%. After giving effect to these interest rate swaps, SDZ Global's outstanding debt is effectively at fixed rates at year end 2015.

For the valuation of the interest rate swaps, SDZ Global used significant other observable inputs as of the valuation date (Level 2), including prices of instruments of similar maturities and characteristics. The fair value of the interest rate swaps is recorded within the consolidated statements of financial position at each period end. Changes in the fair value of the interest rate swaps are reported as unrealized gain or loss on interest rate swaps on the consolidated statements of activities and changes in net assets. The valuation of the swaps remaining at year end resulted in an unrealized gain of \$169 and an unrealized loss of \$2,097 in 2015 and 2014, respectively. The fair value of the interest rate swap is included in accounts payable and accrued expenses in the consolidated statements of financial position and totaled \$6,907 and \$7,075 as of year end 2015 and 2014, respectively. Providing that SDZ Global holds the swap to maturity, the value of the derivative will be zero. The swap agreements can be terminated at the market rate at any time during the term of the agreement.

**Advertising costs**

Advertising costs are expensed as incurred and totaled \$11,353 and \$11,564 for 2015 and 2014, respectively. This includes transactions for bartered admission tickets valued at \$1,722 and \$2,114 for 2015 and 2014, respectively.

**Barter transactions**

SDZ Global enters into barter transactions with certain vendors to receive goods or services in exchange for admission tickets to the San Diego Zoo or the San Diego Zoo Safari Park facilities. Fair market value ("FMV") is determined based upon the value of the goods or services received. If the FMV of goods or services received is not readily determinable, then the FMV of the admissions tickets is used as the basis for valuing the transaction. Barter transactions are recognized in the period in which they occur. For the years ended 2015 and 2014, SDZ Global recorded barter transactions totaling \$2,200 and \$2,645, respectively, in admissions and memberships, exhibition and animal care facility operations, and administration in the consolidated statements of activities and changes in net assets.

**Contributed services**

Contributed services are reflected in the accompanying consolidated financial statements at the fair value of the services received, if the services create or enhance nonfinancial assets or require specialized skills that are provided by individuals possessing those skills and would otherwise need to be purchased if not provided by donation. Contributed services totaling \$32 and \$54 were recorded for 2015 and 2014, respectively, primarily for specialty veterinary care.

SDZ Global also receives contributed services through various volunteer programs at the facilities and on certain conservation projects. Volunteers contributed approximately 161,000 and 156,000 hours in 2015 and 2014, respectively. Contributed services through volunteers are not recorded in the consolidated statements of activities and changes in net assets as they generally do not meet the criteria described above.

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**Fundraising expenses**

Fundraising expenses are included in administration expense in the consolidated statements of activities and changes in net assets and totaled \$7,434 and \$7,553 in 2015 and 2014, respectively.

**Use of estimates**

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

**Reclassifications**

Certain amounts in the 2014 consolidated financial statements have been reclassified to conform to the 2015 presentation.

**Subsequent events**

In preparing the consolidated financial statements, SDZ Global evaluated subsequent events through April 12, 2016, the date that these consolidated financial statements were available to be issued, and determined that there are no events requiring disclosure in the consolidated financial statements.

**Note 3 - Fair value**

**Fair value of financial instruments**

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

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

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**Fair value measurements**

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

- Level 1: Quoted prices in active markets for identical assets or liabilities.
- Level 2: Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3: Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

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

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

**Asset classes**

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



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

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

Foreign stocks - this category includes investments in publicly traded equity securities of international entities including entities in emerging markets. The investments follow a value-based stock selection approach, buying companies whose shares appear under-valued on the basis of long-term earning power or asset backing. The majority of these investments are highly liquid with settlements from 1 to 30 days.

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

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

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

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The following tables provide the method used to measure the fair value of certain assets and liabilities as of December 27, 2015. Only assets and liabilities measured at fair value are shown on the three-tier value hierarchy.

	Balance as of December 27, 2015	Fair value measurements at reporting date using			Valuation techniques (a,b,c)
		Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	
<b>Investments</b>					
Domestic common stocks	\$ 30,882	\$ 30,882	\$ -	\$ -	a
Foreign stocks	4,148	4,148	-	-	a
Mutual fund – equity	41,785	41,785	-	-	a
Mutual fund – fixed income	25,906	25,906	-	-	a
Partnerships and other	24,650	-	-	24,650	c
<b>Total investments</b>	<b>\$ 127,371</b>	<b>\$ 102,721</b>	<b>\$ -</b>	<b>\$ 24,650</b>	
<b>Split-interest agreements</b>					
Pooled income fund	\$ 5,826	\$ -	\$ 5,826	\$ -	a
Charitable gift annuities	12,093	11,908	185	-	a
Beneficial interest in perpetual trust	6,125	-	-	6,125	c
Beneficial interest in charitable remainder trusts	7,894	-	-	7,894	c
<b>Total split-interest agreements</b>	<b>\$ 31,938</b>	<b>\$ 11,908</b>	<b>\$ 6,011</b>	<b>\$ 14,019</b>	
<b>Liabilities</b>					
Charitable gift liabilities <sup>(1)</sup>	\$ 7,316	\$ -	\$ 7,316	\$ -	c
Interest rate swap <sup>(1)</sup>	6,906	-	6,906	-	c
<b>Total liabilities</b>	<b>\$ 14,222</b>	<b>\$ -</b>	<b>\$ 14,222</b>	<b>\$ -</b>	

(1) Included as a component of accounts payable and accrued expenses on the accompanying consolidated statement of financial position.

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The following tables provide the method used to measure the fair value of certain assets and liabilities as of December 28, 2014. Only assets and liabilities measured at fair value are shown on the three-tier value hierarchy.

	Balance as of December 28, 2014	Fair value measurements at reporting date using			Valuation techniques (a,b,c)
		Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	
<b>Investments</b>					
Domestic common stocks	\$ 35,975	\$ 35,975	\$ -	\$ -	a
Foreign stocks	2,786	2,786	-	-	a
Mutual fund – equity	45,992	45,992	-	-	a
Mutual fund – fixed income	36,563	36,563	-	-	a
Partnerships and other	22,228	-	-	22,228	c
<b>Total investments</b>	<b>\$ 143,544</b>	<b>\$ 121,316</b>	<b>\$ -</b>	<b>\$ 22,228</b>	
<b>Split-interest agreements</b>					
Pooled income fund	\$ 6,253	\$ -	\$ 6,253	\$ -	a
Charitable gift annuities	13,000	12,815	185	-	a
Beneficial interest in perpetual trust	6,627	-	-	6,627	c
Beneficial interest in charitable remainder trusts	3,806	-	-	3,806	c
<b>Total split-interest agreements</b>	<b>\$ 29,686</b>	<b>\$ 12,815</b>	<b>\$ 6,438</b>	<b>\$ 10,433</b>	
<b>Liabilities</b>					
Charitable gift liabilities <sup>(1)</sup>	\$ 7,487	\$ -	\$ 7,487	\$ -	c
Interest rate swap <sup>(1)</sup>	7,075	-	7,075	-	c
<b>Total liabilities</b>	<b>\$ 14,562</b>	<b>\$ -</b>	<b>\$ 14,562</b>	<b>\$ -</b>	

(1) Included as a component of accounts payable and accrued expenses on the accompanying consolidated statement of financial position.

The following table sets forth a summary of changes in the fair value of SDZ Global's Level 3 assets for 2015:

	Beneficial interest in a perpetual trust	Charitable remainder trusts	Partnerships and other	Total
Balance, beginning of year	\$ 6,627	\$ 3,806	\$ 22,228	\$ 32,661
Realized gains	-	-	385	385
Unrealized gains related to instruments still held at the reporting date	-	-	367	367
Purchases	-	-	6,332	6,332
Contributions	-	4,189	-	4,189
Sales	-	-	(4,662)	(4,662)
Distributions	(288)	(96)	-	(384)
Losses included in change in net assets	(214)	(5)	-	(219)
<b>Balance, end of year</b>	<b>\$ 6,125</b>	<b>\$ 7,894</b>	<b>\$ 24,650</b>	<b>\$ 38,669</b>

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The following table sets forth a summary of changes in the fair value of SDZ Global's Level 3 assets for 2014:

	Beneficial interest in a perpetual trust	Charitable remainder trusts	Partnerships and other	Total
Balance, beginning of year	\$ 6,744	\$ 5,313	\$ 1,241	\$ 13,298
Fees	-	-	(15)	(15)
Unrealized gains related to instruments still held at the reporting date	-	-	273	273
Purchases	-	-	20,908	20,908
Sales	-	-	(179)	(179)
Distributions	(288)	-	-	(288)
Gains (losses) included in change in net assets	171	(1,507)	-	(1,336)
Balance, end of year	<u>\$ 6,627</u>	<u>\$ 3,806</u>	<u>\$ 22,228</u>	<u>\$ 32,661</u>

The following table represents SDZ Global's Level 3 financial instruments, the valuation techniques used to measure the fair value of those financial instruments, and the significant unobservable inputs and the ranges of values for those inputs for 2015:

Instrument	Fair value	Principal valuation technique	Unobservable inputs	Significant input values	Weighted average
Partnerships and other	\$ 24,650	Valuation of underlying assets as provided by issuer	Base price	N/A	N/A
Beneficial interest in charitable remainder trusts	\$ 7,894	Present value of expected cash flows	Investment yield Discount rate	4.54% 4.54%	N/A
Beneficial interest in perpetual trust held by others	\$ 6,125	Valuation of underlying assets as provided by trustee	Base price	N/A	N/A

The following table represents SDZ Global's Level 3 financial instruments, the valuation techniques used to measure the fair value of those financial instruments, and the significant unobservable inputs and the ranges of values for those inputs for 2014:

Instrument	Fair value	Principal valuation technique	Unobservable inputs	Significant input values	Weighted average
Partnerships and other	\$ 22,228	Valuation of underlying assets as provided by issuer	Base price	N/A	N/A
Beneficial interest in charitable remainder trusts	\$ 3,806	Present value of expected cash flows	Investment yield Discount rate	4.32% 4.32%	N/A
Beneficial interest in perpetual trust held by others	\$ 6,627	Valuation of underlying assets as provided by trustee	Base price	N/A	N/A

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

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

The following table lists investments in investment companies that are valued at NAV at December 27, 2015:

Asset category	NAV in funds	No. of funds	Redemption terms	Redemption instructions	Redemption restrictions in place at year end	Unfunded commitments at year end
Partnerships and other	\$ 21,934	15	Monthly to Semi-Annual	30 to 90 days notice	None	\$ -
Partnerships and other	\$ 2,716	4	Closed end funds not eligible for redemption	Not redeemable	Not redeemable	\$ 6,648

The following table lists investments in investment companies that are valued at NAV at December 28, 2014:

Asset category	NAV in funds	No. of funds	Redemption terms	Redemption instructions	Redemption restrictions in place at year end	Unfunded commitments at year end
Partnerships and other	\$ 20,176	12	Monthly to Semi-Annual	30 to 90 days notice	None	\$ -
Partnerships and other	\$ 2,052	4	Closed end funds not eligible for redemption	Not redeemable	Not redeemable	\$ 3,974

**Note 4 - Accounts receivable**

Accounts receivable consist of the following at year end 2015 and 2014:

	2015	2014
Trade receivables	\$ 1,489	\$ 1,621
City of San Diego (Section 77a) receivable	5,086	4,802
Grants receivable	1,554	1,775
Other	684	1,018
	8,813	9,216
Less allowance for doubtful accounts	(298)	(181)
Total accounts receivable, net	<u>\$ 8,515</u>	<u>\$ 9,035</u>

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**Note 5 - Inventories**

Inventories consist of the following at year end 2015 and 2014:

	2015	2014
Merchandise	\$ 1,514	\$ 1,278
Food service	763	708
Animal food and other	305	482
	2,582	2,468
Less inventory reserve	(158)	(95)
Total inventories, net	\$ 2,424	\$ 2,373

**Note 6 - Investments**

Investments, stated at fair value, consist of the following at year end 2015 and 2014:

	2015	2014
Domestic common stocks	\$ 30,882	\$ 35,975
Foreign stocks	4,148	2,786
Mutual fund – equity	41,785	45,992
Mutual fund – fixed income	25,906	36,563
Partnerships and other	24,650	22,228
Total investments	\$ 127,371	\$ 143,544

Investment loss consists of the following for 2015:

	Unrestricted	Temporarily restricted	Total
Interest income and dividends	\$ 1,418	\$ 1,078	\$ 2,496
Net realized gain	1,185	1,594	2,779
Net unrealized loss	(3,662)	(3,008)	(6,670)
Investment advisory and custodial fees	(289)	(208)	(497)
	\$ (1,348)	\$ (544)	\$ (1,892)

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Investment income consists of the following for 2014:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Total</u>
Interest income and dividends			
Net realized gain	\$ 2,385	\$ 1,534	\$ 3,919
Net unrealized loss	18,146	11,078	29,224
Investment advisory and custodial fees	(15,827)	(9,345)	(25,172)
	<u>(478)</u>	<u>(274)</u>	<u>(752)</u>
	<u>\$ 4,226</u>	<u>\$ 2,993</u>	<u>\$ 7,219</u>

**Note 7 - Split-interest agreements**

Split-interest agreements consist of the following at year end 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Pooled income funds	\$ 5,826	\$ 6,253
Charitable gift annuities	12,093	13,000
Charitable remainder trusts	7,894	3,806
Beneficial interest in perpetual trusts	<u>6,125</u>	<u>6,627</u>
Total split-interest agreements	<u>\$ 31,938</u>	<u>\$ 29,686</u>

**Note 8 - Bequests and contributions receivable**

Bequests and contributions receivable consist of the following at year end 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Irrevocable trusts	\$ 389	\$ 299
Pledged gift agreements	<u>28,154</u>	<u>32,191</u>
	28,543	32,490
Allowance for uncollectible amounts	<u>(1,008)</u>	<u>(847)</u>
Total bequests and contributions receivable, net	<u>\$ 27,535</u>	<u>\$ 31,643</u>

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

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

	<u>2015</u>	<u>2014</u>
Due in one year	\$ 5,138	\$ 4,866
Due in two to five years	18,615	17,118
Due in more than five years	<u>13,088</u>	<u>19,456</u>
	36,841	41,440
Unamortized discount	<u>(8,298)</u>	<u>(8,950)</u>
Net present value	28,543	32,490
Allowance for uncollectible accounts	<u>(1,008)</u>	<u>(847)</u>
Total bequests and contributions receivable, net	<u><u>\$ 27,535</u></u>	<u><u>\$ 31,643</u></u>

At December 27, 2015, SDZ Global had three conditional pledges in the amount of \$5,671. SDZ Global expects to record contribution revenue related to those pledges as the conditions are met within the next four years.

**Note 9 - Property and equipment**

Property and equipment consist of the following at year end 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Buildings, exhibits and improvements	\$ 443,281	\$ 407,363
Transportation and equipment	59,589	55,969
Construction in progress	<u>11,702</u>	<u>17,066</u>
	514,572	480,398
Less accumulated depreciation and amortization	<u>(297,522)</u>	<u>(282,689)</u>
Total property and equipment, net	<u><u>\$ 217,050</u></u>	<u><u>\$ 197,709</u></u>

Property and equipment includes capitalized interest of \$282 and \$29 for 2015 and 2014, respectively. Depreciation expense totaled \$22,041 and \$20,263 for 2015 and 2014, respectively.

**Note 10 - Debt**

**Tax-exempt bonds**

Series 2012 Bonds: On October 1, 2012, SDZ Global issued \$40,165 in tax-exempt variable rate demand bonds (Series 2012 Bonds) through the California Municipal Finance Authority for the purpose of refinancing the outstanding principal of the Series 2004 Bonds. Under a financing agreement with a bank, the Series 2012 Bonds bear a variable interest rate, payable monthly to the bank, of 65.1% of 1-month LIBOR plus 72 basis points (0.88% at year end 2015 and 0.85% at year end 2014). Principal payments are due on October 1 each year based on an amortization schedule



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through October 1, 2034, the maturity date. SDZ Global has an outstanding balance of \$36,710 and \$37,915 at year end 2015 and 2014.

The bank has a put option on October 1, 2019 and each seventh anniversary thereafter.

SDZ Global was in compliance with all financial covenants under the financing agreement at year end 2015 and 2014.

Costs incurred to issue the Series 2012 Bonds totaled \$150. The costs have been deferred and included in prepaid expenses and other assets in the consolidated statements of financial position and amortized over the first 7-year put option term using the effective interest method. The unamortized balance of the issuance costs totaled \$86 and \$110 at year end 2015 and 2014, respectively.

**Line of credit**

SDZ Global has an unsecured financing agreement with its primary bank that permits multiple borrowings, at variable rates of interest, up to \$10,000. The financing agreement, which expires on December 1, 2017, provides that SDZ Global may elect for each individual borrowing on the line of credit, to have interest calculated using rates based on one of the following: (1) the bank's reference rate or (2) LIBOR plus 1%. The outstanding balance totaled \$0 at year end 2015 and 2014, and accrued interest of 1.097% for 2015 and 1.085% for 2014. Interest payments are required to be made monthly. The line of credit contains certain covenants with which SDZ Global was in full compliance at year end 2015 and 2014. SDZ Global has outstanding letters of credit for \$3,551 and \$1,128 under this agreement at year end 2015 and 2014, respectively, which reduce the amount available for borrowing. There were no amounts drawn on the letters of credit at year end 2015 and 2014.

**Term loan**

On June 2, 2014, SDZ Global amended the loan agreement to include an additional loan for \$18,000. The loan proceeds were used to construct certain onsite improvements that were completed in July 2015. The loan carries a fixed rate of 3.17%. Interest is paid monthly. Principal payments are made monthly and began July 1, 2015 utilizing an amortization schedule over 20 years. The financing agreement expires on June 1, 2021 at which time the remaining balance must be paid in full or refinanced. The outstanding balance was \$17,624 and \$18,000 at year end 2015 and 2014, respectively.

Maturities of long-term debt in each of the five years subsequent to year end 2015 and thereafter are as follows:

2016	\$	1,917
2017		2,002
2018		2,084
2019		2,167
2020		2,256
Thereafter		<u>43,908</u>
	\$	<u><u>54,334</u></u>

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**Note 11 - Temporarily restricted net assets**

Temporarily restricted net assets are available for the following purposes at year end 2015 and 2014:

	2015	2014
Restricted for capital investment		
San Diego Zoo exhibits and equipment	\$ 18,649	\$ 13,778
San Diego Zoo Safari Park exhibits and equipment	511	178
Total restricted for capital investment	19,160	13,956
Restricted for programs		
Facility programs	3,404	2,496
Education	1,178	1,206
Conservation and research	3,835	3,630
Total restricted for programs	8,417	7,332
Temporarily restricted portion of donor restricted endowments	8,945	12,775
Bequests and contributions receivable and split-interest agreements, net of obligations to beneficiaries under split-interest agreements	39,740	40,340
Donated property	2,355	2,356
Total temporarily restricted net assets	\$ 78,617	\$ 76,759

**Note 12 - Endowment funds**

Endowment funds: SDZ Global's endowment funds were established by donor-restricted contributions to provide a permanent endowment, which is to provide a permanent source of income. The portion of a permanent endowment that must be maintained permanently - not used, expended, or otherwise exhausted - is classified as permanently restricted assets. In addition, the Board has earmarked a portion of SDZ Global's unrestricted net assets as Board-designated endowment funds to be invested to provide income for a long but unspecified period. These designations include a fund for the San Diego Zoo Institute for Conservation Research to provide for conservation and research of rare and endangered species. In addition, the Board has designated amounts for an emergency reserve and a strategic reserve. The emergency reserve is to provide for unexpected or unanticipated expenditures when other sources of funds are not available. The strategic reserve is to provide for future operating needs. The Board-designated endowment funds, which result from an internal designation, are not donor restricted and are classified as unrestricted net assets.

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Donor-restricted endowment funds are restricted for the following purposes:

	2015	2014
Conservation	\$ 25,025	\$ 24,896
Education	8,757	8,604
Facilities	11,318	10,635
Total donor-restricted endowment funds	\$ 45,100	\$ 44,135

Funds with deficiencies: From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor requires SDZ Global to retain as a fund of perpetual duration. Deficiencies of this nature are reported in unrestricted net assets unless the income of such assets is restricted to use, in which case such amounts are reflected in temporarily restricted net assets. There were no such deficiencies at year end 2015 and 2014.

Interpretation of relevant law: SDZ Global has interpreted the Uniform Prudent Management of Institutional Funds Act ("UPMIFA") as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment fund absent explicit donor stipulations to the contrary. As a result of this interpretation, SDZ Global classifies as permanently restricted net assets (1) the original value of the gifts donated to the permanent endowment, (2) the original value of subsequent gifts to the permanent endowment, and (3) accumulations of the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified as permanently restricted net assets is characterized as temporarily restricted net assets until those amounts are appropriated for expenditure prescribed by UPMIFA.

In accordance with UPMIFA, SDZ Global considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. The duration and preservation of the fund
2. The purpose of SDZ Global and the donor-restricted endowment fund
3. General economic conditions
4. The possible effects of inflation and deflation
5. The expected total return from income and the appreciation of investments
6. Other resources of SDZ Global
7. SDZ Global's investment policy

Return objectives and risk parameters: SDZ Global has adopted investment and spending policies for endowment assets that are meant to ensure that the endowment's purchasing power is maintained over time by keeping the long-term rate of annual spending from the endowment equal to or less than the long-term real (inflation-adjusted) investment return of the endowment fund. Endowment assets include those assets of donor-restricted funds that SDZ Global must hold in perpetuity or for a donor-specified period as well as Board-designated funds.

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The investment objectives of the assets are long-term in nature with an investment horizon of at least 7 to 10 years. The long-term objective is to earn a total rate of return (income plus capital gains) that will exceed the demands placed on the portfolio to support SDZ Global's goals in addition to exceeding the rate of inflation, as measured by the US Consumer Price Index ("CPI"). The overall rate of return objective is a reasonable "real" rate consistent with the assumed level of risk. The return objective shall be to exceed the return of a custom index, net of fees. The custom index is defined as a blended benchmark portfolio that reflects the asset allocation targets. The minimum acceptable rate of return is that which equals or exceeds CPI by average spending over a market cycle of 5 to 7 years. It is expected that the level of risk as measured by the annualized standard deviation of returns shall be no greater than that of the custom index as defined above. Spending is based on a total return strategy, which includes both income and appreciation (both realized and unrealized gains). The annual withdrawal target is 5% of the fund's value, based generally on an expected annual total return of approximately 8%, offset by estimated inflation of 3%. Actual returns in any given year may vary from this amount.

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

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

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

In order to maintain the risk and return characteristics of the asset allocation plan, it is the policy to rebalance the portfolio towards target allocations when contributions to or distributions from the portfolio are made or when the asset class allocations have fallen outside the allowable ranges established or if allocations have deviated from their target allocations by more than 20% or by more than 5 percentage points on an absolute basis.

The endowment net asset composition by type of fund consists of the following as of year end 2015:

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowment funds	\$ -	\$ 8,945	\$ 45,100	\$ 54,045
Board-designated endowment funds	67,598	-	-	67,598
 Total endowment funds	 \$ 67,598	 \$ 8,945	 \$ 45,100	 \$ 121,643

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The endowment net asset composition by type of fund consists of the following as of year end 2014:

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowment funds	\$ -	\$ 12,775	\$ 44,135	\$ 56,910
Board-designated endowment funds	72,059	-	-	72,059
<b>Total endowment funds</b>	<b>\$ 72,059</b>	<b>\$ 12,775</b>	<b>\$ 44,135</b>	<b>\$ 128,969</b>

The following table sets forth a summary of changes in endowment net assets for 2015:

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets, beginning of year	\$ 72,059	\$ 12,775	\$ 44,135	\$ 128,969
Investment return				
Investment income	825	1,222	-	2,047
Net depreciation (realized and unrealized)	(2,142)	(2,268)	-	(4,410)
Total investment loss	(1,317)	(1,046)	-	(2,363)
Contributions	-	-	965	965
Appropriation of endowment assets for expenditure	(3,144)	(2,784)	-	(5,928)
<b>Endowment net assets, end of year</b>	<b>\$ 67,598</b>	<b>\$ 8,945</b>	<b>\$ 45,100</b>	<b>\$ 121,643</b>

The following table sets forth a summary of changes in endowment net assets for 2014:

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets, beginning of year	\$ 70,903	\$ 12,339	\$ 36,677	\$ 119,919
Investment return				
Investment income	1,576	1,353	-	2,929
Net appreciation (realized and unrealized)	2,468	1,523	-	3,991
Total investment return	4,044	2,876	-	6,920
Contributions	-	-	7,458	7,458
Appropriation of endowment assets for expenditure	(2,888)	(2,440)	-	(5,328)
<b>Endowment net assets, end of year</b>	<b>\$ 72,059</b>	<b>\$ 12,775</b>	<b>\$ 44,135</b>	<b>\$ 128,969</b>

**Note 13 - Pension and benefit plans**

SDZ Global has defined benefit pension plans that cover substantially all of its full-time employees. The plans provide benefits based upon years of service and earnings. SDZ Global recognizes the

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overfunded or underfunded status of its defined pension plans as an asset or liability in its consolidated statements of financial position and recognizes changes in that funded status in the year in which the changes occur as changes in unrestricted net assets arising from defined benefit plans but not yet included in net periodic benefit cost in the consolidated statements of activities and changes in net assets.

The plans were amended to offer a Voluntary Lump Sum Distribution Window Program to vested terminated participants. As of October 1, 2015, the Non-Union plan paid lump sums of \$5,044 and the Union plan paid lump sums of \$7,344 to plans participants. The Union plan liabilities were re-measured at September 30, 2015 to reflect settlement accounting due to the lump sums paid from that plan. The final net periodic benefit cost for the year ended December 27, 2015 consisted of \$7,496 for the period January 1, 2015 through September 30, 2015, and \$2,543 for the period October 1, 2015 through December 27, 2015. Due to the Union plan re-measurement at September 30, 2015, the Union plan net periodic benefit cost for the period October 1, 2015 to December 27, 2015 was updated reflecting a 4.930% discount rate, and obligations at September 30, 2015. This event also generated immediate recognition of a portion of the actuarial loss of \$2,366 in the Union plan.

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

	<u>2015</u>	<u>2014</u>
Plan assets at fair value	\$ 132,680	\$ 147,966
Projected benefit obligation	<u>(202,832)</u>	<u>(216,945)</u>
Funded status	<u>\$ (70,152)</u>	<u>\$ (68,979)</u>
Accumulated benefit obligation	<u>\$ 179,973</u>	<u>\$ 191,447</u>

Weighted-average assumptions:

	<u>2015</u>	<u>2014</u>
Discount rate	4.83%	4.38%
Expected return on plan assets	7.25%	7.50%
Rate of compensation increase	3.0%	3.0%

The discount rate is the estimated rate at which the obligation for pension benefits could effectively be settled. The expected return on plan assets reflects the average rate of earnings that SDZ Global estimates will be generated on the assets of the plans. The rate of compensation increase reflects SDZ Global's best estimate of the future compensation levels of the individual employees covered by the plans.

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

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

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

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

	2015	2014
Cash and cash equivalents	2%	3%
Mutual fund - equity	17%	16%
Mutual fund - fixed income	12%	11%
Marketable equity securities	10%	8%
Collective Investment Fund	58%	61%
Partnerships and other	1%	1%
	100%	100%

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

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

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The following tables provide the method used to measure the fair value of certain assets as of year end 2015 and year end 2014. Only assets measured at fair value are shown on the three-tier value hierarchy.

Pension assets measured at fair value on a recurring basis are as follows as of year end 2015:

	Fair value measurements at reporting date using				Valuation techniques (a,b,c)
	Total	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	
Money market funds	\$ 2,795	\$ -	\$ 2,795	\$ -	a
Domestic common stocks	11,092	11,092	-	-	a
Foreign stocks	1,938	1,938	-	-	a
Mutual fund – equity	22,438	22,438	-	-	a
Mutual fund – fixed income	15,770	15,770	-	-	a
Collective Investment Fund	77,278	-	-	77,278	c
Partnerships and other	1,369	-	-	1,369	c
<b>Total assets</b>	<b>\$ 132,680</b>	<b>\$ 51,238</b>	<b>\$ 2,795</b>	<b>\$ 78,647</b>	

Pension assets measured at fair value on a recurring basis are as follows as of year end 2014:

	Fair value measurements at reporting date using				Valuation techniques (a,b,c)
	Total	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	
Money market funds	\$ 3,955	\$ -	\$ 3,955	\$ -	a
Domestic common stocks	10,515	10,515	-	-	a
Foreign stocks	1,892	1,892	-	-	a
Mutual fund – equity	24,311	24,311	-	-	a
Mutual fund – fixed income	16,336	16,336	-	-	a
Collective Investment Fund	89,310	-	-	89,310	c
Partnerships and other	1,647	-	-	1,647	c
<b>Total assets</b>	<b>\$ 147,966</b>	<b>\$ 53,054</b>	<b>\$ 3,955</b>	<b>\$ 90,957</b>	



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The following table sets forth a summary of changes in the fair value of the plan's Level 3 assets for 2015:

	Collective Investment Fund	Partnerships and other	Total
Balance, beginning of year	\$ 89,310	\$ 1,647	\$ 90,957
Realized gains	124	389	513
Unrealized losses relating to instruments still held at the reporting date	(2,418)	-	(2,418)
Purchases	11,709	-	11,709
Sales	(21,447)	(667)	(22,114)
Balance, end of year	<u>\$ 77,278</u>	<u>\$ 1,369</u>	<u>\$ 78,647</u>

The following table sets forth a summary of changes in the fair value of the plan's Level 3 assets for 2014:

	Collective Investment Fund	Partnerships and other	Total
Balance, beginning of year	\$ -	\$ 1,241	\$ 1,241
Realized gains	(80)	240	160
Unrealized gains relating to instruments still held at the reporting date	2,232	-	2,232
Purchases	105,649	345	105,994
Sales	(18,491)	(179)	(18,670)
Balance, end of year	<u>\$ 89,310</u>	<u>\$ 1,647</u>	<u>\$ 90,957</u>

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The following table represents SDZ Global's Level 3 financial instruments at year end 2015, the valuation techniques used to measure the fair value of those financial instruments, and the significant unobservable inputs and the ranges of values for those inputs:

Instrument	Fair value	Principal valuation technique	Unobservable inputs	Range of significant input values	Weighted average
Partnerships and other	\$ 1,369	Value obtained from issuer or determined by U.S. Bank Specialty Assets unit for Private Client Group ("PCG"); for non-PCG clients, value obtained from issuer, client investment manager, fund accountant, etc.	Base price	N/A	N/A
Collective Investment Fund	\$ 77,278	Value obtained from issuer or determined by U.S. Bank Specialty Assets unit for Private Client Group ("PCG"); for non-PCG clients, value obtained from issuer, client investment manager, fund accountant, etc.	Base price	N/A	N/A

The following table represents SDZ Global's Level 3 financial instruments at year end 2014, the valuation techniques used to measure the fair value of those financial instruments, and the significant unobservable inputs and the ranges of values for those inputs:

Instrument	Fair value	Principal valuation technique	Unobservable inputs	Range of significant input values	Weighted average
Partnerships and other	\$ 1,647	Value obtained from issuer or determined by U.S. Bank Specialty Assets unit for Private Client Group ("PCG"); for non-PCG clients, value obtained from issuer, client investment manager, fund accountant, etc.	Base price	N/A	N/A
Collective Investment Fund	\$ 89,310	Value obtained from issuer or determined by U.S. Bank Specialty Assets unit for Private Client Group ("PCG"); for non-PCG clients, value obtained from issuer, client investment manager, fund accountant, etc.	Base price	N/A	N/A

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The following table sets forth benefit cost and benefits paid for 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Components of net periodic benefit cost		
Actuarial charges (income)		
Interest cost	\$ 9,423	\$ 8,881
Expected return on assets	(10,630)	(10,411)
Net prior service cost amortization	577	689
Net loss amortization	<u>2,801</u>	<u>473</u>
Total actuarial charges (income)	2,171	(368)
Employer service cost	<u>7,868</u>	<u>6,229</u>
Immediate recognition of benefit cost due to Special Events	<u>2,366</u>	<u>-</u>
Periodic benefit cost	<u>\$ 12,405</u>	<u>\$ 5,861</u>
Benefits paid	<u>\$ 16,631</u>	<u>\$ 3,573</u>
Administrative expenses paid	<u>\$ 95</u>	<u>\$ 137</u>
Employer contributions	<u>\$ 6,000</u>	<u>\$ 7,575</u>

Employer service costs of \$7,868, net prior service cost amortization of \$577 and net loss amortization of \$2,801 are recorded in pension expense for 2015. Prior service cost of \$5,024 and a cumulative actuarial loss of \$58,126 are included in unrestricted net assets at year end 2015. SDZ Global expects to record \$558 of net prior service cost amortization and \$2,545 of net loss amortization in 2016.

Employer service costs of \$6,229, net prior service cost amortization of \$689 and investment losses of \$473 are recorded in pension expense for 2014. Prior service cost of \$5,601 and a cumulative actuarial loss of \$62,781 are included in unrestricted net assets at year end 2014.

SDZ Global expects to make a total of \$6,400 in pension contributions during 2016.

The following table shows the amounts recognized in the consolidated statements of financial position at year end 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Liability for pension benefits	<u>\$ 70,152</u>	<u>\$ 68,979</u>

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The following benefit payments are expected to be paid over the next 10 fiscal years:

2016	\$	6,344
2017		6,870
2018		7,657
2019		8,617
2020		9,299
2021-2025		59,908
	\$	98,695

SDZ Global also maintains a 403(b) defined contribution plan, covering employees who meet certain age and service requirements. Eligible employees may contribute a portion of their earnings each plan year subject to certain Internal Revenue Service limitations. The 403(b) defined contribution plan allows for employer matching contributions to eligible employees. Matching contributions totaled \$1,197 and \$1,151 for 2015 and 2014, respectively.

**Note 14 - Collective bargaining agreement**

SDZ Global is a party to a collective bargaining agreement with a labor union. The agreement was renewed in March 2013 and goes through February 2017. At year end 2015, 1,543 employees or approximately 64.5% of total employees were represented by a labor union. At year end 2014, 1,465 employees or approximately 65% of total employees were represented by a labor union.

**Note 15 - Commitments and contingencies**

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

Lease agreements: SDZ Global has entered into certain noncancelable lease agreements for a warehouse facility and office space as well as cancelable and noncancelable lease agreements for computer equipment, vehicles and office equipment. Rent expense totaled \$2,776 for 2015 and \$2,597 for 2014. Minimum lease payments under noncancelable operating leases as of year end 2015 are as follows:

2016	\$	1,613
2017		1,358
2018		298
2019		207
2020		115
	\$	3,591

Self-Insurance: SDZ Global carries an excess workers' compensation liability policy that includes a \$250 retained limit per claim, up to \$4,000 aggregate per year. SDZ Global employs a professional third-party administrator to manage workers' compensation claims incurred. SDZ Global accrued \$5,467 and \$5,801 as an estimate of workers' compensation claims incurred, but not yet paid or

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reported as of year-end 2015 and 2014, respectively. The liability is reflected in accounts payable and accrued expenses on the accompanying consolidated statements of financial position.

Cooperative endeavor agreement: On January 15, 2013, SDZ Global and the Audubon Nature Institute entered into a cooperative endeavor agreement for the development of the Alliance for Sustainable Wildlife. It has been deemed that the infrastructure of the Freeport-McMoRan Audubon Species Survival Center in New Orleans lends itself to the development of husbandry areas that can house species that can make a valuable contribution to industry-wide conservation and sustainability goals. The terms of the agreement call for SDZ Global to provide a capital investment of at least \$6,000, but not to exceed \$10,000, in increments of not more than \$2,000 in any calendar year, over the first five years of the agreement. An initial payment of \$400 was made in 2013 for capital improvements, which are included in property and equipment in the consolidated statements of financial position. SDZ Global is also required to contribute 50% of each year's operating budget, up to \$500 per year during the same period. No payments were due and no payments were made under the agreement in 2015 and 2014.

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