Financial Statements and Report of
Independent Certified Public Accountants

The Zoological Society of Philadelphia

February 28, 2018 and February 28, 2017

Contents

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors
The Zoological Society of Philadelphia

Report on the financial statements

We have audited the accompanying financial statements of The Zoological Society of Philadelphia (a nonprofit organization) (the "Zoo"), which comprise the statement of financial position as of February 28, 2018, and the related statements of activities and cash flows for the fiscal year 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.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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 auditor's 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 Zoo'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 Zoo'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 The Zoological Society of Philadelphia as of February 28, 2018, and the changes in its net assets and its cash flows for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Other matter

Report on 2017 summarized comparative information

We have previously audited the Zoo's 2017 financial statements (not presented herein), and we have expressed an unmodified audit opinion on those audited financial statements in our report dated May 31, 2017. In our opinion, the accompanying summarized comparative information as of and for the fiscal year ended February 28, 2017 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Grant Thornton LLP

Philadelphia, Pennsylvania

June 1, 2018

The Zoological Society of Philadelphia

STATEMENT OF FINANCIAL POSITION

February 28, 2018 (with summarized information for February 28, 2017)

	Unrestricted	Temporarily restricted	Permanently restricted	Total 2018	Total 2017
ASSETS					
CURRENT ASSETS					
Cash and cash equivalents	$ 4,699,000	$ 5,685,000	$ -	$ 10,384,000	$ 9,058,000
Investments	20,772,000	1,701,000	-	22,473,000	22,131,000
Accounts receivable, net	1,488,000	-	-	1,488,000	1,138,000
Pledges receivable, net	115,000	933,000	500,000	1,548,000	1,727,000
Other assets	45,000	-	-	45,000	7,000
Total current assets	27,119,000	8,319,000	500,000	35,938,000	34,061,000
EXHIBITS, BUILDINGS AND EQUIPMENT, NET	68,021,000	-	-	68,021,000	73,647,000
INVESTMENTS	-	-	16,281,000	16,281,000	15,661,000
PLEDGES RECEIVABLE, NET	194,000	1,176,000	-	1,370,000	677,000
OTHER ASSETS	131,000	-	-	131,000	118,000
Total assets	$ 95,465,000	$ 9,495,000	$ 16,781,000	$121,741,000	$124,164,000
LIABILITIES AND NET ASSETS					
CURRENT LIABILITIES					
Line of credit	$ 31,000	$ -	$ -	$ 31,000	$ 91,000
Current portion of long-term debt	618,000	-	-	618,000	1,218,000
Accounts payable	1,072,000	-	-	1,072,000	1,573,000
Accrued expenses	2,370,000	-	-	2,370,000	2,619,000
Deferred revenue	1,115,000	-	-	1,115,000	1,100,000
Total current liabilities	5,206,000	-	-	5,206,000	6,601,000
LONG-TERM DEFERRED REVENUE, net of current portion	227,000	-	-	227,000	272,000
ACCRUED PENSION LIABILITY	1,176,000	-	-	1,176,000	1,826,000
LONG-TERM DEBT, net of current portion	11,794,000	-	-	11,794,000	12,361,000
Total long-term liabilities	13,197,000	-	-	13,197,000	14,459,000
Total liabilities	18,403,000	-	-	18,403,000	21,060,000
NET ASSETS	77,062,000	9,495,000	16,781,000	103,338,000	103,104,000
Total liabilities and net assets	$ 95,465,000	$ 9,495,000	$ 16,781,000	$121,741,000	$124,164,000

The accompanying notes are an integral part of this financial statement.

The Zoological Society of Philadelphia

STATEMENT OF ACTIVITIES

Fiscal year ended February 28, 2018 (with summarized information for fiscal year ended February 28, 2017)

	Unrestricted	Temporarily restricted	Permanently restricted	Total 2018	Total 2017
Revenue					
Earned revenue	$ 25,037,000	$ -	$ -	$ 25,037,000	$ 24,155,000
Contributed revenue	5,689,000	2,871,000	1,006,000	9,566,000	7,052,000
Contributed exhibits, equipment and services	2,602,000	-	-	2,602,000	2,698,000
Investment return, designated for current operations	217,000	646,000	114,000	977,000	954,000
Net assets released from restrictions	1,571,000	(1,571,000)	-	-	-
Total revenue	35,116,000	1,946,000	1,120,000	38,182,000	34,859,000
Expenses					
Program services					
Animal care	7,473,000	-	-	7,473,000	7,493,000
Education and conservation	2,875,000	-	-	2,875,000	2,776,000
Exhibit and garden care	8,074,000	-	-	8,074,000	5,937,000
Guest and member services	4,949,000	-	-	4,949,000	4,995,000
Contributed services	2,297,000	-	-	2,297,000	2,158,000
Interest expense	3,000	-	-	3,000	11,000
Depreciation and amortization	7,390,000	-	-	7,390,000	7,739,000
Total program services	33,061,000	-	-	33,061,000	31,109,000
Support services					
General management and administration	4,656,000	-	-	4,656,000	3,573,000
Fundraising and development	1,392,000	-	-	1,392,000	1,421,000
Marketing and advertising	1,710,000	-	-	1,710,000	1,620,000
Contributed services	176,000	-	-	176,000	216,000
Interest expense	365,000	-	-	365,000	222,000
Depreciation and amortization	28,000	-	-	28,000	249,000
Total support services	8,327,000	-	-	8,327,000	7,301,000
Total expenses	41,388,000	-	-	41,388,000	38,410,000
Change in net assets before other income (expense)	(6,272,000)	1,946,000	1,120,000	(3,206,000)	(3,551,000)
Other income					
Investment return, less amount designated for current operations	1,889,000	697,000	-	2,586,000	3,375,000
Other changes in benefit obligation	620,000	-	-	620,000	1,471,000
Other income	234,000	-	-	234,000	75,000
Other income, net	2,743,000	697,000	-	3,440,000	4,921,000
Change in net assets	(3,529,000)	2,643,000	1,120,000	234,000	1,370,000
Net assets at beginning of year	80,591,000	6,852,000	15,661,000	103,104,000	101,734,000
Net assets at end of year	$ 77,062,000	$ 9,495,000	$16,781,000	$103,338,000	$103,104,000

The accompanying notes are an integral part of this financial statement.

The Zoological Society of Philadelphia

STATEMENTS OF CASH FLOWS

Fiscal years ended February 28, 2018 and February 28, 2017

	2018	2017
Operating activities		
Change in net assets	$ 234,000	$ 1,370,000
Adjustments to reconcile change in net assets to net cash used in operating activities		
Contribution of capital improvements by the Philadelphia City Planning Commission	(129,000)	(323,000)
Contributions for endowment fund	(1,006,000)	(1,388,000)
Contributions restricted for exhibits, equipment and services	(2,602,000)	(2,698,000)
Contributions restricted for capital purposes	(2,465,000)	(2,804,000)
Realized gains on sale of investments	(690,000)	(430,000)
Unrealized appreciation on investments	(1,974,000)	(3,308,000)
Other changes in benefit obligation	(620,000)	(1,471,000)
Depreciation and amortization	7,418,000	7,988,000
Change in fair value of swap liability	(75,000)	(233,000)
Changes in operating assets and liabilities		
Pledges and accounts receivable	(864,000)	2,059,000
Other assets	(79,000)	-
Accounts payable, accrued expenses and other liabilities	272,000	778,000
Deferred revenue	(30,000)	(275,000)
Net cash used in operating activities	(2,610,000)	(735,000)
Investing activities		
Purchases of exhibits, buildings and equipment	(2,612,000)	(2,247,000)
Purchase of investments	(12,328,000)	(6,999,000)
Proceeds from sales of investments	14,030,000	3,098,000
Net cash used in investing activities	(910,000)	(6,148,000)
Financing activities		
Contributions for endowment fund	1,006,000	1,388,000
Contributions restricted for exhibits, equipment and services	2,602,000	2,698,000
Contributions restricted for capital purposes	2,465,000	2,804,000
Proceeds on debt	6,547,000	-
Principal payments on debt	(7,714,000)	(1,178,000)
Repayments on lines of credit	(60,000)	(114,000)
Net cash provided by financing activities	4,846,000	5,598,000
Net increase (decrease) in cash and cash equivalents	1,326,000	(1,285,000)
Cash and cash equivalents, beginning of year	9,058,000	10,343,000
Cash and cash equivalents, end of year	$ 10,384,000	$ 9,058,000
Supplemental disclosures of cash flow information		
Capital assets financed through accounts payable and accrued expenses	$ 977,000	$ 279,000
Cash paid for interest	$ 432,000	$ 469,000

The accompanying notes are an integral part of these financial statements.

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

1. Organization

The Zoological Society of Philadelphia (the "Zoo"), a private not-for-profit corporation established in 1859, is America's first zoo. Its official public opening was on July 1, 1874. The Zoo, which is an accredited member of the Association of Zoos and Aquariums ("AZA"), acquires, maintains and exchanges its collection in accordance with AZA and United States Department of Agriculture regulations. The Zoo's core purpose is to connect people with wildlife, creating joyful discovery and inspiring action for animals and habitats. The Zoo shares its mission with a diverse audience through first-class educational programming, outstanding animal care, provocative exhibitions and cutting-edge conservation efforts. Currently home to approximately 2,985 animals of more than 289 different species from around the world, the Zoo welcomes approximately 1.2 million visitors to its 42 acres each year as a national attraction and revered Philadelphia landmark.

The Zoo has implemented a first-in-the-world campus-wide network of animal exploration trails, called Zoo360. The cornerstone of the Zoo's Transformative Master Plan, Zoo360 continues the Zoo's commitment to excellence in animal care and inspiring guests to conservation action through engaging animal experiences. This development also positions the Zoo at the forefront of a completely reimagined Zoo experience - one in which animals have more opportunities to determine their own experiences and travel long distances. This pioneering concept has solidified the Zoo as a leader in an ever-changing world, and today there are more than 20 zoos across the globe using Zoo360 as a paradigm to build from. In 2017, Zoo360 was recognized with the prestigious AZA Exhibit Innovation Award, an honor recognizing Zoo360 as a unique and immersive animal habitat that provides the best care for animals and superior educational impact for visitors.

2. Basis of Presentation

The Zoo follows accounting principles generally accepted in the United States of America ("U.S. GAAP"), which require not-for-profit organizations to distinguish between contributions received that increase permanently restricted net assets, temporarily restricted net assets and unrestricted net assets. The Zoo's financial statements report amounts of total assets, liabilities and net assets in a statement of financial position; the change in net assets in a statement of activities; and the change in cash and cash equivalents in a statement of cash flows. The Zoo classifies net assets and its revenues, expenses, gains and losses based on the existence or absence of donor-imposed restrictions. The amounts of each of three classes of net assets - permanently restricted, temporarily restricted and unrestricted - are displayed in the statement of financial position, and the amounts of changes in each of those classes of net assets are displayed in the statement of activities.

The financial statements include prior year summarized comparative information in total, but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. GAAP. Accordingly, such information should be read in conjunction with the Zoo's financial statements for the fiscal year ended February 28, 2017, from which the summarized financial information was derived.

3. Cash and Cash Equivalents

All highly liquid investments with original maturities of three months or less are considered to be cash equivalents.

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NOTE A - SIGNIFICANT ACCOUNTING POLICIES - Continued

4. Revenue Recognition

The Zoo recognizes revenue from ticket sales at the time of sale. Revenue from memberships is recorded upon receipt and is included in earned revenue in the statement of activities.

Contributions are recorded as revenue upon donor notification. Contributions that must be used to acquire exhibits, buildings and equipment are reported as temporarily restricted contributed revenue.

Temporarily restricted contributed revenue is reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions when stipulated time restrictions end or purpose restrictions are met. Contributions received where restrictions are met in the same year as receipt are recorded as unrestricted contributed revenue.

Included in contributed revenue are the Philadelphia City Planning Commission Capital Program ("City") contributions of exhibits, buildings and equipment. City investments in the Zoo, which leverage other public and private investments, have been a significant source of funding over the course of the Zoo's history. These contributed items are capitalized or expensed as appropriate. The City has contributed approximately $129,000 and $323,000 for the fiscal years ended February 28, 2018 and 2017, respectively.

5. Pledges and Accounts Receivable

Unconditional promises to give with payments due in future periods are recorded as pledges receivable at their net present value and recognized as increases to the appropriate net asset classification at the date of promise. Conditional promises to give, which depend on the occurrence of specified future and uncertain events, are recognized when these conditions are substantially met.

The allowance for doubtful pledges is maintained to absorb losses in the Zoo's pledges receivable. The Zoo continually monitors pledges receivable for collectability issues. An allowance for doubtful pledges is based upon management's judgment and is established based on a review of the individual accounts, prior collection history, the donor, current economic conditions and other pertinent factors. Pledges receivable deemed uncollectible are charged to the allowance. Pledges are recorded after discounting to present value of the future cash flows.

6. Deferred Revenues

Deferred revenues relate primarily to operations, contract liabilities with the Zoo's food and retail partners, and sponsorship agreements.

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NOTE A - SIGNIFICANT ACCOUNTING POLICIES - Continued

7. Concentration of Credit Risk

The Zoo's cash and cash equivalents, which are deposited in financial institutions, sometimes exceed federally insured limits. The Zoo has not experienced any losses in these accounts and believes it is not exposed to significant credit risk on its cash and cash equivalents.

8. Investments

Investments are carried at fair value, as quoted on major stock exchanges, and are comprised of mutual funds, U.S. government obligations, corporate obligations, certificates of deposit and money market funds. For determination of gain and loss upon disposal of investments, costs are determined on an average cost basis. Donated investments are recorded at fair value.

9. Exhibits, Buildings and Equipment

Exhibits, buildings and equipment are capitalized as unrestricted net assets. These assets are recorded at cost and depreciated over their estimated useful lives using the straight-line method.

10. Contributed Exhibits, Equipment and Services

The Zoo receives contributed services from other organizations, which are recorded in the statement of activities at fair value.

Additionally, the Zoo had approximately 670 and 680 volunteers for the fiscal years ended February 28, 2018 and 2017, respectively. These volunteers made significant contributions of time, approximately 92,000 hours for the fiscal year ended February 28, 2018 and 93,000 hours for the fiscal year ended February 28, 2017, primarily to the Zoo's education and guest services programs. The value of this contributed time does not meet the criteria for recognition of contributed services as defined by U.S. GAAP and, accordingly, is not reflected in the accompanying financial statements.

11. Animal and Horticultural Collections

Additions to the animal and horticultural collections, which are purchased, are expensed when acquired. Additions to these collections acquired other than by purchase are not assigned a value and are not accounted for in the accounts of the Zoo.

12. Benefit Plans

The Zoo has a 401(k) Retirement Savings Plan for all eligible employees. The Zoo currently matches 100% up to 5% of the participant contributions after one year of employment. The Zoo's contributions to the plan amounted to approximately $486,000 and $420,000 for the fiscal years ended February 28, 2018 and 2017, respectively.

(Continued)

NOTE A - SIGNIFICANT ACCOUNTING POLICIES - Continued

The Zoo also has a noncontributory defined benefit retirement plan. The Zoo's policy is to fund, at a minimum, the amount required under the Employee Retirement Income Security Act of 1974, as amended. Plan vesting for non-union employees was frozen as of January 1, 2003 and for union employees as of January 1, 2006.

13. Agreement with Philadelphia Department of Parks and Recreation

The Zoo occupies 42 acres under terms of an agreement between the Zoo and the Philadelphia Department of Parks and Recreation (previously Fairmount Park Commission). The agreement licenses the Zoo to occupy the land for purposes of operating a zoological garden. The current period of the license is for 25 years, beginning in 1998, and can be terminated at the option of the Philadelphia Department of Parks and Recreation with notice to the Zoo five years prior to expiration. There is a nominal annual rental charge of $1 for the occupancy. In the event of termination, just compensation is to be paid to the Zoo for any exhibits and buildings.

The Zoo uses Zoological Drive, 38th Street Lot and Sedgeley Parking Area as additional parking for Zoo patrons under the terms of an agreement between the Zoo and the City of Philadelphia. The agreement licenses the Zoo to operate and maintain these surface parking lot facilities. The current period of the license is for 10 years, beginning in 2015.

14. Income Taxes

The Zoo is a private not-for-profit corporation and, accordingly, is exempt from federal taxes under the Internal Revenue Code Section 501(c)(3). The Zoo is also exempt from state and local taxes under applicable statutes.

The Zoo recognizes or derecognizes a tax position based upon a "more likely than not" threshold. This applies to positions taken or expected to be taken in a tax return. The Zoo does not believe its financial statements include any material uncertain tax positions. The tax years ended 2015, 2016 and 2017 are still open to audit for both federal and state purposes.

15. Use of Estimates

The financial statements include estimates and assumptions made by management that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The most significant management estimates relate to the determination of allowances for doubtful pledges receivable, useful lives of fixed assets, investments, actuarial estimates for the Zoo's pension plan and the reported fair values of certain Zoo assets and liabilities. Actual results could differ from those estimates.

16. Non-operating Activities

The Zoo considers other income, other expenses, investment returns (losses) not designated for current use and other changes in benefit obligations to be non-operating activities.

(Continued)

NOTE A - SIGNIFICANT ACCOUNTING POLICIES - Continued

17. Compensation Plans

Effective March 2016, a 457(f) plan was formed to provide benefits to designated senior management. The plan is an excess benefit plan. As of both February 28, 2018 and 2017, the benefits in the plan were not fully vested. The benefits liability of $300,000 and $150,000 is included in the statement of financial position in accrued expenses as of February 28, 2018 and 2017, respectively.

18. Labor Force

The Zoo has concentrations of its labor force working under a union collective bargaining agreement which expires on June 30, 2022. The percentage of the Company's labor force subject to this collective bargaining agreement is 50%.

19. Recently Issued Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09, *Revenue from Contracts with Customers*, to clarify the principles for recognizing revenue and to improve financial reporting by creating common revenue recognition guidance for U.S. GAAP and International Financial Reporting Standards. The core principle of the new guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for these goods and services. ASU 2014-09 is effective for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period. Early application is not permitted. An entity will apply the amendments in this update using either a full retrospective application, which applies the standard to each prior period presented, or under the modified retrospective application, in which an entity recognizes the cumulative effect of initially applying the new standard as an adjustment to the opening balance sheet of net assets at the date of initial application. Revenue in periods presented before that date will continue to be reported under guidance in effect before the change. The Zoo is determining the impact of ASU 2014-09 at this time.

In February 2016, the FASB issued ASU 2016-02, *Leases*, which requires that most leased assets be recognized on the balance sheet as assets and liabilities for the rights and obligations created by these leases. ASU 2016-02 is effective for fiscal years beginning after December 15, 2018. Early application is permitted. An entity is required to apply the amendments in ASU 2016-02 under the modified retrospective transition approach. This approach includes a number of optional practical expedients, which are described in the final standard. Under these practical expedients, an organization will continue to account for leases that commence before the effective date in accordance with current U.S. GAAP, unless the lease is modified. However, lessees are required to recognize on the balance sheet leased assets and liabilities for operating leases at each reporting date. The Zoo is determining the impact of ASU 2016-02 at this time.

In August 2016, the FASB issued a new standard related to the presentation of financial statements of not-for-profit entities. This standard intends to make certain improvements to the current reporting requirements for not-for-profit entities including: (1) the presentation for two classes of net assets at the end of the period, rather than the currently required three classes, as well as the annual change in each of the two classes; (2) the removal of the requirement to present or disclose the indirect method (reconciliation) when using the direct method for the statement of cash flows; and (3) the requirement to provide various enhanced disclosures relating to various not-for-profit specific topics. The new standard is effective for annual financial statements beginning after December 15, 2017. The Zoo is determining the impact of the new standard at this time.

NOTE B - PLEDGES RECEIVABLE

Unconditional promises to give are included in the financial statements as pledges receivable, and related revenue is recorded by net asset category. Included in pledges receivable at February 28, 2018 and 2017 are the following unconditional promises:

	2018	2017
Unconditional promises expected in less than 1 year	$ 1,548,000	$ 1,727,000
Unconditional promises expected between 1-5 years	1,592,000	870,000
	3,140,000	2,597,000
Less discount and allowances	(222,000)	(193,000)
Pledges receivable, net	$ 2,918,000	$ 2,404,000

NOTE C - INVESTMENTS

Investments consist of the following at February 28, 2018 and 2017:

	2018		2017	
	Fair value	Cost	Fair value	Cost
Cash and cash equivalents	$ 55,000	$ 55,000	$ 30,000	$ 30,000
Fixed income - endowment	13,993,000	14,206,000	13,129,000	13,175,000
Equities	23,538,000	19,088,000	21,499,000	19,173,000
Other	168,000	168,000	145,000	143,000
Investments (endowment)	$ 37,754,000	$ 33,517,000	$ 34,803,000	$ 32,521,000
Fixed income - operating	$ 1,000,000	$ 1,000,000	$ 2,989,000	$ 2,987,000
Total investments	$ 38,754,000	$ 34,517,000	$ 37,792,000	$ 35,508,000

(Continued)

NOTE C - INVESTMENTS - Continued

Investment income consists of the following for the fiscal years ended February 28, 2018 and 2017:

	2018	2017
Investment income, net - operations	$ 27,000	$ 8,000
Investment income, net - endowment	872,000	567,000
Net realized gain from sales of investments	690,000	430,000
Net unrealized appreciation	1,974,000	3,324,000
Investment return	$ 3,563,000	$ 4,329,000
Investment return designated for current operations	$ 977,000	$ 954,000
Investment return, less amount designated for current operations	2,586,000	3,375,000
Investment return	$ 3,563,000	$ 4,329,000

NOTE D - ENDOWMENTS

Net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Zoo's endowment consists of a portfolio established to provide both a source of operating funds as well as long-term financial stability. The endowment includes both donor-restricted endowment funds and funds designated by the Board of Directors to function as quasi-endowments.

1. Interpretation of Relevant Law

The Board of Directors of the Zoo has interpreted Commonwealth of Pennsylvania Act 141 as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Zoo classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. This is regarded as the "historic dollar value" of the endowed fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets and is regarded as "net appreciation" is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Zoo in a manner consistent with the Zoo's spending policy.

(Continued)

NOTE D - ENDOWMENTS - Continued

2. Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the "historic dollar value." Deficiencies of this nature are reported by a charge to unrestricted net assets and a corresponding increase to temporarily restricted net assets. There were no such deficiencies as of February 28, 2018 and 2017. During the fiscal year ended February 28, 2017, the deficiencies in the historical dollar value of permanently restricted endowments totaling $1,087,000 were eliminated with current year gains. These deficiencies resulted from unfavorable market fluctuations that occurred shortly after the investment of new permanently restricted contributions.

3. Endowment Investment Policy

The Zoo has adopted an investment policy that is intended to provide a predictable stream of funding to programs from its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Zoo must hold in perpetuity as well as board-designated funds. Under this approach, as approved by the Investment Committee of the Board of Directors, the endowment assets are invested in a manner that is intended to produce results that equal the total of the amount drawn annually for operations plus the rate of inflation and investment management fees.

4. Endowment Spending Policy

With respect to the total endowment, the Board has designated a 3.50% and 3.75% annual draw for the fiscal years ended February 28, 2018 and 2017, respectively, based upon the most recent thirteen-quarter average total endowment balance. The Zoo has a two-tiered spending policy within the 3.50% and 3.75% for 2018 and 2017, respectively, total endowment draw. First, for permanently restricted endowments where the donor is silent on the annual draw amount, the Zoo follows the Commonwealth of Pennsylvania Act 141. The Board has elected a 5% draw for both 2018 and 2017 based on the trailing three preceding year-end average balance for permanently restricted donor endowed funds absent explicit donor stipulations to the contrary. Then, for unrestricted and board-designated endowments, the annual draw amount is calculated as the difference between the 3.50% and 3.75% for 2018 and 2017, respectively, draw from the total endowment less the 5% draw component for permanently restricted endowments.

5. Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the 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). A consultant is used to assist the Investment Committee of the Board of Directors in this process.

(Continued)

NOTE D - ENDOWMENTS - Continued

6. Endowment Fund Activity

February 28, 2018	Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowment funds	$ -	$ 701,000	$ 16,281,000	$ 16,982,000
Board-designated funds	20,772,000	-	-	20,772,000
	$ 20,772,000	$ 701,000	$ 16,281,000	$ 37,754,000
Endowment, February 28, 2017	$ 19,138,000	$ 4,000	$ 15,661,000	$ 34,803,000
Investment return				
Investment income	481,000	329,000	62,000	872,000
Net realized gains	380,000	261,000	49,000	690,000
Net appreciation	1,099,000	753,000	122,000	1,974,000
Net investment return	1,960,000	1,343,000	233,000	3,536,000
New gifts	-	-	506,000	506,000
Other	(32,000)	-	-	(32,000)
Amount designated for current operations (draw)	(294,000)	(646,000)	(119,000)	(1,059,000)
Endowment, February 28, 2018	$ 20,772,000	$ 701,000	$ 16,281,000	$ 37,754,000

There were $500,000 and $-0- of new gifts receivable to the endowment at February 28, 2018 and 2017, respectively.

(Continued)

NOTE D - ENDOWMENTS - Continued

February 28, 2017	Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowment funds	$ -	$ 4,000	$ 15,661,000	$ 15,665,000
Board-designated funds	19,138,000	-	-	19,138,000
	$ 19,138,000	$ 4,000	$ 15,661,000	$ 34,803,000
Endowment, February 29, 2016	$ 14,744,000	$ -	$ 15,409,000	$ 30,153,000
Investment return				
Investment income	307,000	235,000	25,000	567,000
Net realized gains	221,000	170,000	39,000	430,000
Net appreciation	1,732,000	1,329,000	246,000	3,307,000
Net investment return	2,260,000	1,734,000	310,000	4,304,000
New gifts	-	-	55,000	55,000
Board designated	1,334,000	-	-	1,334,000
Amount designated for current operations (draw)	(287,000)	(643,000)	(113,000)	(1,043,000)
Decrease of deficiencies in historical values	1,087,000	(1,087,000)	-	-
Endowment, February 28, 2017	$ 19,138,000	$ 4,000	$ 15,661,000	$ 34,803,000

NOTE E - EXHIBITS, BUILDINGS AND EQUIPMENT

Exhibits, buildings and equipment at February 28, 2018 and 2017 include:

	Estimated life	2018	2017
Exhibits and buildings	10-50 years	$ 156,527,000	$ 155,681,000
Equipment	7-12 years	6,382,000	5,838,000
Information technology	3-7 years	4,422,000	4,422,000
		167,331,000	165,941,000
Less accumulated depreciation		(100,803,000)	(93,413,000)
		66,528,000	72,528,000
Construction in progress		1,493,000	1,119,000
Exhibits, buildings and equipment, net		$ 68,021,000	$ 73,647,000

Depreciation expense for the fiscal years ended February 28, 2018 and 2017 was $7,390,000 and $7,965,000, respectively.

NOTE F - REVOLVING CREDIT FACILITIES

In February 2012, the Zoo established a line of credit that allows borrowings up to $500,000. This line of credit had a balance of $31,000 outstanding at February 28, 2018. The effective rate of interest was 3.92%. This line of credit matured on April 28, 2018.

In October 2013, the Zoo entered into an agreement for a revolving line of credit to provide bridge financing for construction of new Transformation Plan Projects. This agreement allows the Zoo to borrow up to $6,500,000 until October 2016, then $4,500,000 until October 2018, when the line expires. The interest rate is LIBOR + 1.75%. At February 28, 2018 and 2017, the rate was 3.42% and 2.52%, respectively. There was no balance outstanding at February 28, 2018 and 2017.

NOTE G - LONG-TERM DEBT

Debt consists of the following at February 28, 2018 and 2017:

	2018	2017
Term loan with an initial principal balance of $12,000,000, with monthly principal and interest payments commencing on August 1, 2010, fully paid on February 28, 2018 in the amount of $6,497,000.	$ -	$ 7,238,000
Term loan entered into on February 28, 2018 with an initial principal balance of $6,547,000. Principal and interest payments are due beginning on April 1, 2018 and monthly until February 28, 2028, when a final balloon payment of $4,776,000 is due. Interest expense is charged at a floating interest rate of the one-month LIBOR plus 1.43% (3.07% at February 28, 2018). The interest rate has been fixed on this debt through an interest rate swap at 4.26%. See Note H.	6,547,000	-
Revenue bond issued on August 10, 2012 for $7,750,000, with monthly principal payments commencing on February 1, 2014. The term of the bond is 15 years and matures on February 1, 2029. Interest expense is charged at 65% of LIBOR plus 1.50% during the construction phase and 65% of LIBOR plus 1.20% (2.23% and 1.71% at February 28, 2018 and 2017, respectively) during the stabilization phase. The interest rate has been fixed on a portion of this debt through an interest rate swap at 3.34%. See Note H. The revenue bond has a put option that allows for the bond to be called in 2019.	5,865,000	6,341,000
	$ 12,412,000	$ 13,579,000

The aggregate future maturities of debt are as follows:

Fiscal year ending:	
2019	$ 618,000
2020	647,000
2021	663,000
2022	681,000
2023	699,000
Thereafter	9,104,000
	$ 12,412,000

NOTE H - INTEREST RATE SWAPS

The Zoo has entered into interest rate swap agreements in order to hedge interest rate exposure on the underlying debt agreements. The swap agreements are as follows:

Agreement	Notional amount	Start date	Maturity date	Fixed rate	Floating rate
PNC Bank (MX_52918)	$ 5,000,000	2/01/2014	2/01/2029	3.34%	USD-LIBOR-BBA Bloomberg
PNC Bank (MX_149081)	6,547,000	2/28/2018	2/29/2028	4.26%	USD-LIBOR-BBA Bloomberg

The Zoo expensed interest of $101,000 and $171,000 under the interest rate swap agreements for the fiscal years ended February 28, 2018 and 2017, respectively. The Zoo recorded a liability of $67,000 and $143,000 under the interest rate swap agreements for the fiscal years ended February 28, 2018 and 2017, respectively, within the accrued expenses line item on the statement of financial position. The interest rate swap agreement MX_52919 with a maturity date of October 14, 2018 was terminated on February 28, 2018.

NOTE I - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes at February 28, 2018 and 2017:

	2018	2017
Endowment earnings	$ 701,000	$ 4,000
Exhibits, buildings and equipment	8,057,000	6,202,000
Education and conservation	292,000	203,000
Other program support	445,000	443,000
Total temporarily restricted net assets	$ 9,495,000	$ 6,852,000

NOTE J - NET ASSETS RELEASED FROM RESTRICTIONS

The net assets released from donor restrictions when a stipulated time restriction ended or purpose restriction was accomplished related to the following purposes at February 28, 2018 and 2017:

	2018	2017
Exhibits, buildings and equipment	$ 750,000	$ 2,024,000
Education and conservation	119,000	65,000
Other program support	702,000	999,000
Total temporarily restricted net assets released from restrictions	$ 1,571,000	$ 3,088,000

NOTE K - PENSION PLAN

The Zoo has a noncontributory defined benefit retirement plan. Plan accruals for non-union employees were frozen as of January 1, 2003 and for union employees as of January 1, 2006.

The actuarially computed net periodic pension cost for the Zoo included the following components at February 28, 2018 and 2017:

	2018	2017
Interest cost	$ 423,000	$ 434,000
Expected return on plan assets	(705,000)	(632,000)
Net amortization and deferral	252,000	373,000
Net periodic pension (benefit) cost in operations	(30,000)	175,000
Other changes in benefit obligation included in non-operating activities	(620,000)	(1,471,000)
Total recognized net benefit change	$ (650,000)	$ (1,296,000)

Assumptions

Weighted-average assumptions used to determine benefit obligations at February 28, 2018 and 2017:

	2018	2017
Discount rate	4.00%	4.00%
Rate of compensation increase	N/A	N/A

Weighted-average assumptions used to determine net periodic pension cost at February 28, 2018 and 2017:

	2018	2017
Discount rate	4.00%	4.00%
Expected return on plan assets	7.00%	8.00%
Rate of compensation increase	N/A	N/A

(Continued)

NOTE K - PENSION PLAN - Continued

The following table presents a reconciliation of the beginning and ending balances of the fair value of plan assets and the funded status of the plan at February 28, 2018 and 2017:

	2018	2017
Changes in plan assets		
Fair value of plan assets, beginning of year	$ 9,073,000	$ 8,153,000
Actual return on plan assets	924,000	1,367,000
Employer contributions	-	-
Benefits paid and expenses	(439,000)	(447,000)
Fair value of plan assets, end of year	$ 9,558,000	$ 9,073,000
Change in projected benefit obligation		
Projected benefit obligation, beginning of year	$ 10,899,000	$ 11,275,000
Interest cost	423,000	434,000
Changes in assumptions	(88,000)	(189,000)
Actuarial loss	(61,000)	(174,000)
Benefits paid and expenses	(439,000)	(447,000)
Projected benefit obligation, end of year	$ 10,734,000	$ 10,899,000
Funded status of the plan-accrued pension	$ (1,176,000)	$ (1,826,000)

The method used to determine the service cost and projected benefit obligation was the projected unit credit actuarial cost method.

The accumulated benefit obligation was equal to $10,734,000 and $10,899,000 at February 28, 2018 and 2017, respectively.

The pension plan target allocations, by asset category, are impacted by the plan's funded status. Depending on the funded status of the plan, the target allocation ranges from 30% - 65% for equity securities and 35% - 70% for fixed income.

(Continued)

NOTE K - PENSION PLAN - Continued

The Zoo's pension plan weighted-average asset allocations at February 28, 2018 and 2017, by asset category, are as follows:

	2018	2017
Equity securities	50%	62%
Fixed income and short-term securities	50%	38%

The Zoo has constructed an Investment Policy Statement ("IPS") to establish objectives, guidelines and monitoring criteria for the investments of the defined benefit plan.

The investment strategies of the plan are to build a diversified portfolio of equity or equity-like securities considering the long-term investment time horizon. Fixed income securities will be used to lower the volatility of the portfolio and provide income stability. The plan's asset manager performs fundamental analysis to build the portfolio and diversify across sectors, industries and individual securities with an emphasis on quality. The IPS includes quantitative performance objectives for each asset class and uses a variety of benchmark indexes.

The plan's financial assets are measured at fair value, on a recurring basis, using the market approach valuation technique. Plan asset values are based on quoted market prices in active markets. As of February 28, 2018 and 2017, there were $4,773,000 and $4,770,000 outstanding in equity securities and fixed income and short-term securities, respectively. The Zoo considers these Level 1 inputs in the fair value hierarchy.

Expected future benefit payments

The benefit payments, which reflect expected future service, as appropriate, are expected to be paid as follows based on the plan year of February 28:

2019	$ 518,000
2020	541,000
2021	545,000
2022	554,000
2023	568,000
2024-2028	3,024,000
	$ 5,750,000

Contributions

The Zoo expects to contribute $-0- to the retirement plan for the fiscal year ended February 28, 2019.

NOTE L - COMMITMENTS AND CONTINGENCIES

1. Operating Lease Commitments

The Zoo leases certain equipment under operating leases with lease terms extending through 2022. Rental expense was approximately $127,000 and $150,000 for the fiscal years ended February 28, 2018 and 2017, respectively.

Approximate future minimum lease payments as of February 28, 2017, under leases having initial lease terms of more than one year, are:

Fiscal year ending:	
2019	$ 141,000
2020	31,000
2021	4,000
2022	4,000
Total	$ 180,000

2. Litigation

The Zoo is from time to time subject to routine legal proceedings and claims that arise in the ordinary course of its business. In the opinion of management, after consultation with outside legal counsel, the ultimate disposition of such proceedings will not have a materially adverse effect on the Zoo's financial statements.

3. Capital commitments

Board of Directors-approved commitments related to capital projects totaled approximately $2,000,000 and $3,000,000 at February 28, 2018 and 2017, respectively.

NOTE M - FAIR VALUE MEASUREMENTS

The Zoo has categorized its financial instruments, based on the priority of the inputs to the valuation technique, into a three-level fair value hierarchy. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the hierarchy are described below:

Level 1 Financial assets and liabilities whose values are based on unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.

(Continued)

NOTE M - FAIR VALUE MEASUREMENTS - Continued

Level 2 Financial assets and liabilities whose values are based on one or more of the following:
1. Quoted prices for similar assets or liabilities in active markets;
2. Quoted prices for identical or similar assets or liabilities in non-active markets;
3. Pricing models whose inputs are observable for substantially the full term of the asset or liability; or
4. Pricing models whose inputs are derived principally from or corroborated by observable market data through correlation or other means for substantially the full term of the asset or liability.

Level 3 Financial assets and liabilities whose values are based on prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable. These inputs reflect management's own assumptions about the assumptions a market participant would use in pricing the asset or liability.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the level in the fair value hierarchy within which the fair value measurement in its entirety falls has been determined based on the lowest level input that is significant to the fair value measurement in its entirety. The Zoo's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the asset or liability.

A review of the fair value hierarchy classifications is conducted on an annual basis. Changes in the type of inputs may result in a reclassification for certain financial assets or liabilities. Reclassifications impacting Level 3 of the fair value hierarchy are reported as transfers in/out of the Level 3 category as of the beginning of the year in which reclassifications occur.

The following tables present information about the Zoo's assets and liabilities measured at fair value on a recurring basis as of February 28, 2018 and 2017 and indicate the fair value hierarchy of the valuation techniques utilized by the Zoo to determine such fair value.

February 28, 2018	Level 1	Level 2	Level 3	Total
Assets				
Investments (endowment)				
Cash and cash equivalents	$ 55,000	$ -	$ -	$ 55,000
Fixed income	13,993,000	-	-	13,993,000
Equities	23,538,000	-	-	23,538,000
Other	168,000	-	-	168,000
Investments - other				
Fixed income	1,000,000	-	-	1,000,000
Total assets	$ 38,754,000	$ -	$ -	$ 38,754,000
Liabilities				
Interest rate swap	$ -	$ 67,000	$ -	$ 67,000
Total liabilities	$ -	$ 67,000	$ -	$ 67,000

(Continued)

NOTE M - FAIR VALUE MEASUREMENTS - Continued

February 28, 2017	Level 1	Level 2	Level 3	Total
Assets				
Investments (endowment)				
Cash and cash equivalents	$ 30,000	$ -	$ -	$ 30,000
Fixed income	13,129,000	-	-	13,129,000
Equities	21,499,000	-	-	21,499,000
Other	145,000	-	-	145,000
Investments - other				
Fixed income	2,989,000	-	-	2,989,000
Total assets	$ 37,792,000	$ -	$ -	$ 37,792,000
Liabilities				
Interest rate swap	$ -	$ 143,000	$ -	$ 143,000
Total liabilities	$ -	$ 143,000	$ -	$ 143,000

A financial instrument's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. For the fiscal years ended February 28, 2018 and 2017, there were no transfers between levels.

1. Interest Rate Swap

The interest rate swap agreements are measured by alternative pricing sources with reasonable levels of price transparency in markets that are not active. Based on the complex nature of interest rate swap agreements, the markets these instruments trade in are not as efficient and are less liquid than that of the more mature Level 1 markets. These markets do, however, have comparable, observable inputs in which an alternative pricing source values these assets in order to arrive at a fair market value. These characteristics classify interest rate swap agreements as a Level 2 input.

2. Investments

Investments whose values are based on quoted market prices in active markets are classified as Level 1 inputs using a market approach. These investments primarily are money market funds and certificates of deposit (cash and cash equivalents) and fixed income and equity mutual funds.

NOTE N - RELATED PARTY TRANSACTIONS

During the normal course of business, the Zoo purchases various supplies and services from companies associated with Board members, which approximated $3,341,000 and $3,260,000 for the fiscal years ended February 28, 2018 and 2017, respectively.

In addition, the Zoo has recorded revenue related to pledges receivable from employees and directors. As of February 28, 2018 and 2017, pledges receivable due from employees and directors amounted to approximately $622,000 and $1,193,000, respectively.

NOTE O - SUBSEQUENT EVENTS

The Zoo evaluated its February 28, 2018 financial statements for subsequent events through June 1, 2018, the date the financial statements were available to be issued, and determined there were no subsequent events which would require recognition or disclosure in the financial statements, except as noted in Note F.