Financial Statements and Report of Independent Certified Public Accountants

The Zoological Society of Philadelphia

February 28, 2019 and 2018

Contents

GRANT THORNTON LLP
Two Commerce Square
2001 Market Street, Suite 700
Philadelphia, PA 19103

D +1 215 561 4200
F +1 215 561 1066

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 (the "Zoo"), which comprise the statement of financial position as of February 28, 2019, and the related statements of activities and cash flows for the 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.

Grant Thornton

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, 2019, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of matter
As discussed in Note A to the financial statements, the Zoo adopted Accounting Standards Update ("ASU") 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements for Not-for-Profit Entities*, for the year ended February 28, 2019. Our opinion is not modified with respect to this matter.

Other matter
Report on 2018 summarized comparative information
We have previously audited the Zoo's 2018 financial statements (not presented herein), and we have expressed an unmodified audit opinion on those audited financial statements in our report dated June 1, 2018. In our opinion, the accompanying summarized comparative information as of and for the year ended February 28, 2018 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Grant Thornton LLP

Philadelphia, Pennsylvania
August 28, 2019

STATEMENT OF FINANCIAL POSITION

February 28, 2019 (with summarized information as of February 28, 2018)

	2019	2018
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 7,295,000	$ 10,384,000
Investments	19,963,000	21,853,000
Accounts receivable, net	707,000	1,488,000
Pledges receivable, net	1,535,000	1,548,000
Prepaid expenses	68,000	45,000
Total current assets	29,568,000	35,318,000
INVESTMENTS	16,731,000	16,901,000
PLEDGES RECEIVABLE, NET	2,015,000	1,370,000
EXHIBITS, BUILDINGS AND EQUIPMENT, NET	65,246,000	68,021,000
OTHER ASSETS	-	25,000
Total assets	$ 113,560,000	$ 121,635,000
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Line of credit	$ -	$ 31,000
Current portion of long-term debt	647,000	618,000
Accounts payable	1,047,000	1,072,000
Accrued expenses	2,354,000	2,370,000
Deferred revenue	1,630,000	1,115,000
Total current liabilities	5,678,000	5,206,000
LONG-TERM DEFERRED REVENUE, net of current portion	230,000	227,000
ACCRUED PENSION LIABILITY	1,513,000	1,176,000
LONG-TERM DEBT, net of current portion	11,057,000	11,688,000
Total liabilities	18,478,000	18,297,000
NET ASSETS		
Net assets without donor restrictions	71,883,000	77,263,000
Net assets with donor restrictions		
Purpose and time restricted	6,464,000	8,674,000
Endowment funds	16,735,000	17,401,000
	23,199,000	26,075,000
Total net assets	95,082,000	103,338,000
Total liabilities and net assets	$ 113,560,000	$ 121,635,000

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

The Zoological Society of Philadelphia

STATEMENT OF ACTIVITIES

Year ended February 28, 2019 (with summarized information for year ended February 28, 2018)

		With donor restrictions				
	Without donor restrictions	Purpose and time restricted	Endowment funds	Total	Total 2019	Total 2018
Revenue						
Earned revenue	$ 22,654,000	$ -	$ -	$ -	$ 22,654,000	$ 25,037,000
Contributed revenue	4,906,000	2,714,000	4,000	2,718,000	7,624,000	9,566,000
Contributed exhibits, equipment and services	4,758,000	-	-	-	4,758,000	2,602,000
Investment return, designated for current operations	340,000	-	796,000	796,000	1,136,000	977,000
Net assets released from restrictions	5,720,000	(4,924,000)	(796,000)	(5,720,000)	-	-
Total revenue	38,378,000	(2,210,000)	4,000	(2,206,000)	36,172,000	38,182,000
Expenses						
Program services						
Animal care	6,926,000	-	-	-	6,926,000	6,808,000
Education and conservation	2,699,000	-	-	-	2,699,000	2,836,000
Exhibit and garden care	7,614,000	-	-	-	7,614,000	7,190,000
Guest and member services	6,415,000	-	-	-	6,415,000	6,497,000
Contributed services	2,261,000	-	-	-	2,261,000	2,170,000
Interest	-	-	-	-	-	3,000
Depreciation and amortization	7,112,000	-	-	-	7,112,000	7,026,000
Project cancellation	1,438,000	-	-	-	1,438,000	-
Total program services	34,465,000	-	-	-	34,465,000	32,530,000
Support services						
General management and administration	3,925,000	-	-	-	3,925,000	4,720,000
Fundraising and development	1,812,000	-	-	-	1,812,000	1,355,000
Marketing and advertising	2,267,000	-	-	-	2,267,000	1,723,000
Contributed services	132,000	-	-	-	132,000	303,000
Interest	536,000	-	-	-	536,000	365,000
Depreciation and amortization	384,000	-	-	-	384,000	392,000
Total support services	9,056,000	-	-	-	9,056,000	8,858,000
Total expenses	43,521,000	-	-	-	43,521,000	41,388,000
Change in net assets before other (expense) income	(5,143,000)	(2,210,000)	4,000	(2,206,000)	(7,349,000)	(3,206,000)
Other (expense) income						
Investment return, net, less amount designated for current operations	(146,000)	-	(690,000)	(690,000)	(836,000)	2,586,000
Other changes in benefit obligation	(361,000)	-	-	-	(361,000)	620,000
Other income	270,000	-	20,000	20,000	290,000	234,000
Other (expense) income, net	(237,000)	-	(670,000)	(670,000)	(907,000)	3,440,000
Change in net assets	(5,380,000)	(2,210,000)	(666,000)	(2,876,000)	(8,256,000)	234,000
Net assets at beginning of year	77,263,000	8,674,000	17,401,000	26,075,000	103,338,000	103,104,000
Net assets at end of year	$ 71,883,000	$ 6,464,000	$ 16,735,000	$ 23,199,000	$ 95,082,000	$ 103,338,000

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

The Zoological Society of Philadelphia

STATEMENT OF CASH FLOWS

Year ended February 28, 2019 (with summarized information for year ended February 28, 2018)

	2019	2018
Operating activities		
Change in net assets	$ (8,256,000)	$ 234,000
Adjustments to reconcile change in net assets to net cash used in operating activities		
Contributions for endowment fund	(520,000)	(1,006,000)
Contributions restricted for exhibits, equipment and services	(2,393,000)	(2,473,000)
Contributions restricted for capital purposes	(2,577,000)	(2,465,000)
Realized gains on sale of investments	(4,244,000)	(690,000)
Unrealized depreciation (appreciation) on investments	4,692,000	(1,974,000)
Other changes in benefit obligation	361,000	(620,000)
Depreciation and amortization	7,496,000	7,418,000
Project cancellation	1,438,000	-
Change in fair value of swap liability	79,000	(75,000)
Changes in operating assets and liabilities		
Pledges and accounts receivable	149,000	(864,000)
Other assets	2,000	(38,000)
Accounts payable, accrued expenses and other liabilities	(144,000)	272,000
Deferred revenue	518,000	(30,000)
Net cash used in operating activities	(3,399,000)	(2,311,000)
Investing activities		
Purchases of exhibits, buildings and equipment	(6,144,000)	(2,741,000)
Purchase of investments	(4,060,000)	(12,328,000)
Proceeds from sales of investments	5,672,000	14,030,000
Net cash used in investing activities	(4,532,000)	(1,039,000)
Financing activities		
Contributions for endowment fund	520,000	1,006,000
Contributions restricted for exhibits, equipment and services	2,393,000	2,473,000
Contributions restricted for capital purposes	2,577,000	2,465,000
Proceeds on debt	-	6,547,000
Principal payments on debt	(617,000)	(7,714,000)
Deferred financing costs	-	(41,000)
Repayments on lines of credit	(31,000)	(60,000)
Net cash provided by financing activities	4,842,000	4,676,000
Net (decrease) increase in cash and cash equivalents	(3,089,000)	1,326,000
Cash and cash equivalents, beginning of year	10,384,000	9,058,000
Cash and cash equivalents, end of year	$ 7,295,000	$ 10,384,000
Supplemental disclosures of cash flow information		
Capital assets financed by the Philadelphia City Planning Commission	$ 2,365,000	$ 129,000
Capital assets financed through accounts payable and accrued expenses	$ 177,000	$ 977,000
Cash paid for interest	$ 457,000	$ 432,000

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

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

1. Organization

The Zoological Society of Philadelphia (the "Zoo"), a 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 3,054 animals of more than 273 different species from around the world, the Zoo welcomes approximately 1 million visitors to its 42 acres each year as a national attraction and revered Philadelphia landmark.

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 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 two classes of net assets - net assets without donor restrictions and net assets with donor restrictions - 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 year ended February 28, 2018, from which the summarized financial information was derived.

3. Adopted Accounting Pronouncement

In August 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-14, *Presentation of Financial Statements for Not-for-Profit Entities*. The new guidance attempts to improve the presentation of financial statements of not-for-profit entities to provide more useful information to donors, grantors and other users. Changes are in the areas of net asset classes, investment return, expenses, liquidity and availability of resources, and presentation of operating cash flows. The guidance is effective for years beginning after December 15, 2017. The Zoo implemented the guidance during the year ended February 28, 2019, including terminology used to describe categories of net assets throughout the financial statements, disclosure regarding liquidity and the availability of resources (Note K), and the presentation of expenses by both their natural and functional classification (Note O).

4. Cash and Cash Equivalents

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

(Continued)

NOTE A - SIGNIFICANT ACCOUNTING POLICIES - Continued

5. 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 net assets with donor restrictions within contributed revenue.

Contributed revenue with donor restrictions is reclassified to net assets without donor restrictions 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 net assets without donor restrictions within contributed revenue. Capital gifts are recorded as donor-restricted gifts until the related asset is placed in service, at which time the capital gift is released from net assets with donor restrictions to net assets without donor restrictions.

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 contributed approximately $2,365,000 and $129,000 for the years ended February 28, 2019 and 2018, respectively.

6. 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 and accounts receivable is maintained to absorb losses in the Zoo's pledges and accounts receivable. The Zoo continually monitors pledges and accounts receivable for collectability issues. An allowance for doubtful pledges and accounts receivable 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 and accounts receivable deemed uncollectible are charged to the allowance. Pledges are recorded after discounting to present value of the future cash flows.

7. Deferred Revenues

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

(Continued)

NOTE A - SIGNIFICANT ACCOUNTING POLICIES - Continued

8. 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.

9. 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.

10. Exhibits, Buildings and Equipment

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

Included in exhibits, buildings and equipment is a write-off of $1,438,000 associated with the accumulated design, legal and other costs of a potential new restaurant. The Zoo decided to cancel the project in December 2018 after careful consideration of the related risks and financial implications.

11. 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 760 and 670 volunteers for the years ended February 28, 2019 and 2018, respectively. These volunteers made significant contributions of time, approximately 80,000 hours for the year ended February 28, 2019 and 92,000 hours for the year ended February 28, 2018, 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.

12. 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.

(Continued)

NOTE A - SIGNIFICANT ACCOUNTING POLICIES - Continued

13. 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 $502,000 and $486,000 for the fiscal years ended February 28, 2019 and 2018, respectively.

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.

14. 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 expiring in 2023, and it can be terminated by the City of Philadelphia (the "City") with notice to the Zoo five years prior to expiration. The City did not provide a notice of termination in 2018. The agreement will automatically renew for another 25-year period at the conclusion of the current term. In the event of a future termination, just compensation is to be paid to the Zoo for any of its owned exhibits, buildings and collections.

The Zoo entered into a ground sublease with the City for the property used in connection with the parking garage located at 3404 West Girard Avenue. The Zoo made a one-time payment in 2012 that covers the entire term of the sublease. The lease expires on January 12, 2042.

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. 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.

15. Income Taxes

The Zoo is a 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.

(Continued)

NOTE A - SIGNIFICANT ACCOUNTING POLICIES - Continued

16. 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 and accounts receivable, useful lives of exhibits, buildings, and equipment, investments, actuarial estimates for the Zoo's defined benefit retirement plan, the reported fair values of certain assets and liabilities, as well as the allocation of natural expenses attributable to more than one functional expense category which are allocated using a variety of cost allocation techniques such as square footage and time and effort. Actual results could differ from those estimates.

17. Non-operating Activities

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

18. 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, 2019 and 2018, the benefits in the plan were not fully vested. The benefits liability of approximately $450,000 and $300,000 is included in the statement of financial position in accrued expenses as of February 28, 2019 and 2018, respectively.

19. 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 labor force subject to this collective bargaining agreement is 50%.

20. Recently Issued Accounting Pronouncements

In May 2014, the FASB issued 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, 2018, including interim periods within that reporting period. 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.

(Continued)

NOTE A - SIGNIFICANT ACCOUNTING POLICIES - Continued

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 annual reporting periods beginning after December 15, 2019. 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.

NOTE B - PLEDGES RECEIVABLE

Unconditional promises to give are included as pledges receivable, and related revenue is recorded by net asset category. Included in pledges receivable at February 28, 2019 and 2018 are the following unconditional promises:

	2019	2018
Unconditional promises expected in less than 1 year	$ 1,535,000	$ 1,548,000
Unconditional promises expected between 1-5 years	2,118,000	1,592,000
	3,653,000	3,140,000
Less discount and allowances	(103,000)	(222,000)
Pledges receivable, net	$ 3,550,000	$ 2,918,000

NOTE C - INVESTMENTS

Investments consist of the following at February 28, 2019 and 2018:

	2019		2018	
	Fair value	Cost	Fair value	Cost
Cash and cash equivalents	$ 83,000	$ 83,000	$ 55,000	$ 55,000
Fixed income	14,560,000	14,553,000	13,993,000	14,206,000
Equities	21,945,000	22,408,000	23,538,000	19,088,000
Other	106,000	112,000	168,000	168,000
Investments (endowment)	36,694,000	37,156,000	37,754,000	33,517,000
Fixed income - operating	-	-	1,000,000	1,000,000
Total investments	$ 36,694,000	$ 37,156,000	$ 38,754,000	$ 34,517,000

(Continued)

NOTE C - INVESTMENTS - Continued

Net investment return consists of the following for the years ended February 28, 2019 and 2018:

	2019	2018
Investment income, net - operations	$ 52,000	$ 27,000
Investment income, net - endowment	696,000	872,000
Net realized gain from sales of investments	4,244,000	690,000
Net unrealized (depreciation) appreciation	(4,692,000)	1,974,000
Investment return	$ 300,000	$ 3,563,000
Investment return designated for current operations	$ 1,136,000	$ 977,000
Investment return, less amount designated for current operations	(836,000)	2,586,000
Investment return	$ 300,000	$ 3,563,000

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 donor restricted net assets (a) the original value of gifts donated to the endowment, (b) the original value of subsequent gifts to the endowment, and (c) accumulations to the 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 regarded as "net (depreciation) appreciation" is classified as donor 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 net assets with donor restrictions and a corresponding increase to net assets without donor restrictions. There were no such deficiencies as of February 28, 2019 and 2018.

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 3.5% annual draw for the years ended February 28, 2019 and 2018 based upon the most recent thirteen-quarter average total endowment balance. The Zoo has a two-tiered spending policy within the 3.5% for 2019 and 2018 total endowment draw. First, for donor-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 2019 and 2018 based on the trailing three preceding year-end average balances for restricted donor endowed funds without explicit spending instructions. Then, for board-designated endowments and for restricted donor endowed funds without explicit spending instructions, the annual draw amount is calculated as the difference between the 3.5% for 2019 and 2018 draw from the total endowment less the 5% draw component for restricted endowments.

In addition to the annual draw, the Board approved the use of unrestricted funds of $1,500,000 to fund the costs related to the restaurant project cancellation.

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, 2019	Without donor restrictions	With donor restrictions	Total
Donor-restricted endowment funds	$ -	$ 16,731,000	$ 16,731,000
Board-designated funds	19,963,000	-	19,963,000
	$ 19,963,000	$ 16,731,000	$ 36,694,000
Endowment, February 28, 2018	$ 20,853,000	$ 16,901,000	$ 37,754,000
Investment return			
Investment income	382,000	314,000	696,000
Net realized gains	2,392,000	1,852,000	4,244,000
Net depreciation	(2,632,000)	(2,060,000)	(4,692,000)
	142,000	106,000	248,000
New gifts	-	500,000	500,000
Other	808,000	20,000	828,000
Additional draw	(1,500,000)	-	(1,500,000)
Amount designated for current operations (draw)	(340,000)	(796,000)	(1,136,000)
Endowment, February 28, 2019	$ 19,963,000	$ 16,731,000	$ 36,694,000

There were $4,000 of new gifts receivable to the endowment for the year ended February 28, 2019.

(Continued)

NOTE D - ENDOWMENTS - Continued

February 28, 2018	Without donor restrictions	With donor restrictions	Total
Donor-restricted endowment funds	$ -	$ 16,901,000	$ 16,901,000
Board-designated funds	20,853,000	-	20,853,000
	$ 20,853,000	$ 16,901,000	$ 37,754,000
Endowment, February 28, 2017	$ 19,219,000	$ 15,584,000	$ 34,803,000
Investment return			
Investment income	481,000	391,000	872,000
Net realized gains	380,000	310,000	690,000
Net appreciation	1,099,000	875,000	1,974,000
	1,960,000	1,576,000	3,536,000
New gifts	-	506,000	506,000
Other	(32,000)	-	(32,000)
Amount designated for current operations (draw)	(294,000)	(765,000)	(1,059,000)
Endowment, February 28, 2018	$ 20,853,000	$ 16,901,000	$ 37,754,000

There were $500,000 of new gifts receivable to the endowment for the year ended February 28, 2018.

7. Donor-Restricted Endowment Funds

Donor-restricted endowment funds are as follows at February 28, 2019 and 2018:

	2019	2018
Education or exhibits	$ 7,249,000	$ 7,553,000
Unrestricted income	3,946,000	4,110,000
Staff and development	2,608,000	2,203,000
Exhibits, buildings and equipment	1,211,000	1,262,000
Animal care	899,000	942,000
Special needs guests	548,000	550,000
Education and conservation	270,000	281,000
Donor-restricted endowment funds	$ 16,731,000	$ 16,901,000

(Continued)

NOTE D - ENDOWMENTS - Continued

8. Board-Designated Funds

Board-designated funds are earmarked as follows at February 28, 2019 and 2018:

	2019	2018
Board-designated to function as endowment	$ 13,377,000	$ 15,027,000
Building maintenance funds	5,825,000	5,057,000
Golden Lion Tamarin support	761,000	769,000
Board-designated funds	$ 19,963,000	$ 20,853,000

NOTE E - EXHIBITS, BUILDINGS AND EQUIPMENT

Exhibits, buildings and equipment at February 28, 2019 and 2018 include:

	Estimated life	2019	2018
Exhibits and buildings	10-50 years	$ 161,471,000	$ 156,527,000
Equipment	7-12 years	6,533,000	6,382,000
Information technology	3-7 years	4,512,000	4,422,000
		172,516,000	167,331,000
Less accumulated depreciation		(108,284,000)	(100,803,000)
		64,232,000	66,528,000
Construction in progress		2,452,000	1,493,000
Project cancellation		(1,438,000)	-
Exhibits, buildings and equipment, net		$ 65,246,000	$ 68,021,000

Depreciation expense for the years ended February 28, 2019 and 2018 was $7,481,000 and $7,390,000, 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 $-0- and $31,000 outstanding at February 28, 2019 and 2018, respectively. At February 28, 2019 and 2018, the effective rate of interest was 4.74% and 3.92%, respectively. 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 allowed the Zoo to borrow up to $6,500,000 until October 2016, then $4,500,000 until October 2018, when the line expired. The Zoo has a $2,500,000 working capital line of credit that expires September 30th each year; renewed annually for a one-year extension. The interest rate is LIBOR + 1.75%. At February 28, 2019 and 2018, the rate was 4.24% and 3.42%, respectively. There was no balance outstanding at February 28, 2019 and 2018.

NOTE G - LONG-TERM DEBT

Debt consists of the following at February 28, 2019 and 2018:

	2019	2018
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% (3.92% and 3.07% at February 28, 2019 and 2018, respectively). The interest rate has been fixed on this debt through an interest rate swap at 4.26%. See Note H.	$ 6,415,000	$ 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% (3.69% and 2.23% at February 28, 2019 and 2018, 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 had a put option that allows for the bond to be called in 2019; however, in June 2019, the debt was refinanced with an initial principal balance of $5,215,000. The term of the bond is 10 years and matures on February 1, 2029. Interest expense is charged at 79% of LIBOR plus 1.34%. The interest rate has been fixed on this debt through an interest rate swap at 2.995%. See Note H. The revenue bond now has a put option that allows for the bond to be called in 2026.	5,380,000	5,865,000
	11,795,000	12,412,000
Less: current portion of long-term debt	(647,000)	(618,000)
Less: deferred financing costs	(91,000)	(106,000)
	$ 11,057,000	$ 11,688,000

(Continued)

NOTE G - LONG-TERM DEBT - Continued

The aggregate future maturities of debt are as follows:

Fiscal year ending:	
2020	$ 647,000
2021	664,000
2022	682,000
2023	700,000
2024	718,000
Thereafter	8,371,000
	$ 11,782,000

The aggregate future maturities of debt are reflective of the maturities on the new revenue bond as refinanced in June 2019.

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 $75,000 and $101,000 under the interest rate swap agreements for the fiscal years ended February 28, 2019 and 2018, respectively. The Zoo recorded a liability of $146,000 and $67,000 under the interest rate swap agreements at February 28, 2019 and 2018, 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 - NET ASSETS WITH DONOR RESTRICTIONS - PURPOSE RESTRICTED

Net assets with donor restrictions as purpose restricted are available for the following purposes at February 28, 2019 and 2018:

	2019	2018
Exhibits, buildings and equipment	$ 5,566,000	$ 7,937,000
Education and conservation	715,000	292,000
Other program support	183,000	445,000
Total net assets with donor restrictions	$ 6,464,000	$ 8,674,000

NOTE J - NET ASSETS RELEASED FROM DONOR 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, 2019 and 2018:

	2019	2018
Exhibits, buildings and equipment	$ 4,915,000	$ 750,000
Education and conservation	420,000	119,000
Other program support	385,000	702,000
Total net assets released from restrictions	$ 5,720,000	$ 1,571,000

NOTE K - FINANCIAL ASSETS AND LIQUIDITY RESOURCES

As of February 28, 2019, financial assets and liquidity resources available within one year for general expenditure, such as operating expenses, scheduled principal payments on debt and capital construction costs not financed by debt, were as follows:

Financial assets:	
Cash and cash equivalents	$ 7,295,000
Investments	19,963,000
Accounts receivable, net	707,000
Pledges receivable, net	1,535,000
Prepaid expenses	68,000
Total financial assets available within one year	29,568,000
Less those unavailable for general expenditure within one year, due to:	
Cash and cash equivalents with donor restrictions	(2,716,000)
Pledges with specific restrictions	(1,215,000)
Other assets - prepayments	(68,000)
Board-designated investments	(6,586,000)
Total amounts unavailable for general expenditures within one year	(10,585,000)
Total financial assets and liquidity resources available within one year	$ 18,983,000

In addition, the Zoo has a line of credit of $2,500,000 that expires on September 30th each year, renewed annually for a one-year extension. There was no balance outstanding at February 28, 2019. See Note F.

NOTE L - 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 benefit for the Zoo included the following components for the years ended February 28:

	2019	2018
Interest cost	$ 420,000	$ 423,000
Expected return on plan assets	(650,000)	(705,000)
Net amortization and deferral	206,000	252,000
Net periodic pension benefit in operations	(24,000)	(30,000)
Other changes in benefit obligation included in other (expense) income	361,000	(620,000)
Total recognized net benefit change	$ 337,000	$ (650,000)

Assumptions

Weighted-average assumptions used to determine benefit obligations at February 28:

	2019	2018
Discount rate	4.00%	4.00%
Rate of compensation increase	N/A	N/A

Weighted-average assumptions used to determine net periodic pension benefit at February 28:

	2019	2018
Discount rate	4.00%	4.00%
Expected return on plan assets	7.00%	7.00%
Rate of compensation increase	N/A	N/A

(Continued)

NOTE L - 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, 2019 and 2018:

	2019	2018
Changes in plan assets		
Fair value of plan assets, beginning of year	$ 9,558,000	$ 9,073,000
Actual return on plan assets	91,000	924,000
Benefits paid and expenses	(468,000)	(439,000)
Fair value of plan assets, end of year	$ 9,181,000	$ 9,558,000
Change in projected benefit obligation		
Projected benefit obligation, beginning of year	$ 10,734,000	$ 10,899,000
Interest cost	420,000	423,000
Changes in assumptions	(37,000)	(88,000)
Actuarial gain (loss)	45,000	(61,000)
Benefits paid and expenses	(468,000)	(439,000)
Projected benefit obligation, end of year	$ 10,694,000	$ 10,734,000
Funded status of the plan-accrued pension liability	$ (1,513,000)	$ (1,176,000)

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

The accumulated benefit obligation is $10,694,000 and $10,734,000 at February 28, 2019 and 2018, 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 L - PENSION PLAN - Continued

The Zoo's pension plan weighted-average asset allocations at February 28, 2019 and 2018, by asset category, are as follows:

	2019	2018
Equity securities	50%	50%
Fixed income and short-term securities	50%	50%

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. 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:

2020	$ 533,000
2021	549,000
2022	551,000
2023	560,000
2024	573,000
2025-2029	3,038,000
	$ 5,804,000

Contributions

The Zoo expects to contribute $-0- to the retirement plan for the fiscal year ended February 29, 2020.

NOTE M - COMMITMENTS AND CONTINGENCIES

1. Operating Lease Commitments

The Zoo leases certain equipment under operating leases with lease terms extending through 2024. Rental expense was approximately $173,000 and $127,000 for the years ended February 28, 2019 and 2018, respectively.

Approximate future minimum lease payments as of February 28, 2019, under leases having initial lease terms of more than one year, are:

Year ending:	
2020	$ 70,000
2021	71,000
2022	72,000
2023	69,000
2024	69,000
Total	$ 351,000

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 $2,090,000 and $2,000,000 at February 28, 2019 and 2018, respectively.

NOTE N - 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 N - 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, 2019 and 2018 and indicate the fair value hierarchy of the valuation techniques utilized by the Zoo to determine such fair value.

February 28, 2019	Level 1	Level 2	Level 3	Total
Assets				
Investments (endowment)				
Cash and cash equivalents	$ 83,000	$ -	$ -	$ 83,000
Fixed income	14,560,000	-	-	14,560,000
Equity mutual funds	21,945,000	-	-	21,945,000
Other	106,000	-	-	106,000
Total assets	$ 36,694,000	$ -	$ -	$ 36,694,000
Liabilities				
Interest rate swap	$ -	$ 146,000	$ -	$ 146,000
Total liabilities	$ -	$ 146,000	$ -	$ 146,000

(Continued)

NOTE N - FAIR VALUE MEASUREMENTS - Continued

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
Equity mutual funds	23,538,000	-	-	23,538,000
Other	168,000	-	-	168,000
Investments (operating)				
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

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 years ended February 28, 2019 and 2018, 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 O - NATURAL AND FUNCTIONAL CLASSIFICATION OF EXPENSES

Natural expenses, including salaries, employee benefits and taxes, utilities, insurance, depreciation and amortization, attributable to more than one functional expense category are allocated using a variety of cost allocation techniques such as square footage and time and effort.

Functional expenses by natural classification as of February 28, 2019:

	Program Services					Support Services				
	Animal Care	Education and Conservation	Exhibit and Garden Care	Guest and Member Services	Program Total	Management and Administration	Fundraising and Development	Marketing and Advertising	Support Total	Total Expenses
Salaries, employee benefits and taxes	$ 5,826,000	$ 2,264,000	$ 3,893,000	$ 3,401,000	$ 15,384,000	$ 2,307,000	$ 989,000	$ 271,000	$ 3,567,000	$ 18,951,000
Professional fees and contract services	71,000	4,000	2,373,000	641,000	3,089,000	827,000	584,000	632,000	2,043,000	5,132,000
Occupancy, utilities and maintenance	177,000	85,000	1,707,000	2,190,000	4,159,000	182,000	39,000	78,000	299,000	4,458,000
Supplies, travel and other	384,000	268,000	485,000	844,000	1,981,000	704,000	180,000	140,000	1,024,000	3,005,000
Advertising and promotion	-	2,000	-	625,000	627,000	1,000	36,000	1,165,000	1,202,000	1,829,000
Animal nutrition	566,000	-	-	-	566,000	-	-	-	-	566,000
Grants to other organizations	-	109,000	-	-	109,000	-	1,000	-	1,000	110,000
Depreciation and amortization	146,000	7,000	5,535,000	1,424,000	7,112,000	333,000	26,000	25,000	384,000	7,496,000
Interest	-	-	-	-	-	536,000	-	-	536,000	536,000
Project cancellation	-	-	-	1,438,000	1,438,000	-	-	-	-	1,438,000
Total operating expenses	$ 7,170,000	$ 2,739,000	$ 13,993,000	$ 10,563,000	$ 34,465,000	$ 4,890,000	$ 1,855,000	$ 2,311,000	$ 9,056,000	$ 43,521,000

NOTE P - RELATED PARTY TRANSACTIONS

During the normal course of business, the Zoo purchases various supplies and services from companies associated with members of the Board of Directors, which approximated $3,232,000 and $3,341,000 for the years ended February 28, 2019 and 2018, respectively.

In addition, the Zoo has recorded revenue related to pledges receivable from directors. As of February 28, 2019 and 2018, pledges receivable due from directors amounted to approximately $1,996,000 and $622,000, respectively.

NOTE Q - SUBSEQUENT EVENTS

The Zoo evaluated its February 28, 2019 financial statements for subsequent events through August 28, 2019, 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 disclosed below:

In June 2019, the Zoo refinanced its revenue bond, originally issued on August 10, 2012, with an initial principal balance of $5,215,000. The term of the new bond is 10 years and matures on February 1, 2029. Interest expense is charged at 79% of LIBOR plus 1.34%. In connection with the refinancing, an interest rate swap on the original revenue bond was cancelled and was replaced with an interest rate swap whose terms correspond to those of the new revenue bond. The interest rate has been fixed on this debt through an interest rate swap at 2.995%. The new revenue bond has a put option that allows for the bond to be called in 2026.