

Houston Zoo, Inc.

Financial Statements
and Independent Auditors' Report
for the years ended December 31, 2022 and 2021

Houston Zoo, Inc.

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Independent Auditors' Report

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

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Houston Zoo, Inc., which comprise the statements of financial position as of December 31, 2022 and 2021, and the related statements of activities, of cash flows, and of functional expenses for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Houston Zoo, Inc. as of December 31, 2022 and 2021, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are required to be independent of Houston Zoo, Inc. and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Houston Zoo, Inc.'s ability to continue as a going concern for one year after the date that the financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Houston Zoo, Inc.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Houston Zoo, Inc.'s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Blazek & Vetterling

June 6, 2023

Houston Zoo, Inc.

Statements of Financial Position as of December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
ASSETS		
Cash	\$ 3,872,751	\$ 5,149,656
Accounts receivable	1,075,077	1,121,228
Prepaid insurance and other assets	1,420,577	1,296,020
Operating contributions receivable (Note 3)	2,988,424	2,660,814
Restricted or designated cash	14,292,858	28,791,613
Contributions receivable for <i>Centennial</i> campaign, net (Note 3)	47,959,035	51,662,821
Investments (Notes 4 and 5)	57,661,544	47,599,569
Derivative agreement (Notes 5 and 8)	3,682,004	
Lease right-of-use assets, net (Note 6):		
Finance	400,572	
Operating	71,221	
Property and equipment, net (Note 7)	215,464,811	189,180,956
Animal and horticultural collections (Note 1)		
	<hr/>	<hr/>
TOTAL ASSETS	<u>\$ 348,888,874</u>	<u>\$ 327,462,677</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	\$ 3,155,669	\$ 2,156,698
Construction payable	9,609,121	8,056,910
Accrued salaries and benefit costs	2,226,806	1,969,952
Refundable advances (Note 3)	2,118,314	834,459
Deferred revenue:		
Membership admission fees	3,718,336	3,868,034
Guest program fees	503,639	511,396
Special events	172,789	159,164
Lease liabilities (Note 6):		
Finance	408,290	
Operating	71,221	
Derivative agreement (Notes 5 and 8)		525,185
Notes payable (Note 9)	<u>32,869,542</u>	<u>25,330,832</u>
Total liabilities	<u>54,853,727</u>	<u>43,412,630</u>
Commitments and contingencies (Note 16)		
Net assets (Note 12):		
Without donor restrictions (Note 10)	216,569,675	210,577,483
With donor restrictions (Note 11)	<u>77,465,472</u>	<u>73,472,564</u>
Total net assets	<u>294,035,147</u>	<u>284,050,047</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 348,888,874</u>	<u>\$ 327,462,677</u>

See accompanying notes to financial statements.

Houston Zoo, Inc.

Statement of Activities for the year ended December 31, 2022

	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL
REVENUE:			
Fees and program revenue <i>(Note 13)</i> :			
Admission fees	\$ 18,878,180		\$ 18,878,180
City management fee	10,774,747		10,774,747
Guest program fees	8,019,636		8,019,636
Membership admission fees	7,964,436		7,964,436
Concession contract income	5,192,778		5,192,778
Educational program fees	771,743		771,743
Contributions:			
Government grants <i>(Note 14)</i>		\$ 690,465	690,465
Other contributions	2,990,332	9,900,951	12,891,283
Special events	2,291,817		2,291,817
Cost of benefits provided to donors	(371,753)		(371,753)
Net investment return	(5,921,626)	(1,386,192)	(7,307,818)
Other income	36,926		36,926
Total revenue	<u>50,627,216</u>	<u>9,205,224</u>	<u>59,832,440</u>
Net assets released from restrictions:			
Program expenditures	2,244,357	(2,244,357)	
Capital expenditures	2,138,334	(2,138,334)	
Expiration of time restrictions	829,625	(829,625)	
Total	<u>55,839,532</u>	<u>3,992,908</u>	<u>59,832,440</u>
EXPENSES:			
Zoo programs:			
Exhibition facility operations	22,126,299		22,126,299
Depreciation	9,074,653		9,074,653
Education and conservation programs	5,151,707		5,151,707
Admissions and guest relations	5,067,863		5,067,863
Guest program events	3,277,280		3,277,280
Total zoo programs	44,697,802		44,697,802
Management and general	3,133,946		3,133,946
Fundraising	2,682,358		2,682,358
Advertising and marketing costs	2,195,877		2,195,877
Membership development	1,282,041		1,282,041
Total expenses	<u>53,992,024</u>		<u>53,992,024</u>
CHANGES IN NET ASSETS BEFORE CHANGE IN VALUE OF DERIVATIVE AGREEMENT			
	1,847,508	3,992,908	5,840,416
Change in value of derivative agreement <i>(Note 8)</i>	<u>4,207,189</u>		<u>4,207,189</u>
CHANGES IN NET ASSETS	6,054,697	3,992,908	10,047,605
Net assets, beginning of year	210,577,483	73,472,564	284,050,047
Cumulative effect of new lease accounting standard <i>(Note 6)</i>	<u>(62,505)</u>		<u>(62,505)</u>
Net assets, end of year	<u>\$ 216,569,675</u>	<u>\$ 77,465,472</u>	<u>\$ 294,035,147</u>

See accompanying notes to financial statements.

Houston Zoo, Inc.

Statement of Activities for the year ended December 31, 2021

	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL
REVENUE:			
Fees and program revenue <i>(Note 13)</i> :			
Admission fees	\$ 17,936,166		\$ 17,936,166
City management fee	10,461,221		10,461,221
Guest program fees	8,806,179		8,806,179
Membership admission fees	7,418,011		7,418,011
Concession contract income	5,121,786		5,121,786
Educational program fees	734,356		734,356
Contributions:			
Government grants <i>(Note 14)</i>		\$ 17,461,519	17,461,519
Other contributions	2,817,284	8,741,041	11,558,325
Special events	1,838,432		1,838,432
Cost of benefits provided to donors	(275,399)		(275,399)
Net investment return	1,239,902	880,571	2,120,473
Other income	53,440		53,440
Total revenue	56,151,378	27,083,131	83,234,509
Net assets released from restrictions:			
Program expenditures	19,419,039	(19,419,039)	
Capital expenditures	661,291	(661,291)	
Expiration of time restrictions	1,022,714	(1,022,714)	
Total	77,254,422	5,980,087	83,234,509
EXPENSES:			
Zoo programs:			
Exhibition facility operations	19,788,653		19,788,653
Depreciation	9,399,451		9,399,451
Education and conservation programs	4,166,729		4,166,729
Admissions and guest relations	4,613,191		4,613,191
Guest program events	2,752,523		2,752,523
Total zoo programs	40,720,547		40,720,547
Management and general	2,537,686		2,537,686
Fundraising	1,906,275		1,906,275
Advertising and marketing costs	1,935,833		1,935,833
Membership development	1,315,559		1,315,559
Total expenses	48,415,900		48,415,900
CHANGES IN NET ASSETS BEFORE CHANGE IN VALUE OF DERIVATIVE AGREEMENT	28,838,522	5,980,087	34,818,609
Change in value of derivative agreement <i>(Note 8)</i>	(525,185)		(525,185)
CHANGES IN NET ASSETS	28,313,337	5,980,087	34,293,424
Net assets, beginning of year	182,264,146	67,492,477	249,756,623
Net assets, end of year	\$ 210,577,483	\$ 73,472,564	\$ 284,050,047

See accompanying notes to financial statements.

Houston Zoo, Inc.

Statements of Cash Flows for the years ended December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	\$ 10,047,605	\$ 34,293,424
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation and amortization	9,305,072	9,399,451
Net realized and unrealized (gain) loss on investments	8,985,932	(1,557,362)
Contributions restricted for <i>Centennial</i> campaign	(7,683,174)	(6,969,832)
Contributions restricted for permanent endowment funds		(50)
Change in value of derivative agreement	(4,207,189)	525,185
Changes in operating assets and liabilities:		
Accounts receivable	46,151	(554,756)
Prepaid insurance and other assets	(124,557)	(322,309)
Operating contributions receivable	(327,610)	1,145,361
Accounts payable and accrued expenses	998,971	858,528
Accrued salaries and benefit costs	256,854	686,207
Funds held for others		(60,379)
Refundable advances	1,283,855	834,459
Deferred revenue	(143,830)	(4,680,895)
Operating lease liabilities	(97,076)	
Net cash provided by operating activities	<u>18,341,004</u>	<u>33,597,032</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(33,865,101)	(32,678,913)
Purchases of investments	(32,438,717)	(36,648,976)
Proceeds from sale of investments	13,329,731	17,209,675
Net change in money market mutual funds held as investments	61,079	(739,141)
Net cash used by investing activities	<u>(52,913,008)</u>	<u>(52,857,355)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from contributions restricted for <i>Centennial</i> campaign	11,386,960	10,105,974
Proceeds from notes payable	13,922,869	20,550,664
Principal payments on notes payable	(6,384,159)	(8,470,621)
Principal payments on finance leases payable	(129,326)	
Proceeds from contributions restricted for permanent endowment funds		50
Net cash provided by financing activities	<u>18,796,344</u>	<u>22,186,067</u>
NET CHANGE IN CASH	(15,775,660)	2,925,744
Cash, beginning of year	<u>33,941,269</u>	<u>31,015,525</u>
Cash, end of year	<u>\$ 18,165,609</u>	<u>\$ 33,941,269</u>
<i>Reconciliation of cash:</i>		
Restricted or designated cash	\$ 14,292,858	\$ 28,791,613
Other cash	<u>3,872,751</u>	<u>5,149,656</u>
Total cash	<u>\$ 18,165,609</u>	<u>\$ 33,941,269</u>
<i>Supplemental disclosure of cash flow information:</i>		
Contributions of marketable securities included in operating activities	\$1,722,749	\$1,149,367
Lease right-of-use assets financed by new lease liabilities:		
Finance	\$248,234	
Operating	\$32,930	

See accompanying notes to financial statements.

Houston Zoo, Inc.

Statement of Functional Expenses for the year ended December 31, 2022

	ZOO PROGRAMS	MANAGEMENT AND GENERAL	FUNDRAISING	ADVERTISING AND MARKETING COSTS	MEMBERSHIP DEVELOPMENT	TOTAL
Salaries, related taxes, and benefits	\$ 21,576,520	\$ 2,130,538	\$ 1,737,076	\$ 630,423	\$ 910,264	\$ 26,984,821
Depreciation	9,074,653					9,074,653
Professional fees and contract labor	3,343,979	569,681	290,081	69,557	84,181	4,357,479
Supplies, materials and equipment	3,439,712	80,241	30,331	3,701	17,328	3,571,313
Grants made	3,001,493					3,001,493
Occupancy	1,680,981	2,266	1,220	174	1,220	1,685,861
Advertising and marketing	2,428	305	2,161	1,340,767	143	1,345,804
Information technology	595,966	106,413	73,613	100,016	57,299	933,307
Credit card fees	636,775	10	36,813		165,946	839,544
Insurance	724,113	52,447	21,994	11,843	25,378	835,775
Conferences, conventions, and meetings	210,109	44,388	257,965	2,912	1,981	517,355
Printing and postage	123,262	111,025	204,872	13,242	10,127	462,528
Travel	172,283	6,981	15,972	21,353	4,125	220,714
Other	115,528	29,651	10,260	1,889	4,049	161,377
Total expenses	<u>\$ 44,697,802</u>	<u>\$ 3,133,946</u>	<u>\$ 2,682,358</u>	<u>\$ 2,195,877</u>	<u>\$ 1,282,041</u>	53,992,024
Cost of benefits provided to donors						<u>371,753</u>
Total						<u>\$ 54,363,777</u>

See accompanying notes to financial statements.

Houston Zoo, Inc.

Statement of Functional Expenses for the year ended December 31, 2021

	ZOO PROGRAMS	MANAGEMENT AND GENERAL	FUNDRAISING	ADVERTISING AND MARKETING COSTS	MEMBERSHIP DEVELOPMENT	TOTAL
Salaries, related taxes, and benefits	\$ 19,895,420	\$ 1,761,242	\$ 1,513,375	\$ 589,229	\$ 803,804	\$ 24,563,070
Depreciation	9,399,451					9,399,451
Professional fees and contract labor	3,003,367	551,427	176,941	42,028	169,169	3,942,932
Supplies, materials and equipment	2,594,934	45,336	13,212	3,469	13,319	2,670,270
Grants made	2,356,074					2,356,074
Occupancy	1,438,935	342	184	26	184	1,439,671
Advertising and marketing	11,856	2,006	1,294	1,181,519	1,073	1,197,748
Information technology	478,304	85,333	52,520	77,253	45,948	739,358
Credit card fees	612,635	131	38,112	26	182,202	833,106
Insurance	595,876	46,634	18,999	12,090	25,908	699,507
Conferences, conventions, and meetings	168,131	6,039	72,498	2,007	2,242	250,917
Printing and postage	89,343	29,760	18,686	27,830	71,633	237,252
Travel	76,221		454	356	77	77,108
Other		9,436				9,436
Total expenses	<u>\$ 40,720,547</u>	<u>\$ 2,537,686</u>	<u>\$ 1,906,275</u>	<u>\$ 1,935,833</u>	<u>\$ 1,315,559</u>	48,415,900
Cost of benefits provided to donors						<u>275,399</u>
Total						<u>\$ 48,691,299</u>

See accompanying notes to financial statements.

Houston Zoo, Inc.

Notes to Financial Statements for the years ended December 31, 2022 and 2021

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization – The organization was created by the City of Houston (the City) in April 1922 as a zoo program and facility to benefit the citizens of Houston and surrounding areas. Houston Zoo celebrated its Centennial Year during the fiscal year represented by these audited financial statements.

In 2002, the Houston Zoo was privatized by order of the City and operates as Houston Zoo, Inc. (Houston Zoo), an award-winning AZA-accredited Zoo for All. Recognized as a global model for zoo-based wildlife conservation, Houston Zoo is committed to providing animal experiences and conservation education programs that inspire guests to take action to save wildlife.

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

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

Accounts receivable primarily represent amounts due from a concession contract and is based on amounts that reflect the consideration to which the Houston Zoo expects to be entitled to in exchange for performance obligations already satisfied. The Houston Zoo assesses collectability of concessionaires at contract inception and does not require collateral or provide financing. An allowance for accounts receivable is established when changed circumstances indicate that the balance may no longer be collected in full. The Houston Zoo believes that all accounts receivable at December 31, 2022 will be fully collected. Accordingly, no allowance for doubtful accounts has been provided.

Contributions receivable that are expected to be collected within one year are reported at net realizable value. Amounts expected to be collected in future years are discounted to estimate the present value of future cash flows. Discounts are computed using risk-free interest rates applicable to the years in which the promises are received. Amortization of discounts is included in contribution revenue. An allowance for uncollectible contributions receivable is provided when it is believed balances may not be collected in full. The amount of loss on contributions recognized each period and the resulting adequacy of the allowance at the end of each period are determined using a combination of historical loss experience and individual account-by-account analysis of receivable balances. At December 31, 2022, management has determined that an allowance for uncollectible contributions receivable is not necessary.

Investments are reported at fair value. Net investment return consists of interest and dividends, realized and unrealized gains and losses, net of external and direct internal investment management and custodial expenses. Investment return is reported in the statement of activities as an increase in *net assets without donor restrictions* unless the use of the income is limited by donor-imposed restrictions. Net investment return whose use is restricted by the donor is reported as a change in *net assets with donor restrictions* until expended in accordance with donor-imposed restrictions.

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

Animal and horticultural collections – In accordance with industry practice, the Houston Zoo does not capitalize animal and horticultural collections; acquisitions are reported as expenditures in the period of acquisition. The Houston Zoo is responsible for the health and welfare of its animal and horticultural collections. The Houston Zoo maintains records of its collections and any exchanges with other organizations. Under the direction of the Board of Directors (the Board) of the Houston Zoo, the President, and the curatorial staff, collections continue to be cared for, used, and expanded. In 2022 and 2021, the Houston Zoo expended approximately \$153,000 and \$43,000, respectively, to expand its collections.

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

Deferred City management fee, membership fees and guest program fees result from payments received before the performance obligations are satisfied and are expected to be recognized as revenue in the following year. At December 31, 2022, 2021 and 2020, the deferred City management fee was \$0, \$0 and \$5,203,811, respectively. At December 31, 2022, 2021 and 2020, deferred membership fees are \$3,718,336, \$3,868,034, and \$3,324,528, respectively. At December 31, 2022, 2021 and 2020, deferred guest program fees are \$503,639, \$511,396, and \$524,675, respectively.

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

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

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

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

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

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

Membership admission fees – Membership dues are comprised of an exchange element based on the value of benefits provided, and a contribution element for the difference between the total membership fees paid and the exchange element and are due at the time of purchase. Memberships provide various benefits based on membership level such as admission to the zoo, discounted tickets for admission, special exhibits and events, private tours, discounted facility rentals, discounts at the gift shop and restaurants, and invitations to private events. Membership admission fees represent the fair value of benefits provided to members and are recognized ratably over the annual membership period based on the output method. The fair value of each benefit is based on the expected utilization. Payments for

membership admission fees received for performance obligations not yet satisfied are reported as deferred revenue. The excess of membership dues paid over membership admission fees is recognized upon receipt and is reported with contributions.

The Houston Zoo allows visitors to purchase pre-paid tickets for admission, as well as other guest programs. Pre-paid tickets for admission must be utilized for the reserved day. Payments received for pre-paid tickets are reported as deferred guest program fee revenue until the tickets are utilized.

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

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

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

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

Contributed nonfinancial assets – Contributions of services are recognized when services received (a) create or enhance nonfinancial assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. During 2022, approximately 520 volunteers contributed approximately 32,000 hours in connection with programs. During 2021, approximately 500 volunteers contributed approximately 19,000 hours in connection with programs. No amount has been recorded in the financial statements because the services did not meet the criteria for recognition under generally accepted accounting principles.

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

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

Advertising and marketing costs are expensed as incurred.

Functional allocation of expenses – Expenses are reported by their functional classification. Program services are the direct conduct or supervision of activities that fulfill the purposes for which the organization exists. Fundraising activities include the solicitation of contributions of money, securities, materials, facilities, other assets, and time. Membership development activities include soliciting for prospective members and membership dues, membership relations, and similar activities. Management and general activities are not directly identifiable with specific program

or other supporting activities. Expenses that are attributable to more than one activity are allocated among the activities benefitted. Salaries and related costs are allocated on the basis of estimated time and effort expended. Training, postage and delivery, telephone, fuel, uniforms and insurance are allocated based on employee headcount of each department. Information technology costs are allocated based on estimates of time and costs of specific technology utilized.

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

NOTE 2 – LIQUIDITY AND AVAILABILITY OF RESOURCES

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

	<u>2022</u>	<u>2021</u>
Financial assets:		
Cash	\$ 3,872,751	\$ 5,149,656
Accounts receivable	1,075,077	1,121,228
Operating contributions receivable	2,988,424	2,660,814
Restricted or designated cash	14,292,858	28,791,613
Contributions receivable for <i>Centennial</i> campaign, net	47,959,035	51,662,821
Investments	<u>57,661,544</u>	<u>47,599,569</u>
Total financial assets	127,849,689	136,985,701
Less financial assets not available for general expenditure:		
Donor-restricted for <i>Centennial</i> campaign and capital acquisitions	(48,640,035)	(52,293,821)
Board-designated for strategic operating and capital initiatives	(42,372,399)	(44,444,343)
Board-designated endowment funds	(13,344,506)	(12,728,819)
Board-designated operating reserve	(7,362,579)	(8,754,075)
Donor-restricted endowment funds	(7,310,317)	(8,723,467)
Donor-restricted funds not expected to be used within one year	<u>(3,064,916)</u>	<u>(1,405,006)</u>
Total financial assets available for general expenditure	<u>\$ 5,754,937</u>	<u>\$ 8,636,170</u>

For purposes of analyzing resources available to meet general expenditures over a 12-month period, the Houston Zoo considers all expenditures related to its ongoing activities, as well as the conduct of services undertaken to support those activities other than capital expenditures, to be general expenditures.

As part of the Houston Zoo’s liquidity management, financial assets have been structured to be available as its general expenditures, liabilities, and other obligations become due by maintaining a significant portion of its assets in cash. The Houston Zoo’s Board has designated a portion of its unrestricted resources for endowment and other purposes. These board-designated funds, other than the board-designated maintenance endowment fund, are invested for long-term appreciation and current income, but remain available to be spent at the Board’s discretion. The board-designated maintenance endowment is invested for the long term, but its use is subject to the terms of the contract with HZDC and the City.

NOTE 3 – CONTRIBUTIONS RECEIVABLE

Contributions receivable consist of the following:

	<u>2022</u>	<u>2021</u>
Centennial campaign	\$ 51,515,474	\$ 56,003,759
Government agencies	710,526	609,185
Other	<u>2,277,898</u>	<u>2,051,629</u>
Total contributions receivable	54,503,898	58,664,573
Discount to net present value at 0.17% to 4.22%	<u>(3,556,439)</u>	<u>(4,340,938)</u>
Contributions receivable, net	<u>\$ 50,947,459</u>	<u>\$ 54,323,635</u>

Contributions receivable at December 31, 2022 are expected to be collected as follows:

Receivable in less than one year	\$ 7,744,967
Receivable in one to five years	36,758,931
Receivable in more than five years	<u>10,000,000</u>
Total contributions receivable	<u>\$ 54,503,898</u>

At December 31, 2022, approximately 79% of contributions receivable is due from one foundation. At December 31, 2021, approximately 76% of contributions receivable is due from one foundation.

The Houston Zoo has received conditional contributions contingent upon meeting certain criteria specified by donors or government agencies. These amounts are not recorded in these financial statements as the conditions have not been met. At December 31, 2022, the Houston Zoo has approximately \$1,300,000 in conditional contributions receivable. Refundable advances are recorded for amounts received in advance from those conditional contributions receivable, which totaled \$2,118,314 and \$834,459 at December 31, 2022 and 2021, respectively. At December 31, 2022, the Houston Zoo has approximately \$430,000 of conditional contributions from various government agencies, which have not been recognized in the accompanying financial statements because the conditions have not been met. The Houston Zoo will recognize these contributions as qualifying grant expenditures are incurred and/or performance requirements are met.

NOTE 4 – INVESTMENTS

Investments consist of the following:

	<u>2022</u>	<u>2021</u>
Equity mutual funds	\$ 31,505,089	\$ 18,342,548
U. S. Treasury notes	8,102,257	8,001,187
Fixed-income mutual funds	7,849,037	4,865,186
Corporate bonds and notes	6,201,471	8,654,367
Money market mutual funds	2,097,327	2,158,406
Limited partnership select equity funds	1,906,363	2,195,626
Exchange-traded funds	<u> </u>	<u>3,382,249</u>
Total investments	<u>\$ 57,661,544</u>	<u>\$ 47,599,569</u>

Investments at December 31, 2022 and 2021 are held for the endowment and board-designated operating reserves.

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

NOTE 5 – FAIR VALUE MEASUREMENTS

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

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

Assets measured at fair value at December 31, 2022 are as follows:

	<u>LEVEL 1</u>	<u>LEVEL 2</u>	<u>LEVEL 3</u>	<u>TOTAL</u>
Investments:				
Equity mutual funds:				
Domestic large-cap growth	\$ 22,052,870			\$ 22,052,870
Developed international	9,452,219			9,452,219
U. S. Treasury notes	8,102,257			8,102,257
Fixed-income mutual funds:				
Government bond	4,410,124			4,410,124
Corporate bond	1,287,279			1,287,279
Asset-backed securities	1,088,840			1,088,840
High yield bond	1,062,794			1,062,794
Corporate bonds and notes:				
A-rated		\$ 3,018,856		3,018,856
BAA-rated		2,964,330		2,964,330
Other ratings		218,285		218,285
Money market mutual funds	<u>2,097,327</u>			<u>2,097,327</u>
Investments in the fair value hierarchy	49,553,710	6,201,471		55,755,181
Derivative agreement		<u>3,682,004</u>		<u>3,682,004</u>
Total assets in fair value hierarchy	<u>\$ 49,553,710</u>	<u>\$ 9,883,475</u>	<u>\$ 0</u>	59,437,185
Investments:				
Limited partnership select equity funds measured at net asset value using the practical expedient (a)				<u>1,906,363</u>
Total assets measured at fair value				<u>\$ 61,343,548</u>

Assets measured at fair value at December 31, 2021 are as follows:

	<u>LEVEL 1</u>	<u>LEVEL 2</u>	<u>LEVEL 3</u>	<u>TOTAL</u>
Investments:				
Equity mutual funds:				
Domestic large-cap growth	\$ 11,132,436			\$ 11,132,436
Developed international	7,210,112			7,210,112
U. S. Treasury notes	8,001,187			8,001,187
Fixed-income mutual funds:				
Government bond	1,180,949			1,180,949
Corporate bond	1,310,819			1,310,819
Asset-backed securities	1,129,094			1,129,094
High yield bond	1,195,996			1,195,996
Inflation protected	48,328			48,328
Corporate bonds and notes:				
A-rated		\$ 3,933,488		3,933,488
BAA-rated		4,136,998		4,136,998
Other ratings		583,881		583,881
Money market mutual funds	2,158,406			2,158,406
Exchange-traded funds	<u>3,382,249</u>			<u>3,382,249</u>
Total assets in fair value hierarchy	<u>\$ 36,749,576</u>	<u>\$ 8,654,367</u>	<u>\$ 0</u>	45,403,943
Limited partnership select equity funds measured at net asset value using the practical expedient (a)				<u>2,195,626</u>
Total assets measured at fair value				<u>\$ 47,599,569</u>

Liabilities measured at fair value at December 31, 2021 are as follows:

	<u>LEVEL 1</u>	<u>LEVEL 2</u>	<u>LEVEL 3</u>	<u>TOTAL</u>
Derivative agreement	<u>\$ 0</u>	<u>\$ 525,185</u>	<u>\$ 0</u>	<u>\$ 525,185</u>

- (a) The objective of these funds is to generate long-term growth in assets by investing primarily in equity and equity-related securities. Redemptions are generally allowed quarterly following the lock-up period of at least 12 months. Redemptions shall require no less than 90 days prior written notice, but may be restricted in amount at any given date. The capital available for redemption may be subject to redemption charges and may not include capital attributable to funds participating in illiquid investments. There are no unfunded commitments at December 31, 2022.

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

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

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

NOTE 6 – LEASES

The Houston Zoo adopted Accounting Standards Codification Topic 842, *Leases*, effective January 1, 2021, using a modified retrospective method recognizing the cumulative effect on the date of adoption without restating any prior year amounts or disclosures. A one-time cumulative effect adjustment of \$62,505 was made to beginning net assets for the year ended December 31, 2022. The following accounting policy elections were made in connection with implementation of the new standard:

- *Short-term leases* – The Houston Zoo has elected to not apply the new guidance to leases with terms of 12 months or less. Instead, these leases are recognized as expense on a straight-line basis over the lease term.
- *Discount rates* – The Houston Zoo elected to use its incremental borrowing rate as the discount rate when the rate implicit in a lease is not readily determinable.
- *Lease and non-lease components* – The Houston Zoo elected the practical expedient to choose whether to separate non-lease components from lease components by class of underlying assets or account for them as a single lease component. The Houston Zoo elected not to separate lease and non-lease components for copier leases and elected to separate lease and non-lease components for other leases.

At December 31, 2022, operating lease right-of-use assets and lease liabilities included copiers, storage facility and other equipment. Finance lease right-of-use assets and lease liabilities included vehicles. Right-of-use assets are recognized at the present value of the lease payments at the inception of the lease adjusted, as appropriate, for certain other payments and allowances related to obtaining the lease and placing the asset in service. Finance lease right-of-use assets are amortized on a straight-line basis over the shorter of the estimated useful life of the asset or the lease term. Operating lease right-of-use assets are amortized so that lease costs remain constant over the lease term.

The components of lease costs for the year ended December 31, 2022 are as follows:

Finance lease costs:	
Amortization of right-of-use assets	\$ 133,343
Interest on lease liabilities	13,160
Operating lease costs	102,324
Short-term lease costs	<u>80,893</u>
Total lease costs	<u>\$ 329,720</u>

Lease costs recognized during the year ended December 31, 2021, prior to adoption of the new accounting standard, were \$191,092.

Cash paid for amounts included in the measurement of lease liabilities during the year ended December 31, 2022:

Finance leases:	
Operating cash outflows	\$13,160
Finance cash outflows	\$129,326
Operating leases – operating cash outflows	\$102,324

The weighted-average term and discount rates for both operating and finance leases outstanding as of December 31, 2022:

	<u>OPERATING</u>	<u>FINANCE</u>
Weighted-average remaining lease term	17 months	26 months
Weighted-average discount rate	4.22%	3.79%

Undiscounted cash flows related to operating and finance lease liabilities at December 31, 2022 are as follows:

	<u>OPERATING</u>	<u>FINANCE</u>
2023	\$ 41,895	\$ 163,176
2024	17,302	146,312
2025	15,217	96,967
2026	<u> </u>	<u>20,690</u>
Total undiscounted cash flows	74,414	427,145
Less discount to present value	<u>(3,193)</u>	<u>(18,855)</u>
Total discounted present value of lease liabilities	<u>\$ 71,221</u>	<u>\$ 408,290</u>

NOTE 7 – PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	<u>2022</u>	<u>2021</u>
Leasehold improvements	\$ 202,955,432	\$ 199,607,187
Furniture, fixtures and equipment	17,197,154	15,871,883
Construction in progress	<u>88,330,477</u>	<u>57,747,880</u>
Total property and equipment, at cost	308,483,063	273,226,950
Accumulated depreciation	<u>(93,018,252)</u>	<u>(84,045,994)</u>
Property and equipment, net	<u>\$ 215,464,811</u>	<u>\$ 189,180,956</u>

NOTE 8 – DERIVATIVE AGREEMENT

The Houston Zoo entered into an interest rate swap agreement with a bank that effectively converted its variable rate loan to a fixed rate. The terms of the interest rate swap agreement are as follows:

<u>TERMS</u>	<u>NOTIONAL AMOUNT</u>		<u>FAIR VALUE</u>	
	<u>2022</u>	<u>2021</u>	<u>2022</u>	<u>2021</u>
The Houston Zoo receives 87.4% of LIBOR floating rate plus 0.8611% and pays 2.433%, terminates March 1, 2026.	\$8,487,231	\$2,562,140	\$3,682,004	\$(525,185)

NOTE 9 – NOTES PAYABLE

In September 2019, the Houston Zoo entered into a \$30 million tax-exempt loan agreement with a bank. Proceeds from the loan are being used to finance the construction of a new garage and administration building. The loan bears interest at 87.4% of LIBOR plus 0.8611% (4.32% at December 31, 2022). Interest is due monthly until September 2024 when principal and accrued interest are due monthly. The loan matures in September 2034. The loan is secured by a security interest in the Houston Zoo's gross revenue and certain depository accounts. At December 31, 2022 and 2021, the outstanding principal balance was \$6,620,436 and \$2,319,565, respectively.

In September 2019, the Houston Zoo entered into a line of credit agreement with a bank to borrow up to \$55 million on a revolving basis during the period from September 2019 through September 2024. Proceeds from the line of credit are to be used to finance the construction of the *Centennial* campaign projects. The line of credit bears interest at LIBOR plus 1.20% (5.16% at December 31, 2022). Interest is due monthly until September 2024 when principal and accrued interest are due monthly. The line of credit matures in September 2029. The line of credit is secured by a

security interest in the Houston Zoo’s gross revenue, certain depository accounts, and proceeds from the contributions and pledges related to the *Centennial* campaign. At December 31, 2022 and 2021, the outstanding principal balance was \$26,249,106 and \$23,011,267, respectively.

Principal maturities of notes payable are due as follows:

2024	\$ 1,477,966
2025	3,286,954
2026	3,286,954
Thereafter	<u>24,817,668</u>
Total	<u>\$ 32,869,542</u>

Capitalized interest totaled approximately \$843,000 in 2022 and \$217,000 in 2021. Interest recognized as expense totaled approximately \$9,000 in 2021. The effective interest rate for all loans for fiscal years 2022 and 2021 was 2.79% and 1.17%, respectively.

The Houston Zoo has a \$10,000,000 revolving line of credit with a bank that matured in March 2023. In March 2023, the line of credit was renewed and the maturity date was extended to March 2025. There were no draws during 2022 or 2021 and no amounts outstanding on the line of credit at December 31, 2022 or 2021.

NOTE 10 – NET ASSETS WITHOUT DONOR RESTRICTIONS

Net assets without donor restrictions are comprised of the following:

	<u>2022</u>	<u>2021</u>
Property and equipment, net	\$ 143,197,842	\$ 137,691,739
Zoo operations	10,292,349	6,958,507
Board-designated for strategic operating and capital initiatives	42,372,399	44,444,343
Board-designated operating reserve	7,362,579	8,754,075
Board-designated endowment funds:		
Maintenance	9,175,142	8,372,505
General	<u>4,169,364</u>	<u>4,356,314</u>
Total net assets without donor restrictions	<u>\$ 216,569,675</u>	<u>\$ 210,577,483</u>

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

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

NOTE 11 – NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are restricted as follows:

	<u>2022</u>	<u>2021</u>
Subject to expenditure for specified purpose:		
<i>Centennial</i> campaign	\$ 66,602,342	\$ 61,057,503
Conservation	2,180,263	2,169,984
John P. McGovern Children’s Zoo	681,000	631,000
Animal care	214,437	230,790
Other	<u>85,358</u>	<u>212,940</u>
Total subject to expenditure for specified purpose	<u>69,763,400</u>	<u>64,302,217</u>
Subject to passage of time:		
Contributions receivable that are not restricted by donors, but which are unavailable for expenditures until due	<u>391,755</u>	<u>446,880</u>
Endowments:		
Subject to spending policy and appropriation:		
Jane Block Endowment for the Children’s Zoo	3,671,428	4,365,310
Conservation programs	1,291,811	1,565,162
Clark and Gordon Memorial special event endowment	1,024,042	1,217,586
Zoo Friends education exhibits	425,021	505,347
Martel Lecture Series	193,955	230,612
Fred Maier Beautification Fund	159,930	190,159
Morris Docent Education Award	104,573	124,337
David Roth Animal Care	103,973	124,410
Alban Heiser Conservation Award	69,206	82,875
Carter Education Internship	50,617	60,185
Other	<u>215,761</u>	<u>257,484</u>
Total endowments	<u>7,310,317</u>	<u>8,723,467</u>
Total net assets with donor restrictions	<u>\$ 77,465,472</u>	<u>\$ 73,472,564</u>

NOTE 12 – ENDOWMENT FUNDS

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

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

Donor-restricted endowment net assets are classified as *net assets with donor restrictions* until appropriated in accordance with spending policies and used for the stipulated purpose, if any. The Houston Zoo classifies contributions to an endowment plus any donor-stipulated accumulations as *net assets with donor restrictions* required to be maintained in perpetuity. The unappropriated investment earnings on donor-restricted endowments are classified as *net assets with donor restrictions* accumulated net investment return. The Board has interpreted TUPMIFA as not precluding the Houston Zoo from spending below the amount required to be maintained in perpetuity subject to prudent standards. An endowment fund is *underwater* if the fair value of the fund’s investments falls below the amount required to be maintained in perpetuity because of declines in the fair value of investments and/or continued appropriation and spending in accordance with prudent measures. There were no underwater funds at December 31, 2022 and 2021.

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

Investment Objectives

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

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

Spending Policy

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

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

Changes in endowment net assets are as follows:

	BOARD- DESIGNATED ENDOWMENT	WITH DONOR RESTRICTIONS		TOTAL
		ACCUMULATED NET INVESTMENT RETURN	REQUIRED TO BE MAINTAINED IN PERPETUITY	
Endowment net assets, December 31, 2020	\$ 9,562,467	\$ 4,233,355	\$ 3,637,491	\$ 17,433,313
Contributions/transfers	2,329,949		50	2,329,999
Net investment return	1,233,872	876,401	4,170	2,114,443
Distributions	<u>(397,469)</u>	<u>(28,000)</u>		<u>(425,469)</u>
Endowment net assets, December 31, 2021	12,728,819	5,081,756	3,641,711	21,452,286
Contributions/transfers	3,620,483			3,620,483
Net investment return	(2,497,296)	(1,379,605)	(6,587)	(3,883,488)
Distributions	<u>(507,500)</u>	<u>(26,958)</u>		<u>(534,458)</u>
Endowment net assets, December 31, 2022	<u>\$ 13,344,506</u>	<u>\$ 3,675,193</u>	<u>\$ 3,635,124</u>	<u>\$ 20,654,823</u>

NOTE 13 – FEES AND PROGRAM REVENUE

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

	<u>2022</u>		
	<u>OVER TIME</u>	<u>POINT-IN-TIME</u>	<u>TOTAL</u>
Admission fees		\$ 18,878,180	\$ 18,878,180
City management fee	\$ 10,774,747		10,774,747
Guest program fees		8,019,636	8,019,636
Membership admission fees	7,964,436		7,964,436
Concession contract income	5,192,778		5,192,778
Educational program fees	<u>678,662</u>	<u>93,081</u>	<u>771,743</u>
Total	<u>\$ 24,610,623</u>	<u>\$ 26,990,897</u>	<u>\$ 51,601,520</u>
	<u>2021</u>		
	<u>OVER TIME</u>	<u>POINT-IN-TIME</u>	<u>TOTAL</u>
Admission fees		\$ 17,936,166	\$ 17,936,166
City management fee	\$ 10,461,221		10,461,221
Guest program fees		8,806,179	8,806,179
Membership admission fees	7,418,011		7,418,011
Concession contract income	5,121,786		5,121,786
Educational program fees	<u>603,891</u>	<u>130,465</u>	<u>734,356</u>
Total	<u>\$ 23,604,909</u>	<u>\$ 26,872,810</u>	<u>\$ 50,477,719</u>

NOTE 14 – GOVERNMENT GRANTS

Government grant revenue includes the following:

	<u>2022</u>	<u>2021</u>
U. S. Fish and Wildlife Service	\$ 589,124	\$ 96,849
Institute of Museum and Library Services	101,341	148,659
U. S. Small Business Administration:		
Shuttered Venue Operators Grant Program		10,000,000
Employee Retention Credit grant		<u>7,216,011</u>
Total government grants	<u>\$ 690,465</u>	<u>\$ 17,461,519</u>

The Houston Zoo's government grants require fulfillment of certain conditions as set forth in the grant contracts and are subject to review and audit by the awarding agencies. Such reviews and audits could result in the discovery of unallowable activities and unallowable costs. Consequently, any of the funding sources may, at their discretion, request reimbursement for expenses or return of funds as a result of non-compliance by the Houston Zoo with the terms of the contracts. Management believes such disallowances, if any, would not be material to the Houston Zoo's financial position or changes in net assets.

NOTE 15 – RETIREMENT PLAN

The Houston Zoo's retirement savings plan is qualified under §401(k) of the Internal Revenue Code. The plan allows eligible employees to contribute a portion of their earnings each plan year subject to certain Internal Revenue Service limitations and to defer federal income taxes on the contributions. The Houston Zoo matches 100% of the first 3% of

employee contributions and matches 50% of contributions from 3% to 5%. The employee is immediately 100% vested in the employer's contributions. The Houston Zoo contributed approximately \$718,000 and \$332,000 to the plan during 2022 and 2021, respectively.

NOTE 16 – COMMITMENTS

As of December 31, 2022, the Houston Zoo has entered into various construction commitments totaling approximately \$159.3 million. The unrecognized balance of these commitments at December 31, 2022 was approximately \$32.2 million.

NOTE 17 – SUBSEQUENT EVENTS

Subsequent to year end, the Houston Zoo borrowed approximately \$8.8 million from its \$30 million loan agreement to finance construction costs. In addition, the Houston Zoo made principal payments of approximately \$14.8 million on its \$55 million revolving line of credit.

Management has evaluated subsequent events through June 6, 2023, which is the date that the financial statements were available for issuance. As a result of this evaluation, no events other than as disclosed above and in Note 9, were identified that are required to be disclosed or would have a material impact on reported net assets or changes in net assets.
