

**EAST BAY ZOOLOGICAL
SOCIETY**

**FINANCIAL STATEMENTS WITH
INDEPENDENT AUDITOR'S REPORT**

**YEARS ENDED
SEPTEMBER 30, 2015 AND 2014**

INDEPENDENT AUDITOR'S REPORT

**Board of Directors
East Bay Zoological Society
Oakland, California**

We have audited the accompanying financial statements of East Bay Zoological Society (Society), which comprise the statements of financial position as of September 30, 2015 and 2014, and the related statements of activities and of cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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 entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of East Bay Zoological Society as of September 30, 2015 and 2014, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

A handwritten signature in cursive script that reads "Gilbert Associates, Inc.".

GILBERT ASSOCIATES, INC.
Sacramento, California

February 22, 2016

EAST BAY ZOOLOGICAL SOCIETY

STATEMENTS OF FINANCIAL POSITION SEPTEMBER 30, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 13,153,855	\$ 9,618,923
Inventories	142,955	173,507
Prepaid expenses and other	424,074	453,300
Bond proceeds receivable	180,034	81,734
Current portion of pledges receivable	<u>12,425,387</u>	<u>1,505,170</u>
Total current assets	26,326,305	11,832,634
NON-CURRENT ASSETS:		
Pledges receivable, Net	4,319,508	871,804
Investments	1,150,065	1,148,340
Charitable remainder trust asset	91,280	
Property and equipment, Net	<u>38,552,966</u>	<u>38,112,073</u>
TOTAL ASSETS	<u>\$ 70,440,124</u>	<u>\$ 51,964,851</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable	\$ 664,126	\$ 343,891
Accrued liabilities	690,830	880,672
Deferred revenue and unearned rental income	<u>1,510,171</u>	<u>1,566,318</u>
Total liabilities	<u>2,865,127</u>	<u>2,790,881</u>
NET ASSETS:		
Unrestricted	43,134,680	41,168,802
Temporarily restricted	<u>24,440,317</u>	<u>8,005,168</u>
Total net assets	<u>67,574,997</u>	<u>49,173,970</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 70,440,124</u>	<u>\$ 51,964,851</u>

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

EAST BAY ZOOLOGICAL SOCIETY

STATEMENTS OF ACTIVITIES (Page 1 of 2) YEARS ENDED SEPTEMBER 30, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
UNRESTRICTED NET ASSETS:		
REVENUES AND SUPPORT:		
Program revenues:		
Operating revenue	\$ 6,296,675	\$ 5,762,603
Concessions	4,387,591	4,010,275
Membership revenue	2,018,343	2,009,251
Education	762,487	671,956
Special events	602,239	582,017
Total program revenue	<u>14,067,335</u>	<u>13,036,102</u>
Other support:		
Government funding	1,829,582	1,660,215
Contributions	448,050	336,505
Miscellaneous income	72,348	44,241
Investment income	12,840	4,098
Satisfaction of restrictions - operations	563,065	657,614
Total other support	<u>2,925,885</u>	<u>2,702,673</u>
Total revenue and support	<u>16,993,220</u>	<u>15,738,775</u>
OPERATING EXPENSES:		
Program services:		
Operations	4,025,146	3,969,023
Animal management	3,661,952	3,643,502
Concessions	2,284,214	2,013,592
Education	1,458,685	1,205,223
Special events	316,436	319,039
Depreciation	1,978,981	1,864,419
Total program services	<u>13,725,414</u>	<u>13,014,798</u>
Supporting services:		
Marketing and public relations	645,737	524,108
Fund development	688,016	420,837
Capital campaign fundraising	113,627	268,506
Administration	1,920,186	1,816,496
Depreciation	259,685	321,301
Total supporting services	<u>3,627,251</u>	<u>3,351,248</u>
Total operating expenses	<u>17,352,665</u>	<u>16,366,046</u>
NET LOSS FROM OPERATIONS	(359,445)	(627,271)

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

EAST BAY ZOOLOGICAL SOCIETY

STATEMENTS OF ACTIVITIES (Page 2 of 2) YEARS ENDED SEPTEMBER 30, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
Donated materials and services revenue	\$ 233,234	\$ 227,127
Donated materials and services expense	(233,234)	(227,127)
Bond proceeds from City of Oakland - capital projects	1,905,225	3,080,231
Satisfaction of restrictions - capital projects	<u>420,098</u>	<u>593,960</u>
INCREASE IN UNRESTRICTED NET ASSETS	<u>1,965,878</u>	<u>3,046,920</u>
TEMPORARILY RESTRICTED NET ASSETS:		
Contributions	17,497,486	2,441,013
Provision for doubtful pledges receivable	(79,174)	(16,540)
Satisfaction of restrictions - operations	(563,065)	(657,614)
Satisfaction of restrictions - capital projects	<u>(420,098)</u>	<u>(593,960)</u>
INCREASE IN TEMPORARILY RESTRICTED NET ASSETS	<u>16,435,149</u>	<u>1,172,899</u>
INCREASE IN NET ASSETS	18,401,027	4,219,819
NET ASSETS, Beginning of Year	<u>49,173,970</u>	<u>44,954,151</u>
NET ASSETS, End of Year	<u>\$ 67,574,997</u>	<u>\$ 49,173,970</u>

EAST BAY ZOOLOGICAL SOCIETY

STATEMENTS OF CASH FLOWS YEARS ENDED SEPTEMBER 30, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase in net assets	\$ 18,401,027	\$ 4,219,819
Reconciliation to net cash provided by operating activities:		
Depreciation	2,238,666	2,185,720
Receipt of donated investments	(524,039)	(24,017)
Provision for doubtful pledges receivable	79,174	16,540
Changes in:		
Inventories	30,552	(12,071)
Prepaid expenses and other	29,226	(27,024)
Grants receivable		299,797
Bond proceeds receivable	(98,300)	(81,734)
Pledges receivable	(14,447,095)	1,248,578
Charitable remainder trust asset	(91,280)	
Accounts payable	127,901	(117,405)
Accrued liabilities	(189,842)	32,016
Deferred revenue and unearned rental income	(56,147)	37,069
Net cash provided by operating activities	<u>5,499,843</u>	<u>7,777,288</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investments	(1,725)	(183,478)
Proceeds from sale and maturities of investments		1,065,126
Purchases of property and equipment	<u>(2,487,225)</u>	<u>(4,065,476)</u>
Net cash used by investing activities	<u>(2,488,950)</u>	<u>(3,183,828)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from sale of donor restricted investments	524,039	24,017
Principal payments on loan payable		<u>(449,340)</u>
Net cash provided (used) by financing activities	<u>524,039</u>	<u>(425,323)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	3,534,932	4,168,137
CASH AND CASH EQUIVALENTS, Beginning of Year	<u>9,618,923</u>	<u>5,450,786</u>
CASH AND CASH EQUIVALENTS, End of Year	<u>\$ 13,153,855</u>	<u>\$ 9,618,923</u>
NON-CASH INVESTING ACTIVITIES:		
Property and equipment financed through accounts payable	<u>\$ 192,334</u>	<u>\$ 96,336</u>

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

EAST BAY ZOOLOGICAL SOCIETY

NOTES TO FINANCIAL STATEMENTS SEPTEMBER 30, 2015 AND 2014

1. OPERATIONS AND AGREEMENT WITH THE CITY OF OAKLAND

The East Bay Zoological Society (Society) is a nonprofit public benefit corporation formed to operate a zoo and related facilities in Knowland Park within the City of Oakland.

In addition to providing exhibits and compounds for animals, birds, and reptiles, the Society provides a variety of educational programs through facilities, which include the Education and Science Center, its Zoomobile program and other educational studies. The Society also has available amusement and recreation equipment, structures and grounds, including picnic areas, to supplement its zoological exhibits.

The Society and the City of Oakland (City) have a management agreement for the Oakland Zoo and Knowland Park (Zoo and Park). Under the agreement, the Society has the exclusive right to maintain, operate, and control the zoological and botanical gardens and park areas in Knowland Park. The City retains ownership of the Zoo grounds real property, animal collection, and certain other fixed assets. The current management agreement expires on October 31, 2039.

In consideration for operating the Zoo and Park, the City provided \$485,905 to the Society in management fees during 2015 and 2014.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation – The financial statements are presented in conformity with professional standards applicable to not-for-profit entities. Under professional standards, the Society reports information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted. The Society has no permanently restricted net assets.

Revenue recognition – Revenues from grants and bond proceeds are recognized when qualifying expenses are incurred. Membership revenue is recognized over the term of the membership, typically one year. Education and special event revenue is recognized when the related event occurs.

Contributions are recognized in full when received or unconditionally pledged, in accordance with professional standards. All contributions are considered available for unrestricted use unless specifically restricted by donors for future periods or specific purposes. Donor-restricted amounts are reported as increases in temporarily or permanently restricted net assets. Temporarily restricted net assets become unrestricted, and are reported in the statement of activities as satisfaction of restrictions, when the time restrictions expire or the contributions are used for the restricted purposes.

Donated materials, equipment, and professional services are recorded as in-kind donations and recognized at the estimated fair value as of the date of donation or service. Contributed services that do not meet the criteria for recognition under professional standards are not reflected in the financial statements.

EAST BAY ZOOLOGICAL SOCIETY

NOTES TO FINANCIAL STATEMENTS SEPTEMBER 30, 2015 AND 2014

Cash and cash equivalents – For financial statement purposes, the Society considers all investments with a maturity at purchase of three months or less to be cash equivalents, unless held for long-term investing purposes.

Designated net assets – A portion of the Society's unrestricted net assets have been designated by its Board of Directors for costs relating to its California Trail project. Unrestricted net assets designated for the California Trail project totaled \$2,000,000 and \$1,300,000 as of September 30, 2015 and 2014, respectively.

Investments consist of money market funds held for long-term investing purposes and are stated at fair market value. Investments are included in Level 1 of the fair value hierarchy as they are based on quoted prices in active markets.

Inventories – Food inventories are valued at the lower of cost or market, computed on the first-in, first-out basis. Gift shop merchandise inventories are valued using the weighted-average cost method.

Property and equipment are recorded at cost and depreciated using the straight-line method over estimated useful lives of 3 to 60 years. The Society's policy is to capitalize such items with a cost of \$5,000 or more. Property and equipment represent costs the Society has incurred purchasing, building, and improving exhibits on the premises of the Zoo and includes the value of the collection of animals purchased by the Society. These assets would become the property of the City of Oakland should the City and the Society terminate their agreement.

Functional expenses – The costs of providing the program and supporting services have been summarized on a functional basis in the statements of activities. Certain costs have been allocated to program services based on estimates of employees' time incurred and usage of resources.

Income taxes – The Society is publicly supported and exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code but is subject to income taxes from activities unrelated to its tax-exempt purpose. The Society has applied the accounting principles related to accounting for uncertainty in income taxes and has determined that there is no material impact on the financial statements. With some exceptions, the Society is no longer subject to U.S. federal and state income tax examinations by tax authorities for years prior to 2011.

Use of estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

EAST BAY ZOOLOGICAL SOCIETY

NOTES TO FINANCIAL STATEMENTS SEPTEMBER 30, 2015 AND 2014

Fair value measurements – Fair value is a market-based measurement, not an entity-specific measurement. For some assets and liabilities, observable market transactions or market information might be available. For other assets and liabilities, observable market transactions and market information might not be available. However, the objective of a fair value measurement in both cases is the same – to estimate the price at which an orderly transaction to sell the asset or to transfer the liability would take place between market participants at the measurement date under current market conditions (that is, an exit price at the measurement date from the perspective of a market participant that holds the asset or owes the liability). In order to increase consistency and comparability in fair value measurements, a fair value hierarchy that prioritizes observable and unobservable inputs is used to measure fair value into three broad levels, as follows:

Level 1 Inputs	Unadjusted quoted prices in active markets that are accessible at the measurement date for identical assets or liabilities.
Level 2 Inputs	Inputs other than quoted prices in active markets that are observable either directly or indirectly.
Level 3 Inputs	Unobservable inputs for the asset or liability.

Subsequent events have been reviewed through February 22, 2016, the date the financial statements were available to be issued. Management concluded that no material subsequent events have occurred since September 30, 2015 that require recognition or disclosure in the financial statements.

3. PLEDGES RECEIVABLE

The Society recognizes pledges receivable at their estimated fair value, on a nonrecurring basis, at the time the pledge is made. Fair value is determined by calculating the net present value of the estimated future cash flows and is included within level 3 of the fair value hierarchy because determination of the net present value of future cash flows is based on little or no market data and requires management to develop their own assumptions. The discount rates used in determining the net present value of pledges receivable at September 30, 2015 and 2014 ranged from 1.33% to 4.2%.

Pledges receivable consist of the following:

	<u>2015</u>	<u>2014</u>
Gross pledges receivable	\$ 16,951,493	\$ 2,482,770
Less: Unamortized discount	(112,174)	(40,157)
Less: Reserve for uncollectible pledges	<u>(94,424)</u>	<u>(65,639)</u>
Pledges receivable, net	<u>\$ 16,744,895</u>	<u>\$ 2,376,974</u>

EAST BAY ZOOLOGICAL SOCIETY

NOTES TO FINANCIAL STATEMENTS SEPTEMBER 30, 2015 AND 2014

Pledges receivable are due to be collected as follows:

	<u>2015</u>	<u>2014</u>
Within one year	\$ 12,425,387	\$ 1,505,170
In one to five years	<u>4,319,508</u>	<u>871,804</u>
Pledges receivable, net	<u>\$ 16,744,895</u>	<u>\$ 2,376,974</u>

Approximately 89% of the Society's pledges receivable is from one donor as of September 30, 2015 and approximately 85% of the Society's pledges receivable are from four donors as of September 30, 2014.

4. CHARITABLE REMAINDER TRUST ASSET

Charitable remainder trust asset reflects the estimated fair value of an irrevocable charitable trust, held by a third-party trustee, for which the Society is a remainder beneficiary. The trust agreement provides annual payments to a designated lead beneficiary equaling 8% of trust net assets. The fair value of the charitable remainder trust asset is measured on a recurring basis and was determined using an investment return consistent with the composition of the asset portfolio, life expectancy of the lead beneficiary, and a discount rate of 3.0% at September 30, 2015. The charitable remainder trust asset is classified within Level 3 of the fair value hierarchy because determination of the present value of future cash flows is based on little or no market data and requires management to develop their own assumptions.

5. PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	<u>2015</u>	<u>2014</u>
Buildings and structures	\$ 48,859,216	\$ 49,453,624
Construction in progress	11,270,854	9,062,635
Land improvements	4,621,698	4,570,754
Equipment	3,822,222	3,681,059
Vehicles	453,884	448,286
Furniture and fixtures	210,070	289,043
Zoological collection	<u>202,706</u>	<u>202,706</u>
Total	69,440,650	67,708,107
Less accumulated depreciation	<u>(30,887,684)</u>	<u>(29,596,034)</u>
Total	<u>\$ 38,552,966</u>	<u>\$ 38,112,073</u>

EAST BAY ZOOLOGICAL SOCIETY

NOTES TO FINANCIAL STATEMENTS SEPTEMBER 30, 2015 AND 2014

6. DONATED MATERIALS AND SERVICES

The Society received donated materials and services, which were used for the following activities:

	<u>2015</u>	<u>2014</u>
Marketing and public relations	\$ 224,998	\$ 219,828
Animal management	4,608	4,750
Fund development	3,445	1,130
Education	183	879
Operations	<u> </u>	<u>540</u>
Total donated materials and services	<u>\$ 233,234</u>	<u>\$ 227,127</u>

Management estimates that approximately 2% and 3% of donated materials and services expense relates to program services and 98% and 97% to supporting services for 2015 and 2014, respectively.

7. NET ASSETS

Temporarily restricted net assets are available for the following purposes:

	<u>2015</u>	<u>2014</u>
California Trail	\$ 24,205,652	\$ 7,882,952
Other projects	143,385	122,216
Time restricted (Charitable remainder trust asset)	<u>91,280</u>	<u> </u>
Total	<u>\$ 24,440,317</u>	<u>\$ 8,005,168</u>

8. EMPLOYEES' INCENTIVE PLAN

The Society sponsors a retirement plan under Internal Revenue Code 403(b). Employees over the age of 21 are eligible to participate once they have completed six months of service. The Society makes matching contributions to the plan up to three percent of the participant's compensation. Employer matching and discretionary contributions vest immediately upon employee participation. The Society's contributions to this plan amounted to \$127,319 and \$121,058 during 2015 and 2014, respectively.

EAST BAY ZOOLOGICAL SOCIETY

NOTES TO FINANCIAL STATEMENTS SEPTEMBER 30, 2015 AND 2014

9. LINES OF CREDIT

The Society has a line of credit agreement with a bank to borrow up to \$10,000,000. The line of credit carries a variable interest rate equal to the prime rate as published in the Wall Street Journal plus 1.00%, with a floor of 4.25%. Interest payments on borrowings are due monthly and the principal and any unpaid interest are due and payable on June 30, 2022. There was no outstanding balance on this line of credit as of September 30, 2015 and 2014.

The Society has an additional line of credit agreement with a bank to borrow up to \$750,000. The line of credit carries a variable interest rate equal to the prime rate as published in the Wall Street Journal plus 0.50%, with a floor of 4.25%. Interest payments on borrowings are due monthly and the principal and any unpaid interest are due and payable on April 3, 2016. There was no outstanding balance on this line of credit as of September 30, 2015 and 2014.

10. CONCENTRATIONS OF CASH

The Society maintains its cash in bank deposit accounts that, at times, may exceed federally insured limits. The Society has not experienced any losses in such accounts. Management believes the Society is not exposed to any significant credit risk related to cash.