

**EAST BAY ZOOLOGICAL  
SOCIETY**

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

**YEARS ENDED  
SEPTEMBER 30, 2016 AND 2015**

## **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, 2016 and 2015, 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, 2016 and 2015, 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 black ink that reads "Gilbert Associates, Inc." in a cursive script.

**GILBERT ASSOCIATES, INC.**  
**Sacramento, California**

**February 7, 2017**

# EAST BAY ZOOLOGICAL SOCIETY

## STATEMENTS OF FINANCIAL POSITION SEPTEMBER 30, 2016 AND 2015

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	<u>2016</u>	<u>2015</u>
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 13,867,637	\$ 13,153,855
Inventories	174,949	142,955
Prepaid expenses and other	300,073	424,074
Bond proceeds receivable		180,034
Current portion of grants receivable	648,761	
Current portion of pledges receivable	<u>8,530,911</u>	<u>12,425,387</u>
Total current assets	23,522,331	26,326,305
<b>NON-CURRENT ASSETS:</b>		
Grants receivable, Net	1,400,000	
Pledges receivable, Net	801,045	4,319,508
Investments	1,151,780	1,150,065
Charitable remainder trust asset	91,701	91,280
Property and equipment, Net	<u>62,662,788</u>	<u>38,552,966</u>
<b>TOTAL ASSETS</b>	<u>\$ 89,629,645</u>	<u>\$ 70,440,124</u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable	\$ 3,589,100	\$ 664,126
Accrued liabilities	743,835	690,830
Deferred revenue and unearned rental income	<u>1,788,156</u>	<u>1,510,171</u>
Total liabilities	<u>6,121,091</u>	<u>2,865,127</u>
<b>NET ASSETS:</b>		
Unrestricted	68,095,691	43,134,680
Temporarily restricted	<u>15,412,863</u>	<u>24,440,317</u>
Total net assets	<u>83,508,554</u>	<u>67,574,997</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 89,629,645</u>	<u>\$ 70,440,124</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, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
<b>UNRESTRICTED NET ASSETS:</b>		
<b>REVENUES AND SUPPORT:</b>		
Program revenues:		
Operating revenue	\$ 6,357,560	\$ 6,296,675
Concessions	4,464,256	4,387,591
Membership revenue	2,307,316	2,018,343
Education	865,145	762,487
Special events	<u>542,926</u>	<u>602,239</u>
Total program revenue	<u>14,537,203</u>	<u>14,067,335</u>
Other support:		
Government funding	1,934,857	1,829,582
Contributions	425,229	448,050
Investment income	23,165	12,840
Miscellaneous income	17,276	72,348
Satisfaction of restrictions - operations	<u>565,088</u>	<u>563,065</u>
Total other support	<u>2,965,615</u>	<u>2,925,885</u>
Total revenue and support	<u>17,502,818</u>	<u>16,993,220</u>
<b>OPERATING EXPENSES:</b>		
Program services:		
Operations	4,250,755	4,025,146
Animal management	4,064,764	3,661,952
Concessions	2,422,596	2,284,214
Depreciation	1,994,752	1,978,981
Education	1,460,539	1,458,685
Special events	<u>335,781</u>	<u>316,436</u>
Total program services	<u>14,529,187</u>	<u>13,725,414</u>
Supporting services:		
Administration	2,124,573	1,920,186
Marketing and public relations	711,507	645,737
Fund development	676,668	688,016
Depreciation	261,755	259,685
Capital campaign fundraising	<u>33,343</u>	<u>113,627</u>
Total supporting services	<u>3,807,846</u>	<u>3,627,251</u>
Total operating expenses	<u>18,337,033</u>	<u>17,352,665</u>
<b>NET LOSS FROM OPERATIONS</b>	(834,215)	(359,445)

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, 2016 AND 2015

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	<u>2016</u>	<u>2015</u>
Donated materials and services revenue	\$ 322,094	\$ 233,234
Donated materials and services expense	(322,094)	(233,234)
Bond proceeds from City of Oakland - capital projects	1,104,222	1,905,225
Grant revenue - capital projects	10,243,807	
Satisfaction of restrictions - capital projects	<u>14,447,197</u>	<u>420,098</u>
<b>INCREASE IN UNRESTRICTED NET ASSETS</b>	<u>24,961,011</u>	<u>1,965,878</u>
<b>TEMPORARILY RESTRICTED NET ASSETS:</b>		
Contributions	5,971,140	17,497,486
Provision for doubtful pledges receivable	13,691	(79,174)
Satisfaction of restrictions - operations	(565,088)	(563,065)
Satisfaction of restrictions - capital projects	<u>(14,447,197)</u>	<u>(420,098)</u>
<b>INCREASE (DECREASE) IN TEMPORARILY RESTRICTED NET ASSETS</b>	<u>(9,027,454)</u>	<u>16,435,149</u>
<b>INCREASE IN NET ASSETS</b>	15,933,557	18,401,027
<b>NET ASSETS, Beginning of Year</b>	<u>67,574,997</u>	<u>49,173,970</u>
<b>NET ASSETS, End of Year</b>	<u>\$ 83,508,554</u>	<u>\$ 67,574,997</u>

# EAST BAY ZOOLOGICAL SOCIETY

## STATEMENTS OF CASH FLOWS YEARS ENDED SEPTEMBER 30, 2016 AND 2015

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	<u>2016</u>	<u>2015</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Increase in net assets	\$ 15,933,557	\$ 18,401,027
Reconciliation to net cash provided by operating activities:		
Depreciation	2,256,507	2,238,666
Receipt of donated investments	(98,301)	(524,039)
Provision for doubtful pledges receivable	(13,691)	79,174
Changes in:		
Inventories	(31,994)	30,552
Prepaid expenses and other	124,001	29,226
Bond proceeds receivable	180,034	(98,300)
Grants receivable	(2,048,761)	
Pledges receivable	7,426,630	(14,447,095)
Charitable remainder trust asset	(421)	(91,280)
Accounts payable	(20,692)	127,901
Accrued liabilities	53,005	(189,842)
Deferred revenue and unearned rental income	277,985	(56,147)
Net cash provided by operating activities	<u>24,037,859</u>	<u>5,499,843</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchases of investments	(1,715)	(1,725)
Purchases of property and equipment	<u>(23,420,663)</u>	<u>(2,487,225)</u>
Net cash used by investing activities	<u>(23,422,378)</u>	<u>(2,488,950)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from sale of donor restricted investments	<u>98,301</u>	<u>524,039</u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	713,782	3,534,932
<b>CASH AND CASH EQUIVALENTS, Beginning of Year</b>	<u>13,153,855</u>	<u>9,618,923</u>
<b>CASH AND CASH EQUIVALENTS, End of Year</b>	<u>\$ 13,867,637</u>	<u>\$ 13,153,855</u>
<b>NON-CASH INVESTING ACTIVITIES:</b>		
Property and equipment financed through accounts payable	<u>\$ 2,945,666</u>	<u>\$ 192,334</u>

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

# EAST BAY ZOOLOGICAL SOCIETY

## NOTES TO FINANCIAL STATEMENTS SEPTEMBER 30, SEPTEMBER 30, 2016 AND 2015

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### 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 \$364,429 and \$485,905 to the Society in management fees during 2016 and 2015, respectively.

### 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, SEPTEMBER 30, 2016 AND 2015

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**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. 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.

**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 \$3,500,000 and \$2,000,000 as of September 30, 2016 and 2015, 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.

**Grants receivable** at September 30, 2016 represent amounts expended by the Society under capital project grants with the California Department of Parks and Recreation and the East Bay Regional Park District that are scheduled for repayment upon completion of the applicable capital projects. The Society estimates \$648,761 will be collected within one year and \$1,400,000 will be collected during 2018.

**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 2012.

**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, SEPTEMBER 30, 2016 AND 2015

**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 7, 2017, the date the financial statements were available to be issued.

### 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. The discount rates used in determining the net present value of pledges receivable at September 30, 2016 and 2015 ranged from 1.33% to 3%.

Pledges receivable consist of the following:

	<u>2016</u>	<u>2015</u>
Gross pledges receivable	\$ 9,440,723	\$ 16,951,493
Less: Unamortized discount	(32,614)	(112,174)
Less: Reserve for uncollectible pledges	<u>(76,153)</u>	<u>(94,424)</u>
Pledges receivable, net	<u>\$ 9,331,956</u>	<u>\$ 16,744,895</u>

Pledges receivable are due to be collected as follows:

	<u>2016</u>	<u>2015</u>
Within one year	\$ 8,530,911	\$ 12,425,387
In one to five years	<u>801,045</u>	<u>4,319,508</u>
Pledges receivable, net	<u>\$ 9,331,956</u>	<u>\$ 16,744,895</u>

# EAST BAY ZOOLOGICAL SOCIETY

## NOTES TO FINANCIAL STATEMENTS SEPTEMBER 30, SEPTEMBER 30, 2016 AND 2015

Approximately 79% and 89% of the Society's pledges receivable are from one donor at September 30, 2016 and 2015, respectively.

#### 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, 2016 and 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. The change in fair value of the charitable remainder trust asset consisted of an unrealized increase in fair value of \$421 for the year ended September 30, 2016.

#### 5. PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	<u>2016</u>	<u>2015</u>
Buildings and structures	\$ 48,561,233	\$ 48,859,216
Construction in progress	37,378,991	11,270,854
Land improvements	4,678,777	4,621,698
Equipment	3,627,105	3,822,222
Vehicles	474,891	453,884
Furniture and fixtures	192,956	210,070
Zoological collection	<u>177,911</u>	<u>202,706</u>
Total	95,091,864	69,440,650
Less accumulated depreciation	<u>(32,429,076)</u>	<u>(30,887,684)</u>
Total	<u>\$ 62,662,788</u>	<u>\$ 38,552,966</u>

#### 6. DONATED MATERIALS AND SERVICES

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

	<u>2016</u>	<u>2015</u>
Marketing and public relations	\$ 307,600	\$ 224,998
Animal management	6,674	4,608
Fund development	7,820	3,445
Education	<u>          </u>	<u>183</u>
Total donated materials and services	<u>\$ 322,094</u>	<u>\$ 233,234</u>

# EAST BAY ZOOLOGICAL SOCIETY

## NOTES TO FINANCIAL STATEMENTS SEPTEMBER 30, SEPTEMBER 30, 2016 AND 2015

Management estimates that approximately 2% of donated materials and services expense relates to program services and 98% to supporting services for 2016 and 2015.

### 7. NET ASSETS

Temporarily restricted net assets are available for the following purposes:

	<u>2016</u>	<u>2015</u>
California Trail	\$ 15,141,181	\$ 24,205,652
Other projects	179,981	143,385
Time restricted (Charitable remainder trust asset)	<u>91,701</u>	<u>91,280</u>
Total	<u>\$ 15,412,863</u>	<u>\$ 24,440,317</u>

### 8. LINES OF CREDIT

The Society has a line of credit (LOC) agreement with a bank to borrow up to \$10,000,000. The LOC 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 LOC as of September 30, 2016 and 2015. During 2016 the Society established letters of credit against this LOC in the amount of \$1,433,492, which reduced the available balance to \$8,566,508 as of September 30, 2016. These letters represent amounts reserved for the California Department of Fish and Wildlife (CDFW) as they relate to permits granted to the Society by the CDFW for the California Trail Project (Project). As a condition of these permits the Society must secure a conservation easement over lands to be permanently protected, complete certain land enhancement and restoration requirements for this area, and manage the conservation easement lands appropriately. Throughout the Project the CDFW will assess these requirements and if not done to satisfaction they will complete these requirements themselves. This \$1,433,492 amount represents the amount the CDFW would expend to complete these requirements and would be paid using this LOC. However, if at the end of the Project, the Society completed these requirements satisfactory to the CDFW the CDFW would then release these letters that are held against this LOC.

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 March 3, 2017. There was no outstanding balance on this line of credit as of September 30, 2016 and 2015.

# **EAST BAY ZOOLOGICAL SOCIETY**

## **NOTES TO FINANCIAL STATEMENTS SEPTEMBER 30, SEPTEMBER 30, 2016 AND 2015**

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### **9. 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 \$134,974 and \$127,319 during 2016 and 2015, respectively.

### **10. SUBSEQUENT EVENT**

The Society entered into a concessionaire agreement (the Agreement) on November 8, 2016 with Service Systems Associates, Inc. (Concessionaire) to provide exclusive food service, catering and retail operations at the Zoo. The agreement is effective February 1, 2017 and remains in effect through September 30, 2029. During the term of the Agreement, the Society will receive monthly commissions based on a percentage of gross sales. In addition, the Concessionaire will make an investment over the term of the Agreement for various start-up costs, facility alterations, and contributions to Society capital projects. In the event the Society terminates the Agreement prior to September 30, 2029, the Society will be required to repay a portion of the Concessionaire's investment depending on the circumstances of the termination as detailed in the Agreement.