

**SACRAMENTO ZOOLOGICAL
SOCIETY**

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

**YEARS ENDED
DECEMBER 31, 2016 AND 2015**

INDEPENDENT AUDITOR'S REPORT

**Board of Trustees
Sacramento Zoological Society
Sacramento, California**

We have audited the accompanying financial statements of Sacramento Zoological Society, which comprise the statements of financial position as of December 31, 2016 and 2015, and the related statements of activities and 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 audits to obtain reasonable assurance about whether the financial statements are free of 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.

Board of Trustees
Sacramento Zoological Society
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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Sacramento Zoological Society as of December 31, 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.

Gilbert Associates, Inc.

GILBERT ASSOCIATES, INC.
Sacramento, California

May 19, 2017

SACRAMENTO ZOOLOGICAL SOCIETY

STATEMENTS OF FINANCIAL POSITION DECEMBER 31, 2016 AND 2015

ASSETS	<u>2016</u>	<u>2015</u>
CURRENT ASSETS:		
Cash and cash equivalents	\$ 2,559,600	\$ 3,383,204
Accounts receivable	67,197	55,234
Prepaid expenses and other current assets	<u>81,587</u>	<u>69,279</u>
Total current assets	2,708,384	3,507,717
INVESTMENTS	5,382,723	4,286,715
PROPERTY AND EQUIPMENT - Net	6,222,958	6,018,265
CHARITABLE REMAINDER TRUST ASSETS	<u>685,537</u>	<u>674,466</u>
TOTAL ASSETS	<u>\$ 14,999,602</u>	<u>\$ 14,487,163</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable	\$ 295,360	\$ 181,272
Accrued and other liabilities	252,310	184,635
Deferred revenue	<u>437,004</u>	<u>364,062</u>
Total liabilities	<u>984,674</u>	<u>729,969</u>
NET ASSETS:		
Unrestricted	8,572,754	8,596,803
Temporarily restricted	2,239,282	1,958,517
Permanently restricted	<u>3,202,892</u>	<u>3,201,874</u>
Total net assets	<u>14,014,928</u>	<u>13,757,194</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 14,999,602</u>	<u>\$ 14,487,163</u>

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

SACRAMENTO ZOOLOGICAL SOCIETY

STATEMENTS OF ACTIVITIES (Page 1 of 2) YEARS ENDED DECEMBER 31, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
UNRESTRICTED:		
REVENUES AND SUPPORT:		
Program revenues:		
Gate admissions	\$ 3,131,816	\$ 3,247,185
Memberships	961,566	906,876
Concessions	620,215	613,837
Visitor services and group sales	534,577	491,687
City of Sacramento	449,130	439,395
Education	343,316	311,830
Total program revenues	<u>6,040,620</u>	<u>6,010,810</u>
Other support:		
Contributions, grants and sponsorships	344,135	312,134
Special events - net of costs of \$164,883 and \$206,557 in 2016 and 2015, respectively	215,164	193,639
Rent and other revenues	57,536	63,305
Satisfaction of restrictions - operations	165,712	165,605
Total other support	<u>782,547</u>	<u>734,683</u>
Total revenues and support	<u>6,823,167</u>	<u>6,745,493</u>
OPERATING EXPENSES:		
Program services:		
Animal care	3,225,344	2,922,404
Membership and visitor services	1,163,412	1,028,351
Education	824,073	763,194
Promotions and public relations	558,839	401,433
Total program services	<u>5,771,668</u>	<u>5,115,382</u>
Supporting services:		
General and administrative	696,057	526,559
Fundraising	335,559	367,806
Total supporting services	<u>1,031,616</u>	<u>894,365</u>
Total operating expenses	<u>6,803,284</u>	<u>6,009,747</u>
NET INCOME FROM OPERATIONS	19,883	735,746

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

SACRAMENTO ZOOLOGICAL SOCIETY

STATEMENTS OF ACTIVITIES (Page 2 of 2) YEARS ENDED DECEMBER 31, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
UNRESTRICTED NET ASSETS (CONTINUED):		
Investment income (loss)	\$ 123,008	\$ (22,621)
Bequests	5,000	48,890
Satisfaction of restrictions - capital projects	234,316	33,834
Depreciation and amortization expense	<u>(406,256)</u>	<u>(368,590)</u>
INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS	<u>(24,049)</u>	<u>427,259</u>
TEMPORARILY RESTRICTED NET ASSETS:		
Contributions for capital projects	117,440	383,349
Contributions, grants and sponsorships	403,061	314,941
Change in value of charitable remainder trust assets	11,071	(44,866)
Investment loss		(54,483)
Net assets released from restriction	149,221	
Satisfaction of restrictions - operations	(165,712)	(165,605)
Satisfaction of restrictions - capital projects	<u>(234,316)</u>	<u>(33,834)</u>
INCREASE IN TEMPORARILY RESTRICTED NET ASSETS	<u>280,765</u>	<u>399,502</u>
PERMANENTLY RESTRICTED NET ASSETS:		
Investment income	150,239	
Net assets released from restriction	<u>(149,221)</u>	
INCREASE IN PERMANENTLY RESTRICTED NET ASSETS	<u>1,018</u>	
INCREASE IN NET ASSETS	257,734	826,761
NET ASSETS, Beginning of Year	<u>13,757,194</u>	<u>12,930,433</u>
NET ASSETS, End of Year	<u>\$ 14,014,928</u>	<u>\$ 13,757,194</u>

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

SACRAMENTO ZOOLOGICAL SOCIETY

STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase in net assets	\$ 257,734	\$ 826,761
Reconciliation to net cash provided by operating activities:		
Depreciation and amortization expense	406,256	368,590
Realized and unrealized loss (gain) on investments	(152,662)	243,969
Receipt of donated investments	(34,503)	
Changes in:		
Accounts receivable	(11,963)	18,454
Prepaid expenses and other current assets	(12,308)	7,561
Charitable remainder trust assets	(11,071)	44,866
Accounts payable	114,088	25,118
Accrued and other liabilities	67,675	(65,470)
Deferred revenue	72,942	25,070
Net cash provided by operating activities	<u>696,188</u>	<u>1,494,919</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investments	(3,468,754)	(991,741)
Proceeds from sale of investments	2,559,911	864,465
Purchases of property and equipment	<u>(610,949)</u>	<u>(84,420)</u>
Net cash used by investing activities	<u>(1,519,792)</u>	<u>(211,696)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(823,604)	1,283,223
CASH AND CASH EQUIVALENTS, Beginning of Year	<u>3,383,204</u>	<u>2,099,981</u>
CASH AND CASH EQUIVALENTS, End of Year	<u>\$ 2,559,600</u>	<u>\$ 3,383,204</u>

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

SACRAMENTO ZOOLOGICAL SOCIETY

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2016 AND 2015

1. OPERATIONS

The Sacramento Zoological Society (the Society) is a nonprofit public benefit corporation dedicated to the conservation of the world's wildlife through stimulating education and recreation programs, creative and naturalistic exhibits, and innovative species management programs.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation – The financial statements are prepared on the accrual basis of accounting and in conformity with professional standards applicable to not-for-profit entities. The Society reports information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted.

Revenue recognition – Gate admissions and concessions revenue is recognized upon receipt. Membership revenue is recognized over the term of the membership period, typically one year. Education, visitor services and special event revenues are recognized when the related events occur.

Contributions are recognized in full when received or unconditionally promised, 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 statements of activities as net assets released from restrictions, when the time restrictions expire or the contributions are used for the restricted purpose. Permanently restricted net assets are those net assets whose use by the Society is restricted by donor-imposed stipulations that neither expire by the passage of time nor can be fulfilled and removed by the actions of the Society and consist of contributions to the Society's endowment funds.

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 are not reflected in the financial statements.

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

The Society minimizes credit risk associated with cash by periodically evaluating the credit quality of its primary financial institutions. The balances at times may exceed federally insured limits. The Society has not experienced any losses in such accounts and management believes the Society is not exposed to any significant credit risk related to cash.

Property and equipment is stated at cost. The Society capitalizes all expenditures for property and equipment with a cost of \$2,500 or more. Depreciation is computed using the straight-line method over estimated useful lives of 5 to 39 years. Park improvements represent costs the Society has incurred for building and improving exhibits on the premises of the Sacramento Zoo and are amortized over their estimated useful lives. Should the lease with the City of Sacramento (the City) expire, these assets would become the property of the City.

SACRAMENTO ZOOLOGICAL SOCIETY

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2016 AND 2015

Charitable remainder trust assets reflect the estimated fair value of various irrevocable charitable trusts, held by a third-party trustee, for which the Society is a remainder beneficiary. The fair value of the Society's remainder interest in irrevocable trusts is determined using investment returns consistent with the composition of the asset portfolios, life expectancies of the lead beneficiaries, and a discount rate of 4.0% for both December 31, 2016 and 2015. The donors have imposed purpose restrictions on the Society's use of the funds when eventually received.

Functional expenses – The costs of providing the program and supporting services have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated based on employees' time incurred and management's estimate of the 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 and Section 23701(d) of the California Revenue and Taxation Code.

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.

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.

When a price for an identical asset or liability is not observable, a reporting entity measures fair value using another valuation technique that maximizes the use of relevant observable inputs and minimizes the use of unobservable inputs. Because fair value is a market-based measurement, it is measured using the assumptions that market participants would use when pricing the asset or liability, including assumptions about risk. As a result, a reporting entity's intention to hold an asset or to settle or otherwise fulfill a liability is not relevant when measuring fair value.

SACRAMENTO ZOOLOGICAL SOCIETY

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2016 AND 2015

Subsequent events have been evaluated through May 19, 2017, the date the financial statements were available to be issued. Management concluded that no material subsequent events have occurred since December 31, 2016 that requires recognition or disclosure in such financial statements.

3. PROPERTY AND EQUIPMENT

Property and equipment consist of the following at December 31:

	<u>2016</u>	<u>2015</u>
Park improvements	\$ 7,981,571	\$ 7,917,349
Zoo operations equipment	1,575,601	1,432,573
Education trailers	304,841	199,489
Equipment	210,810	197,295
Work in progress	285,534	702
Art work	<u>53,416</u>	<u>53,416</u>
Total	10,411,773	9,800,824
Less accumulated depreciation and amortization	<u>(4,188,815)</u>	<u>(3,782,559)</u>
Property and equipment, net	<u>\$ 6,222,958</u>	<u>\$ 6,018,265</u>

Management estimates that approximately 99% of depreciation and amortization expense relates to program services and 1% to supporting services for 2016 and 2015.

4. CHARITABLE REMAINDER TRUST ASSETS

The Society's charitable remainder trusts are 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. The donors have imposed purpose restrictions on the Society's use of the funds when eventually received. Changes in the Level 3 charitable remainder trust assets consist of:

	<u>2016</u>	<u>2015</u>
Beginning balance	\$ 674,466	\$ 719,332
Change in value of charitable remainder trust assets	<u>11,071</u>	<u>(44,866)</u>
Ending balance	<u>\$ 685,537</u>	<u>\$ 674,466</u>

SACRAMENTO ZOOLOGICAL SOCIETY

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2016 AND 2015

5. INVESTMENTS

The Society's investments are classified within Level 1 of the fair value hierarchy because they are valued using quoted market prices, broker or dealer quotations, or alternative pricing sources with reasonable levels of price transparency.

Investments consist of the following at December 31:

	<u>2016</u>	<u>2015</u>
Cash and cash equivalents	\$ 661,625	\$ 95,369
Mutual funds:		
Domestic equity	1,730,138	1,594,099
Fixed income funds	1,716,928	1,331,064
Foreign equity	931,872	900,602
Real estate funds	72,046	74,984
Other	<u>270,114</u>	<u>290,597</u>
Total	<u>\$ 5,382,723</u>	<u>\$ 4,286,715</u>

Investment income (loss) consists of the following:

	<u>2016</u>	<u>2015</u>
Interest and dividends	\$ 155,028	\$ 201,433
Net realized and unrealized gains (losses)	152,662	(243,969)
Investment management fees	<u>(34,443)</u>	<u>(34,568)</u>
Total	<u>\$ 273,247</u>	<u>\$ (77,104)</u>

6. AGREEMENT WITH THE CITY OF SACRAMENTO

The Society and the City have a partnership agreement for the Sacramento Zoo. Under the agreement, the Society is responsible for the operation, management and development of the Zoo. The City retains ownership of the Zoo grounds, real property, some of the animal collection, and other certain fixed assets. In consideration for operating the Zoo, the City provided \$449,130 and \$439,395 to the Society during 2016 and 2015, respectively.

Under the partnership agreement, the Society is responsible for reimbursing the City for certain operating expenses. The City nets the management fees owed to the Society with the amount the Society owes the City for operating expenses on a quarterly basis. No amounts were due from the City at December 31, 2016. The net receivable balance due from the City was \$4,734 at December 31, 2015, and is included in accounts receivable on the statements of financial position.

Under the partnership agreement, the Society is also entitled to receive a percentage of rental revenue generated from Funderland, Inc., a nearby attraction from the City. The Society recognized rental revenue from Funderland, Inc. in the amount of \$57,458 and \$63,427 for 2016 and 2015, respectively.

SACRAMENTO ZOOLOGICAL SOCIETY

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2016 AND 2015

The partnership agreement expires June 30, 2017. As of the date of these financial statements, the Society and the City are negotiating a new agreement that will extend the partnership beyond June 30, 2017.

7. LINE OF CREDIT AGREEMENT

The Society has a line of credit agreement with US Bank. The line of credit has a credit limit of \$500,000, with a variable interest rate equal to the bank's prime rate (3.5% at December 31, 2016 and 2015). The line of credit expires on August 5, 2017. At December 31, 2016 and 2015, no funds were borrowed on this line.

8. NET ASSETS

A portion of the Society's unrestricted net assets are designated as follows:

	<u>2016</u>	<u>2015</u>
Board designated:		
Biodiversity center	\$ 267,698	\$ 267,698
Emergency repairs	77,603	
Other projects	123,771	83,500
Undesignated	<u>8,103,682</u>	<u>8,245,605</u>
Total	<u>\$ 8,572,754</u>	<u>\$ 8,596,803</u>

Temporarily restricted net assets consist of unexpended funds from contributions and bequests, restricted for use in the following programs:

	<u>2016</u>	<u>2015</u>
Capital improvements, time restrictions	\$ 685,537	\$ 674,466
Biodiversity center	822,791	789,752
SSP and conservation funds	198,578	188,714
Four-legged mammals	174,316	85,716
Sifaka exhibit		45,000
Miscellaneous	<u>358,060</u>	<u>174,869</u>
Total	<u>\$ 2,239,282</u>	<u>\$ 1,958,517</u>

The Society's endowments consist of donor-restricted endowment funds. As required by generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

SACRAMENTO ZOOLOGICAL SOCIETY

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2016 AND 2015

The Society has interpreted the California Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Society classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

Except when a distribution would cause the endowment to reduce below the original principal balance, the Society has a policy of annually distributing up to five percent of one of the endowment funds' three year average market value, and up to seven percent of the other endowment fund's three year average market value. The distributions of the donor-restricted endowment funds are released from permanently restricted net assets to temporarily restricted net assets until those amounts are appropriated for expenditure by the Society in a manner consistent with the standard of prudence prescribed by UPMIFA and donor restrictions. In accordance with UPMIFA, the organization considers the following factors in making a determination to appropriate or accumulate the donor-restricted endowment funds:

1. The duration and preservation of the fund.
2. The purposes of the Society and the donor-restricted endowment fund.
3. General economic conditions
4. The possible effect of inflation and deflation
5. The expected total return from income and the appreciation of investments.
6. Other resources of the Society.
7. The investment policies of the Society.

Permanently restricted net assets consist of two endowment funds at December 31, 2016 and 2015.

Under the endowment investment policy as approved by the Board of Directors, the primary investment objectives are to preserve principal, to provide a dependable and reasonable rate of return consistent with appropriate investment risk, and to maximize income within a framework of moderate risk assumption.

Changes in permanently restricted endowment net assets are as follows:

Year ending December 31:	<u>2016</u>	<u>2015</u>
Endowment net assets, beginning of year	\$ 3,201,874	\$ 3,201,874
Investment income	150,239	
Allowable distributions	<u>(149,221)</u>	<u> </u>
Endowment net assets, end of year	<u>\$ 3,202,892</u>	<u>\$ 3,201,874</u>

SACRAMENTO ZOOLOGICAL SOCIETY

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2016 AND 2015

9. RETIREMENT PLAN

The Society sponsors a retirement plan under Internal Revenue Code 403(b). Employees become eligible to participate in the Plan upon hire. Plan employees who complete at least 1,000 hours of service during the plan year are eligible to receive an allocation of any matching and non-elective contributions made at the discretion of the Society. During 2016 and 2015, the Society contributed to the plan one percent of each participant's compensation and matched one and a half percent of each employee's contribution. Employees are 100% vested at all times. The Society's contributions to this plan amounted to \$55,017 and \$30,821 during 2016 and 2015, respectively.

The Society has also established a deferred compensation plan under IRC Section 457(b). The 457(b) plan provides up to \$18,000 of deferred compensation per year, dependent on IRS limits, following completion of 2 years of service with the Society. For 2016 and 2015, the Society made contributions of 5% and 7% of eligible compensation, respectively. Such contributions totaled \$8,000 and \$4,356 for 2016 and 2015, respectively.

10. COMMITMENTS

The Society has a concessions agreement with Service Systems Associates, Inc. (SSA) to provide for the operation of a food, beverage, and gift shop concession at the Zoo. SSA has agreed to pay the Society certain percentages of gross receipts based on the various types of concession sales. Concession revenues totaled \$620,215 and \$613,837 for 2016 and 2015, respectively.