

**SACRAMENTO ZOOLOGICAL
SOCIETY**

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

**YEARS ENDED
DECEMBER 31, 2018 AND 2017**

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, 2018 and 2017, and the related statements of activities, functional expenses, 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, 2018 and 2017, 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

June 20, 2019

SACRAMENTO ZOOLOGICAL SOCIETY

STATEMENTS OF FINANCIAL POSITION DECEMBER 31, 2018 AND 2017

ASSETS	<u>2018</u>	<u>2017</u>
CURRENT ASSETS:		
Cash and cash equivalents	\$ 2,160,093	\$ 2,328,277
Accounts receivable	228,381	82,179
Prepaid expenses and other current assets	<u>104,563</u>	<u>99,594</u>
Total current assets	2,493,037	2,510,050
INVESTMENTS	5,456,729	6,000,580
PROPERTY AND EQUIPMENT - Net	6,346,644	6,337,258
CHARITABLE REMAINDER TRUST ASSETS	<u>612,243</u>	<u>676,523</u>
TOTAL ASSETS	<u>\$ 14,908,653</u>	<u>\$ 15,524,411</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable	\$ 227,596	\$ 204,193
Accrued and other liabilities	782,309	319,800
Deferred revenue	<u>516,653</u>	<u>451,565</u>
Total liabilities	<u>1,526,558</u>	<u>975,558</u>
NET ASSETS:		
Without donor restrictions	7,796,138	8,459,664
With donor restrictions	<u>5,585,957</u>	<u>6,089,189</u>
Total net assets	<u>13,382,095</u>	<u>14,548,853</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 14,908,653</u>	<u>\$ 15,524,411</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, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
NET ASSETS WITHOUT DONOR RESTRICTIONS:		
REVENUES AND SUPPORT:		
Program revenues:		
Gate admissions	\$ 3,634,900	\$ 3,465,618
Memberships	1,149,937	1,132,982
Concessions	650,807	605,838
Visitor services and group sales	625,695	649,130
Education	397,734	384,467
City of Sacramento	332,482	454,541
Total program revenues	<u>6,791,555</u>	<u>6,692,576</u>
Other support:		
Contributions, grants and sponsorships	527,499	309,784
Special events - net of costs of \$139,401 and \$141,473 in 2018 and 2017, respectively	385,240	369,888
Rent and other revenues	52,713	56,488
Satisfaction of restrictions - operations	222,363	178,682
Total other support	<u>1,187,815</u>	<u>914,842</u>
Total revenues and support	<u>7,979,370</u>	<u>7,607,418</u>
OPERATING EXPENSES:		
Program services:		
Animal care	3,846,116	3,410,751
Visitor services	887,232	890,561
Education	880,726	848,064
Promotions and public relations	635,904	571,866
Membership	434,579	467,654
Total program services	<u>6,684,557</u>	<u>6,188,896</u>
Supporting services:		
General and administrative	841,109	936,552
Fundraising	430,999	597,254
Total supporting services	<u>1,272,108</u>	<u>1,533,806</u>
Total operating expenses	<u>7,956,665</u>	<u>7,722,702</u>
NET INCOME (LOSS) FROM OPERATIONS	22,705	(115,284)

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, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
NET ASSETS WITHOUT DONOR RESTRICTIONS		
(CONTINUED):		
Investment income (loss)	\$ (256,274)	\$ 328,602
Bequests	11,054	21,447
Satisfaction of restrictions - capital projects		101,988
Depreciation and amortization expense	<u>(441,011)</u>	<u>(449,843)</u>
DECREASE IN NET ASSETS WITHOUT DONOR RESTRICTIONS	<u>(663,526)</u>	<u>(113,090)</u>
NET ASSETS WITH DONOR RESTRICTIONS:		
Contributions, grants and sponsorships	593,969	350,826
Contributions for capital projects		249,119
Restricted funds returned to donors	(844,275)	
Change in value of charitable remainder trust assets	(64,280)	(9,014)
Investment income	33,717	336,754
Satisfaction of restrictions - operations	(222,363)	(178,682)
Satisfaction of restrictions - capital projects	<u> </u>	<u>(101,988)</u>
INCREASE (DECREASE) IN NET ASSETS WITH DONOR RESTRICTIONS	<u>(503,232)</u>	<u>647,015</u>
INCREASE (DECREASE) IN NET ASSETS	(1,166,758)	533,925
NET ASSETS, Beginning of Year	<u>14,548,853</u>	<u>14,014,928</u>
NET ASSETS, End of Year	<u>\$ 13,382,095</u>	<u>\$ 14,548,853</u>

SACRAMENTO ZOOLOGICAL SOCIETY

STATEMENT OF FUNCTIONAL EXPENSES YEAR ENDED DECEMBER 31, 2018

	Program services					Supporting services		<u>Total</u>
	<u>Animal care</u>	<u>Visitor services</u>	<u>Education</u>	<u>Promotions and public relations</u>	<u>Membership</u>	<u>Administration</u>	<u>Development</u>	
Personnel costs	\$ 2,202,823	\$ 409,393	\$ 704,607	\$ 389,797	\$ 310,217	\$ 477,162	\$ 247,887	\$ 4,741,886
Professional fees	493,546	142,854	640	3,005	63	162,441	40,686	843,235
Facilities, repairs & maintenance	475,901	108,004	33,151	12,500	48,519	32,656	16,617	727,348
Animal supplies & veterinary services	376,000		3,068					379,068
Advertising, promotion & public relations	386	35	8,457	169,868		3,511	100,664	282,921
Bank charges		153,776		3,180		43,871		200,827
Conservation contributions	165,959							165,959
Information technology	14,658	17,339	11,302	13,388	9,480	22,460	11,431	100,058
Insurance	30,914	28,730	20,942	997	14,150	2,992	997	99,722
Education materials	129		86,524					86,653
Office expenses	14,152	14,484	3,450	5,727	7,819	17,816	4,597	68,045
Staff development & travel	29,857	736	6,930	7,780	39	18,889	461	64,692
Supplies	380	10,835			44,159	283	5,201	60,858
Dues & subscriptions	23,845	350	232	3,736		28,591	2,183	58,937
Events & rentals				24,543				24,543
Other	17,566	696	1,423	1,383	133	30,437	275	51,913
Total expenses	<u>\$ 3,846,116</u>	<u>\$ 887,232</u>	<u>\$ 880,726</u>	<u>\$ 635,904</u>	<u>\$ 434,579</u>	<u>\$ 841,109</u>	<u>\$ 430,999</u>	<u>\$ 7,956,665</u>

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

SACRAMENTO ZOOLOGICAL SOCIETY

STATEMENT OF FUNCTIONAL EXPENSES YEAR ENDED DECEMBER 31, 2017

	Program services				Supporting services			<u>Total</u>
	<u>Animal care</u>	<u>Visitor services</u>	<u>Education</u>	<u>Promotions and public relations</u>	<u>Membership</u>	<u>Administration</u>	<u>Development</u>	
Personnel costs	\$ 1,967,383	\$ 592,360	\$ 641,300	\$ 275,687	\$ 308,068	\$ 473,726	\$ 294,844	\$ 4,553,368
Professional fees	306,482	61	105	5,492	42	212,818	180,246	705,246
Facilities, repairs & maintenance	466,156	117,820	23,895	3,908	41,678	34,015	14,246	701,718
Animal supplies & veterinary services	389,859	53	2,596					392,508
Advertising, promotion & public relations	228	34	62,290	98,824	2,250	62,768	75,731	302,125
Bank charges	277	108,832		3,468	29,179	44,539		186,295
Conservation contributions	161,248						830	162,078
Information technology	15,975	11,677	9,658	15,906	9,480	20,493	11,431	94,620
Insurance	28,555	26,538	19,344	921	13,071	2,763	921	92,113
Education materials			78,319					78,319
Office expenses	16,683	10,065	6,956	6,470	11,029	32,977	4,405	88,585
Staff development & travel	31,561		1,542	9,580	1,720	9,571	6,886	60,860
Supplies	323	22,299			50,291	276	5,355	78,544
Dues & subscriptions	4,102			1,965		30,177	2,359	38,603
Events & rentals				6,056				6,056
Other	21,919	822	2,059	143,589	846	12,429		181,664
Total expenses	<u>\$ 3,410,751</u>	<u>\$ 890,561</u>	<u>\$ 848,064</u>	<u>\$ 571,866</u>	<u>\$ 467,654</u>	<u>\$ 936,552</u>	<u>\$ 597,254</u>	<u>\$ 7,722,702</u>

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

SACRAMENTO ZOOLOGICAL SOCIETY

STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase (decrease) in net assets	\$ (1,166,758)	\$ 533,925
Reconciliation to net cash provided by operating activities:		
Depreciation and amortization expense	441,011	449,843
Realized and unrealized loss (gain) on investments	287,307	(531,351)
Changes in:		
Accounts receivable	(146,202)	(14,982)
Prepaid expenses and other current assets	(4,969)	(18,007)
Charitable remainder trust assets	64,280	9,014
Accounts payable	23,403	(91,167)
Accrued and other liabilities	462,509	67,490
Deferred revenue	65,088	14,561
Net cash provided by operating activities	<u>25,669</u>	<u>419,326</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investments	(2,631,609)	(2,538,511)
Proceeds from sale of investments	2,888,153	2,452,005
Purchases of property and equipment	<u>(450,397)</u>	<u>(564,143)</u>
Net cash used by investing activities	<u>(193,853)</u>	<u>(650,649)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(168,184)	(231,323)
CASH AND CASH EQUIVALENTS, Beginning of Year	<u>2,328,277</u>	<u>2,559,600</u>
CASH AND CASH EQUIVALENTS, End of Year	<u>\$ 2,160,093</u>	<u>\$ 2,328,277</u>

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

SACRAMENTO ZOOLOGICAL SOCIETY

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2018 AND 2017

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 two classes of net assets based on the existence or absence of donor or grantor imposed restrictions:

Net assets without donor restrictions – Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Society. These net assets may be used at the discretion of management.

Net assets with donor restrictions – Net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. When a restriction expires (generally, as payments are made to fulfill the purposes of the contribution), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

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 net assets with donor restrictions. Net assets with donor restrictions 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. Endowments 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.

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.

SACRAMENTO ZOOLOGICAL SOCIETY

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2018 AND 2017

The Society minimizes credit risk associated with cash by periodically evaluating the credit quality of its primary financial institution. The Society deposits held with financial institutions in excess of federal deposit insurance limits were \$1,047,069 and \$1,363,781 as of December 31, 2018 and 2017, respectively. 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.

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, 2018 and 2017. 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. The expenses that are allocated include utilities, insurance, and advertising which are allocated based on management's estimate of usage and salaries which are allocated based on time and effort; all other expenses are allocated based on specific identification of expenses.

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).

SACRAMENTO ZOOLOGICAL SOCIETY

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2018 AND 2017

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.

Recent accounting pronouncements – On August 18, 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14, Not-for-Profit Entities (Topic 958) – *Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, information about liquidity and available resources, and the type of information provided about expenses and investment return. The Society has adjusted the presentation of these statements accordingly. The Society has adjusted the presentation of these statements accordingly. ASU 2016-14 has been applied retrospectively to all periods presented.

Future accounting pronouncements – In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers* (Topic 606). The new accounting standard develops a common standard that will remove inconsistencies in revenue requirements, improve comparability of revenue recognition practices, provide more useful information to users of financial statements and simplify the preparation of financial statements. Application of this statement is effective for the year ending December 31, 2019. The Society is currently evaluating the impact this pronouncement will have on the financial statements.

In June 2018, the FASB issued ASU 2018-08, (Topic 958), *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The new accounting standard clarifies and improves the guidance for (1) evaluating whether transactions should be accounted for as contributions within the scope of Topic 958 or as exchange transactions subject to other guidance and (2) determining whether a contribution is conditional. Application of this statement is effective for transactions in which the entity serves as the resource recipient for the year ending December 31, 2019. For transactions in which the entity serves as the resource provider, the statement is effective for the year ending December 31, 2020. The Society is currently evaluating the impact this pronouncement will have on the financial statements.

Subsequent events have been evaluated through June 20, 2019, the date the financial statements were issued. Management concluded that no material subsequent events have occurred since December 31, 2018 that requires recognition or disclosure in such financial statements.

SACRAMENTO ZOOLOGICAL SOCIETY

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2018 AND 2017

Reclassification of prior year balances – Certain prior year expense functional classifications have changed to conform to current year presentation. These changes had no net asset effect.

3. LIQUIDITY AND AVAILABILITY OF RESOURCES

The Society's financial assets available within one year of the statement of financial position date for general expenditure are as follows as of December 31, 2018:

Cash and cash equivalents	\$ 2,160,093
Investments	5,456,729
Accounts receivable	<u>228,381</u>
Total financial assets available within one year	7,845,203
Less:	
Amounts unavailable for general expenditures within one year, due to:	
Restricted by donors with time or purpose restrictions	(5,585,957)
Board designation for emergency repairs and other projects	<u>(185,495)</u>
Total financial assets available for general expenditure within one year	<u>\$ 2,073,751</u>

The Society structures its financial assets to be available as its general expenditures, liabilities and other obligations come due. As described in Note 8, the Society also has a line of credit in the amount of \$500,000, which it could draw upon in the event of an unanticipated liquidity need.

4. PROPERTY AND EQUIPMENT

Property and equipment consist of the following at December 31:

	<u>2018</u>	<u>2017</u>
Park improvements	\$ 8,651,591	\$ 8,559,802
Zoo operations equipment	1,602,907	1,595,186
Education trailers	397,896	304,841
Equipment	233,378	210,810
Work in progress	487,125	251,861
Art work	<u>53,416</u>	<u>53,416</u>
Total	11,426,313	10,975,916
Less accumulated depreciation and amortization	<u>(5,079,669)</u>	<u>(4,638,658)</u>
Property and equipment, net	<u>\$ 6,346,644</u>	<u>\$ 6,337,258</u>

Management estimates that approximately 94% of depreciation and amortization expense relates to program services and 6% to supporting services for both 2018 and 2017.

SACRAMENTO ZOOLOGICAL SOCIETY

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2018 AND 2017

5. 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>2018</u>	<u>2017</u>
Beginning balance	\$ 676,523	\$ 685,537
Change in value of charitable remainder trust assets	<u>(64,280)</u>	<u>(9,014)</u>
Ending balance	<u>\$ 612,243</u>	<u>\$ 676,523</u>

6. 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>2018</u>	<u>2017</u>
Cash and cash equivalents	\$ 1,256,121	\$ 1,310,395
Mutual funds:		
Domestic equity	1,541,555	1,821,898
Fixed income funds	1,334,933	1,284,185
Foreign equity	885,235	1,181,628
Real estate funds	59,656	67,084
Other	<u>379,229</u>	<u>335,390</u>
Total	<u>\$ 5,456,729</u>	<u>\$ 6,000,580</u>

7. 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 certain other fixed assets. In consideration for operating the Zoo, the City provided \$332,482 and \$454,541 to the Society during 2018 and 2017, 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. The net receivable balance due from the City was \$15,400 and \$18,772 at December 31, 2018 and 2017, respectively, and is included in accounts receivable on the statements of financial position.

SACRAMENTO ZOOLOGICAL SOCIETY

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2018 AND 2017

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 \$52,514 and \$57,465 for 2018 and 2017, respectively.

8. 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 (4.5% at December 31, 2018 and 2017). The line of credit expires on August 5, 2019. At December 31, 2018 and 2017, no funds were borrowed on this line.

9. NET ASSETS WITHOUT DONOR RESTRICTIONS

A portion of the Society's net assets without donor restrictions are designated as follows:

	<u>2018</u>	<u>2017</u>
Board designated:		
Emergency repairs	\$ 77,603	\$ 77,603
Other projects	107,892	107,892
Biodiversity center		347,543
Undesignated	<u>7,610,643</u>	<u>7,926,626</u>
Total	<u>\$ 7,796,138</u>	<u>\$ 8,459,664</u>

10. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consist of unexpended funds from contributions and bequests, restricted for use in the following programs:

	<u>2018</u>	<u>2017</u>
Purpose restrictions:		
Capital improvements, time restrictions	\$ 1,156,233	\$ 676,523
Four-legged mammals	474,134	321,361
SSP & Conservation Funds	192,336	199,497
Miscellaneous	493,550	431,968
Biodiversity center		<u>1,071,080</u>
Total purpose restrictions	2,316,253	2,700,429
Perpetual restrictions:		
Endowments	<u>3,269,704</u>	<u>3,388,760</u>
Total	<u>\$ 5,585,957</u>	<u>\$ 6,089,189</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, 2018 AND 2017

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 net assets with donor restrictions (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 maintained as donor 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.

Net assets with donor restrictions that are permanently restricted consist of two endowment funds at December 31, 2018 and 2017.

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>2018</u>	<u>2017</u>
Endowment net assets, beginning of year	\$ 3,388,760	\$ 3,202,892
Investment income	33,717	336,754
Allowable distributions	<u>(152,773)</u>	<u>(150,886)</u>
Endowment net assets, end of year	<u>\$ 3,269,704</u>	<u>\$ 3,388,760</u>

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11. 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 2018 and 2017, 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 \$83,942 and \$41,071 during 2018 and 2017, 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 2018 and 2017, the Society made contributions of 5% of eligible compensation. Such contributions totaled \$7,212 and \$4,250 for 2018 and 2017, respectively.

12. 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 \$650,807 and \$605,838 for 2018 and 2017, respectively.