

**SACRAMENTO ZOOLOGICAL
SOCIETY**

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

**YEARS ENDED
DECEMBER 31, 2022 AND 2021**

INDEPENDENT AUDITOR'S REPORT

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

Opinion

We have audited the accompanying financial statements of Sacramento Zoological Society (a nonprofit organization), which comprise the statements of financial position as of December 31, 2022 and 2021, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

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, 2022 and 2021, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing

standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Sacramento Zoological Society 's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Sacramento Zoological Society 's ability to continue as a going concern for a reasonable period of time.

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



GILBERT CPAS
Sacramento, California

June 29, 2023

SACRAMENTO ZOOLOGICAL SOCIETY

STATEMENTS OF FINANCIAL POSITION DECEMBER 31, 2022 AND 2021

ASSETS	<u>2022</u>	<u>2021</u>
CURRENT ASSETS:		
Cash and cash equivalents	\$ 11,644,400	\$ 8,951,201
Accounts receivable	97,609	61,315
Current portion of pledge receivable	40,000	
Prepaid expenses and other current assets	<u>161,506</u>	<u>128,653</u>
Total current assets	11,943,515	9,141,169
INVESTMENTS	6,353,947	7,346,720
PLEDGE RECEIVABLE - Net	143,501	
PROPERTY AND EQUIPMENT - Net	5,291,713	5,619,452
CHARITABLE REMAINDER TRUST ASSETS	<u>695,423</u>	<u>831,692</u>
TOTAL ASSETS	<u>\$ 24,428,099</u>	<u>\$ 22,939,033</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable	\$ 559,351	\$ 159,824
Accrued and other liabilities	641,845	601,759
Deferred revenue	770,338	855,318
Current portion of Payroll Protection Program loan		<u>92,076</u>
Total current liabilities	1,971,534	1,708,977
PAYROLL PROTECTION PROGRAM LOAN - Net		<u>593,959</u>
Total liabilities	<u>1,971,534</u>	<u>2,302,936</u>
NET ASSETS:		
Without donor restrictions	17,323,966	14,733,361
With donor restrictions	<u>5,132,599</u>	<u>5,902,736</u>
Total net assets	<u>22,456,565</u>	<u>20,636,097</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 24,428,099</u>	<u>\$ 22,939,033</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, 2022 AND 2021

	<u>2022</u>	<u>2021</u>
NET ASSETS WITHOUT DONOR RESTRICTIONS:		
REVENUES AND SUPPORT:		
Program revenues:		
Gate admissions	\$ 6,315,980	\$ 6,195,728
Memberships	1,962,412	1,380,396
Concessions	1,033,499	1,010,504
Visitor services and group sales	871,512	872,609
Education	382,465	86,761
City of Sacramento	294,577	330,915
Total program revenues	<u>10,860,445</u>	<u>9,876,913</u>
Other support:		
Forgiveness of Payroll Protection Program loan	686,035	932,397
Contributions, grants and sponsorships	668,562	2,141,718
Special events - net of costs of \$11,415 and \$7,053 in 2022 and 2021, respectively	158,764	162,591
Rent and other revenues	105,369	150,842
Satisfaction of restrictions - operations	510,163	158,700
Total other support	<u>2,128,893</u>	<u>3,546,248</u>
Total revenues and support	<u>12,989,338</u>	<u>13,423,161</u>
OPERATING EXPENSES:		
Program services:		
Animal care	4,139,320	3,750,706
Visitor services	1,224,130	1,086,610
Membership	1,004,784	612,584
Education	549,903	547,218
Promotions and public relations	374,078	276,484
Total program services	<u>7,292,215</u>	<u>6,273,602</u>
Supporting services:		
General and administrative	1,911,576	991,004
Fundraising	341,229	197,722
Total supporting services	<u>2,252,805</u>	<u>1,188,726</u>
Total operating expenses	<u>9,545,020</u>	<u>7,462,328</u>
NET INCOME FROM OPERATIONS	3,444,318	5,960,833

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, 2022 AND 2021

	<u>2022</u>	<u>2021</u>
NET ASSETS WITHOUT DONOR RESTRICTIONS		
(CONTINUED):		
Bequests	\$ 20,000	\$ 102,599
Investment income (loss)	(430,348)	413,389
Depreciation and amortization expense	(452,083)	(458,735)
Satisfaction of restrictions - capital projects	<u>8,718</u>	<u>97,481</u>
INCREASE IN NET ASSETS WITHOUT DONOR RESTRICTIONS	<u>2,590,605</u>	<u>6,115,567</u>
NET ASSETS WITH DONOR RESTRICTIONS:		
Contributions, grants and sponsorships	402,623	114,937
Change in value of charitable remainder trust assets	(136,269)	77,898
Investment income (loss)	(517,610)	288,363
Satisfaction of restrictions - operations	(510,163)	(158,700)
Satisfaction of restrictions - capital projects	<u>(8,718)</u>	<u>(97,481)</u>
INCREASE (DECREASE) IN NET ASSETS WITH DONOR RESTRICTIONS	<u>(770,137)</u>	<u>225,017</u>
INCREASE IN NET ASSETS	1,820,468	6,340,584
NET ASSETS, Beginning of Year	<u>20,636,097</u>	<u>14,295,513</u>
NET ASSETS, End of Year	<u>\$ 22,456,565</u>	<u>\$ 20,636,097</u>

SACRAMENTO ZOOLOGICAL SOCIETY

STATEMENT OF FUNCTIONAL EXPENSES YEAR ENDED DECEMBER 31, 2022

	Program services					Supporting services			<u>Total</u>
	<u>Animal care</u>	<u>Visitor services</u>	<u>Membership</u>	<u>Education</u>	<u>Promotions and public relations</u>	<u>Administration</u>	<u>Development</u>		
Personnel costs	\$ 2,516,708	\$ 703,039	\$ 671,691	\$ 474,427	\$ 205,825	\$ 800,818	\$ 251,436	\$ 5,623,944	
Facilities, repairs & maintenance	779,748	56,330	2,043	12,816		21,863		872,800	
New Zoo master plan & professional fees						813,616		813,616	
Staff development & travel	29,492	221,523	162,600		11,603	10,105	425	435,748	
Animal supplies & veterinary services	418,789			821				419,610	
Bank charges		219,999	55,000			64,799		339,798	
Professional fees	177,855	1,460		612	1,312	55,050	16,000	252,289	
Information technology	10,122	12,879	104,165	15,330	19,537	36,934	15,460	214,427	
Advertising, promotion & public relations	11		1,444	3,344	134,321	1,639	33,641	174,400	
Insurance	70,165					46,777		116,942	
Conservation contributions	94,730							94,730	
Office expenses	22,778	4,383	7,549	1,958	335	15,366	3,158	55,527	
Education materials				38,946				38,946	
Dues & subscriptions	2,907	488		95	734	28,755	217	33,196	
Other	16,015	4,029	292	1,554	411	15,854	20,892	59,047	
Total expenses	<u>\$ 4,139,320</u>	<u>\$ 1,224,130</u>	<u>\$ 1,004,784</u>	<u>\$ 549,903</u>	<u>\$ 374,078</u>	<u>\$ 1,911,576</u>	<u>\$ 341,229</u>	<u>\$ 9,545,020</u>	

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

SACRAMENTO ZOOLOGICAL SOCIETY

STATEMENT OF FUNCTIONAL EXPENSES YEAR ENDED DECEMBER 31, 2021

	Program services					Supporting services		<u>Total</u>
	<u>Animal care</u>	<u>Visitor services</u>	<u>Membership</u>	<u>Education</u>	<u>Promotions and public relations</u>	<u>Administration</u>	<u>Development</u>	
Personnel costs	\$ 2,173,525	\$ 476,639	\$ 484,700	\$ 494,232	\$ 205,504	\$ 651,619	\$ 136,932	\$ 4,623,151
Facilities, repairs & maintenance	749,754	52,345	1,143	16,298		24,513		844,053
Staff development & travel	3,825	80,356	86,486	395	2,653	5,614	4,965	184,294
Animal supplies & veterinary services	359,603			1,365				360,968
Bank charges	1	283,378				74,076		357,455
Professional fees	216,539	131,136				118,942	16,871	483,488
Information technology	6,966	39,500	33,337	10,875	23,399	32,155	11,269	157,501
Advertising, promotion & public relations	1,910	12,475	2,123	3,655	43,342	583	25,509	89,597
Insurance	88,718					29,664		118,382
Conservation contributions	104,610							104,610
Dues & subscriptions	12,575	814		190		30,553	24	44,156
Education materials			82	18,394	7			18,483
Office expenses	19,770	6,429	4,150	1,624	1,470	7,666	1,911	43,020
Other	12,910	3,538	563	190	109	15,619	241	33,170
Total expenses	<u>\$ 3,750,706</u>	<u>\$ 1,086,610</u>	<u>\$ 612,584</u>	<u>\$ 547,218</u>	<u>\$ 276,484</u>	<u>\$ 991,004</u>	<u>\$ 197,722</u>	<u>\$ 7,462,328</u>

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

SACRAMENTO ZOOLOGICAL SOCIETY

STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2022 AND 2021

	<u>2022</u>	<u>2021</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase in net assets	\$ 1,820,468	\$ 6,340,584
Reconciliation to net cash provided by operating activities:		
Depreciation and amortization expense	452,083	458,735
Realized and unrealized loss (gain) on investments	1,093,178	(506,630)
Gain on forgiveness of Payroll Protection Program loan	(686,035)	(932,397)
Changes in:		
Accounts receivable	(36,294)	(11,676)
Pledge receivable	(183,501)	
Prepaid expenses and other current assets	(32,853)	(61,843)
Charitable remainder trust assets	136,269	(77,898)
Accounts payable	399,527	(2,693)
Accrued and other liabilities	40,086	146,701
Deferred revenue	(84,980)	393,241
Net cash provided by operating activities	<u>2,917,948</u>	<u>5,746,124</u>
 CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investments	(1,719,761)	(2,973,187)
Proceeds from sale of investments	1,619,356	2,805,074
Purchases of property and equipment	(124,344)	(106,020)
Net cash used by investing activities	<u>(224,749)</u>	<u>(274,133)</u>
 CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayment of line of credit		(500,000)
Proceeds from Payroll Protection Program loan		686,035
Net cash provided by financing activities	<u></u>	<u>186,035</u>
 NET INCREASE IN CASH AND CASH EQUIVALENTS	 2,693,199	 5,658,026
 CASH AND CASH EQUIVALENTS, Beginning of Year	 8,951,201	 3,293,175
 CASH AND CASH EQUIVALENTS, End of Year	 \$ 11,644,400	 \$ 8,951,201

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

SACRAMENTO ZOOLOGICAL SOCIETY

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2022 AND 2021

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 – Contributions are recognized in full when received or unconditionally promised, in accordance with professional standards. Conditional promises to give, that is, those with a measurable performance or other barrier and a right of return – are not recognized until the conditions on which they depend have been met. 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.

Revenues from governmental grants that are initially classified as conditional due to a qualifying expense barrier are recognized as net assets without donor restrictions since the restriction is met simultaneously when the condition is released and the revenue is recognized.

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.

The Society's revenue from contracts with customers consists of membership revenue, gate admissions, concession, visitor services and group sales, education and special event revenues, and consideration received from the City of Sacramento for the operation of the Zoo. Gate admissions and concessions revenue are recognized upon receipt. Education, visitor services and group sales,

SACRAMENTO ZOOLOGICAL SOCIETY

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2022 AND 2021

and special event revenues are recognized when the related events occur. Consideration received for the operation of the Zoo is recognized as the Society fulfills their agreed upon obligation to operate the Zoo, generally evenly over the year.

The Society's membership period is generally one year and its dues contain various performance obligations. Revenue has been allocated among the performance obligations based on their relative standalone values in relation to the cost of the membership. Those performance obligations which are satisfied over time, such as access to the Zoo, are satisfied evenly over the membership period. Generally, payment is due from members when they initiate or renew their annual membership.

For the year ended December 31, 2022 and 2021, revenue recognized for goods transferred at a point in time totaled \$8,771,871 and \$8,387,951, respectively. For the year ended December 31, 2022 and 2021, revenue recognized for services transferred over time totaled \$2,058,154 and \$1,471,480, respectively.

The balances of accounts receivable and contract liabilities from contracts with customers are as follows as of December 31:

	<u>2022</u>	<u>2021</u>	<u>2020</u>
Accounts receivable	\$ 97,609	\$ 61,315	\$ 49,639
Contract liabilities:			
Deferred revenue	\$ 770,338	\$ 855,318	\$ 462,077

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 institution. The Society deposits held with financial institutions in excess of federal deposit insurance limits were \$11,012,116 and \$8,277,261 as of December 31, 2022 and 2021, 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 \$5,000 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, 2022 and 2021. 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. The statement of functional expenses present the natural classification detail of expenses by function. Accordingly, certain costs

SACRAMENTO ZOOLOGICAL SOCIETY

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2022 AND 2021

have been allocated among programs and supporting services benefited. The financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied and are based on employees' time incurred and management's estimate of the usage of resources. The expenses that are allocated include facilities, 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).

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.

Subsequent events have been evaluated through June 29, 2023, the date the financial statements were available to be issued. Management has concluded that no other material subsequent events have occurred since December 31, 2022, that require recognition or disclosure in such financial statements.

SACRAMENTO ZOOLOGICAL SOCIETY

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2022 AND 2021

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:

	<u>2022</u>	<u>2021</u>
Cash and cash equivalents	\$ 11,644,400	\$ 8,951,201
Investments	6,353,947	7,346,720
Pledge receivable	183,501	
Accounts receivable	<u>97,609</u>	<u>61,315</u>
Total financial assets available within one year	18,279,457	16,359,236
Less:		
Amounts unavailable for general expenditures within one year, due to:		
Restricted by donors with time or purpose restrictions	(5,132,599)	(5,902,736)
Board designation for emergency repairs and other projects	<u>(147,070)</u>	<u>(147,070)</u>
Total financial assets available for general expenditure within one year	<u>\$ 12,999,788</u>	<u>\$ 10,309,430</u>

The Society structures its financial assets to be available as its general expenditures, liabilities and other obligations come due. As described in Note 9, the Society also has a line of credit in the amount of \$500,000, which it draws upon as needed.

4. PLEDGE 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 the pledge receivable was 4.5% at December 31, 2022.

Pledge receivable consist of the following at December 31 2022:

Gross pledge receivable	\$ 200,000
Less: Unamortized discount	<u>(16,499)</u>
Pledge receivable, net	<u>\$ 183,501</u>

Pledge receivable are due to be collected as follows at December 31, 2022:

Within one year	\$ 40,000
In one to five years	<u>143,501</u>
Pledge receivable, net	<u>\$ 183,501</u>

At December 31, 2022, 100% of the Society's pledge receivable was from one donor. The Society did not have pledges receivable at December 31, 2021.

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NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2022 AND 2021

5. PROPERTY AND EQUIPMENT

Property and equipment consist of the following at December 31:

	<u>2022</u>	<u>2021</u>
Park improvements	\$ 9,773,810	\$ 9,765,092
Zoo operations equipment	1,631,515	1,628,993
Education trailers	397,896	397,896
Equipment	233,378	233,378
Art work	53,416	53,416
Construction in progress	109,408	
Total	<u>12,199,423</u>	<u>12,078,775</u>
Less accumulated depreciation and amortization	<u>(6,907,710)</u>	<u>(6,459,323)</u>
Property and equipment, net	<u>\$ 5,291,713</u>	<u>\$ 5,619,452</u>

Management estimates that approximately 94% of depreciation and amortization expense relates to program services and 6% to supporting services for both 2022 and 2021.

6. 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>2022</u>	<u>2021</u>
Beginning balance	\$ 831,692	\$ 753,794
Change in value of charitable remainder trust assets	<u>(136,269)</u>	<u>77,898</u>
Ending balance	<u>\$ 695,423</u>	<u>\$ 831,692</u>

7. 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.

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NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2022 AND 2021

Investments consist of the following at December 31:

	<u>2022</u>	<u>2021</u>
Cash and cash equivalents	\$ 215,527	\$ 1,250,692
Mutual funds:		
Domestic equity	2,919,227	3,473,957
Fixed income	1,646,574	676,417
Foreign equity	1,009,071	1,468,530
Real estate	69,259	94,956
Other	<u>494,289</u>	<u>382,168</u>
Total	<u>\$ 6,353,947</u>	<u>\$ 7,346,720</u>

8. AGREEMENT WITH THE CITY OF SACRAMENTO

The Society and the City have a partnership agreement for the Sacramento Zoo, which terminates June 30, 2025, unless extended or terminated. 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 \$294,577 and \$330,915 to the Society during 2022 and 2021, 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 \$26,595 and \$7,080 at December 31, 2022 and 2021, respectively, 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 \$95,742 and \$91,084 for 2022 and 2021, respectively.

9. 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 (7.5% and 3.5% at December 31, 2022 and 2021, respectively). The line of credit expires on August 5, 2023. There was no outstanding balance as of December 31, 2022 and 2021.

10. PAYROLL PROTECTION PROGRAM LOAN

In April 2020, the Society received a Paycheck Protection Program (PPP) loan under the Federal Coronavirus Aid, Relief, and Economic Security (CARES) Act totaling \$932,397. Under the CARES Act, a portion or all of the loan and accrued interest may be forgiven provided the funds are spent on qualifying expenditures and certain other criteria regarding full-time equivalent employee and payroll levels are maintained. The PPP requires the portion of the loan that does not qualify for forgiveness or that is retained as a loan, to be repaid within 5 years at 1% interest.

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The Society received notification that its application for loan forgiveness was approved on July 2, 2021 and therefore, the principal amount of \$932,397 was recognized as income the year ended December 31, 2021.

In February 2021, the Society received a second PPP loan totaling \$686,035 under the same terms and conditions per the CARES Act. The Society received notification that its application for loan forgiveness was approved on April 20, 2022.

11. NET ASSETS WITHOUT DONOR RESTRICTIONS

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

	<u>2022</u>	<u>2021</u>
Board designated:		
Emergency repairs	\$ 77,603	\$ 77,603
Other projects	69,467	69,467
Undesignated	<u>16,756,134</u>	<u>14,586,291</u>
Total	<u>\$ 16,903,204</u>	<u>\$ 14,733,361</u>

12. 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>2022</u>	<u>2021</u>
Purpose restrictions:		
Capital improvements, time restrictions	\$ 899,124	\$ 841,692
Four-legged mammals	633,176	501,491
SSP & conservation funds	163,388	90,853
Education	146,760	337,146
Miscellaneous	<u>118,737</u>	<u>302,127</u>
Total purpose restrictions	1,961,185	2,073,309
Perpetual restrictions:		
Endowments	<u>3,171,414</u>	<u>3,829,427</u>
Total	<u>\$ 5,132,599</u>	<u>\$ 5,902,736</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.

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

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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, 2022 and 2021.

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>2022</u>	<u>2021</u>
Endowment net assets, beginning of year	\$ 3,829,427	\$ 3,687,289
Investment income (loss)	(494,757)	288,363
Allowable distributions	<u>(140,403)</u>	<u>(146,225)</u>
Endowment net assets, end of year	<u>\$ 3,194,267</u>	<u>\$ 3,829,427</u>

13. RETIREMENT PLAN

The Society sponsors a retirement plan under Internal Revenue Code 403(b) for certain executives. 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 2022 and 2021, 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 \$64,410 and \$83,048 during 2022 and 2021, respectively.

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The Society has also established a deferred compensation plan under IRC Section 457(b). The 457(b) plan provides up to \$20,500 of deferred compensation per year, dependent on IRS limits, following completion of 2 years of service with the Society. For 2022 and 2021, the Society made contributions of 5% of eligible compensation. Such contributions totaled \$10,192 and \$7,500 for 2022 and 2021, respectively.

14. 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 \$1,033,499 and \$1,010,504 for 2022 and 2021, respectively.

15. MEMORANDUM OF UNDERSTANDING WITH THE CITY OF ELK GROVE

In May 2022, the Society and the City of Elk Grove entered into a memorandum of understanding (“MOU”), to work in good faith towards developing, subject to the City’s discretion and approval, a new zoological park that would be owned by the City of Elk Grove and operated by the Society. The Society’s obligations under the MOU include initiating and sustaining donor cultivation efforts for the project, updating pro forma financial projections, developing a conceptual master-plan for the project, and achieving certain milestones related to the preparation of schematic plans. In addition, the project must clear certain environmental review milestones. It is anticipated that based on the outcome of these deliverables, the Elk Grove City Council will determine whether to move forward with the new zoo project with the Society. Currently, this decision is expected to occur in the first quarter of 2024. The MOU expires March 31, 2024, but can be extended for two additional six-month periods upon agreement of the parties. If the council decides to move forward with the new zoo project, the Society and Elk Grove will negotiate a partnership agreement for the construction and operation of the new zoo.

Through December 31, 2022, the Society has incurred expenses of \$675,500 related to master planning and schematic design efforts. The Society has also commenced capital campaign efforts.