

**CONSERVATION SOCIETY OF
CALIFORNIA**

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

**YEARS ENDED
SEPTEMBER 30, 2019 AND 2018**

INDEPENDENT AUDITOR'S REPORT

**Board of Directors
Conservation Society of California
Oakland, California**

We have audited the accompanying financial statements of the Conservation Society of California (Society), which comprise the statements of financial position as of September 30, 2019 and 2018, 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Conservation Society of California as of September 30, 2019 and 2018, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

A handwritten signature in black ink that reads "Gilbert CPAs". The signature is written in a cursive, flowing style.

GILBERT CPAS
Sacramento, California

March 17, 2020

CONSERVATION SOCIETY OF CALIFORNIA

STATEMENTS OF FINANCIAL POSITION SEPTEMBER 30, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 6,864,540	\$ 7,150,319
Accounts and other receivables	283,170	153,824
Prepaid expenses and other	201,566	268,612
Grants receivable		1,400,000
Current portion of pledges receivable	<u>297,336</u>	<u>766,531</u>
Total current assets	7,646,612	9,739,286
NON-CURRENT ASSETS:		
Pledges receivable, net	158,843	643,396
Investments	184,035	183,768
Charitable remainder trust asset	107,544	101,985
Property and equipment, net	<u>88,048,514</u>	<u>90,763,328</u>
TOTAL ASSETS	<u>\$ 96,145,548</u>	<u>\$ 101,431,763</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable	\$ 1,419,072	\$ 1,568,731
Accrued liabilities	944,720	1,235,429
Current portion of line of credit	200,000	1,200,000
Deferred revenue and unearned rental income	<u>4,939,777</u>	<u>4,011,490</u>
Total current liabilities	7,503,569	8,015,650
LINE OF CREDIT, NET		<u>2,800,000</u>
Total liabilities	<u>7,503,569</u>	<u>10,815,650</u>
NET ASSETS:		
Without donor restrictions	87,815,516	89,880,298
With donor restrictions	<u>826,463</u>	<u>735,815</u>
Total net assets	<u>88,641,979</u>	<u>90,616,113</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 96,145,548</u>	<u>\$ 101,431,763</u>

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

CONSERVATION SOCIETY OF CALIFORNIA

STATEMENTS OF ACTIVITIES (Page 1 of 2) YEARS ENDED SEPTEMBER 30, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
NET ASSETS WITHOUT DONOR RESTRICTIONS:		
REVENUES AND SUPPORT:		
Program revenues:		
Operating revenue	\$ 9,870,742	\$ 9,672,995
Membership revenue	4,552,421	3,557,254
Concessions	2,827,115	3,015,655
Education	969,935	935,400
Special events	774,149	766,860
Rental revenue	251,324	278,964
Total program revenue	<u>19,245,686</u>	<u>18,227,128</u>
Other support:		
Government funding	2,248,866	2,143,953
Contributions	880,706	366,664
Investment income	402	370
Miscellaneous income	24,532	18,884
Satisfaction of restrictions - operations	818,294	784,891
Total other support	<u>3,972,800</u>	<u>3,314,762</u>
Total revenue and support	<u>23,218,486</u>	<u>21,541,890</u>
OPERATING EXPENSES:		
Program services:		
Operations	10,655,615	7,969,288
Animal management	7,568,390	5,933,379
Education	2,338,172	2,191,522
Concessions	874,543	1,272,049
Special events	423,126	389,019
Total program services	<u>21,859,846</u>	<u>17,755,257</u>
Supporting services:		
Administration	1,990,288	1,942,086
Marketing and public relations	1,073,998	1,084,303
Fund development	715,513	785,673
Capital campaign fundraising	160,227	263,177
Total supporting services	<u>3,940,026</u>	<u>4,075,239</u>
Total operating expenses	<u>25,799,872</u>	<u>21,830,496</u>
NET LOSS FROM OPERATIONS	(2,581,386)	(288,606)

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

CONSERVATION SOCIETY OF CALIFORNIA

STATEMENTS OF ACTIVITIES (Page 2 of 2) YEARS ENDED SEPTEMBER 30, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
Donated materials and services revenue	\$ 89,766	\$ 229,553
Donated materials and services expense	(89,766)	(229,553)
Satisfaction of restrictions - capital projects	<u>516,604</u>	<u>3,611,583</u>
INCREASE (DECREASE) IN NET ASSETS WITHOUT DONOR RESTRICTIONS	<u>(2,064,782)</u>	<u>3,322,977</u>
NET ASSETS WITH DONOR RESTRICTIONS:		
Contributions	1,423,866	4,571,679
Provision for doubtful pledges receivable	1,680	17,588
Satisfaction of restrictions - operations	(818,294)	(784,891)
Satisfaction of restrictions - capital projects	<u>(516,604)</u>	<u>(3,611,583)</u>
INCREASE IN NET ASSETS WITH DONOR RESTRICTIONS	<u>90,648</u>	<u>192,793</u>
INCREASE (DECREASE) IN NET ASSETS	(1,974,134)	3,515,770
NET ASSETS, Beginning of Year	<u>90,616,113</u>	<u>87,100,343</u>
NET ASSETS, End of Year	<u>\$ 88,641,979</u>	<u>\$ 90,616,113</u>

CONSERVATION SOCIETY OF CALIFORNIA

STATEMENT OF FUNCTIONAL EXPENSES YEAR ENDED SEPTEMBER 30, 2019

	Program services					Supporting services				<u>Total</u>
	<u>Operations</u>	<u>Animal management</u>	<u>Education</u>	<u>Concessions</u>	<u>Special events</u>	<u>Administration</u>	<u>Marketing and public relations</u>	<u>Fund development</u>	<u>Capital campaign fundraising</u>	
Personnel costs	\$ 4,716,704	\$ 3,959,126	\$ 1,737,460	\$ 498,443	\$ 104,738	\$ 1,068,213	\$ 547,542	\$ 336,327		\$ 12,968,553
Capital asset depreciation	1,940,989	1,472,475	348,040	240,950		183,836	137,877	137,878		4,462,045
Utilities and telephone	1,331,410				2,539	172,719	2,935			1,509,603
Professional services	667,776	175,637	10,216	1,685	239,877	281,494	39,826	91,843		1,508,354
Repair and maintenance of grounds	491,299	329,148	14,686	123,720	10,675	44,844	103			1,014,475
Supplies	258,393	357,764	125,797	867	40,911	36,310	4,540	60,722	\$ 50,571	935,875
Animal care and feed		844,422								844,422
Insurance	368,487					70,106				438,593
Bank charges	322,600								109,419	432,019
Special project costs		380,801	18,899							399,700
Advertising and cultivation	33,782		13,676		24,362		299,770	27,723		399,313
Printing and postage	348,707	5,260	5,607	113		2,269	1,515	9,408		372,879
Dues and licenses	31,647	26,109	1,899	8,461		50,649	5,891	22,227		146,883
Travel	51,187	1,445	34,071			22,815	10,624	1,249		121,391
Uniforms	60,282	8,655	17,051			6,394				92,382
Meals and entertainment	705					30,844	4,127	19,939		55,615
Miscellaneous	31,647	7,548	10,770	304	24	19,795	19,248	8,197	237	97,770
Total	<u>\$ 10,655,615</u>	<u>\$ 7,568,390</u>	<u>\$ 2,338,172</u>	<u>\$ 874,543</u>	<u>\$ 423,126</u>	<u>\$ 1,990,288</u>	<u>\$ 1,073,998</u>	<u>\$ 715,513</u>	<u>\$ 160,227</u>	<u>\$ 25,799,872</u>

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

CONSERVATION SOCIETY OF CALIFORNIA

STATEMENT OF FUNCTIONAL EXPENSES YEAR ENDED SEPTEMBER 30, 2018

	<u>Program services</u>					<u>Supporting services</u>				<u>Total</u>
	<u>Operations</u>	<u>Animal management</u>	<u>Education</u>	<u>Concessions</u>	<u>Special events</u>	<u>Administration</u>	<u>Marketing and public relations</u>	<u>Fund development</u>	<u>Capital campaign fundraising</u>	
Personnel costs	\$ 3,719,346	\$ 3,322,527	\$ 1,710,544	\$ 745,513	\$ 109,646	\$ 1,107,422	\$ 491,878	\$ 484,337		\$ 11,691,213
Capital asset depreciation	1,227,995	1,026,740	175,011	207,097		112,007	84,005	84,006		2,916,861
Utilities and telephone	1,188,184				5,578	146,216	3,836			1,343,814
Professional services	301,264	127,623	12,904	12,270	209,728	291,324	62,443	79,537	\$ 7,000	1,104,093
Repair and maintenance of grounds	255,422	214,887	17,738	281,232	9,479	40,489	1,778	39		821,064
Supplies	228,884	344,875	163,132	15,712	37,386	31,464	2,802	70,109	187,790	1,082,154
Animal care and feed		781,973								781,973
Insurance	340,911					69,874				410,785
Bank charges	323,905								47,610	371,515
Special project costs		69,152	34,159			46,918				150,229
Advertising and cultivation	34,281		15,692		17,198		412,807	14,823		494,801
Printing and postage	272,031	3,952	3,588	720		2,671	893	5,518	15,202	304,575
Dues and licenses	11,794	24,535	926	9,505		67,028	4,142	24,387		142,317
Travel	8,366	2,110	38,691			8,781	4,747	125		62,820
Uniforms	25,857	10,721	7,474			901		336		45,289
Meals and entertainment	14					4,314	2,562	16,306	3,492	26,688
Miscellaneous	31,034	4,284	11,663		4	12,677	12,410	6,150	2,083	80,305
Total	<u>\$ 7,969,288</u>	<u>\$ 5,933,379</u>	<u>\$ 2,191,522</u>	<u>\$ 1,272,049</u>	<u>\$ 389,019</u>	<u>\$ 1,942,086</u>	<u>\$ 1,084,303</u>	<u>\$ 785,673</u>	<u>\$ 263,177</u>	<u>\$ 21,830,496</u>

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

CONSERVATION SOCIETY OF CALIFORNIA

STATEMENTS OF CASH FLOWS YEARS ENDED SEPTEMBER 30, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase (decrease) in net assets	\$ (1,974,134)	\$ 3,515,770
Reconciliation to net cash provided by operating activities:		
Depreciation	4,462,045	2,916,861
Receipt of donated investments		(183)
Provision for doubtful pledges receivable	(1,680)	(17,588)
Changes in:		
Accounts and other receivables	(129,346)	(57,274)
Prepaid expenses and other	67,046	14,775
Grants receivable	1,400,000	1,148,761
Pledges receivable	955,428	736,472
Charitable remainder trust asset	(5,559)	(10,308)
Accounts payable	(533,784)	847,806
Accrued liabilities	(290,709)	(85,099)
Deferred revenue and unearned rental income	928,287	1,378,945
Net cash provided by operating activities	<u>4,877,594</u>	<u>10,388,938</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investments	(267)	
Purchases of property and equipment	<u>(1,363,106)</u>	<u>(10,942,651)</u>
Net cash used by investing activities	<u>(1,363,373)</u>	<u>(10,942,651)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from line of credit		4,000,000
Principal payments on line of credit	<u>(3,800,000)</u>	
Net cash provided (used) by financing activities	<u>(3,800,000)</u>	<u>4,000,000</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(285,779)	3,446,287
CASH AND CASH EQUIVALENTS, Beginning of Year	<u>7,150,319</u>	<u>3,704,032</u>
CASH AND CASH EQUIVALENTS, End of Year	<u>\$ 6,864,540</u>	<u>\$ 7,150,319</u>
OTHER CASH FLOW INFORMATION:		
Cash paid for interest	<u>\$ 98,502</u>	<u>\$ 135,237</u>
NON-CASH INVESTING ACTIVITIES:		
Property and equipment financed through accounts payable	<u>\$ 540,342</u>	<u>\$ 156,217</u>

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

CONSERVATION SOCIETY OF CALIFORNIA

NOTES TO FINANCIAL STATEMENTS SEPTEMBER 30, 2019 AND 2018

1. OPERATIONS AND AGREEMENT WITH THE CITY OF OAKLAND

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

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

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

In consideration for operating the Zoo and Park, the City provided \$171,414 and \$267,922 to the Society in management fees during 2019 and 2018 respectively.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation – The financial statements are presented in conformity with professional standards applicable to not-for-profit entities. Under professional standards, the Society reports information regarding its financial position and activities according to two classes of net assets: *net assets without donor restrictions* and *net assets with donor restrictions*

Revenue recognition – Revenues from grants, foundations, and bond proceeds are recognized when received, or unconditionally promised, in accordance with professional standards. Membership revenue is recognized over the term of the membership, typically one year. Education and special event revenue is recognized when the related event occurs.

Contributions are recognized in full when received or unconditionally pledged, in accordance with professional standards. All contributions are considered available for unrestricted use unless specifically restricted by donors for future periods or specific purposes. Donor-restricted amounts are reported as increases in net assets with donor restrictions. Net assets with donor restrictions become unrestricted and are reported in the statement of activities as satisfaction of restrictions, when the time restrictions expire, or the contributions are used for the restricted purposes. The Society had no net assets with restrictions that are perpetual in nature.

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

CONSERVATION SOCIETY OF CALIFORNIA

NOTES TO FINANCIAL STATEMENTS SEPTEMBER 30, 2019 AND 2018

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

The Society maintains its cash in bank deposit accounts that, at times, may exceed federally insured limits. The Society deposits held with financial institutions in excess of federal deposit insurance limits were \$5,786,783 and \$6,815,607 as of September 30, 2019 and 2018, respectively. The Society has not experienced any losses in such accounts. Management believes the Society is not exposed to any significant credit risk related to cash.

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

Grants receivable at September 30, 2018, represent amounts expended by the Society under capital project grants with the California Department of Parks and Recreation and the East Bay Regional Park District that are scheduled for payment upon completion of the applicable capital projects.

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

Functional expenses – The costs of providing the program and supporting services have been summarized on a functional basis in the statements of activities. The statements of functional expenses present the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the 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. Accordingly, personnel costs are allocated based on estimates of employees' time incurred. All other expenses are allocated based on 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 but is subject to income taxes from activities unrelated to its tax-exempt purpose. The Society has applied the accounting principles related to accounting for uncertainty in income taxes and has determined that there is no material impact on the financial statements. With some exceptions, the Society is no longer subject to U.S. federal and state income tax examinations by tax authorities for years prior to 2014.

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.

CONSERVATION SOCIETY OF CALIFORNIA

NOTES TO FINANCIAL STATEMENTS SEPTEMBER 30, 2019 AND 2018

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.

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. ASU 2016-14 has been applied retrospectively to all periods presented, with the exception of the liquidity disclosures, which have not been applied for the year ended September 30, 2018 as allowed by the transition guidance of this ASU.

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 September 30, 2020. The Society is currently evaluating the impact this pronouncement will have on the financial statements.

In September 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 September 30, 2020. For transactions in which the entity serves as the resource provider, the statement is effective for the year ending September 30, 2021. The Society is currently evaluating the impact this pronouncement will have on the financial statements.

CONSERVATION SOCIETY OF CALIFORNIA

NOTES TO FINANCIAL STATEMENTS SEPTEMBER 30, 2019 AND 2018

Subsequent events have been reviewed through March 17, 2020, the date the financial statements were available to be issued. Management concluded that no material subsequent events have occurred since September 30, 2019, that require recognition or disclosure in the financial statements.

Reclassification – Certain reclassifications have been made to the 2018 balances to conform to the 2019 presentation.

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 September 30, 2019:

Cash and cash equivalents	\$ 6,864,540
Accounts and other receivables	283,170
Pledges receivables, net	456,179
Investments	<u>184,035</u>
Total financial assets	7,787,924
Less:	
Amounts unavailable for general expenditures within one year, due to:	
Restriction by donors for time or purpose	<u>(826,463)</u>
Total financial assets available for general expenditure within one year	<u>\$ 6,961,461</u>

The Society's financial assets available for general expenditure as of September 30, 2019 are immediately liquid and designed to allow for an average of 3-6 months of operating funds to be drawn upon in the event of financial strain caused by circumstances out of the Society's control (e.g. weather/climate impacts) or an immediate liquidity need resulting from events outside of the typical course of business operations. In addition, the Society has a \$750,000 operating line of credit with Fremont Bank should it encounter an unanticipated liquidity need.

From time to time, the Board of Trustees can designate a portion of any operating surplus at the end of the fiscal year to its operating reserve to ensure the Society always maintains an adequate source of liquidity to meet its ongoing operations.

Management's best practice is to maintain a minimum of 90 days of liquidity (equivalent to approximately \$3M) for normal business operating expenses.

CONSERVATION SOCIETY OF CALIFORNIA

NOTES TO FINANCIAL STATEMENTS SEPTEMBER 30, 2019 AND 2018

4. PLEDGES RECEIVABLE

The Society recognizes pledges receivable at their estimated fair value, on a nonrecurring basis, at the time the pledge is made. Fair value is determined by calculating the net present value of the estimated future cash flows. The discount rates used in determining the net present value of pledges receivable at September 30, 2019 and 2018 ranged from 1.35% to 2.96%.

Pledges receivable consist of the following:

	<u>2019</u>	<u>2018</u>
Gross pledges receivable	\$ 475,097	\$ 1,476,696
Less: Unamortized discount	(5,163)	(26,034)
Less: Reserve for uncollectible pledges	<u>(13,755)</u>	<u>(40,735)</u>
Pledges receivable, net	<u>\$ 456,179</u>	<u>\$ 1,409,927</u>

Pledges receivable are due to be collected as follows:

	<u>2019</u>	<u>2018</u>
Within one year	\$ 297,336	\$ 766,531
In one to five years	<u>158,843</u>	<u>643,396</u>
Pledges receivable, net	<u>\$ 456,179</u>	<u>\$ 1,409,927</u>

Approximately 53% and 25% of the Society's pledges receivable are from one donor at September 30, 2019 and 2018, respectively.

5. CHARITABLE REMAINDER TRUST ASSET

Charitable remainder trust asset reflects the estimated fair value of an irrevocable charitable trust, held by a third-party trustee, for which the Society is a remainder beneficiary. The trust agreement provides annual payments to a designated lead beneficiary equaling 8% of trust net assets. The fair value of the charitable remainder trust asset is measured on a recurring basis and was determined using an investment return consistent with the composition of the asset portfolio, life expectancy of the lead beneficiary, and a discount rate of 3.0% at September 30, 2019 and 2018. The charitable remainder trust asset is classified within Level 3 of the fair value hierarchy because determination of the present value of future cash flows is based on little or no market data and requires management to develop their own assumptions. The change in fair value of the charitable remainder trust asset consisted of an unrealized increase in fair value of \$5,559 and \$10,308 for the years ended September 30, 2019 and 2018, respectively.

CONSERVATION SOCIETY OF CALIFORNIA

NOTES TO FINANCIAL STATEMENTS SEPTEMBER 30, 2019 AND 2018

6. PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	<u>2019</u>	<u>2018</u>
Buildings and structures	\$ 105,701,014	\$ 106,079,279
Construction in progress	292,844	148,337
Land improvements	13,680,505	14,206,182
Equipment	4,816,648	4,349,711
Vehicles	893,652	756,003
Furniture and fixtures	340,201	313,975
Zoological collection	242,847	242,847
Total	<u>125,967,711</u>	<u>126,096,334</u>
Less accumulated depreciation	<u>(37,919,197)</u>	<u>(35,333,006)</u>
Total	<u>\$ 88,048,514</u>	<u>\$ 90,763,328</u>

7. DONATED MATERIALS AND SERVICES

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

	<u>2019</u>	<u>2018</u>
Marketing and public relations	\$ 89,776	\$ 229,053
Fund development	<u> </u>	<u>500</u>
Total donated materials and services	<u>\$ 89,776</u>	<u>\$ 226,553</u>

Management estimates that 100% of the donated materials and services expense relates to supporting services in 2019 and 2018.

8. NET ASSETS

Net assets with donor restrictions that are temporary in nature are available for the following purposes:

	<u>2019</u>	<u>2018</u>
Education	\$ 206,412	\$ 140,918
Elephant barn	197,746	184,676
Animal enrichment	168,923	133,923
Conservation	87,611	116,176
Other projects	58,227	58,137
Time restricted (Charitable remainder trust asset)	<u>107,544</u>	<u>101,985</u>
Total	<u>\$ 826,463</u>	<u>\$ 735,815</u>

CONSERVATION SOCIETY OF CALIFORNIA

NOTES TO FINANCIAL STATEMENTS SEPTEMBER 30, 2019 AND 2018

9. LINES OF CREDIT

The Society has a line of credit (LOC) agreement with a bank to borrow up to \$10,000,000. The LOC carries a variable interest rate equal to the prime rate as published in the Wall Street Journal plus 1.00%, with a floor of 4.25%. During 2016, the Society established letters of credit against this LOC in the amount of \$1,433,492, which reduced the available balance to \$8,566,508. These letters represent amounts reserved for the California Department of Fish and Wildlife (CDFW) as they relate to permits granted to the Society by the CDFW for the California Trail Project (Project). As a condition of these permits the Society must secure a conservation easement over lands to be permanently protected, complete certain land enhancement and restoration requirements for this area and manage the conservation easement lands appropriately. The Society is in the process of securing regulatory approvals for the on-site conservation easement as defined by the approvals for the California Trail exhibit expansion. As part of the final approvals, a conservation easement holder has been identified and this agency is reviewing all documents and costs to establish an endowment that would allow for the maintenance of the easement. The Society has recorded a liability on the balance sheet of \$485,824. This liability was established by a third-party organization to support the Society's project approvals in 2015. Although the Project has been completed the Society still has the ongoing conservation requirements noted above with the CDFW. The CDFW will assess the conservation efforts of the Society and if not satisfactory they will complete these requirements themselves. This \$1,433,492 amount represents the amount the CDFW would expend to complete the conservation requirements, and would be paid using the LOC. However, if the Society completes these conservation requirements satisfactory to the CDFW, the CDFW would then release these letters that are held against this LOC. The Society had \$200,000 and \$4,000,000 outstanding on this line of credit at September 30, 2019 and 2018 respectively, with interest payable monthly at 6.00% per annum and principal due at April 2023. The Society paid the \$200,000 balance on the LOC subsequent to year end.

The Society has an additional line of credit agreement with a bank to borrow up to \$750,000. The line of credit carries a variable interest rate equal to the prime rate as published in the Wall Street Journal plus 0.50%, with a floor of 4.25%. Interest payments on borrowings are due monthly and the principal and any unpaid interest are due and payable on September 30, 2020. There was no outstanding balance on this line of credit as of September 30, 2019 and 2018.

10. EMPLOYEES' INCENTIVE PLAN

The Society sponsors a retirement plan under Internal Revenue Code 403(b). Employees over the age of 21 are eligible to participate once they have completed six months of service. The Society makes matching contributions to the plan up to three percent of the participant's compensation. Employer matching and discretionary contributions vest immediately upon employee participation. The Society's contributions to this plan amounted to \$154,575 and \$136,377 during 2019 and 2018, respectively.

11. FOOD, BEVERAGE, AND CONCESSIONS AGREEMENT

The Society entered into a concessionaire agreement (the Agreement) effective February 1, 2017 with Service Systems Associates, Inc. (Concessionaire) to provide exclusive food service, catering and retail operations at the Zoo. The agreement remains in effect through September 30, 2029.

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During the term of the Agreement, the Society will receive monthly commissions based on a percentage of gross sales. In addition, the Concessionaire will make an investment over the term of the Agreement for various start-up costs, facility alterations, and contributions to Society capital projects. In the event the Society terminates the Agreement prior to September 30, 2029, the Society will be required to repay a portion of the Concessionaire's investment depending on the circumstances of the termination as detailed in the Agreement.