

**CONSERVATION SOCIETY OF
CALIFORNIA**

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

**YEARS ENDED
SEPTEMBER 30, 2022 AND 2021**

INDEPENDENT AUDITOR'S REPORT

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

Opinion

We have audited the accompanying financial statements of Conservation Society of California (Society), which comprise the statements of financial position as of September 30, 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 Conservation Society of California as of September 30, 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 Conservation Society of California 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 Conservation Society of California'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 Conservation Society of California'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 Conservation Society of California'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

March 2, 2023

CONSERVATION SOCIETY OF CALIFORNIA

STATEMENTS OF FINANCIAL POSITION SEPTEMBER 30, 2022 AND 2021

	<u>2022</u>	<u>2021</u>
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 19,051,584	\$ 16,603,743
Accounts and other receivables	941,037	178,339
Current portion of pledges receivable	40,000	27,871
Prepaid expenses and other	<u>372,738</u>	<u>329,592</u>
Total current assets	20,405,359	17,139,545
NON-CURRENT ASSETS:		
Pledges receivable, net	13,261	9,635
Grant receivable, net	1,499,203	
Investments	184,331	184,239
Charitable remainder trust asset	107,544	107,544
Property and equipment, net	<u>76,917,329</u>	<u>80,639,974</u>
TOTAL ASSETS	<u>\$ 99,127,027</u>	<u>\$ 98,080,937</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable	\$ 1,209,854	\$ 1,413,746
Accrued liabilities	1,938,390	1,096,545
Current portion of Paycheck Protection Program loan		2,879,725
Deferred revenue and unearned rental income	<u>4,578,830</u>	<u>4,624,800</u>
Total current liabilities	7,727,074	10,014,816
PAYCHECK PROTECTION PROGRAM LOAN, Net		<u>1,862,375</u>
Total liabilities	<u>7,727,074</u>	<u>11,877,191</u>
NET ASSETS:		
Without donor restrictions	88,463,411	84,991,842
With donor restrictions	<u>2,936,542</u>	<u>1,211,904</u>
Total net assets	<u>91,399,953</u>	<u>86,203,746</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 99,127,027</u>	<u>\$ 98,080,937</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, 2022 AND 2021

	<u>2022</u>	<u>2021</u>
NET ASSETS WITHOUT DONOR RESTRICTIONS:		
REVENUES AND SUPPORT:		
Program revenues:		
Operating revenue	\$ 9,843,471	\$ 9,227,686
Membership revenue	5,221,132	4,151,022
Concessions	3,684,294	2,059,562
Special events	1,582,598	670,369
Education	627,185	265,299
Rental revenue	4,356	2,984
Total program revenue	<u>20,963,036</u>	<u>16,376,922</u>
Other support:		
Paycheck Protection Program loan forgiveness	4,742,100	
Contributions	4,122,785	3,110,501
Government funding	2,231,720	1,979,372
Employee Retention Tax Credit	712,507	
Miscellaneous income	26,307	133,552
Satisfaction of restrictions - operations	828,291	504,411
Total other support	<u>12,663,710</u>	<u>5,727,836</u>
Total revenue and support	<u>33,626,746</u>	<u>22,104,758</u>
OPERATING EXPENSES:		
Program services:		
Operations	10,817,931	9,523,750
Animal management	8,334,910	7,141,602
Education	2,274,813	1,565,223
Concessions	898,647	579,847
Special events	473,938	357,737
Total program services	<u>22,800,239</u>	<u>19,168,159</u>
Supporting services:		
Administration	5,067,712	2,688,505
Marketing and public relations	1,396,333	1,073,153
Fund development	1,067,364	929,295
Capital campaign fundraising	16,667	34,401
Total supporting services	<u>7,548,076</u>	<u>4,725,354</u>
Total operating expenses	<u>30,348,315</u>	<u>23,893,513</u>
NET INCOME (LOSS) FROM OPERATIONS	3,278,431	(1,788,755)

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, 2022 AND 2021

	<u>2022</u>	<u>2021</u>
NET ASSETS WITHOUT DONOR RESTRICTIONS		
(CONTINUED):		
Satisfaction of restrictions - capital projects	<u>193,138</u>	<u>334,258</u>
INCREASE (DECREASE) IN NET ASSETS WITHOUT DONOR RESTRICTIONS	<u>3,471,569</u>	<u>(1,454,497)</u>
NET ASSETS WITH DONOR RESTRICTIONS:		
Contributions and grants	2,768,112	943,672
Provision for doubtful pledges receivable	(22,045)	(3,354)
Satisfaction of restrictions - operations	(828,291)	(504,411)
Satisfaction of restrictions - capital projects	<u>(193,138)</u>	<u>(334,258)</u>
INCREASE IN NET ASSETS WITH DONOR RESTRICTIONS	<u>1,724,638</u>	<u>101,649</u>
INCREASE (DECREASE) IN NET ASSETS	5,196,207	(1,352,848)
NET ASSETS, Beginning of Year	<u>86,203,746</u>	<u>87,556,594</u>
NET ASSETS, End of Year	<u>\$ 91,399,953</u>	<u>\$ 86,203,746</u>

CONSERVATION SOCIETY OF CALIFORNIA

STATEMENT OF FUNCTIONAL EXPENSES YEAR ENDED SEPTEMBER 30, 2022

	Program services					Supporting services				
	<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>	<u>Total</u>
Personnel costs	\$ 4,600,049	\$ 4,822,075	\$ 1,698,462	\$ 596,681	\$ 114,066	\$ 2,222,590	\$ 645,904	\$ 525,201		\$ 15,225,028
Capital asset depreciation	1,970,440	1,494,814	353,320	244,606		186,625	139,969	139,969		4,529,743
Professional services	461,577	28,120	6,371	48	131,943	1,843,183	115,091	100,467		2,686,800
Utilities and telephone	1,665,512	600			14,217	207,233	2,700			1,890,262
Supplies	328,806	314,515	83,814	4,283		151,003	17,518	220,822		1,120,761
Animal care and feed		1,025,346								1,025,346
Repair and maintenance of grounds	421,801	330,430	7,332	52,279	96,797	9,867	508	1,571		920,585
Advertising and cultivation	43,410		256		116,915	500	433,255	1,560		595,896
Insurance	464,761					111,923				576,684
Special project costs		241,224	95,477			136,771	17,722			491,194
Credit card processing and bank charges	445,743							5,602	\$ 16,667	468,012
Printing and postage	242,589	11,854	6,625			51,166	749	23,900		336,883
Dues and licenses	40,829	28,925	1,923	750		56,016	4,935	45,719		179,097
Uniforms	57,539	10,081	17,547			479		580		86,226
Travel	10,440	24,022	2,289			8,029	3,841			48,621
Meals and entertainment	1,171					18,377	6,802	745		27,095
Miscellaneous	63,264	2,904	1,397			63,950	7,339	1,228		140,082
Total	<u>\$ 10,817,931</u>	<u>\$ 8,334,910</u>	<u>\$ 2,274,813</u>	<u>\$ 898,647</u>	<u>\$ 473,938</u>	<u>\$ 5,067,712</u>	<u>\$ 1,396,333</u>	<u>\$ 1,067,364</u>	<u>\$ 16,667</u>	<u>\$ 30,348,315</u>

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

CONSERVATION SOCIETY OF CALIFORNIA

STATEMENT OF FUNCTIONAL EXPENSES YEAR ENDED SEPTEMBER 30, 2021

	Program services					Supporting services				
	<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>	<u>Total</u>
Personnel costs	\$ 3,916,683	\$ 3,985,135	\$ 1,113,581	\$ 261,884	\$ 83,487	\$ 1,375,077	\$ 514,006	\$ 399,561		\$ 11,649,414
Capital asset depreciation	1,979,378	1,501,597	354,923	245,716		187,472	140,604	140,604		4,550,294
Professional services	298,258	88,154	218	32	146,387	624,344	93,010	47,800		1,298,203
Utilities and telephone	1,358,975	409				200,773	1,525			1,561,682
Supplies	248,868	343,956	35,364	18,747	35,826	73,864	16,215	33,706	\$ 6,958	813,504
Animal care and feed		862,954								862,954
Repair and maintenance of grounds	478,799	227,356	9,077	50,431		43,167	455	20		809,305
Advertising and cultivation	29,379				91,813		260,163	142,387		523,742
Insurance	409,790					102,865				512,655
Special project costs		71,423	35,264							106,687
Credit card processing and bank charges	427,717								27,443	455,160
Printing and postage	268,079	8,877	732			1,793	814	20,672		300,967
Dues and licenses	14,508	21,312	3,305	2,721		57,913	13,137	46,496		159,392
Uniforms	46,373	6,792	8,759			2,480				64,404
Travel	2,859	7,092	1,050			5	1,699	3		12,708
Meals and entertainment	6,107				224	11,911	3,486	182		21,910
Miscellaneous	37,977	16,545	2,950	316		6,841	28,039	97,864		190,532
Total	<u>\$ 9,523,750</u>	<u>\$ 7,141,602</u>	<u>\$ 1,565,223</u>	<u>\$ 579,847</u>	<u>\$ 357,737</u>	<u>\$ 2,688,505</u>	<u>\$ 1,073,153</u>	<u>\$ 929,295</u>	<u>\$ 34,401</u>	<u>\$ 23,893,513</u>

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

CONSERVATION SOCIETY OF CALIFORNIA

STATEMENTS OF CASH FLOWS YEARS ENDED SEPTEMBER 30, 2022 AND 2021

	<u>2022</u>	<u>2021</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase (decrease) in net assets	\$ 5,196,207	\$ (1,352,848)
Reconciliation to net cash provided by operating activities:		
Depreciation	4,529,743	4,550,294
Net gain on disposal of property and equipment	(3)	
Provision for doubtful pledges receivable	22,045	3,354
Forgiveness of Paycheck Protection Program loan	(4,742,100)	
Changes in:		
Accounts and other receivables	(762,698)	(85,110)
Prepaid expenses and other	(43,146)	(153,416)
Pledges receivable	(37,800)	246,559
Grant receivable	(1,499,203)	
Accounts payable	(203,892)	369,918
Accrued liabilities	841,845	14,392
Deferred revenue and unearned rental income	(45,970)	316,311
Net cash provided by operating activities	<u>3,255,028</u>	<u>3,909,454</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investments	(92)	(93)
Purchases of property and equipment	<u>(807,095)</u>	<u>(921,665)</u>
Net cash used by investing activities	<u>(807,187)</u>	<u>(921,758)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from Paycheck Protection Program loan	<u></u>	<u>2,000,000</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	2,447,841	4,987,696
CASH AND CASH EQUIVALENTS, Beginning of Year	<u>16,603,743</u>	<u>11,616,047</u>
CASH AND CASH EQUIVALENTS, End of Year	<u>\$ 19,051,584</u>	<u>\$ 16,603,743</u>

CONSERVATION SOCIETY OF CALIFORNIA

NOTES TO FINANCIAL STATEMENTS SEPTEMBER 30, 2022 AND 2021

1. OPERATIONS AND AGREEMENT WITH THE CITY OF OAKLAND

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

Oakland Zoo spans 100 acres and is home to over 850 native and exotic animals, many of which are rescues from the illegal wildlife trade, private ownership, or casualties of human-wildlife conflict needing sanctuary. The Society strives to provide the best in animal care and welfare, conservation-based education programs and quality guest experience to its 900,000+ annual visitors. With over 25 conservation partners and projects worldwide, the Society is committed to conservation-based education, saving species and their habitats in the wild, and leading an informed and inspired community to Taking Action for Wildlife both locally and globally. Fifty cents from every admission ticket and two dollars from every membership goes to support wildlife conservation programs worldwide.

The Zoo offers extensive and multi-platform educational and conservation-based messaging at its numerous exhibits for animals, from African elephants, lions, and primates in the main zoo to California Trail natives including Grizzly bears, bison, California condors, and mountain lions. Additionally, the Zoo conducts animal care-focused zookeeper talks for visitors and other experiences such as the Outback Adventure train, Sky Ride, restaurants, aerial gondola, and multiple playgrounds for children.

Accredited by the Association of Zoos and Aquariums (AZA), the national organization that sets the highest standards for animal welfare for zoos and aquariums, the Zoo is dedicated to the humane treatment of animals and is and has been recognized worldwide for its excellent animal management practices; trailblazing new techniques and methods that have since been adopted at other zoos worldwide.

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 to the Society in management fees during both 2022 and 2021.

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 – Contributions and government funding 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

CONSERVATION SOCIETY OF CALIFORNIA

NOTES TO FINANCIAL STATEMENTS SEPTEMBER 30, 2022 AND 2021

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.

The Society's revenue from contracts with customers consists of operating revenue (admissions, parking, and service fees), membership revenue, concessions revenue, education and special events revenue, and rental revenue. Operating and concessions revenue is recognized at time of purchase. Education, special events and rental revenue are recognized when the related events occur. Membership revenue is recognized over the term of the membership, typically one year. Funds received in advance of being earned are recorded as deferred revenue, which represents a contract liability.

The balances of receivables and liabilities from contracts with customers are as follows as of September 30:

	<u>2022</u>	<u>2021</u>	<u>2020</u>
Accounts receivable, net	<u>\$ 228,530</u>	<u>\$ 178,339</u>	<u>\$ 93,229</u>
Contract liabilities:			
Deferred revenue and unearned rental income	<u>\$ 4,578,830</u>	<u>\$ 4,624,800</u>	<u>\$ 4,308,489</u>

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.

Contributed services that do not meet the criteria for recognition, including approximately 70,000 volunteer hours, are not reflected in the financial statements. The fair market value of these volunteer hours is estimated to be approximately \$1,054,000 and \$780,000 for 2022 and 2021, respectively.

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's deposits held with financial institutions in excess of federal deposit insurance limits were \$18,252,865 and \$15,578,648 as of September 30, 2022 and 2021, 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.

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,

CONSERVATION SOCIETY OF CALIFORNIA

NOTES TO FINANCIAL STATEMENTS SEPTEMBER 30, 2022 AND 2021

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 2017.

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.

Fair value measurement information is reported in the Society's investment accounting policy and Note 6.

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Recent accounting pronouncements - In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-02, *Leases* (Topic 842). The new accounting standard requires lessees to recognize a lease liability measured on a discounted basis and a right-of-use asset for all leases with terms longer than 12 months. Application of this statement is effective for the year ending September 30, 2023. The Society is currently evaluating the impact this pronouncement will have on the financial statements.

Subsequent events have been evaluated through March 2, 2023, the date the financial statements were issued. Management concluded that no material subsequent events have occurred, except as noted in Note 16, since September 30, 2022 requiring recognition or disclosure in such financial statements.

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:

	<u>2022</u>	<u>2021</u>
Cash and cash equivalents	\$ 19,051,584	\$ 16,603,743
Accounts and other receivables	941,037	178,339
Pledges receivables, net	53,261	37,506
Grant receivable, net	1,499,203	
Investments	<u>184,331</u>	<u>184,239</u>
Total financial assets	21,729,416	17,003,827
Less:		
Amounts unavailable for general expenditures within one year, due to:		
Restriction by donors for time or purpose	<u>(2,936,542)</u>	<u>(1,211,904)</u>
Total financial assets available for general expenditure within one year	<u>\$ 18,792,874</u>	<u>\$ 15,791,923</u>

The Society's financial assets available for general expenditure as of September 30, 2022 and 2021 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., pandemic, 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 \$2,000,000 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 \$5M) for normal business operating expenses.

CONSERVATION SOCIETY OF CALIFORNIA

NOTES TO FINANCIAL STATEMENTS SEPTEMBER 30, 2022 AND 2021

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, 2022 and 2021 ranged from 2.31% to 1.35%.

Pledges receivable consist of the following:

	<u>2022</u>	<u>2021</u>
Gross pledges receivable	\$ 54,704	\$ 39,804
Less: Unamortized discount	(308)	(308)
Less: Reserve for uncollectible pledges	<u>(1,135)</u>	<u>(1,990)</u>
Pledges receivable, net	<u>\$ 53,261</u>	<u>\$ 37,506</u>

Pledges receivable are due to be collected as follows:

	<u>2022</u>	<u>2021</u>
Within one year	\$ 40,000	\$ 27,871
In one to five years	<u>13,261</u>	<u>9,635</u>
Pledges receivable, net	<u>\$ 53,261</u>	<u>\$ 37,506</u>

Approximately 75% and 37% of the Society's pledges receivable are from one donor at September 30, 2022 and 2021, respectively.

5. GRANT RECEIVABLE

Grant receivable represents funding provided through Measure FF in the form of a local agency grant administered by the East Bay Regional Park District. The grant totaling \$2,000,000 is to be paid as part of the Measure FF parcel tax in the amount of \$100,000 per year for twenty years to the Society. The Society received \$200,000 in fiscal year 2022, which is recorded in government funding in the Statement of Activities. Management believes that all outstanding amounts are collectible in full and therefore, an allowance for uncollectible accounts was not considered necessary. The discount rates used in determining the net present value of the grant receivable at September 30, 2022 was 2%.

Grant receivable consists of the following:

	<u>2022</u>
Gross grant receivable	\$ 1,800,000
Less: Unamortized discount	<u>(300,797)</u>
Grant receivable, net	<u>\$ 1,499,203</u>

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Grant receivable payments are due to be collected as follows:

	<u>2022</u>
In one to five years	\$ 500,000
Thereafter	<u>1,300,000</u>
Total	<u>\$ 1,800,000</u>

6. 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, 2022 and 2021. 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. There was no change in fair value for the year ended September 30, 2022 and 2021.

7. PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	<u>2022</u>	<u>2021</u>
Buildings and structures	\$ 105,533,170	\$ 105,666,036
Land improvements	13,472,288	13,472,288
Equipment	5,306,340	5,101,907
Vehicles	1,165,056	1,089,190
Furniture and fixtures	358,378	348,989
Construction in progress	211,818	23,696
Zoological collection	<u>198,167</u>	<u>198,167</u>
Total	126,245,217	125,900,273
Less accumulated depreciation	<u>(49,327,888)</u>	<u>(45,260,299)</u>
Total	<u>\$ 76,917,329</u>	<u>\$ 80,639,974</u>

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8. NET ASSETS

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

	<u>2022</u>	<u>2021</u>
Measure FF tax parcel funding – time restricted	\$ 1,499,203	
Education	439,823	\$ 406,233
Animal enrichment	285,024	284,543
Conservation	244,444	162,294
Elephant barn	199,625	198,625
Other projects	160,879	52,665
Charitable remainder trust asset – time restricted	<u>107,544</u>	<u>107,544</u>
Total	<u>\$ 2,936,542</u>	<u>\$ 1,211,904</u>

9. LINE OF CREDIT

The Society has a line of credit agreement with a bank to borrow up to \$2,000,000. 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 3.75%. Interest payments on borrowings are due monthly and the principal and any unpaid interest are due and payable on July 2023. There was no outstanding balance on this line of credit as of September 30, 2022 and 2021.

10. ENVIRONMENTAL EASEMENT LIABILITY AND RELATED LETTERS OF CREDIT

In July 2020, the Society opened a line of credit agreement with a bank for \$1,433,492. 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 4.00%. Interest payments on borrowings are due monthly and the principal and any unpaid interest are due and payable in September 2023. This line of credit was opened in relation to letters of credit established by the California Department of Fish and Wildlife (CDFW) in 2016 for the 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 in accrued expenses 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 by potentially drawing on the letters of credit. The bank would in turn draw on the line of credit to pay out the letters of credit. The line of credit limit represents the amount the CDFW would expend to complete the conservation requirements and would be paid using the line of

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credit. This line of credit was opened as collateral for the letters of credit and the Society cannot draw on this line for other purposes. There were no draws on the letters of credit during the years ended September 30, 2022 and 2021.

11. PAYCHECK 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 \$2,742,100. The terms and repayment conditions of PPP loans were modified through the subsequent Paycheck Protection Program Flexibility Act (PPFPA) signed into law in June 2020. Under the CARES Act, as modified by PPFPA, a portion or all of the loan and accrued interest may be forgiven provided the funds are spent on qualifying payroll and other expenditures in the 24-week period following the loan and provided certain other criteria regarding full-time equivalent employee and payroll levels are maintained.

In January 2021, the Society received additional funding through the PPP loan program totaling \$2,000,000. The portion of the loan that does not qualify for forgiveness or any additional amount that the Society chooses to maintain as a loan, is required to be repaid within 5 years at 1% interest.

The Society received notification that the first PPP loan was fully forgiven in February 2022 and recognized the loan forgiveness as income in the year ended September 30, 2022. In addition, the Society received notification that the second PPP loan was fully forgiven in July 2022 and recognized the loan forgiveness as income in the year ended September 30, 2022.

12. EMPLOYEE RETENTION TAX CREDIT

During the year ended September 30, 2022, the Society recognized revenue totaling \$712,507, related to the Employee Retention Tax Credit and this amount was included in accounts and other receivables on the statement of financial position. Laws and regulations concerning government programs, including the Employee Retention Credit established by the CARES Act, are complex and subject to varying interpretations. Claims made under the CARES Act may also be subject to retroactive audit and review. There can be no assurance that regulatory authorities will not challenge the Society's claim to the Employee Retention Tax Credit, and it is not possible to determine the impact (if any) this would have upon the Society.

13. 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 \$174,243 and \$149,830 during 2022 and 2021, respectively.

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14. 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 through September 30, 2029. The agreement was extended effective July 29, 2022 and remains in effect through September 30, 2034. 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, 2034, 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.

15. RISKS AND UNCERTAINTIES

The current inflationary environment will increase Society expenses. The Society has budgeted for increased costs, however, if inflation were to continue unabated, it could exceed the estimated increase. Due to the requirements to provide for the animals under its care, the Society's options to reduce animal management expenses are limited.

The Zoo's location exposes it to high risk of a natural disaster. The Zoo is located in a Very High Fire Hazard Severity Zone as determined by CAL FIRE. In partnership with the City of Oakland, the Society maintains the vegetation in Knowland Park to minimize this threat. The Zoo is also located on an active fault line, the Hayward Fault. A strong earthquake or wildfire in Knowland Park may lead to revenue disruptions due to extended closure or damage to facilities.

16. SUBSEQUENT EVENTS

Subsequent to year end, the Society experienced multiple events that will impact its balance sheet or future operations. On November 8, 2022, Oakland voters approved Measure Y which authorized an annual parcel tax of \$68 per parcel for 20 years "to fund Oakland Zoo operations, staffing, maintenance and capital improvements, including but not limited to animal care and rehabilitation, educational and conservation programs, fire prevention, accessibility, and visitor services." Measure Y will provide the Society with approximately \$12,000,000 per year for 20 years. The Society will not receive funds until after July 1, 2023.

Severe winter storms damaged the Zoo facilities, including a sinkhole that forced the Zoo to remain closed from December 31, 2022 to February 2, 2023. The Zoo reopened and returned to usual operations on February 3, 2023. The Society did not generate revenue from admissions during the closure. The Society is calculating direct repair costs from storm damage and working with its insurance carrier to compensate it for covered claims.

The Society is in the process of obtaining court approval of a proposed settlement for a Class Action lawsuit alleging wage-hour violations on behalf of current and former non-exempt/hourly employees. A hearing on preliminary approval is set for March 7, 2023, in order to determine whether the proposed settlement is fair and reasonable. The settlement agreement has been filed with the court in support of plaintiff's motion for preliminary approval, and the parties anticipate filing an amended

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settlement agreement by February 28, 2023. These settlement agreements set forth the material terms of the parties' settlement, including the gross settlement amount. The Society has accrued a liability at September 30, 2022, that represents amounts owed under a preliminary settlement agreement. This expense is recorded under personnel costs in 2022. Assuming the court grants preliminary approval on March 7, 2023, then notice of class action settlement will be distributed to the settlement class members, and the court will schedule a final fairness hearing on the proposed settlement. The parties estimate that the final fairness hearing will be in Fall – Winter 2023.