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EAST BAY
ZOOLOGICAL SOCIETY

INDEPENDENT AUDITORS' REPORT

AND

FINANCIAL STATEMENTS

JUNE 30, 1997 AND 1996

East Bay Zoological Society

Independent Auditors' Report
and Financial Statements

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Independent Auditors' Report

THE BOARD OF TRUSTEES
EAST BAY ZOOLOGICAL SOCIETY
Oakland, California

We have audited the accompanying statement of financial position of EAST BAY ZOOLOGICAL SOCIETY as of June 30, 1997 and 1996, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of East Bay Zoological Society's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the East Bay Zoological Society as of June 30, 1997 and 1996, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

Hood & Strong LLP

October 31, 1997

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East Bay Zoological Society

Statement of Financial Position

June 30, 1997

	Unrestricted	Temporarily Restricted	Total
Assets			
Current Assets:			
Cash	\$ 5,640		\$ 5,640
Accounts receivable	57,757		57,757
Bond proceeds receivable - due from governmental agencies		\$ 1,196,542	1,196,542
Current portion of contributions receivable		1,344,753	1,344,753
Inventory	80,078		80,078
Prepaid expenses	55,066		55,066
Total current assets	198,541	2,541,295	2,739,836
Due (To) From	635,100	(635,100)	
Contributions Receivable, net of current portion		201,778	201,778
Investments	604,761		604,761
Cash and Investments Restricted for Capital Improvements		1,934,096	1,934,096
Property and Equipment:			
Land improvements	338,909		338,909
Buildings	5,586,532		5,586,532
Vehicles and equipment	1,233,010		1,233,010
Furniture and fixtures	231,609		231,609
Animals	267,699		267,699
Work in progress	2,015,586		2,015,586
	9,673,345		9,673,345
Less: accumulated depreciation	3,294,891		3,294,891
	6,378,454		6,378,454
Total assets	\$ 7,816,856	\$ 4,042,069	\$ 11,858,925
Liabilities and Net Assets			
Current Liabilities:			
Bank overdraft	\$ 105,178		\$ 105,178
Accounts payable	204,579	\$ 47,025	251,604
Accrued payroll, vacation and other liabilities	170,393		170,393
Unearned rental income	45,970		45,970
Refundable deposits	15,450		15,450
Deferred revenue and advances	216,866	27,777	244,643
Total current liabilities	758,436	74,802	833,238
Net Assets	7,058,420	3,967,267	11,025,687
Total liabilities and net assets	\$ 7,816,856	\$ 4,042,069	\$ 11,858,925

The accompanying notes are an integral part of this statement. 2

East Bay Zoological Society

Statement of Financial Position

June 30, 1996

	Unrestricted	Temporarily Restricted	Total
Assets			
Current Assets:			
Cash	\$ 988,831		\$ 988,831
Accounts receivable	46,022		46,022
Current portion of bond proceeds receivable	49,729		49,729
Current portion of contributions receivable		\$ 739,940	739,940
Inventory	17,115		17,115
Prepaid expenses	34,916		34,916
Total current assets	1,136,613	739,940	1,876,553
Due (To) From	32,590	(32,590)	
Bond Proceeds Receivable - due from governmental agencies net of current portion		2,322,094	2,322,094
Contributions Receivable, net of current portion		231,691	231,691
Cash and Investments Restricted for Capital Improvements		941,718	941,718
Property and Equipment:			
Land improvements	245,325		245,325
Buildings	4,894,362		4,894,362
Vehicles and equipment	1,097,371		1,097,371
Furniture and fixtures	145,074		145,074
Animals	268,175		268,175
Work in progress	545,232		545,232
	7,195,539		7,195,539
Less: accumulated depreciation	2,739,111		2,739,111
	4,456,428		4,456,428
Total assets	\$ 5,625,631	\$ 4,202,853	\$ 9,828,484
Liabilities and Net Assets			
Current Liabilities:			
Accounts payable	\$ 226,440	\$ 5,454	\$ 231,894
Accrued payroll, vacation and other liabilities	159,084		159,084
Unearned rental income	42,167		42,167
Refundable deposits	17,150		17,150
Deferred revenue and advances	232,343	72,242	304,585
Total current liabilities	677,184	77,696	754,880
Net Assets	4,948,447	4,125,157	9,073,604
Total liabilities and net assets	\$ 5,625,631	\$ 4,202,853	\$ 9,828,484

East Bay Zoological Society

Statement of Activities

Year Ended June 30, 1997

	Unrestricted	Temporarily Restricted	Total
Revenues and Support:			
Contributions	\$ 485,104	\$ 2,023,923	\$ 2,509,027
Government funding	392,599		392,599
Bond proceeds		84,667	84,667
Operating revenue	1,455,168		1,455,168
Food service	534,349		534,349
Rides	515,614		515,614
Membership dues	330,055		330,055
Gift shop sales	189,792		189,792
Investment income and gains	101,709	23,207	124,916
Assets released from restriction	2,289,687	(2,289,687)	
Total revenues and support	6,294,077	(157,890)	6,136,187
Expenses:			
Program services:			
Animal management	1,199,549		1,199,549
Rides	206,712		206,712
Food service	382,651		382,651
Snow building	37,415		37,415
Operations	1,088,674		1,088,674
Gift shop	127,056		127,056
Education	221,054		221,054
Total program services	3,263,111		3,263,111
Support services:			
Development	116,871		116,871
Capital campaign	67,703		67,703
Administration	421,216		421,216
Public relations	315,203		315,203
Total support services	920,993		920,993
Total expenses	4,184,104		4,184,104
Change in Net Assets	2,109,973	(157,890)	1,952,083
Net Assets, beginning of year	4,948,447	4,125,157	9,073,604
Net Assets, end of year	\$ 7,058,420	\$ 3,967,267	\$ 11,025,687

East Bay Zoological Society

Statement of Activities

Year Ended June 30, 1996

	Unrestricted	Temporarily Restricted	Total
Revenues and Support:			
Contributions	\$ 73,278	\$ 2,097,218	\$ 2,170,496
Government funding	409,653		409,653
Bond proceeds		1,150,000	1,150,000
Operating revenue	1,501,568		1,501,568
Food service	537,510		537,510
Rides	522,754		522,754
Membership dues	300,609		300,609
Other	71,244	6,166	77,410
Assets released from restriction	1,111,440	(1,111,440)	
Total revenues and support	4,528,056	2,141,944	6,670,000
Expenses:			
Program services:			
Animal management	1,108,472		1,108,472
Rides	208,025		208,025
Food service	366,027		366,027
Snow building	37,416		37,416
Operations	1,047,451		1,047,451
Education	191,204		191,204
Total program services	2,958,595		2,958,595
Support services:			
Development	106,556		106,556
Capital campaign	308,881		308,881
Administration	393,294		393,294
Public relations	200,713		200,713
Total support services	1,009,444		1,009,444
Total expenses	3,968,039		3,968,039
Change in Net Assets	560,017	2,141,944	2,701,961
Net Assets, beginning of year	4,388,430	1,983,213	6,371,643
Net Assets, end of year	\$ 4,948,447	\$ 4,125,157	\$ 9,073,604

East Bay Zoological Society

Statement of Cash Flows

<i>Years Ended June 30,</i>	1997	1996
Operating Activities:		
Change in net assets	\$ 1,952,083	\$ 2,701,961
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	565,180	516,740
(Gain) loss on disposal of property and equipment	9,430	(2,150)
Donated assets		(8,000)
Donated investment		(17,331)
Gains on investments	(72,383)	
Contributions restricted for capital improvements	(2,108,590)	(3,247,218)
Changes in assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	(11,735)	(13,922)
Inventory	(62,963)	(194)
Prepaid expenses	(20,150)	31,224
Increase (decrease) in:		
Cash overdraft	105,178	
Accounts payable	19,710	14,951
Accrued payroll, vacation and other liabilities	11,309	24,831
Deferred revenue and advances	(59,942)	(59,538)
Refundable deposits	(1,700)	
Unearned rental income	3,803	
Net cash provided by operating activities	329,230	(58,646)
Investing Activities:		
Purchases of investments	(1,545,557)	
Purchase of property and equipment	(2,496,636)	(738,852)
Proceeds from disposal of property and equipment		2,150
Net cash used in investing activities	(4,042,193)	(736,702)
Financing Activities:		
Proceeds from contributions restricted for capital improvements	2,708,971	2,067,721
Increase (Decrease) in Cash	(1,003,992)	1,272,373
Cash - Beginning of Year (of which \$924,387 is restricted in 1996)	1,913,218	640,845
Cash - End of Year (of which \$903,586 is restricted in 1997)	\$ 909,226	\$ 1,913,218

East Bay Zoological Society

Notes to Financial Statements

Note 1 - Nature of the Organization:

a. Organization:

The East Bay Zoological Society (Society) is organized to operate the Knowland Park property (Knowland Park) within the City of Oakland (City). The property consists of a main zoo, children's zoo, amusement park, conference building, picnic and recreational areas. The Society's source of funds are derived from contributions, government funding, membership dues, food, ride and gift shop concessions and operating revenues. Operating revenues consist of parking receipts, zoo entrance fees and facility rentals.

b. Description of Net Assets:

Unrestricted Net Assets - The portion of net assets that is neither temporarily or permanently restricted by donor-imposed stipulations.

Temporarily Restricted Net Assets - The portion of net assets whose use by the Society is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the Society.

Permanently Restricted Net Assets - The portion of net assets whose use by the Society is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled and removed by actions of the Society.

Note 2 - Significant Accounting Policies:

a. Basis of Accounting:

The Society's financial statements have been prepared on the accrual basis of accounting. The accounts of the Society are maintained in accordance with the generally accepted accounting principles relevant to not-for-profit organizations.

Membership dues are recognized as revenue in the applicable membership period. Dues which apply to future periods have been reflected as deferred revenue.

East Bay Zoological Society

Notes to Financial Statements (Continued)

Note 2 - Significant Accounting Policies (Continued):

a. Basis of Accounting (Continued):

Contributions are recognized when the donor makes an unconditional promise to give to the Society. Contributions that are restricted by the donor are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When restrictions expire or are met by the Society, the temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

The Society reports gifts of land, buildings, and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Society reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

The Society is the recipient of funds from two local general obligation bond programs. The bonds are the obligation of the issuing governmental entity. The Society recognizes bond proceeds as support in temporarily restricted net assets when approvals are made by the granting governmental agency for specific capital projects. When expenditures are made for these capital projects, the temporarily restricted net assets are reclassified to unrestricted net assets.

b. Cash and Equivalents:

Cash and equivalents consist of amounts held with banks, and other short-term investments with original maturities of 90 days or less.

c. Investments:

Investments are recorded at fair market value based on quoted market prices.

East Bay Zoological Society

Notes to Financial Statements (Continued)

Note 2 - Significant Accounting Policies (Continued):

c. Investments (Continued):

Realized gains and losses are calculated on a first-in, first-out basis. Investment income, consisting of dividends and interest, is accrued as earned.

d. Inventory:

Inventory consists of food and gift shop items and is stated at the lower of cost or market price on a first-in, first-out basis.

e. Property and Equipment:

Property and equipment are stated at cost at date of acquisition or, in the case of gifts, fair value at date of donation. Depreciation is provided on the straight-line basis over useful lives as follows:

	Useful Lives
	<u>in Years</u>
Land improvements	5 - 15
Buildings	5 - 20
Vehicles and equipment	5 - 10
Furniture and fixtures	5
Animals	7 - 60

f. Income Taxes:

The Society is a tax exempt organization under provisions of the Internal Revenue Code Section 501(c)(3). Accordingly, no provision for income taxes has been reflected in these financial statements.

g. Use of Estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates.

East Bay Zoological Society

Notes to Financial Statements (Continued)

Note 3 - Lease Agreement: Under a ten year operating lease dated March 10, 1994, with the City, the Society has the exclusive right to improve, maintain and operate Knowland Park, subject to the lease provisions.

Any improvements or additions to Knowland Park become the property of the City upon termination of the lease. Under the terms of the lease, the Society is allowed to make, execute or guarantee indebtedness secured by the Society's improvements in Knowland Park. However, no indebtedness incurred by the Society shall be construed as debt of the City or as a lien or encumbrance of Knowland Park.

The Society may buy, sell, trade and breed animals in the main zoo which are the property of the City. At the termination of the lease, all animals acquired on behalf of the City will be returned to the City.

Note 4 - Capital Campaign: The Society has undertaken a capital campaign for a science and education center. The campaign's goal is \$3.9 million to construct and equip a building and expand education programs. The estimated cost of development, construction and equipment of the center is \$3.0 million with the remainder designated for an endowment to assure maintenance and operational funding. Contributions to the campaign include unconditional promises to give at June 30, 1997 of \$1,546,531. The contributions are due as follows:

Within one year	\$1,396,593
One to five years	260,753
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	1,657,346
Less: present value component	52,900
Less: allowance for doubtful accounts	57,915
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Total contributions receivable	1,546,531
Less: current portion	1,344,753
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Non-current portion	\$ 201,778

East Bay Zoological Society

Notes to Financial Statements (Continued)

Note 5 - Investments: Investments at June 30, 1997 consist of the following:

	Market Value
U.S. Treasury Bill - due 11/06/97	\$ 1,007,430
Jurika and Voyles Balance Mutual Fund	604,761
Common Stocks	23,080
	\$ 1,635,271

\$1,030,510 of the \$1,635,271 represents restricted investments for capital improvements.

Note 6 - Work in Progress: Work in progress includes preliminary planning and construction of animal exhibits, building and structures. Funds for construction are derived from bond proceeds (see Note 9), restricted donations and unrestricted donations which have been designated for capital projects by management of the Society.

Note 7 - Unearned Rental Income and Refundable Deposits: The Society rents the Snow Building and a picnic area to various civic and private groups. At June 30, 1997 and 1996, the Society had received advance rental payments of \$45,970 and \$42,167, respectively, and refundable deposits of \$15,450 and \$17,150, respectively.

Note 8 - Deferred Revenue Advances: Deferred revenue at June 30, represents payments received in advance for:

	1997	1996
Annual Zoo Camp	\$ 54,658	\$ 58,542
Membership dues	162,208	173,801
Advanced bond proceeds	27,777	72,242
	\$ 244,643	\$ 304,585

East Bay Zoological Society

Notes to Financial Statements (Continued)

Note 9 - Government Funding
and Bond Proceeds:

During the years ended June 30, 1997 and 1996, the City together with the East Bay Regional Park District (EBRPD) contributed \$392,599 and \$409,653, respectively to the Society to help support zoo operations. In addition, two persons in animal management positions at the Zoo are employed and paid by the City.

In November 1996, the voters passed Measure I which approved the issuance of General Obligation Bonds by the City of Oakland. The bonds will provide \$2 million for future capital projects within the zoo.

In 1988, the EBRPD approved \$5,000,000 of Measure-AA Bond proceeds to be used to support future capital projects within the Zoo. Of this amount, the EBRPD has approved the Society's proposals of approximately \$3,785,000 and \$3,700,000 for specific capital projects through June 30, 1997 and 1996, respectively. As of June 30, 1997, approximately \$343,351 was available as temporarily restricted net assets for future capital expenditures. The amount expended by the Society during the years ended June 30, 1997 and 1996 was \$882,169 and \$9,147, respectively.

In 1991, the City approved \$10,000,000 of Measure K Bond proceeds to be used to support future capital projects within the zoo. Of this amount, the City has approved the Society's proposals of a total of \$3,030,000 for specific capital projects through June 30, 1997 and 1996. The Society expended bond proceeds of \$1,212,984 and \$608,594 for the year ended June 30, 1997 and 1996, respectively.

The City and EBRPD may audit project expenditures during or at the completion of a project. Current and prior years expenditures are subject to adjustment upon audit.

East Bay Zoological Society

Notes to Financial Statements (Continued)

Note 10 -	Temporarily Restricted Net Assets:	Temporarily restricted net assets are available for the following purposes at June 30, 1997:										
		<table><tr><td>Capital improvements</td><td style="text-align: right;">\$ 366,990</td></tr><tr><td>Science and Education Center</td><td style="text-align: right;">3,594,562</td></tr><tr><td>Other purposes</td><td style="text-align: right;">5,715</td></tr><tr><td colspan="2"><hr/></td></tr><tr><td style="text-align: center;">Total</td><td style="text-align: right;">\$3,967,267</td></tr></table>	Capital improvements	\$ 366,990	Science and Education Center	3,594,562	Other purposes	5,715	<hr/>		Total	\$3,967,267
Capital improvements	\$ 366,990											
Science and Education Center	3,594,562											
Other purposes	5,715											
<hr/>												
Total	\$3,967,267											

Net assets were released from donor restrictions during 1997 by expending \$2,235,557 on capital additions, \$16,106 on the capital campaign and \$38,024 on various programs

Note 11 -	Donated Advertising and Public Relations:	During the fiscal year ending June 30, 1997 and 1996, certain advertising and public relations services have been donated to the Society. Their estimated value has been reflected in the accompanying financial statements as contributions and donations with a like amount included in in-kind expenses as capital campaign and public relations. Donated advertising relating to the capital campaign totaled \$148,872 for the year ended June 30, 1996 and donated public relations services totaled \$95,600 and \$22,035 for the years ended June 30, 1997 and 1996, respectively.
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Note 12 -	Concentration of Credit Risk:	<p>The Society has identified its financial instruments which are potentially subject to credit risk. These instruments consist of cash, investments and contributions receivable.</p> <p>As of June 30, 1997 and 1996, \$810,638 and \$1,768,308 of balances on deposit were in excess of federal insurance limits and therefore unsecured.</p>
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East Bay Zoological Society

Notes to Financial Statements
(Continued)

**Note 13 - 403(B) Salary
 Reduction Plan:**

Employees of the Society may participate in a 403(B) salary reduction plan, whereby the employees may elect to make contributions pursuant to a salary reduction agreement upon meeting age, length of service and number of hours requirements. The Society makes a matching contribution up to three percent of electing employees' compensation. Matching contributions to the plan were \$19,837 and \$13,979 for the years ended June 30, 1997 and 1996, respectively.

**Note 14 - Commitments and
 Contingencies:**

The Society is involved in various routine claims arising in the normal course of business. The claims are covered in whole or in part by insurance. It is the Society's opinion, that none will have a material adverse effect on the Society's financial position or results of operations.

Note 15 - Subsequent Event:

Effective July 8, 1997, the Society has a \$250,000 line of credit with Union Bank of California which terminates on June 30, 1998. Interest on borrowings are payable monthly at the Bank's reference rate.

The purpose of the line of credit is to provide interim construction financing for projects to be funded by bond issues which are administered by the City and East Bay Regional Park District.

HOOD &
STRONG LLP

CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditors' Report
on Supplemental Information

THE BOARD OF TRUSTEES
EAST BAY ZOOLOGICAL SOCIETY
Oakland, California

Our report on our audit of the basic financial statements of EAST BAY ZOOLOGICAL SOCIETY for the years ended June 30, 1997 appears on page 1. That audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental information presented on page 15 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements, and, in our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Hood & Strong LLP

October 31, 1997

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East Bay Zoological Society

Supplementary Information -
Schedule of Measure K Activity

Year Ended June 30, 1997

	Expenditures		Receipts/Receivable			Total
	Project Expenditures through June 30, 1996	1997 Expenditures	Project Expenditures as of June 30, 1997	Receipts through June 30, 1996	Receipts and Advances Expended from the City of Oakland - 1997	
Administration Office Building	\$ 127,718	\$ 550,095	\$ 677,813	\$ 127,718	\$ 487,117	\$ 62,978
Education Center Design	4,297		4,297	4,297		
Giraffe Exhibit Repairs	64,685		64,685	64,685		
Hamadryas Improvements	46,982		46,982	46,982		
Lower Park Restroom	11,872		11,872	11,872		
Park Entrance Improvement	141,703		141,703	141,703		
Path Railings	45,737		45,737	45,737		
Sewer Projects	4,562		4,562	4,562		
Siamang Island Project	382,074		382,074	382,074		
Signage Improvement	54,864	5,881	60,745	54,864	5,881	
Snow Building Improvement	3,579		3,579	3,579		
Sun Bear Exhibit	129,899		129,899	129,899		
Vet Hospital Improvement	53,433		53,433	53,433		
Water Wells	2,063		2,063	2,063		
Hay Barns	10,757		10,757	10,757		
Master Art Plan	9,640		9,640	9,640		
Africa Savannah	209,941	561,325	771,266	209,941	557,150	4,175
Infrastructure	45,339	45,223	90,562	45,339	45,223	
Environmental Impact	51,931	47,900	99,831	51,931	47,900	
Irrigation Project	1,058		1,058	1,058		
Management	820		820	820		
Sun Bear	412,209	2,560	414,769	412,209	2,560	
	\$ 1,815,163	\$ 1,212,984	\$ 3,028,147	\$ 1,815,163	\$ 1,145,831	\$ 67,153
						\$ 3,028,147