

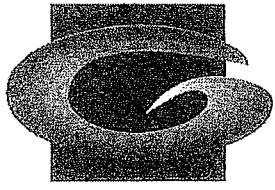
SECTION 15

**East Bay Zoological Society Financial
Statements with Independent Auditor's
Report (2005-2010)**

**EAST BAY ZOOLOGICAL
SOCIETY**

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

**YEARS ENDED
SEPTEMBER 30, 2010 AND 2009**



Gilbert Associates, Inc.
CPAs and Advisors

INDEPENDENT AUDITOR'S REPORT

**Board of Directors
East Bay Zoological Society
Oakland, California**

We have audited the accompanying statements of financial position of East Bay Zoological Society (Society) as of September 30, 2010 and 2009, and the related statements of activities and of cash flows for the years then ended. These financial statements are the responsibility of the 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 auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit 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 East Bay Zoological Society as of September 30, 2010 and 2009, and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Gilbert Associates, Inc.

GILBERT ASSOCIATES, INC.
Sacramento, California

March 8, 2011

EAST BAY ZOOLOGICAL SOCIETY

STATEMENTS OF FINANCIAL POSITION SEPTEMBER 30, 2010 AND 2009

ASSETS	<u>2010</u>	<u>2009</u>
CURRENT ASSETS:		
Cash and equivalents	\$ 1,531,853	\$ 540,242
Inventories	139,156	160,893
Prepaid expenses and other	321,655	331,097
Grants receivable		238,604
Bond proceeds receivable	58,538	252,669
Current portion of pledges receivable	<u>674,605</u>	<u>635,211</u>
Total current assets	2,725,807	2,158,716
PLEDGES RECEIVABLE, Net	1,468,054	1,748,288
INVESTMENTS	2,494,386	1,866,507
PROPERTY AND EQUIPMENT, Net	<u>25,246,539</u>	<u>25,874,394</u>
TOTAL ASSETS	<u>\$ 31,934,786</u>	<u>\$ 31,647,905</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable	\$ 367,612	\$ 362,775
Accrued liabilities	550,640	669,920
Deferred revenue and unearned rental income	<u>1,477,458</u>	<u>782,898</u>
Total liabilities	<u>2,395,710</u>	<u>1,815,593</u>
NET ASSETS:		
Unrestricted	26,135,141	26,510,949
Temporarily restricted	<u>3,403,935</u>	<u>3,321,363</u>
Total net assets	<u>29,539,076</u>	<u>29,832,312</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 31,934,786</u>	<u>\$ 31,647,905</u>

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

EAST BAY ZOOLOGICAL SOCIETY

STATEMENTS OF ACTIVITIES (Page 1 of 2) YEARS ENDED SEPTEMBER 30, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
UNRESTRICTED NET ASSETS:		
REVENUES AND SUPPORT:		
Program revenues:		
Operating revenue	\$ 3,616,535	\$ 3,443,367
Concessions	3,352,584	3,172,924
Membership revenue	1,598,592	1,497,498
Education	537,032	519,737
Special events	<u>385,702</u>	<u>398,057</u>
Total program revenue	<u>9,490,445</u>	<u>9,031,583</u>
Other support:		
Government funding	1,751,685	1,794,269
Contributions	659,442	432,052
Miscellaneous income	32,937	33,527
Investment income	7,088	76,623
Satisfaction of restrictions - operations	<u>533,643</u>	<u>608,178</u>
Total other support	<u>2,984,795</u>	<u>2,944,649</u>
Total revenue and support	<u>12,475,240</u>	<u>11,976,232</u>
OPERATING EXPENSES:		
Program services:		
Operations	3,476,599	3,213,585
Animal management	2,678,250	2,425,110
Concessions	1,835,907	1,688,592
Education	1,023,182	886,863
Special events	<u>197,957</u>	<u>246,958</u>
Total program services	<u>9,211,895</u>	<u>8,461,108</u>
Supporting services:		
Marketing and public relations	539,586	447,400
Fund development	326,116	293,457
Capital campaign fundraising	212,135	247,806
Administration	<u>1,575,212</u>	<u>1,774,276</u>
Total supporting services	<u>2,653,049</u>	<u>2,762,939</u>
Total operating expenses	<u>11,864,944</u>	<u>11,224,047</u>
NET INCOME FROM OPERATIONS	610,296	752,185

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

EAST BAY ZOOLOGICAL SOCIETY

STATEMENTS OF ACTIVITIES (Page 2 of 2) YEARS ENDED SEPTEMBER 30, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
Donated materials and services revenue	\$ 230,593	\$ 266,149
Donated materials and services expense	(230,593)	(266,149)
Depreciation expense	(1,972,429)	(1,960,797)
Bond proceeds from City of Oakland	586,339	1,087,044
Grants for capital projects		106,916
Satisfaction of restrictions - capital projects	<u>399,986</u>	<u>623,313</u>
INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS	<u>(375,808)</u>	<u>608,661</u>
TEMPORARILY RESTRICTED NET ASSETS:		
Contributions	1,016,201	2,731,475
Loss/reserve for pledges deemed uncollectible		(99,009)
Satisfaction of restrictions - operations	(533,643)	(608,178)
Satisfaction of restrictions - capital projects	<u>(399,986)</u>	<u>(623,313)</u>
INCREASE IN TEMPORARILY RESTRICTED NET ASSETS	<u>82,572</u>	<u>1,400,975</u>
INCREASE (DECREASE) IN NET ASSETS	(293,236)	2,009,636
NET ASSETS, Beginning of Year	<u>29,832,312</u>	<u>27,822,676</u>
NET ASSETS, End of Year	<u>\$ 29,539,076</u>	<u>\$ 29,832,312</u>

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

EAST BAY ZOOLOGICAL SOCIETY

STATEMENTS OF CASH FLOWS YEARS ENDED SEPTEMBER 30, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase (decrease) in net assets	\$ (293,236)	\$ 2,009,636
Reconciliation to net cash and equivalents provided by operating activities:		
Depreciation	1,972,429	1,960,797
Provision for doubtful pledges receivable		99,009
Net realized and unrealized loss (gain) on investments	6,411	(4,216)
Changes in:		
Grants receivable	238,604	61,396
Bond proceeds receivable	194,131	(178,948)
Pledges receivable	240,840	(1,768,618)
Inventories	21,737	(10,767)
Prepaid expenses and other	9,442	(105,599)
Accounts payable	4,837	(176,752)
Accrued liabilities	(119,280)	139,404
Deferred revenue and unearned rental income	694,560	20,405
Net cash and equivalents provided by operating activities	<u>2,970,475</u>	<u>2,045,747</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investments	(2,498,202)	(1,933,470)
Proceeds from sale and maturities of investments	1,863,912	2,141,703
Purchases of property and equipment	<u>(1,344,574)</u>	<u>(2,093,544)</u>
Net cash and equivalents used by investing activities	<u>(1,978,864)</u>	<u>(1,885,311)</u>
NET INCREASE IN CASH AND EQUIVALENTS	991,611	160,436
CASH AND EQUIVALENTS, Beginning of Year	<u>540,242</u>	<u>379,806</u>
CASH AND EQUIVALENTS, End of Year	<u>\$ 1,531,853</u>	<u>\$ 540,242</u>

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

EAST BAY ZOOLOGICAL SOCIETY

NOTES TO FINANCIAL STATEMENTS SEPTEMBER 30, 2010 AND 2009

1. OPERATIONS AND AGREEMENT WITH THE CITY OF OAKLAND

The East Bay Zoological Society (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, 2019.

In consideration for operating the Zoo and Park, the City provided \$846,900 and \$1,048,400 to the Society in management fees during 2010 and 2009, respectively.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation – The financial statements are presented in conformity with Accounting Standards Codification (ASC) 958-205, *Not-For-Profit Entities – Presentation of Financial Statements*. Under ASC 958-205, the Society reports information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted. The Society has no permanently restricted net assets.

Revenue recognition – Revenues from grants and bond proceeds are recognized when qualifying expenses are incurred. 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 ASC 958-605, *Not-For-Profit Entities – Revenue Recognition*. 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 temporarily or permanently restricted net assets. Temporarily restricted net assets 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.

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 ASC 958-605 are not reflected in the financial statements.

EAST BAY ZOOLOGICAL SOCIETY

NOTES TO FINANCIAL STATEMENTS SEPTEMBER 30, 2010 AND 2009

Cash and 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.

Investments are stated at market value.

Inventories – Food inventories are valued at the lower of cost or market, computed on the first-in, first-out basis. Gift shop merchandise inventories are valued using the weighted-average cost method.

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 \$2,500 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 statement of activities. Certain costs have been allocated to program services based on estimates of employees' time incurred and 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. The Society adopted the accounting principles related to accounting for uncertainty in income taxes (as described under FASB Accounting Standards Codification 740-10) as of October 1, 2009 and has determined that there is no material impact on the financial statements for September 30, 2010. 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 2006.

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.

Subsequent events have been reviewed through the issuance date of the audit report.

3. PRIOR PERIOD ADJUSTMENT

Net assets at September 31, 2009 and 2008 have been restated to correct the classification between unrestricted and temporarily restricted net assets. In 2009 and 2008, expenses for capital campaign fundraising for the California project and veterinary hospital were excluded from the release of temporarily restricted net assets. This correction resulted in an increase to unrestricted net assets and a decrease to temporarily restricted net assets of \$247,806 and \$287,673 at September 30, 2009 and 2008, respectively.

EAST BAY ZOOLOGICAL SOCIETY

NOTES TO FINANCIAL STATEMENTS SEPTEMBER 30, 2010 AND 2009

4. PLEDGES RECEIVABLE

The Society recognizes pledges receivable at their estimated fair value. Fair value is determined by calculating the present value of the estimated future cash flows. The discount rates used in determining the net present value of pledges receivable at September 30, 2010 and 2009 ranged from 2.8% to 5.8%. Pledges receivable consist of the following:

	<u>2010</u>	<u>2009</u>
Gross pledges receivable	\$ 2,282,855	\$ 2,682,211
Less: Unamortized discount	(101,653)	(138,380)
Less: Reserve for uncollectible pledges	<u>(38,543)</u>	<u>(160,332)</u>
Pledges receivable, net	<u>\$ 2,142,659</u>	<u>\$ 2,383,499</u>

Pledges receivable are due to be collected as follows:

	<u>2010</u>	<u>2009</u>
Within one year	\$ 674,605	\$ 635,211
In one to five years	<u>1,468,054</u>	<u>1,748,288</u>
Pledges receivable, net	<u>\$ 2,142,659</u>	<u>\$ 2,383,499</u>

Approximately 75% and 81% of the Society's pledges receivable are from three donors as of September 30, 2010 and 2009, respectively.

Conditional promises to give – In fiscal year 2008, the Society received a \$5,000,000 pledge from a private foundation to support the construction of a new veterinary medical hospital provided certain conditions are met, including certification that construction has commenced. In accordance with ASC 958-605, conditional funding has not been recognized as revenue in the financial statements.

5. INVESTMENTS

Investments consist of the following:

	<u>2010</u>	<u>2009</u>
Cash	\$ 1,588,293	
Money market mutual funds	255,107	\$ 1,216,671
Bonds	<u>650,986</u>	<u>649,836</u>
Total	<u>\$ 2,494,386</u>	<u>\$ 1,866,507</u>

EAST BAY ZOOLOGICAL SOCIETY

NOTES TO FINANCIAL STATEMENTS SEPTEMBER 30, 2010 AND 2009

Investments measured at fair are recorded in accordance with ASC 820, *Fair Value Measurements and Disclosures*, which clarifies that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. As a basis for considering such assumptions, ASC 820 establishes a three-tier value hierarchy, which prioritizes the inputs used in measuring fair value 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 in which there is little or no market data, which require us to develop our own assumptions.

The Society's investments are classified within Level 1 of the hierarchy because they are valued using quoted market prices in active markets for identical assets.

Interest and investment income consists of the following:

	<u>2010</u>	<u>2009</u>
Interest and dividends	\$ 13,499	\$ 72,407
Net realized and unrealized gain (loss)	<u>(6,411)</u>	<u>4,216</u>
Total	<u>\$ 7,088</u>	<u>\$ 76,623</u>

6. PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	<u>2010</u>	<u>2009</u>
Buildings and structures	\$ 36,561,410	\$ 35,860,203
Construction in progress	3,094,762	2,594,559
Equipment	3,330,639	3,275,230
Land improvements	4,409,184	4,355,429
Furniture and fixtures	350,612	396,750
Zoological collection	210,206	210,206
Vehicles	<u>320,696</u>	<u>366,523</u>
Total	48,277,509	47,058,900
Less accumulated depreciation	<u>(23,030,970)</u>	<u>(21,184,506)</u>
Total	<u>\$ 25,246,539</u>	<u>\$ 25,874,394</u>

EAST BAY ZOOLOGICAL SOCIETY

NOTES TO FINANCIAL STATEMENTS SEPTEMBER 30, 2010 AND 2009

Management estimates that approximately 94% and 92% of depreciation expense relates to program services and 6% and 8% to supporting services for 2010 and 2009, respectively.

7. DONATED MATERIALS AND SERVICES

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

	<u>2010</u>	<u>2009</u>
Marketing and public relations	\$ 218,174	\$ 231,025
Animal management	10,719	25,392
Fund development	1,500	6,354
Education	200	400
Operations		<u>2,978</u>
Total donated materials and services	<u>\$ 230,593</u>	<u>\$ 266,149</u>

Management estimates that approximately 5% and 11% of donated materials and services expense relates to program services and 95% and 89% to supporting services for 2010 and 2009, respectively.

8. NET ASSETS

Temporarily restricted net assets are available for the following purposes:

California project	\$ 2,896,489	\$ 2,505,812
Veterinary hospital	271,176	476,477
Elephant barn	159,648	167,071
Time restricted	50,000	100,000
Other projects	<u>26,622</u>	<u>72,003</u>
Total	<u>\$ 3,403,935</u>	<u>\$ 3,321,363</u>

9. EMPLOYEES' INCENTIVE PLAN

The Society sponsors a retirement plan under Internal Revenue Code 403(b). Employees over the age of 18 are eligible to participate once they have completed three months of service. The Society contributes 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 \$85,277 and \$76,427 during 2010 and 2009, respectively.

EAST BAY ZOOLOGICAL SOCIETY

NOTES TO FINANCIAL STATEMENTS SEPTEMBER 30, 2010 AND 2009

10. LINE OF CREDIT

The Society has a \$750,000 revolving line of credit with a bank, with a variable interest rate equal to the bank's floating prime rate plus 0.50% (3.75% as of September 30, 2010), expiring on July 31, 2011. There was no outstanding balance as of September 30, 2010 and 2009.

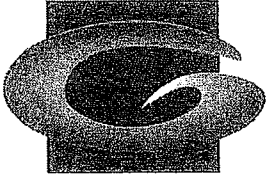
11. CONCENTRATIONS OF CASH

The Society maintains its cash in bank deposit accounts that, at times, may exceed federally insured limits. 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.

**EAST BAY ZOOLOGICAL
SOCIETY**

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

**FIFTEEN MONTHS ENDED
SEPTEMBER 30, 2008**



Gilbert Associates, Inc.
CPAs and Advisors

INDEPENDENT AUDITOR'S REPORT

**Board of Directors
East Bay Zoological Society
Oakland, California**

We have audited the accompanying statement of financial position of East Bay Zoological Society (Society) as of September 30, 2008, and the related statements of activities and of cash flows for the fifteen months then ended. These financial statements are the responsibility of the Society's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit 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 audit provides 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 East Bay Zoological Society as of September 30, 2008, and the changes in its net assets and its cash flows for the fifteen months then ended, in conformity with accounting principles generally accepted in the United States of America.

Gilbert Associates, Inc.

**GILBERT ASSOCIATES, INC.
Sacramento, California**

April 17, 2009

EAST BAY ZOOLOGICAL SOCIETY

STATEMENT OF FINANCIAL POSITION SEPTEMBER 30, 2008

ASSETS

CURRENT ASSETS:

Cash and equivalents	\$ 379,806
Investments	2,070,524
Inventories	150,126
Prepaid expenses and other	225,498
Grants receivable	300,000
Bond proceeds receivable	73,721
Current portion of pledges receivable	<u>154,820</u>
Total current assets	3,354,495

PLEDGES RECEIVABLE, Net 559,070

PROPERTY AND EQUIPMENT, Net 25,741,647

TOTAL ASSETS \$ 29,655,212

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES:

Accounts payable	\$ 539,527
Accrued liabilities	530,516
Deferred revenue and unearned rental income	<u>762,493</u>
Total liabilities	<u>1,832,536</u>

NET ASSETS:

Unrestricted net assets	25,409,017
Temporarily restricted	<u>2,413,659</u>
Total net assets	<u>27,822,676</u>

TOTAL LIABILITIES AND NET ASSETS \$ 29,655,212

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

EAST BAY ZOOLOGICAL SOCIETY

STATEMENT OF ACTIVITIES (Page 1 of 2)
FIFTEEN MONTHS ENDED SEPTEMBER 30, 2008

UNRESTRICTED NET ASSETS:

REVENUES AND SUPPORT:

Program revenues:

Concessions	\$ 4,166,414
Operating revenue	4,090,351
Membership revenue	1,780,101
Education	882,635
Special events	223,872
Donated materials and services	<u>51,734</u>
Total program revenue	<u>11,195,107</u>

Other support:

Government funding	1,767,851
Contributions	381,332
Miscellaneous income	8,750
Investment loss	(122,087)
Satisfaction of restrictions - operations	<u>190,286</u>
Total other support	<u>2,226,132</u>
Total revenue and support	<u>13,421,239</u>

OPERATING EXPENSES:

Program services:

Operations	4,164,668
Animal management	3,001,743
Concessions	2,327,804
Education	1,177,735
Special events	<u>80,081</u>
Total program services	<u>10,752,031</u>

Supporting services:

Marketing and public relations	423,228
Fund development	422,476
Capital campaign fundraising	258,661
Administration	<u>2,186,558</u>
Total supporting services	<u>3,290,923</u>
Total operating expenses	<u>14,042,954</u>

NET LOSS FROM OPERATIONS

(621,715)

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

EAST BAY ZOOLOGICAL SOCIETY
STATEMENT OF ACTIVITIES (Page 2 of 2)
FIFTEEN MONTHS ENDED SEPTEMBER 30, 2008

Depreciation expense	\$ (2,704,899)
Bond proceeds from City of Oakland	1,423,776
Grants for capital projects	569,958
Satisfaction of restrictions - capital projects	<u>457,987</u>
DECREASE IN UNRESTRICTED NET ASSETS	<u>(874,893)</u>
TEMPORARILY RESTRICTED NET ASSETS:	
Contributions	2,790,153
Loss/reserve for pledges deemed uncollectible	(85,079)
Satisfaction of restrictions - operations	(190,286)
Satisfaction of restrictions - capital projects	<u>(457,987)</u>
INCREASE IN TEMPORARILY RESTRICTED NET ASSETS	<u>2,056,801</u>
INCREASE IN NET ASSETS	1,181,908
NET ASSETS, Beginning of Year	<u>26,640,768</u>
NET ASSETS, End of Year	<u>\$ 27,822,676</u>

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

EAST BAY ZOOLOGICAL SOCIETY
STATEMENT OF CASH FLOWS
FIFTEEN MONTHS ENDED SEPTEMBER 30, 2008

CASH FLOWS FROM OPERATING ACTIVITIES:	
Increase in net assets	\$ 1,181,908
Reconciliation to net cash and equivalents provided by operating activities:	
Depreciation	2,704,899
Provision for doubtful pledges receivable	85,079
Net realized and unrealized loss on investments	240,509
Changes in:	
Grants receivable	127,110
Bond proceeds receivable	399,006
Contributions receivable	(722,734)
Inventories	67,613
Prepaid expenses and other	18,946
Accounts payable	43,885
Accrued liabilities	(19,420)
Deferred revenue and unearned rental income	(117,448)
Net cash and equivalents provided by operating activities	<u>4,009,353</u>
 CASH FLOWS FROM INVESTING ACTIVITIES:	
Purchases of investments	(3,261,259)
Proceeds from sale and maturities of investments	2,115,812
Purchases of property and equipment	<u>(3,432,105)</u>
Net cash and equivalents used by investing activities	<u>(4,577,552)</u>
 NET DECREASE IN CASH AND EQUIVALENTS	 (568,199)
 CASH AND EQUIVALENTS, Beginning of Year	 <u>948,005</u>
 CASH AND EQUIVALENTS, End of Year	 <u>\$ 379,806</u>

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

EAST BAY ZOOLOGICAL SOCIETY

NOTES TO FINANCIAL STATEMENTS SEPTEMBER 30, 2008

1. OPERATIONS AND AGREEMENT WITH THE CITY OF OAKLAND

The East Bay Zoological Society (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, 2019.

In consideration for operating the Zoo and Park, the City provided \$1,048,400 to the Society during the fifteen months ended September 30, 2008.

The Society changed its fiscal year end from June 30 to September 30. The financial statements report activities for the fifteen month period ended September 30, 2008.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation – The financial statements are presented in conformity with Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-For-Profit Organizations*. Under SFAS No. 117, the Society reports information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted. The Society has no permanently restricted net assets.

Revenue recognition – Revenues from grants and bond proceeds are recognized when qualifying expenses are incurred. 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 SFAS No. 116, *Accounting for Contributions Received and Contributions Made*. 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 temporarily or permanently restricted net assets. Temporarily restricted net assets 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.

EAST BAY ZOOLOGICAL SOCIETY

NOTES TO FINANCIAL STATEMENTS SEPTEMBER 30, 2008

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 SFAS No. 116 are not reflected in the financial statements.

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

Investments are stated at market value.

Inventories – Food inventories are valued at the lower of cost or market, computed on the first-in, first-out basis. Gift shop merchandise inventories are valued using the weighted-average cost method.

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 \$2,500 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 statement of activities. Certain costs have been allocated to program services based on estimates of employees' time incurred and 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.

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.

EAST BAY ZOOLOGICAL SOCIETY

NOTES TO FINANCIAL STATEMENTS SEPTEMBER 30, 2008

3. PLEDGES RECEIVABLE

The Society recognizes pledges receivable at their estimated fair value. Fair value is determined by calculating the present value of the estimated future cash flows. The discount rates used in determining the net present value of pledges receivable at September 30, 2008 ranged from 4.2% to 5.8%. Pledges receivable consist of the following:

Gross pledges receivable	\$ 848,820
Less: Unamortized discount	(67,607)
Less: Reserve for uncollectible pledges	<u>(67,323)</u>
Pledges receivable, net	<u>\$ 713,890</u>

Pledges receivable are due to be collected as follows:

Within one year	\$ 154,820
In one to five years	<u>559,070</u>
Pledges receivable, net	<u>\$ 713,890</u>

4. INVESTMENTS

Investments consist of the following:

Bonds	\$ 2,069,619
Money market mutual funds	<u>905</u>
Total	<u>\$ 2,070,524</u>

Interest and investment loss consists of the following:

Interest and dividends	\$ 118,422
Net realized and unrealized loss	<u>(240,509)</u>
Total	<u>\$ (122,087)</u>

EAST BAY ZOOLOGICAL SOCIETY

NOTES TO FINANCIAL STATEMENTS SEPTEMBER 30, 2008

5. PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

Buildings and structures	\$ 34,787,724
Construction in progress	1,903,595
Equipment	3,126,235
Land improvements	4,295,545
Furniture and fixtures	393,223
Zoological collection	210,206
Vehicles	<u>358,071</u>
Total	45,074,599
Less accumulated depreciation	<u>(19,332,952)</u>
Total	<u>\$ 25,741,647</u>

Management estimates that approximately 92% of depreciation expense relates to program services and 8% to supporting services for the fifteen months ended September 30, 2008.

6. DONATED MATERIALS AND SERVICES

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

Fund development	\$ 16,389
Animal management	13,813
Marketing and public relations	11,408
Education	5,203
Miscellaneous	<u>4,921</u>
Total donated materials and services	<u>\$ 51,734</u>

7. NET ASSETS

Temporarily restricted net assets are available for the following purposes:

Veterinary hospital	\$ 1,127,776
California project	786,786
Education	186,477
Other projects	<u>312,620</u>
Total	<u>\$ 2,413,659</u>

EAST BAY ZOOLOGICAL SOCIETY

NOTES TO FINANCIAL STATEMENTS SEPTEMBER 30, 2008

8. EMPLOYEES' INCENTIVE PLAN

The Society sponsors a retirement plan under Internal Revenue Code 403(b). Employees over the age of 18 are eligible to participate once they have completed three months of service. The Society contributes 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 \$55,652 during the fifteen months ended September 30, 2008.

9. LINE OF CREDIT

The Society has a \$500,000 revolving line of credit with a bank, with a variable interest rate equal to the bank's floating prime rate plus 0.50% (5.00% as of September 30, 2008), expiring on July 31, 2009. There was no outstanding balance as of September 30, 2008.

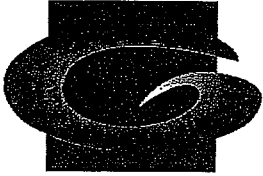
10. CONCENTRATIONS OF CASH

The Society maintains its cash in bank deposit accounts that, at times, may exceed federally insured limits. 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.

**EAST BAY ZOOLOGICAL
SOCIETY**

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

YEARS ENDED JUNE 30, 2007 AND 2006



Gilbert Associates, Inc.
CPAs and Advisors

INDEPENDENT AUDITOR'S REPORT

**Board of Directors
East Bay Zoological Society
Oakland, California**

We have audited the accompanying statements of financial position of East Bay Zoological Society (Society) as of June 30, 2007 and 2006, and the related statements of activities and of cash flows for the years then ended. These financial statements are the responsibility of the 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 auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit 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 East Bay Zoological Society as of June 30, 2007 and 2006, and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Gilbert Associates, Inc.

GILBERT ASSOCIATES, INC.

December 21, 2007

EAST BAY ZOOLOGICAL SOCIETY

STATEMENTS OF FINANCIAL POSITION JUNE 30, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
ASSETS		
CURRENT ASSETS:		
Cash and equivalents	\$ 948,005	\$ 1,816,771
Investments	1,165,586	629,024
Accounts and other receivables	75,988	29,623
Inventories	217,739	171,256
Prepaid expenses and other	168,456	151,993
Grants receivable	427,110	
Bond proceeds receivable	472,727	
Contributions receivable	<u>76,235</u>	
Total current assets	3,551,846	<u>2,798,667</u>
PROPERTY AND EQUIPMENT, Net	<u>25,014,441</u>	<u>25,441,639</u>
TOTAL ASSETS	<u>\$ 28,566,287</u>	<u>\$ 28,240,306</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable	\$ 495,642	\$ 410,286
Accrued liabilities	549,936	413,220
Deferred revenue and unearned rental income	<u>879,941</u>	<u>784,212</u>
Total liabilities	<u>1,925,519</u>	<u>1,607,718</u>
NET ASSETS:		
Unrestricted:		
Undesignated	1,269,469	930,530
Investment in fixed assets	25,014,441	25,441,639
Temporarily restricted	<u>356,858</u>	<u>260,419</u>
Total net assets	<u>26,640,768</u>	<u>26,632,588</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 28,566,287</u>	<u>\$ 28,240,306</u>

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

EAST BAY ZOOLOGICAL SOCIETY

STATEMENTS OF ACTIVITIES (Page 1 of 2) YEARS ENDED JUNE 30, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
UNRESTRICTED NET ASSETS:		
REVENUES AND SUPPORT:		
Program revenues:		
Concessions	\$ 3,000,343	\$ 2,774,813
Operating revenue	3,015,345	2,665,086
Membership revenue	1,332,929	1,335,654
Education	389,449	365,739
Special events	184,554	133,150
Donated materials and services	27,403	45,577
Total program revenue	7,950,023	7,320,019
Other support:		
Government funding	1,300,906	1,219,392
Contributions	517,843	371,604
Investment income	99,502	54,778
Miscellaneous income	62,598	28,416
Satisfaction of restrictions - operations	61,426	131,421
Total other support	2,042,275	1,805,611
Total revenue and support	9,992,298	9,125,630
OPERATING EXPENSES:		
Program services:		
Operations	2,954,799	2,685,648
Animal management	2,159,708	2,037,727
Concessions	1,491,463	1,378,575
Education	788,149	640,833
Special events	62,647	48,948
Total program services	7,456,766	6,791,731
Supporting services:		
Fund development	331,440	196,760
Marketing and public relations	283,654	305,747
Administration	1,257,330	1,239,794
Total supporting services	1,872,424	1,742,301
Total operating expenses	9,329,190	8,534,032
NET INCOME FROM OPERATIONS	663,108	591,598

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

EAST BAY ZOOLOGICAL SOCIETY

STATEMENTS OF ACTIVITIES (Page 2 of 2) YEARS ENDED JUNE 30, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
Depreciation expense	(2,079,997)	(1,984,171)
Loss on disposal of property and equipment	(227,623)	(17,869)
Bond proceeds from City of Oakland	596,750	1,072,907
Grants for capital projects	816,894	594,764
Satisfaction of restrictions - capital projects	<u>142,609</u>	<u>1,974,597</u>
INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS	<u>(88,259)</u>	<u>2,231,826</u>
TEMPORARILY RESTRICTED NET ASSETS:		
Contributions	300,474	215,947
Satisfaction of restrictions - operations	(61,426)	(131,421)
Satisfaction of restrictions - capital projects	<u>(142,609)</u>	<u>(1,974,597)</u>
INCREASE (DECREASE) IN TEMPORARILY RESTRICTED NET ASSETS	<u>96,439</u>	<u>(1,890,071)</u>
INCREASE IN NET ASSETS	8,180	341,755
NET ASSETS, Beginning of Year	<u>26,632,588</u>	<u>26,290,833</u>
NET ASSETS, End of Year	<u>\$ 26,640,768</u>	<u>\$ 26,632,588</u>

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

EAST BAY ZOOLOGICAL SOCIETY

STATEMENTS OF CASH FLOWS YEARS ENDED JUNE 30, 2007 AND 2006

		<u>2007</u>		<u>2006</u>
	CASH FLOWS FROM OPERATING ACTIVITIES:			
41,755	Increase in net assets	\$ 8,180		\$ 3
	Reconciliation to net cash and equivalents provided by operating activities:			
34,171	Depreciation	2,079,997		1,98
7,869	Loss on disposal of property and equipment	227,623		1
4,508	Realized and unrealized loss on investments	3,983		
	Changes in:			
7,848)	Accounts and other receivables	(46,365)		(
	Grants receivable	(427,110)		
2,909	Bond proceeds receivable	(472,727)		1,16
3,961	Contributions receivable	(76,235)		5
5,258)	Inventories	(46,483)		(7
6,086	Prepaid expenses and other	(16,463)		3
8,542)	Accounts payable	85,356		(1,29
7,107	Accrued liabilities	136,716		11
3,979)	Deferred revenue and unearned rental income	95,729		(7
2,739	Net cash and equivalents provided by operating activities	<u>1,552,201</u>		<u>2,26</u>
	CASH FLOWS FROM INVESTING ACTIVITIES:			
4,569)	Purchases of investments	(2,159,250)		(76
0,000	Proceeds from sale and maturities of investments	1,618,705		15
5,150	Proceeds from sale of property and equipment			4
3,285)	Purchases of property and equipment	<u>(1,880,422)</u>		<u>(2,57</u>
2,704)	Net cash and equivalents used by investing activities	<u>(2,420,967)</u>		<u>(3,18</u>
9,965)	NET DECREASE IN CASH AND EQUIVALENTS	(868,766)		(919
5,736	CASH AND EQUIVALENTS, Beginning of Year	<u>1,816,771</u>		<u>2,736</u>
5,771	CASH AND EQUIVALENTS, End of Year	<u>\$ 948,005</u>		<u>\$ 1,816</u>

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

EAST BAY ZOOLOGICAL SOCIETY

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2007 AND 2006

1. OPERATIONS AND AGREEMENT WITH THE CITY OF OAKLAND

The East Bay Zoological Society (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, 2019.

In consideration for operating the Zoo and Park, the City provided \$672,400 to the Society during 2007 and 2006.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation – The financial statements are presented in conformity with Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-For-Profit Organizations*. Under SFAS No. 117, the Society reports information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted. The Society has no permanently restricted net assets.

Revenue recognition – Revenues from grants and bond proceeds are recognized when qualifying expenses are incurred. 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 SFAS No. 116, *Accounting for Contributions Received and Contributions Made*. 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 temporarily or permanently restricted net assets. Temporarily restricted net assets 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.

EAST BAY ZOOLOGICAL SOCIETY

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2007 AND 2006

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 SFAS No. 116 are not reflected in the financial statements.

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

Investments are stated at market value.

Inventories – Food inventories are valued at the lower of cost or market, computed on the first-in, first-out basis. Gift shop merchandise inventories are valued using the weighted-average cost method.

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 \$2,500 or more. Property and equipment represent costs the Society has incurred purchasing, building and improving exhibits on the premises of the Oakland 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 statement of activities. Certain costs have been allocated to program services based on estimates of employees' time incurred and 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.

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.

Reclassifications – Certain 2006 amounts have been reclassified to conform with the 2007 financial statement presentation.

EAST BAY ZOOLOGICAL SOCIETY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007 AND 2006

3. INVESTMENTS

Investments consist of the following:

	<u>2007</u>	<u>2006</u>
Bonds	\$ 1,104,889	\$ 602,674
Equity securities	60,475	
Mutual funds		21,244
Money market mutual funds	<u>222</u>	<u>5,106</u>
Total	<u>\$ 1,165,586</u>	<u>\$ 629,024</u>

4. PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	<u>2007</u>	<u>2006</u>
Buildings and structures	\$ 34,273,457	\$ 33,998,622
Construction in progress	1,421,134	454,920
Equipment	2,804,551	2,788,988
Land improvements	2,217,840	2,082,184
Furniture and fixtures	357,235	368,506
Zoological collection	210,206	292,796
Vehicles	<u>358,071</u>	<u>295,359</u>
Total	41,642,494	40,281,375
Less accumulated depreciation	<u>(16,628,053)</u>	<u>(14,839,736)</u>
Total	<u>\$ 25,014,441</u>	<u>\$ 25,441,639</u>

Management estimates that approximately 94% and 97% of depreciation expense relates to program services and 6% and 3% to supporting services for 2007 and 2006, respectively.

EAST BAY ZOOLOGICAL SOCIETY

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2007 AND 2006

5. DONATED MATERIALS AND SERVICES

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

	<u>2007</u>	<u>2006</u>
Marketing and public relations	\$ 7,080	\$ 25,000
Special events	5,756	1,200
Animal management	5,437	15,725
Miscellaneous	<u>9,130</u>	<u>3,652</u>
Total donated materials and services	<u>\$ 27,403</u>	<u>\$ 45,577</u>

6. NET ASSETS

Temporarily restricted net assets are available for the following purposes:

	<u>2007</u>	<u>2006</u>
Elephant barn	\$ 102,193	\$ 120,488
Education	88,184	2,472
Animal enrichment	81,838	70,190
Conservation	48,647	
Other projects	<u>35,996</u>	<u>67,269</u>
Total	<u>\$ 356,858</u>	<u>\$ 260,419</u>

7. EMPLOYEES' INCENTIVE PLAN

The Society sponsors a retirement plan under Internal Revenue Code 403(b). Employees over the age of 18 are eligible to participate once they have completed three months of service. The Society contributes 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 \$31,791 and \$25,970 during 2007 and 2006, respectively.

8. LINE OF CREDIT

The Society has a \$250,000 revolving line of credit with a bank, with a variable interest rate equal to the bank's floating prime rate plus 0.50% (8.25% as of June 30, 2007), expiring on July 31, 2009. There was no outstanding balance as of June 30, 2007.

EAST BAY ZOOLOGICAL SOCIETY

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2007 AND 2006

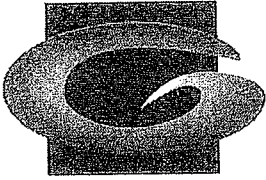
9. CONCENTRATIONS OF CASH

The Society maintains its cash in bank deposit accounts that, at times, may exceed federally insured limits. 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.

**EAST BAY ZOOLOGICAL
SOCIETY**

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

YEARS ENDED JUNE 30, 2006 AND 2005



Gilbert Associates, Inc.
CPAs and Advisors

INDEPENDENT AUDITOR'S REPORT

**Board of Directors
East Bay Zoological Society
Oakland, California**

We have audited the accompanying statements of financial position of East Bay Zoological Society (Society) as of June 30, 2006 and 2005, and the related statements of activities and of cash flows for the years then ended. These financial statements are the responsibility of the 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 auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit 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 East Bay Zoological Society as of June 30, 2006 and 2005, and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Gilbert Associates, Inc.

GILBERT ASSOCIATES, INC.

December 8, 2006

EAST BAY ZOOLOGICAL SOCIETY

STATEMENTS OF FINANCIAL POSITION JUNE 30, 2006 AND 2005

	<u>2006</u>	<u>2005</u>
ASSETS		
CURRENT ASSETS:		
Cash and equivalents	\$ 1,816,771	\$ 2,736,736
Investments	629,024	18,963
Accounts and other receivables	29,623	21,775
Inventories	171,256	95,998
Prepaid expenses and other	151,993	188,079
Bond proceeds receivable		1,162,909
Contributions receivable		53,961
Total current assets	<u>2,798,667</u>	<u>4,278,421</u>
PROPERTY AND EQUIPMENT, Net	<u>25,441,639</u>	<u>24,875,544</u>
TOTAL ASSETS	<u>\$ 28,240,306</u>	<u>\$ 29,153,965</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable	\$ 410,286	\$ 1,708,828
Accrued liabilities	413,220	296,113
Deferred revenue and unearned rental income	<u>784,212</u>	<u>858,191</u>
Total liabilities	<u>1,607,718</u>	<u>2,863,132</u>
NET ASSETS:		
Unrestricted		
Undesignated	930,530	(735,201)
Investment in fixed assets	25,441,639	24,875,544
Temporarily restricted	<u>260,419</u>	<u>2,150,490</u>
Total net assets	<u>26,632,588</u>	<u>26,290,833</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 28,240,306</u>	<u>\$ 29,153,965</u>

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

EAST BAY ZOOLOGICAL SOCIETY

STATEMENTS OF ACTIVITIES (Page 1 of 2) YEARS ENDED JUNE 30, 2006 AND 2005

	<u>2006</u>	<u>2005</u>
UNRESTRICTED NET ASSETS:		
REVENUES AND SUPPORT:		
Program revenues:		
Concessions	\$ 2,774,813	\$ 2,231,112
Operating revenue	2,665,086	2,069,650
Membership revenue	1,335,654	1,125,477
Education	365,739	271,150
Special events	133,150	117,601
Donated materials and services	45,577	71,042
Total program revenue	<u>7,320,019</u>	<u>5,886,032</u>
Other support:		
Government funding	1,219,392	635,850
Grants	594,764	3,000
Contributions	371,604	314,274
Investment income	54,778	28,352
Miscellaneous income	10,547	96,290
Satisfaction of restrictions - operations	131,421	189,925
Total other support	<u>2,382,506</u>	<u>1,267,691</u>
Total revenue and support	<u>9,702,525</u>	<u>7,153,723</u>
OPERATING EXPENSES:		
Program services:		
Operations	2,685,648	2,197,240
Animal management	2,037,727	1,667,239
Concessions	1,378,575	1,170,563
Education	640,833	493,220
Special events	48,948	35,206
Total program services	<u>6,791,731</u>	<u>5,563,468</u>
Supporting services:		
Marketing and public relations	305,747	278,006
Fund development	196,760	229,478
Administration	1,239,794	967,013
Total supporting services	<u>1,742,301</u>	<u>1,474,497</u>
Total operating expenses	<u>8,534,032</u>	<u>7,037,965</u>
NET INCOME FROM OPERATIONS	1,168,493	115,758

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

EAST BAY ZOOLOGICAL SOCIETY

STATEMENTS OF ACTIVITIES (Page 2 of 2) YEARS ENDED JUNE 30, 2006 AND 2005

	<u>2006</u>	<u>2005</u>
Depreciation expense	(1,984,171)	(1,424,742)
Bond proceeds from City of Oakland	1,072,907	6,467,630
Satisfaction of restrictions - capital projects	<u>1,974,597</u>	<u>2,408,544</u>
INCREASE IN UNRESTRICTED NET ASSETS	<u>2,231,826</u>	<u>7,567,190</u>
TEMPORARILY RESTRICTED NET ASSETS:		
Contributions	215,947	169,579
Satisfaction of restrictions - operations	(131,421)	(189,925)
Satisfaction of restrictions - capital projects	<u>(1,974,597)</u>	<u>(2,408,544)</u>
DECREASE IN TEMPORARILY RESTRICTED NET ASSETS	<u>(1,890,071)</u>	<u>(2,428,890)</u>
INCREASE IN NET ASSETS	341,755	5,138,300
NET ASSETS, Beginning of Year	<u>26,290,833</u>	<u>21,152,533</u>
NET ASSETS, End of Year	<u>\$ 26,632,588</u>	<u>\$ 26,290,833</u>

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

EAST BAY ZOOLOGICAL SOCIETY

STATEMENTS OF CASH FLOWS YEARS ENDED JUNE 30, 2006 AND 2005

	<u>2006</u>	<u>2005</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase in net assets	\$ 341,755	\$ 5,138,300
Reconciliation to net cash and equivalents provided by operating activities:		
Depreciation	1,984,171	1,424,742
Loss (gain) on disposal of property and equipment	11,342	(35,000)
Realized and unrealized loss (gain) on investments	4,508	(1,393)
Changes in:		
Accounts and other receivables	(7,848)	53,675
Bond proceeds receivable	1,162,909	(967,249)
Contributions receivable	53,961	742,592
Inventories	(75,258)	(187)
Prepaid expenses and other	36,086	10,787
Accounts payable	(1,298,542)	1,482,359
Accrued liabilities	117,107	6,726
Deferred revenue and unearned rental income	<u>(73,979)</u>	<u>54,544</u>
Net cash and equivalents provided by operating activities	<u>2,256,212</u>	<u>7,909,896</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investments	(764,569)	(702)
Proceeds from sale and maturities of investments	150,000	
Proceeds from sale of property and equipment	5,150	35,000
Purchases of property and equipment	<u>(2,566,758)</u>	<u>(9,007,458)</u>
Net cash and equivalents used by investing activities	<u>(3,176,177)</u>	<u>(8,973,160)</u>
NET DECREASE IN CASH AND EQUIVALENTS	(919,965)	(1,063,264)
CASH AND EQUIVALENTS, Beginning of Year	<u>2,736,736</u>	<u>3,800,000</u>
CASH AND EQUIVALENTS, End of Year	<u>\$ 1,816,771</u>	<u>\$ 2,736,736</u>

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

EAST BAY ZOOLOGICAL SOCIETY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006 AND 2005

1. OPERATIONS AND AGREEMENT WITH THE CITY OF OAKLAND

The East Bay Zoological Society (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 and 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 other fixed assets. The current management agreement expires on October 31, 2019.

In consideration for operating the Zoo and Park, the City provided \$672,400 and \$181,129 to the Society during 2006 and 2005, respectively.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation – The financial statements are presented in conformity with Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-For-Profit Organizations*. Under SFAS No. 117, the Society reports information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted. The Society has no permanently restricted net assets.

Revenue recognition – Revenues from grants and bond proceeds are recognized when qualified expenses are incurred. 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 SFAS No. 116, *Accounting for Contributions Received and Contributions Made*. All contributions are considered available for unrestricted use unless specifically restricted by donor for future periods or specific purposes. Donor-restricted amounts are reported as increases in temporarily or permanently restricted net assets. Temporarily restricted net assets 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.

EAST BAY ZOOLOGICAL SOCIETY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006 AND 2005

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 SFAS No. 116 are not reflected in the financial statements.

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

Investments are stated at market value.

Inventories – Food inventories are valued at the lower of cost or market, computed on the first-in, first-out basis. Gift shop merchandise inventories are valued using the weighted-average cost method.

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 \$500 or more. Property and equipment represent costs the Society has incurred purchasing, building and improving exhibits on the premises of the Oakland 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 statement of activities. Certain costs have been allocated to program services based on estimates of employees' time incurred and 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.

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.

Reclassifications – Certain 2005 amounts have been reclassified to conform with the 2006 financial statement presentation.

EAST BAY ZOOLOGICAL SOCIETY

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2006 AND 2005

3. INVESTMENTS

Investments consist of the following:

	<u>2006</u>	<u>2005</u>
Bonds	\$ 602,674	
Mutual funds	21,244	\$ 18,963
Money Market Mutual Funds	<u>5,106</u>	<u> </u>
Total	<u>\$ 629,024</u>	<u>\$ 18,963</u>

4. PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	<u>2006</u>	<u>2005</u>
Buildings and structures	\$ 33,998,622	\$ 19,033,452
Work in progress	454,920	13,390,445
Equipment	2,788,988	2,664,816
Land improvements	2,082,184	1,814,633
Furniture and fixtures	368,506	397,057
Zoological collection	292,796	286,167
Vehicles	<u>295,359</u>	<u>228,981</u>
Total	40,281,375	37,815,551
Less accumulated depreciation	<u>(14,839,736)</u>	<u>(12,940,007)</u>
Total	<u>\$ 25,441,639</u>	<u>\$ 24,875,544</u>

Management estimates that approximately 97% of depreciation expense relates to program services and 3% to supporting services for 2006 and 2005.

EAST BAY ZOOLOGICAL SOCIETY

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2006 AND 2005

5. DONATED MATERIALS AND SERVICES

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

	<u>2006</u>	<u>2005</u>
Marketing and public relations	\$ 25,000	\$ 50,000
Animal management	15,725	10,467
Special events	1,200	1,796
Miscellaneous	<u>3,652</u>	<u>8,779</u>
Total donated materials and services	<u>\$ 45,577</u>	<u>\$ 71,042</u>

6. NET ASSETS

Temporarily restricted net assets are available for the following purposes:

	<u>2006</u>	<u>2005</u>
Elephant barn	\$ 120,488	\$ 99,190
Other projects	139,931	127,009
Children's Zoo		1,922,290
Panda project		<u>2,001</u>
Total	<u>\$ 260,419</u>	<u>\$ 2,150,490</u>

7. EMPLOYEES' INCENTIVE PLAN

The Society sponsors a retirement plan under Internal Revenue Code 403(b). Employees over the age of 18 are eligible to participate once they have completed three months of service. The Society contributes 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 \$25,970 and \$26,644 during 2006 and 2005, respectively.

8. LINE OF CREDIT

The Society has a \$250,000 revolving line of credit with a bank, with a variable interest rate equal to the bank's floating prime rate plus 0.50% (8.75% as of June 30, 2006), expiring on July 31, 2007. There was no outstanding balance as of June 30, 2006.

EAST BAY ZOOLOGICAL SOCIETY

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2006 AND 2005

9. CONCENTRATIONS OF CASH

The Society maintains its cash in bank deposit accounts that, at times, may exceed federally insured limits. 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.