

**SANTA BARBARA
ZOOLOGICAL FOUNDATION
FINANCIAL STATEMENTS**

DECEMBER 31, 2022

SANTA BARBARA ZOOLOGICAL FOUNDATION

December 31, 2022

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CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Santa Barbara Zoological Foundation
Santa Barbara, California

Opinion

We have audited the accompanying financial statements of the Santa Barbara Zoological Foundation (a non-profit organization), which comprise the statement of financial position as of December 31, 2022, and the related statements of activities and changes in net assets, and cash flows for the year 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 Santa Barbara Zoological Foundation as of December 31, 2022, and the change in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit 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 Santa Barbara Zoological Foundation and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Management's Responsibility 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 the Organization'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 Santa Barbara Zoological Foundation'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 Santa Barbara Zoological Foundation's ability to continue as a going concern for a reasonable period of time.

Report on Summarized Comparative Information

We have previously audited the Santa Barbara Zoological Foundation 2021 financial statements, and we expressed an unmodified audit opinion on those statements in our report dated December 15, 2022. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2021, is consistent, in all material respects, with the audited financial statements from which it has been derived.

McGowan Guntermann

Santa Barbara, CA
October 5, 2023

SANTA BARBARA ZOOLOGICAL FOUNDATION

STATEMENT OF FINANCIAL POSITION

December 31, 2022

(With Comparative Totals as of December 31, 2021)

	ASSETS			(Memo)
	Without Donor Restrictions	With Donor Restrictions	2022 Total	2021 Total
CURRENT ASSETS				
Cash and cash equivalents	\$ 2,484,604	\$ -	\$ 2,484,604	\$ 2,218,424
Accounts receivable	54,187	-	54,187	216,163
Bequests and pledges receivable	-	72,763	72,763	426,273
Interest receivable	41,326	-	41,326	31,695
Inventory	486,854	-	486,854	467,182
Other receivables	2,859	-	2,859	881
Prepaid expenses	264,844	-	264,844	270,770
Total Current Assets	<u>3,334,674</u>	<u>72,763</u>	<u>3,407,437</u>	<u>3,631,388</u>
NON-CURRENT ASSETS				
Bequests and pledges receivable - net of current	-	-	-	-
Investments	9,435,050	6,333,652	15,768,702	16,188,981
Buildings and equipment, net	20,066,493	-	20,066,493	20,450,206
Collections	1	-	1	1
Total Non-Current Assets	<u>29,501,544</u>	<u>6,333,652</u>	<u>35,835,196</u>	<u>36,639,188</u>
TOTAL ASSETS	<u>\$ 32,836,218</u>	<u>\$ 6,406,415</u>	<u>\$ 39,242,633</u>	<u>\$ 40,270,576</u>
	LIABILITIES AND NET ASSETS			
CURRENT LIABILITIES				
Accounts payable	\$ 153,007	\$ -	\$ 153,007	\$ 208,225
Accrued liabilities	1,438,183	-	1,438,183	809,375
Current portion of post-retirement benefits payable	-	-	-	20,211
Current portion of long-term debt	3,232	-	3,232	3,133
Total Current Liabilities	<u>1,594,422</u>	<u>-</u>	<u>1,594,422</u>	<u>1,040,944</u>
NON-CURRENT LIABILITIES				
EIDL Loan, net of current portion	141,852	-	141,852	145,084
Total Non-Current Liabilities	<u>141,852</u>	<u>-</u>	<u>141,852</u>	<u>145,084</u>
TOTAL LIABILITIES	<u>1,736,274</u>	<u>-</u>	<u>1,736,274</u>	<u>1,186,028</u>
NET ASSETS				
Without Donor Restrictions	31,099,944	-	31,099,944	31,603,807
With Donor Restrictions	-	6,406,415	6,406,415	7,480,741
Total Net Assets	<u>31,099,944</u>	<u>6,406,415</u>	<u>37,506,359</u>	<u>39,084,548</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 32,836,218</u>	<u>\$ 6,406,415</u>	<u>\$ 39,242,633</u>	<u>\$ 40,270,576</u>

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

SANTA BARBARA ZOOLOGICAL FOUNDATION

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

For the Year Ended December 31, 2022

(With Comparative Totals for the Year Ended December 31, 2021)

	<u>Without Donor</u>	<u>With Donor</u>	<u>2022</u>	<u>(Memo)</u>
	<u>Restrictions</u>	<u>Restrictions</u>	<u>Total</u>	<u>2021</u>
				<u>Total</u>
REVENUE, GAINS AND OTHER SUPPORT				
Admissions	\$ 7,623,587	\$ -	\$ 7,623,587	\$ 6,702,656
Educational programs	1,102,176	-	1,102,176	823,348
Foster feeders income	235,549	-	235,549	250,460
Membership income	2,216,212	-	2,216,212	2,160,788
Contributions and grants	915,574	681,978	1,597,552	1,754,153
Federal grants	-	-	-	2,616,145
Special events (net of event expense of \$509,137 and \$395,177)	557,510	-	557,510	265,026
Food service and site rentals	2,504,434	-	2,504,434	1,868,299
Retail store sales	2,352,925	-	2,352,925	2,326,620
Net assets released from restrictions	<u>994,127</u>	<u>(994,127)</u>	<u>-</u>	<u>-</u>
Total Revenue, Gains and Other Support	<u>18,502,094</u>	<u>(312,149)</u>	<u>18,189,945</u>	<u>18,767,495</u>
EXPENSES				
Program services	14,444,750	-	14,444,750	11,933,331
Management and general	1,400,953	-	1,400,953	990,319
Fundraising and development	<u>1,481,189</u>	<u>-</u>	<u>1,481,189</u>	<u>752,793</u>
Total Expenses	<u>17,326,892</u>	<u>-</u>	<u>17,326,892</u>	<u>13,676,443</u>
Excess (Deficit) of Revenue, Gains, and Other Support over Expenses before Other Changes in Net Assets	<u>1,175,202</u>	<u>(312,149)</u>	<u>863,053</u>	<u>5,091,052</u>
Other Changes in Net Assets				
Investment income (loss)	(1,679,065)	(762,177)	(2,441,242)	1,015,305
Loss on disposition of property and equipment	<u>-</u>	<u>-</u>	<u>-</u>	<u>(102,850)</u>
Total Other Changes in Net Assets	<u>(1,679,065)</u>	<u>(762,177)</u>	<u>(2,441,242)</u>	<u>912,455</u>
CHANGES IN NET ASSETS	(503,863)	(1,074,326)	(1,578,189)	6,003,507
NET ASSETS, BEGINNING OF YEAR	<u>31,603,807</u>	<u>7,480,741</u>	<u>39,084,548</u>	<u>33,081,041</u>
NET ASSETS, END OF YEAR	<u>\$ 31,099,944</u>	<u>\$ 6,406,415</u>	<u>\$ 37,506,359</u>	<u>\$ 39,084,548</u>

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

SANTA BARBARA ZOOLOGICAL FOUNDATION

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended December 31, 2022

(With Comparative Totals for the Year Ended December 31, 2021)

	Program Services	Management and General	Fundraising and Development	2022	(Memo) 2021
Salary	\$ 6,666,512	\$ 518,688	\$ 679,858	\$ 7,865,058	\$ 6,422,053
Benefits	914,417	260,761	16,182	1,191,360	1,070,815
Payroll taxes	499,388	83,054	22,644	605,086	537,759
Depreciation	1,148,742	158,749	-	1,307,491	1,204,951
Supplies	1,880,525	17,038	1,264,079	3,161,642	1,981,992
Occupancy	734,439	45,376	-	779,815	627,833
Advertising	222,239	-	-	222,239	131,701
Animal food	372,472	-	-	372,472	290,613
Animal health and maintenance	315,111	-	-	315,111	307,816
Membership	144,084	-	-	144,084	120,256
Education	178,928	-	-	178,928	102,361
Bank and credit card fees	577,829	-	-	577,829	488,661
Equipment rental and maintenance	84,697	60,613	-	145,310	135,124
Printing and publication	30,491	2,169	-	32,660	32,492
Conservation	101,038	-	-	101,038	42,235
Information technology	-	148,541	-	148,541	134,996
Insurance	232,381	25,820	-	258,201	164,580
Dues and subscriptions	83,106	-	-	83,106	74,146
Travel and conferences	161,984	25,300	5,337	192,621	80,046
Professional fees	10,179	25,258	-	35,437	31,124
Postage and delivery	-	12,100	-	12,100	17,045
Taxes and licenses	-	17,486	-	17,486	12,378
Other expenses	86,188	-	2,226	88,414	60,643
Total Expenses by Function	\$ 14,444,750	\$ 1,400,953	\$ 1,990,326	\$ 17,836,029	\$ 14,071,620
Less expenses included with revenue on the statement of activities					
Special event direct expenses	-	-	(509,137)	(509,137)	(395,177)
2022 TOTAL EXPENSES	\$ 14,444,750	\$ 1,400,953	\$ 1,481,189	\$ 17,326,892	
2021 TOTAL EXPENSES (MEMO)	\$ 11,933,331	\$ 990,319	\$ 752,793		\$ 13,676,443

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

SANTA BARBARA ZOOLOGICAL FOUNDATION

STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2022
(With Comparative Totals for the Year Ended December 31, 2021)

	<u>2022</u>	<u>(Memo)</u> <u>2021</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (1,578,189)	\$ 6,003,507
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	1,307,491	1,204,951
Investment (gain) loss	2,771,685	(560,583)
Loss on disposal of assets	-	102,850
Changes in:		
Accounts receivable	161,976	675,139
Bequests and pledges receivable	353,510	771,542
Interest receivable	(9,631)	(10,120)
Inventory	(19,672)	(44,101)
Other receivable	(1,978)	784
Prepaid expenses	5,926	9,636
Accounts payable	(55,218)	15,602
Accrued liabilities	628,808	(51,981)
Post retirement benefits payable	<u>(20,211)</u>	<u>(262,789)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>3,544,497</u>	<u>7,854,437</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Payments for equipment and building improvements	(923,778)	(2,791,033)
Proceeds from sale and maturities of investments	2,182,558	1,500,000
Purchases of investments	<u>(4,533,964)</u>	<u>(7,612,239)</u>
NET CASH USED BY INVESTING ACTIVITIES	<u>(3,275,184)</u>	<u>(8,903,272)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on long-term debt	<u>(3,133)</u>	<u>(1,783)</u>
NET CASH USED BY FINANCING ACTIVITIES	<u>(3,133)</u>	<u>(1,783)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	266,180	(1,050,618)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>2,218,424</u>	<u>3,269,042</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 2,484,604</u>	<u>\$ 2,218,424</u>
SUPPLEMENTAL CASH FLOW DISCLOSURE		
Cash paid during the year for interest	\$ 4,559	\$ 2,704
In kind donation of goods and services	\$ 44,995	\$ 15,581

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

SANTA BARBARA ZOOLOGICAL FOUNDATION

NOTES TO FINANCIAL STATEMENTS

Note 1 - ORGANIZATION

The Santa Barbara Zoological Foundation (the Zoo) was incorporated as a California nonprofit Public Benefit Zoo on May 28, 1964 and operates a Zoo Park on City of Santa Barbara, California property under an agreement with the City of Santa Barbara, as discussed in note 4. The Zoo is a private, nonprofit corporation directed by a twenty-one member Board of Directors. The Zoo facilities were designed to exhibit animals and horticulture in natural botanical settings for the education and entertainment of visitors.

Note 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The financial statements of the Zoo have been prepared on the accrual basis of accounting following accounting principles generally accepted in the United States of America (GAAP). The significant accounting policies are described below to enhance the usefulness of the financial statements to the reader.

Description of Net Assets

The Zoo reports information regarding its financial position and activities in two classes of net assets - with donor restrictions and without donor restrictions - based on the existence or absence of donor-imposed restrictions.

Without Donor Restrictions

Net assets without donor restrictions represent net assets that are not subject to donor-imposed time or use restrictions. Net assets without donor restrictions include board designated funds.

With Donor Restrictions

Net assets with donor restrictions represent net assets that are subject to donor-imposed time or use restrictions. Net assets with donor restrictions generally include contributions and bequests receivable and planned gifts. Earnings on net assets with donor restrictions are reported as an increase in net assets with donor restrictions. Earnings on donor-restricted endowment funds that have not yet been appropriated are also classified as net assets with donor restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the Statement of Activities as "Net assets released from restrictions". Net assets with donor restrictions include perpetual income trusts for which the related income is reported as contributions without donor restrictions when received on the Statement of Activities. The change in value of the underlying assets is recorded as an unrealized gain or loss in net assets with donor restrictions on the Statement of Activities. Net assets with donor restrictions also consist of those donor-restricted endowments held by the Zoo as defined under the Uniform Prudent Management of Institutional Funds Act (UPMIFA).

SANTA BARBARA ZOOLOGICAL FOUNDATION

NOTES TO FINANCIAL STATEMENTS

Note 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and Cash Equivalents

For purposes of the statement of cash flows, cash and cash equivalents include cash on hand, amounts in checking, savings, money market accounts, and certificates of deposit with maturities of ninety days or less.

Inventories

Merchandise and food service inventories are stated at the lower of cost or market. Cost is determined using the first-in, first-out method. Animal food costs are expensed currently in the statement of activity.

Investments

Investments in marketable securities with readily determinable fair values and all investments in marketable debt securities are valued at their fair values in the statement of financial position. Unrealized gains and losses are included in the change in net assets. Donated securities are recorded at their sales value as they are sold upon receipt.

Property and Equipment

Property and equipment are recorded at cost or, if donated, at fair market value at the time of the donation. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support.

Absent donor stipulations regarding how long those donated assets must be maintained, the Zoo reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Zoo reclassifies temporarily restricted net assets to unrestricted net assets at that time. It is management's policy to capitalize certain purchases and donations with a useful life greater than one year and a value greater than \$5,000.

Depreciation expense is computed using the straight-line method over estimated useful lives of assets, ranging from five to thirty-five years, totaling \$1,307,491 for 2022.

Contributions and Grants

All contributions and grants are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes.

SANTA BARBARA ZOOLOGICAL FOUNDATION

NOTES TO FINANCIAL STATEMENTS

Note 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Animal and Horticulture Collections

In accordance with industry practice, animal and horticulture collections are recorded at the nominal amount of \$1, as there is no objective basis for establishing value. Additionally, animal and horticulture collections have numerous attributes, including species, age, sex, relationship and value to other animals, endangered status, and breeding potential, whereby it is impractical to assign value. Acquisitions are recorded as expenditures of the related operating activity. In an ongoing commitment to enhance the worldwide reproduction and preservation of animals, the Zoo shares animals with other accredited institutions. Consistent with industry practice, the Zoo does not record any receivable or liability for such sharing arrangements, as generally arrangements are without monetary consideration.

Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain amounts and disclosures. Accordingly, actual results could differ from those estimates.

Significant estimates used in the preparation of these financial statements include:

- Allocation of certain expenses by function
- Present value of post-retirement benefits payable
- Fair market value of certain investments
- Depreciable lives of property and equipment

Income Taxes

The Zoo is exempt from taxes on income under Internal Revenue Code section 501(c)(3) and California Revenue and Taxation Code 23701(d), therefore no amounts for income taxes are reflected in the accompanying financial statements. The Zoo is not a private foundation for income tax purposes. Management is not aware of any transactions that would affect the Zoo's tax-exempt status.

The Zoo evaluates uncertain tax positions, whereby the effect of the uncertainty would be recorded if the outcome was considered probably and reasonably estimable. As of December 31, 2022, the Zoo had no uncertain tax positions requiring accrual.

The Zoo files tax returns in California and U.S. federal jurisdictions. The Zoo is no longer subject to U.S. federal and state tax authorities for years before 2019 and 2018, respectively.

Advertising Costs

The Zoo charges the cost of advertising to Zoo operations expenses when incurred. Total advertising costs for 2022 were \$222,239.

SANTA BARBARA ZOOLOGICAL FOUNDATION

NOTES TO FINANCIAL STATEMENTS

Note 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Donated Goods and Services

Donated goods and services are recorded as contributions at their estimated values at the date of receipt. Donated services are recorded when an objective basis is available to measure the value of such services. The amount of in-kind contributions of goods received for 2022 totaled \$44,995.

Leases

The Zoo has adopted FASB ASC 842, Leases, effective in these financial statements. As of January 1, 2022, and for the year ended December 31, 2022, the Zoo had no noncancellable operating or capital leases.

Further, the Zoo elected a short-term lease exception policy, permitting the Zoo to not apply the recognition requirements of this standard to short-term leases (i.e., leases with terms of 12 months or less) and an accounting policy to account for lease and non-lease components as a single component for certain classes of assets.

Functional Expenses

The Zoo allocates its expenses on a functional basis among its various program and support services. Expenses that can be identified with a specific program and support service are allocated directly according to their expenditure classification. Other expenses that are common to several functions are allocated by various statistical bases.

Subsequent Events

In preparing these financial statements, the Zoo has evaluated events and transactions for potential recognition or disclosure through October 5, 2023, the date the financial statements were available for issuance.

Note 3 – NEW STANDARD

In February 2016, the FASB established Topic 842, Leases, by issuing Accounting Standards Update (ASU) No. 2016-02, which requires lessees to recognize leases on-balance sheet and disclose key information about leasing arrangements. Topic 842 was subsequently amended by ASU No. 2018-01, Land Easement Practical Expedient for Transition to Topic 842; ASU No. 2018-10, Codification Improvements to Topic 842, Leases; and ASU No. 2018-11, Targeted Improvements. The new standard establishes a right-of-use model (ROU) that requires a lessee to recognize a ROU asset and lease liability on the balance sheet for all leases with a term longer than 12 months. Leases will be classified as finance or operating, with classification affecting the pattern and classification of expense recognition in the income statement.

The new standard is effective for the Zoo as of January 1, 2022, and has been adopted for the year ended December 31, 2022. As of January 1, 2022, and for the year ended December 31, 2022, the Zoo had no noncancellable operating or capital leases.

SANTA BARBARA ZOOLOGICAL FOUNDATION

NOTES TO FINANCIAL STATEMENTS

Note 4 – ACCOUNTS RECEIVABLE

Receivables as of December 31, 2022, include rental and event fees to be collected in later periods. Total accounts receivable as of December 31, 2022, is \$54,187.

Note 5 - PROMISES TO GIVE

Unconditional promises to give at December 31, 2022, represent commitments with donor restrictions of \$72,763 which are expected to be paid in 2023 and considered fully collectible. The pledges are restricted to the train renovation campaign.

Note 6 - LEASE – CONTRIBUTED LAND

On July 3, 2012, the Santa Barbara City Council approved a new long-term land lease agreement with the City of Santa Barbara and the Zoo. The lease calls for no payments from the Zoo to the City. The lease provides for the Zoo to construct, maintain and operate the Zoo as a park for the benefit, education, amusement, convenience and enjoyment of the general public. This lease is for a period of thirty-five years with one fifteen-year option.

Note 7 - INVESTMENTS

Investments as of December 31, 2022, are recorded at market value based upon quoted market prices and are summarized as follows:

	<u>Cost</u>	<u>Market Value</u>	<u>Unrealized Gain (Loss)</u>
Fixed income			
Fixed income bonds	\$ 3,556,026	\$ 3,305,850	\$ (250,176)
Fixed income mutual funds	<u>4,194,677</u>	<u>3,786,709</u>	<u>(407,968)</u>
Total Fixed income	7,750,703	7,092,559	(658,144)
Equities			
Equity securities	6,198,628	6,746,853	548,225
Equity mutual funds	<u>1,983,830</u>	<u>1,554,565</u>	<u>(429,265)</u>
Total Equities	8,182,458	8,301,418	118,960
Temporary Cash Investments	<u>374,725</u>	<u>374,725</u>	<u>-</u>
 Total December 31, 2022	 <u>\$ 16,307,886</u>	 <u>\$ 15,768,702</u>	 (539,184)
Total December 31, 2021	<u>\$ 14,271,667</u>	<u>\$ 16,188,981</u>	<u>1,917,314</u>
 Net change in unrealized loss			 <u>\$ (2,456,498)</u>

The following summarizes the fair market value investment return in the statement of activities for 2022:

Investment and dividend income	\$ 419,421
Realized loss on value of securities	(315,187)
Unrealized loss on value of securities	(2,456,498)
Investment fees	<u>(88,978)</u>
Net Investment Loss	<u>\$ (2,441,242)</u>

SANTA BARBARA ZOOLOGICAL FOUNDATION

NOTES TO FINANCIAL STATEMENTS

Note 8 - INTEREST IN TRUSTS

Community Foundation Endowment Trust Interest

The Zoo is the beneficiary of an endowment held by Santa Barbara Foundation. Because the Santa Barbara Foundation has been granted variance power, the endowment asset is not recorded on the Zoo's financial statements. The income from the endowment is used to support general operations or is designated by the Zoo Executive Committee for priority projects.

The Zoo is entitled to the income produced by the endowment in accordance with Santa Barbara Foundation's spending policy, but has no control or access to the principal. For the year ended December 31, 2022, the Zoo received \$71,860 in distributions from the endowment trust. The fair market value of the Zoo's principal portion of the endowment asset at December 31, 2022, has been estimated at \$1,437,000.

Note 9 - PROPERTY AND EQUIPMENT

A summary of property and equipment as of December 31, 2022, is as follows:

Buildings	\$ 15,692,637
Exhibits and permanent improvements	19,029,238
Roads, fences and landscaping	1,719,729
Park train	1,205,932
Park vehicles	591,655
Zoo equipment	2,524,246
Office equipment	1,423,562
Telephone equipment	19,246
Construction in progress	<u>728,780</u>
	42,935,025
Less accumulated depreciation	<u>(22,868,532)</u>
Net property and equipment	<u>\$ 20,066,493</u>

Note 10 – POST-RETIREMENT BENEFITS PAYABLE

In 1997, the Zoo entered into a retirement benefit package with a former employee for the Zoo to pay monthly retirement benefits for his lifetime. During the year ending December 31, 2022, the former employee passed away and the payable was paid in full. There is no balance due as of December 31, 2022.

Note 11 – NOTES PAYABLE

On June 18, 2020, the Zoo received an Economic Injury Disaster Loan (EIDL) from U.S. Small Business Administration in the amount of \$150,000. The loan is secured by tangible and intangible personal property and calls for monthly payments of principal and interest of \$628. Interest is calculated at a fixed rate of 2.75% per annum.

SANTA BARBARA ZOOLOGICAL FOUNDATION

NOTES TO FINANCIAL STATEMENTS

Note 11 – NOTES PAYABLE (continued)

Monthly payments are deferred for twelve months from date of the note and matures thirty years from the date of the note. The outstanding balance of the note as of December 31, 2022, is \$145,084.

The Organization is committed to the following maturity of notes payable:

2023	\$	3,232
2024		3,333
2025		3,439
2026		3,547
2027		3,658
Thereafter		<u>127,875</u>
Total	\$	<u>145,084</u>

Note 12 - FAIR VALUE MEASUREMENT

Fair values of assets have been measured in accordance with GAAP, which establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets (level 1 measurement) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy are as follows:

- Level 1: Inputs that reflect unadjusted quoted prices in active markets for identical assets accessible at the measurement date;
- Level 2: Inputs other than quoted prices that are observable for the asset either directly or indirectly, including inputs in markets that are not considered to be active;
- Level 3: Inputs that are unobservable.

The asset's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following is a description of the valuation methodologies used for asset measured at fair value:

Government securities	Valued at the closing price reported in the active market in which the bond is traded
Corporate bonds	Certain corporate bonds are valued at the closing price reported in the active market in which the bond is traded. Other corporate bonds are valued based on yields currently available on comparable securities of issuers with similar credit ratings.

SANTA BARBARA ZOOLOGICAL FOUNDATION

NOTES TO FINANCIAL STATEMENTS

Note 12 - FAIR VALUE MEASUREMENT (continued)

Equities	Certain common stocks are valued at the closing price reported in the active market in which the individual securities are traded.
Mutual Funds	Valued at the net asset value of shares held by the Zoo at year end

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Zoo believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date. Gains and losses (realized and unrealized) are reported in net investment income on the statement of changes in net assets available for benefits.

The following table sets forth by level within the fair value hierarchy the Zoo's assets at fair values as of December 31, 2022:

<u>Description</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Fixed income				
Fixed income bonds	\$ 3,305,850	\$ -	\$ -	\$ 3,305,850
Fixed income mutual funds	<u>3,786,709</u>	<u>-</u>	<u>-</u>	<u>3,786,709</u>
Total Fixed income	<u>7,092,559</u>	<u>-</u>	<u>-</u>	<u>7,092,559</u>
Equities				
Equity securities	6,746,853	-	-	6,746,853
Equity mutual funds	<u>1,554,565</u>	<u>-</u>	<u>-</u>	<u>1,554,565</u>
Total Equities	<u>8,301,418</u>	<u>-</u>	<u>-</u>	<u>8,301,418</u>
Total assets measured at fair value	<u>\$15,393,977</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$15,393,977</u>

Note 13 - ENDOWMENT FUNDS

The Zoo's endowment consists of approximately four individual funds established for a variety of purposes. Its endowment includes both donor-restricted endowment funds and funds designated by the board of directors to function as endowments. As required by GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions, as well as funds designated by the board of directors to function as endowments.

Interpretation of Relevant Law

The Board of Trustees of the Zoo has interpreted the California adopted Universal Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary.

SANTA BARBARA ZOOLOGICAL FOUNDATION

NOTES TO FINANCIAL STATEMENTS

Note 13 - ENDOWMENT FUNDS (continued)

Interpretation of Relevant Law (continued)

As a result of this interpretation, the Zoo classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

Interpretation of Relevant Law (continued)

The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Zoo in a manner consistent with the standard of prudence prescribed by UPMIFA.

In accordance with California UPMIFA the Zoo considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund
- The purposes of the Zoo and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the Zoo
- The investment policies of the Zoo

Return Objectives and Risk Parameters

The Zoo has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Zoo must hold in perpetuity or for a donor-specified period as well as board-designated funds.

Return Objectives and Risk Parameters (continued)

Under this policy, as approved by the board of trustees, the endowment assets are invested in a manner that is intended to produce results that provide a reasonable balance between the quest for growth and the need to protect principal. The Zoo expects its endowment funds, over time, to provide an average rate of return of approximately five percent annually. Actual returns in any given year may vary from this amount.

SANTA BARBARA ZOOLOGICAL FOUNDATION

NOTES TO FINANCIAL STATEMENTS

Note 13 - ENDOWMENT FUNDS (continued)

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of return objectives, the Zoo relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Zoo targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Zoo has a policy for maximum distribution in any single year from the Endowment. Portfolio market values for the last three year-ends should be averaged and 5% applied to the moving three-year average. The level of distribution should not exceed 6%. In some instances, the Board may decide to defer appropriation. In establishing this policy, the Zoo considered the long-term expected return on its endowment. This is consistent with the Zoo's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return. During 2022, there was no appropriation of endowment assets for expenditure.

Endowment net assets with donor restrictions totaled \$3,857,496, consisting of total original gift endowment contributions of \$2,167,773 and accumulated earnings of \$1,689,723 as of December 31, 2022. Endowment net assets without donor restrictions classified as board-restricted endowment funds totaled \$1,632,334 as of December 31, 2022.

Note 14 - PENSION PLAN

The Zoo has adopted a policy of providing a pension plan for employees over age 21 with three years out of the prior five years of employment. This plan is fully funded by the Zoo every year under a Simplified Employee Pension arrangement contributing 8% of the eligible employee's salary to the plan. Total Zoo pension contributions for 2022 were \$375,425.

Note 15 - CONCENTRATION OF CREDIT RISK

The Zoo maintains several bank accounts covered by the Federal Deposit Insurance Corporation (FDIC) which insures up to \$250,000 for each owner in each financial institution. As of December 31, 2022, the Zoo's balances in the checking accounts exceeded the federally insured limit by approximately \$1,902,000.

Additionally the Zoo has cash in its investment portfolio that is insured up to \$500,000 by the Securities Investor Protection Corporation (SIPC). At various times during the year the Zoo's investment in money market funds exceeded the SIPC insured limit of \$500,000.

SANTA BARBARA ZOOLOGICAL FOUNDATION

NOTES TO FINANCIAL STATEMENTS

Note 16 – LIQUIDITY

Financial assets available to meet cash needs for general expenditure for the following year are comprised of current assets and investments, adjusted for amounts unavailable due to illiquidity, endowments and other funds spending policy appropriations beyond one year, and current liabilities payable to vendors, financial institutions, and nonprofit organizations.

Financial assets available to meet cash needs for general expenditures within one year as of December 31, 2022:

Current assets	
Cash and cash equivalents available within one year	\$ 2,484,604
Accounts Receivable	54,187
Pledges and grants receivable, current portion	72,763
Other current assets	<u>44,185</u>
Total Current Assets	<u>2,655,739</u>
Investments	15,768,702
Less investments unavailable for general expenditures within one year:	
Endowments and other funds subject to spending policy appropriations beyond one year:	
With donor restrictions	<u>(2,167,773)</u>
Total Investments	<u>13,600,929</u>
Current liabilities	<u>(1,594,422)</u>
Financial assets available to meet cash needs for general expenditures within one year as of December 31, 2022	<u>\$ 14,662,246</u>

Note 17 - NET ASSETS

Net Assets Without Donor Restrictions

As of December 31, 2022, net assets without donor restrictions consist of the following:

Unrestricted	\$ 9,401,117
Property and equipment	20,066,493
Board designated endowment	<u>1,632,334</u>
	<u>\$ 31,099,944</u>

SANTA BARBARA ZOOLOGICAL FOUNDATION

NOTES TO FINANCIAL STATEMENTS

Note 17 - NET ASSETS (continued)

Net Assets With Donor Restrictions

As of December 31, 2022, net assets with donor restrictions consist of the following:

Restriction

Animal welfare, care and maintenance	\$ 494,812
Building maintenance and exhibit projects	12,893
Education program	1,035,257
Train and related projects, other equipment	227,314
New buildings and exhibits	596,476
Unappropriated earnings on endowments	2,326,518
Endowments	<u>2,167,773</u>
	<u>\$ 6,406,415</u>

Net assets released from restrictions during 2022 were comprised of the following:

Restriction

Animal welfare, care and maintenance	\$ 44,849
Education program	118,986
New buildings and exhibits	640,297
Equipment	<u>189,995</u>
	<u>\$ 994,127</u>