



*Report of Independent Auditors and  
Financial Statements with  
Supplementary Information*

**Fresno's Chaffee Zoo Corporation**

*December 31, 2018*



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## **Report of Independent Auditors**

The Board of Directors  
Fresno's Chaffee Zoo Corporation

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Fresno's Chaffee Zoo Corporation (the "Corporation"), which comprise the statement of financial position as of December 31, 2018, and the related statements of activities, changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

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

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

## ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Corporation as of December 31, 2018, and the changes 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.

## ***Emphasis of a Matter***

As discussed in Note 1 to the financial statements, the Corporation adopted Accounting Standards Update (“ASU”) No. 2016-14, *Presenting Financial Statements for Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, information about liquidity and availability of resources, methods used to allocate costs to programmatic and other support information, and direction for consistency about information provided on investment return. The adoption of the standard resulted in additional footnote disclosures and changes to the disclosures related to net assets. The ASU has been applied retrospectively to all periods presented with the exception of the omission of certain information as permitted by the ASU. Our opinion is not modified with respect to this matter.

## ***Other Matters***

### ***Adjustment to Prior Period Financial Statements***

The financial statements and supplementary information of the Corporation as of December 31, 2017, were audited by other auditors whose report dated June 13, 2018, expressed an unmodified opinion of those statements. As discussed in Note 2, the Corporation has restated its December 31, 2017 financial statements to record membership revenue in accordance with accounting principles generally accepted in the United States of America. The other auditors reported on the 2017 financial statements before the restatement. Our opinion is not modified in respect to this matter.

As part of our audit of the 2018 financial statements, we also audited the adjustment described in Note 2 that was applied to restate the financial statements at December 31, 2017. In our opinion, such adjustments are appropriate and have been properly applied. We were not engaged to audit, review, or apply any procedures to the 2017 financial statements of the Corporation other than with respect to the adjustment and, accordingly, we do not express an opinion or any other firm of assurance on the 2017 financial statements as a whole.

### ***Supplementary Information***

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The *Inventory of Capital Assets Purchased with Measure Z Funds* is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

A handwritten signature in black ink that reads "Moss Adams LLP". The signature is written in a cursive, flowing style.

Fresno, California  
July 26, 2019

## **Financial Statements**

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**Fresno's Chaffee Zoo Corporation**  
**Statement of Financial Position**  
**December 31, 2018**

	Without donor restrictions	With donor restrictions	Total
<b>ASSETS</b>			
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	\$ 529,927	\$ 970,953	\$ 1,500,880
Investments, at fair value	10,112,430	57,941	10,170,371
Accounts receivable	1,367,283	-	1,367,283
Prepaid expenses	153,450	-	153,450
Total current assets	12,163,090	1,028,894	13,191,984
EQUIPMENT AND FACILITIES, NET	70,655,467	-	70,655,467
OTHER ASSETS	115,366	-	115,366
Total assets	<u>\$ 82,933,923</u>	<u>\$ 1,028,894</u>	<u>\$ 83,962,817</u>
<b>LIABILITIES AND NET ASSETS</b>			
<b>CURRENT LIABILITIES</b>			
Accounts payable	\$ 1,744,615	\$ -	\$ 1,744,615
Accrued expenses	741,344	-	741,344
Deferred revenue	691,250	-	691,250
Margin loan	336,644	-	336,644
Contract payable	276,166	-	276,166
Total current liabilities	3,790,019	-	3,790,019
<b>COMMITMENTS AND CONTINGENCIES</b>			
<b>NET ASSETS</b>			
Without donor restrictions			
Undesignated	74,194,247	-	74,194,247
Board designated	4,949,657	-	4,949,657
Total without donor restrictions	79,143,904	-	79,143,904
With donor restrictions	-	1,028,894	1,028,894
Total net assets	79,143,904	1,028,894	80,172,798
Total liabilities and net assets	<u>\$ 82,933,923</u>	<u>\$ 1,028,894</u>	<u>\$ 83,962,817</u>

**Fresno's Chaffee Zoo Corporation**  
**Statement of Activities**  
**Year Ended December 31, 2018**

	Without donor restrictions	With donor restrictions	Total
REVENUE AND OTHER SUPPORT			
REVENUE			
Admissions	\$ 4,229,523	\$ -	\$ 4,229,523
Membership	1,418,912	-	1,418,912
Special events	836,132	79,000	915,132
Exhibit income	785,003	-	785,003
Food service	681,024	-	681,024
Facility rental	601,806	-	601,806
Grants and fundraising	331,167	180,777	511,944
Education	479,448	5,500	484,948
Gift shop	464,914	-	464,914
Adopt-an-Animal	16,390	16,200	32,590
Total revenue	9,844,319	281,477	10,125,796
SUPPORT			
Measure Z - Operations	4,405,689	-	4,405,689
Measure Z - Capital improvement projects	5,069,236	-	5,069,236
Endowment contributions	137,264	-	137,264
Total support	9,612,189	-	9,612,189
OTHER INCOME (EXPENSE)			
Investment income, net	511,602	2,893	514,495
Net investment losses	(1,201,407)	(6,450)	(1,207,857)
Interest expense	(9,212)	-	(9,212)
Other income	314,317	18,286	332,603
Total other income (expense)	(384,700)	14,729	(369,971)
TOTAL ASSETS RELEASED FROM RESTRICTIONS	278,216	(278,216)	-
Total revenue, support and gains	19,350,024	17,990	19,368,014
EXPENSES			
Program services	15,703,224	-	15,703,224
Management and general	2,319,698	-	2,319,698
Fundraising	400,762	-	400,762
Total expenses	18,423,684	-	18,423,684
CHANGE IN NET ASSETS	\$ 926,340	\$ 17,990	\$ 944,330



**Fresno's Chaffee Zoo Corporation**  
**Statement of Changes in Net Assets**  
**Year Ended December 31, 2018**

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	Without donor restrictions	With donor restrictions	Total
NET ASSETS, beginning of year, as previously reported	\$ 78,682,072	\$ 1,010,904	\$ 79,692,976
CORRECTION OF ERROR	(464,508)	-	(464,508)
NET ASSETS, beginning of year, as restated	78,217,564	1,010,904	79,228,468
CHANGE IN NET ASSETS	926,340	17,990	944,330
NET ASSETS, end of year	<u>\$ 79,143,904</u>	<u>\$ 1,028,894</u>	<u>\$ 80,172,798</u>

**Fresno's Chaffee Zoo Corporation**  
**Statement of Functional Expenses**  
**Year Ended December 31, 2018**

	Program Services	Management and General	Fundraising	Total
Advertising	\$ 325,121	\$ 60,960	\$ 20,320	\$ 406,401
Animal services	543,928	-	-	543,928
Bank and credit card fees	154,994	29,061	9,687	193,742
Community support	20,400	3,825	1,275	25,500
Conservation	195,921	-	-	195,921
Contracted services	539,675	101,189	33,730	674,594
Depreciation and amortization	4,015,477	81,949	-	4,097,426
Dues and subscriptions	33,659	6,311	2,104	42,074
Equipment expense	191,283	35,866	11,955	239,104
Event expense	550,944	103,302	34,434	688,680
Fleet expense	21,284	3,991	1,330	26,605
Food and catering	24,762	4,643	1,548	30,953
Insurance	145,203	27,226	9,075	181,504
Information technology	68,435	12,831	4,277	85,543
Mileage, tolls and parking	829	155	52	1,036
Miscellaneous	9,297	1,743	581	11,621
Office supplies	15,919	2,985	995	19,899
Personnel	6,801,101	1,530,247	170,027	8,501,375
Postage	34,600	6,488	2,163	43,251
Printing	109,779	20,584	6,861	137,224
Professional services	208,069	39,013	13,004	260,086
Recognition	4,242	795	265	5,302
Recruiting	14,241	2,670	890	17,801
Repairs and maintenance	393,853	-	-	393,853
Signage	31,253	5,860	1,953	39,066
Specialized services	19,752	3,704	1,235	24,691
Staff development	101,975	22,944	2,549	127,468
Supplies	334,967	62,807	20,936	418,710
Telephone	40,010	7,502	2,501	50,013
Uniforms	35,860	6,724	2,241	44,825
Utilities	708,048	132,759	44,253	885,060
Other	8,343	1,564	521	10,428
Total expenses	<u>\$ 15,703,224</u>	<u>\$ 2,319,698</u>	<u>\$ 400,762</u>	<u>\$ 18,423,684</u>

**Fresno's Chaffee Zoo Corporation**  
**Statement of Cash Flows**  
**Year Ended December 31, 2018**

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**CASH FLOWS FROM OPERATING ACTIVITIES**

Change in net assets	\$ 944,330
Adjustments to reconcile change in net assets to net cash and cash equivalents from operating activities:	
Depreciation and amortization	4,097,426
Net investment losses	1,207,857
Changes in:	
Accounts receivable	(655,644)
Pledges receivable	7,337
Prepaid expenses	(91,375)
Accounts payable	1,121,963
Accrued expenses	72,289
Deferred revenue	198,223
Net cash and cash equivalents from operating activities	<u>6,902,406</u>

**CASH FLOWS FROM INVESTING ACTIVITIES**

Purchase of equipment and facilities	(6,182,341)
Purchase of investments	(4,562,972)
Proceeds from sale of investments	<u>4,668,585</u>
Net cash and cash equivalents from investing activities	<u>(6,076,728)</u>

**CASH FLOWS FROM FINANCING ACTIVITIES**

Proceeds from margin loan	1,548,802
Payments on margin loan	<u>(1,462,613)</u>
Net cash and cash equivalents from financing activities	<u>86,189</u>

**NET CHANGE IN CASH AND CASH EQUIVALENTS**

911,867

**CASH AND CASH EQUIVALENTS, beginning of year**

589,013

**CASH AND CASH EQUIVALENTS, end of year**

\$ 1,500,880

**SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION**

Interest paid	\$ 9,212
Non-cash transactions:	
Donated materials and services	\$ 94,379
Purchase of equipment through assumption of note payable	\$ 276,166
Transfer of construction in progress to equipment and facilities	\$ 3,316,460

# Fresno's Chaffee Zoo Corporation

## Notes to Financial Statements

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### NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fresno's Chaffee Zoo Corporation (the "Corporation") was formed as a not-for-profit public benefit corporation in 2005, under the laws of the State of California. The Fresno Chaffee Zoo (the "Zoo") is an animal exhibition and care facility located in Fresno, California. Pursuant to a lease agreement dated January 1, 2006, between the City of Fresno (the "City") and the Corporation, the City transferred management and financial responsibility for the Zoo to the Corporation. The Corporation operates and maintains the facilities and operates the programs to support wildlife conservation, education, and professional animal management in the community.

The Corporation's main revenue sources can be grouped into two categories: earned revenues (including admission fees, membership sales, event ticket sales, food service, facility rental, education fees, and retail) and public support (from Measure Z, a transactions and use tax levied at the rate of 0.1%, collected in Fresno County).

**Basis of accounting** – The Corporation prepares its financial statements in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"), which involves the application of accrual accounting; consequently, revenues and gains are recognized when earned, and expenses and losses are recognized when incurred regardless of the timing of cash flows.

**Use of estimates** – The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**New accounting pronouncement** – During fiscal year ending December 31, 2018, the Corporation adopted Financial Accounting Standards Board ("FASB") Accounting Standards Update ("ASU") No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements for Not-for-Profit Entities*. This guidance is intended to improve the net asset classification requirements and the information presented in the financial statements and notes about a not-for-profit entity's liquidity, financial performance, and cash flows. Main provisions of this guidance include: presentation of two classes of net assets versus the previously required three; recognition of capital gifts for construction as a net asset without donor restrictions when the associated long-lived asset is placed in service; recognition of underwater endowment funds as a reduction in net assets with donor restrictions; and reporting investment income net of external and direct internal investment expenses. The guidance also enhances disclosures for board designated amounts, compositions of net assets with donor restrictions and how the restrictions affect the use of resources, qualitative and quantitative information about the liquidity and availability of financial assets to meet general expenditures within one year of the statement of financial position date, and expenses by both their natural and functional classification, including methods used to allocate costs among program and support functions and underwater endowments.

**Classification of net assets** – Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified as follows:

*Without Donor Restrictions* – Net assets not subject to use or time restrictions. A portion of these net assets may be designated by the Board of Directors for specific purposes.

## Fresno's Chaffee Zoo Corporation

### Notes to Financial Statements

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*With Donor Restrictions* – Net assets subject to donor-imposed stipulations that they be maintained permanently by the Corporation. The donors of these assets permit the Corporation to use all of the income earned on related investments for general or specific purposes. Net assets with donor restrictions also include net assets subject to donor-imposed stipulations that may or will be met by actions of the Corporation and/or the passage of time.

Support that is restricted by the donor is reported as an increase in net assets without donor restrictions if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in net assets with donor restrictions. When a restriction expires, restricted net assets are reclassified to net assets without donor restrictions.

**Revenue recognition** – Revenue for the Corporation's main revenue sources is recognized as follows:

Admission fees, exhibit income, food service, and retail sales are all recognized as earned.

Membership revenue is recognized over the term of the membership, typically one year. Membership revenue received for future periods is reported as deferred revenue.

Special events and facility rental revenue is recognized upon the event taking place.

Public support from Measure Z, a transactions and use tax levied at the rate of 0.1% in Fresno County, is generally recognized on a cost reimbursement basis.

Realized and unrealized gains and losses and investment income derived from investment transactions are included as income in the year earned.

**In-kind contributions** – Unconditional promises to give are recognized as revenues in the period such promises are made by the donor. Conditional promises to give are recognized only when the conditions on which they depend are substantially met and the promises become unconditional. Unconditional promises to give which are scheduled to be received after one year are discounted at rates commensurate with the risks involved. Amortization of the discount is recorded as additional contribution revenue in accordance with the donor - imposed restrictions, if any, on the contributions.

Donated material and equipment are recorded as contributions at their estimated value on the date of receipt. The Corporation received and utilized donated goods and services primarily representing auction event items and professional services totaling \$176,878 during the year ended December 31, 2018.

The Corporation regularly utilizes the services of volunteers. No amounts have been recognized in the accompanying statement of activities because the criteria for recognition of such volunteer effort has not been satisfied and no cash was collected or expenses were paid related to those transactions. However, a substantial number of volunteers have donated significant amounts of their time in the Corporation's operations.

**Cash and cash equivalents** – Cash and cash equivalents consist of checking, savings, and money market accounts. The Corporation considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

## Fresno's Chaffee Zoo Corporation

### Notes to Financial Statements

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**Accounts receivable** – Accounts receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through provisions for bad debt expense based on its assessment for the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable. At December 31, 2018, the Corporation considers all amounts to be fully collectible; therefore, no allowance for doubtful accounts is reflected.

**Pledges receivable** – Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are normally recorded at the present value of the expected cash flows. Management has determined the discount rate and present value calculation reflect a nominal amount, therefore, long-term pledges receivable are recorded at net realizable value. Conditional promises to give are not included as support until the conditions are substantially met. At December 31, 2018, the Corporation considers all amounts to be fully collectible; therefore, no allowance for doubtful accounts is reflected.

**Investments** – Marketable investments in equity and debt securities are carried at fair value based upon quoted market prices. The Corporation's Oversight Committee is responsible for establishing investment criteria and overseeing the Corporation's investments.

**Fair value of financial instruments** – Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The carrying amounts of cash and cash equivalents, receivables, and accounts payable approximate fair value because of the short maturity of these instruments.

**Equipment and facilities** – Equipment and facilities are carried at cost less accumulated depreciation. Expenditures for major renewals and betterments in excess of \$2,000 for equipment and \$30,000 for facilities that extend the useful lives of property, plant, and equipment are capitalized. Expenditures for maintenance and repairs, including planned major maintenance activities, are charged to expense as incurred. When assets are retired or disposed, the asset's original cost and related accumulated depreciation are eliminated from the accounts and any gain or loss is reflected in the consolidated statement of operations. Amortization expense on leasehold improvements is included in depreciation expense. Depreciation of leasehold improvements is recorded over the shorter of the estimated useful life of the leasehold improvement or the lease terms that are reasonably assured. Depreciation of other equipment and facilities is provided using the straight-line method based on the following estimated useful lives:

	<u>Years</u>
Building and improvements	5-20
Office furniture and equipment	5
Vehicles	5
Warehouse equipment	5

**Collections** – While the animal collection represents the Corporation's most cherished asset, the Corporation does not attempt to quantify the value of the collection. Thus, the animal collection is not represented on the statement of financial position.

## Fresno's Chaffee Zoo Corporation

### Notes to Financial Statements

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**Impairment of long-lived assets** – Long-lived assets are reviewed for impairment when circumstances indicate the carrying value of an asset may not be recoverable. For assets that are held and used, an impairment is recognized when the estimated undiscounted cash flows associated with the asset or group of assets is less than their carrying value. If impairment exists, an adjustment is made to write the asset down to its fair value, and a loss is recorded as the difference between the carrying value and fair value. Fair values are determined based on quoted market values, discounted cash flows, or internal and external appraisal, as applicable. Assets to be disposed of are carried at the lower of carrying value or estimated net realizable value. No impairment losses were incurred during the year ended December 31, 2018.

**Advertising** – The costs of advertising are charged to expense as incurred. Advertising expense was \$406,401 for the year ended December 31, 2018.

**Income taxes** – The Corporation is a qualified organization exempt from federal income taxes and state franchise taxes under §501(c)(3) of the Internal Revenue Code ("IRC") and §23701d of the California Revenue and Taxation Code, respectively. The Corporation is subject to federal income taxes for any activities that are unrelated to its exempt purpose. Unrelated business income tax, if any, is insignificant and no provision for income taxes has been made.

U.S. GAAP require the Corporation management to evaluate tax positions taken by the Corporation and recognize a tax liability (or asset), if the Corporation has taken an uncertain position that more likely than not would not be sustained upon examination by Internal Revenue Service.

The Corporation's evaluation on December 31, 2018, revealed no tax positions that would have a material impact on the financial statements. The tax returns on the Corporation are subject to examination by federal and state taxing authorities. However, there are currently no examinations in progress or pending.

**Financial instruments** – Financial instruments which potentially subject the Corporation to concentrations of credit risk consist principally of cash and cash equivalents and investments. The Corporation maintains its cash in various bank deposit accounts which, at times, may exceed federally insured limits. The Corporation has not experienced any losses in such accounts. The Corporation attempts to limit its credit risk associated with cash equivalents and investments by utilizing outside investment managers to place the Corporation's investments with highly rated corporate and financial institutions. Management believes that the Corporation is not exposed to any significant credit risk related to concentrations.

**Functional allocation of expenses** – Expenses which apply to more than one functional category have been allocated among program, general and administrative, and fundraising based on the time spent on these functions by specific employees as estimated by management. Indirect expenses such as facilities costs are allocated based on square footage used by functional categories. Other indirect expenses, such as information technology and general office supplies are allocated based on time spent by staff in the various functional categories. Certain marketing material costs are allocated based on the percentage of the publication devoted to each functional area. All other costs are charged directly to the appropriate functional category.

**Measure Z** – On November 2, 2004, the voters of Fresno County approved Measure Z, a transactions and use tax (sales tax) at the rate of 0.1% proposed by the Fresno County Zoo Authority, to support the Zoo. On November 4, 2014, Measure Z was extended for another ten years.

## Fresno's Chaffee Zoo Corporation

### Notes to Financial Statements

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The Fresno County tax ordinance allows up to one-third of the tax revenues to be used for operations and maintenance of the Zoo and requires a minimum of two-thirds of the funds to be used for capital improvement projects at the Zoo.

The Fresno County Zoo Authority (the "Zoo Authority") is charged with the oversight of the administration of the Measure Z funds and approves all funding requests for operations and capital improvement projects.

**Subsequent events** – Subsequent events are events or transactions that occur after the statements of financial position date but before financial statements are issued or are available to be issued. The Corporation recognized in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the statements of financial position, including the estimates inherent in the process of preparing the financial statements.

The Corporation's financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the statements of financial position but arose after the statements of financial position date and before the financial statements are issued or are available to be issued.

The Corporation has evaluated subsequent events through July 26, 2019, which is the date the financial statements were available to be issued, and concluded no subsequent events have occurred that require recognition or disclosure.

#### NOTE 2 – CORRECTION OF ERROR

Beginning net assets was decreased to account for the overstatement of membership revenue for the year ended December 31, 2017. The Corporation overstated membership revenue by recognizing the revenue when cash was received, as opposed to ratably recognizing it over the term of the membership.

The Corporation corrected its 2017 balances as follows:

	Restated 2017	Originally Reported 2017	Effect of Correction
Statement of Financial Position			
Deferred revenue	\$ 493,027	\$ 28,519	\$ 464,508
Net assets	\$ 79,228,468	\$ 79,692,976	\$ (464,508)
Statement of Activities			
Revenue	\$ 849,620	\$ 1,314,128	\$ (464,508)
Change in net assets	\$ 254,824	\$ 719,332	\$ (464,508)
Statement of Cash Flows			
Change in net assets	\$ 254,824	\$ 719,332	\$ (464,508)
Change in deferred revenue	\$ 291,280	\$ (173,228)	\$ 464,508



## Fresno's Chaffee Zoo Corporation

### Notes to Financial Statements

#### NOTE 3 – MEASURE Z

Measure Z funds used for operations and capital improvement projects are approved by the Zoo Authority and are summarized below.

**Operations** – Measure Z fund reimbursements related to operations were for the following expenditures made during the year ended December 31, 2018:

Salaries and benefits:	
Animal	\$ 3,206,305
Veterinary services	345,112
Animal feed	401,172
Utilities	452,980
Wire Fees	120
	<u>\$ 4,405,689</u>

**Capital improvement projects** – Measure Z fund reimbursements related to capital improvement projects were for the following projects and expenses during the year ended December 31, 2018:

	Construction	Architectural	Other	Total
Animal acquisition	\$ -	\$ -	\$ 35,462	\$ 35,462
Asia	-	667,462	-	667,462
Belmont basin	-	8,194	1,610	9,804
Waterplay area	330,885	-	-	330,885
Dino dig expansion	-	40,782	-	40,782
Orangutan	-	10,110	-	10,110
Other	-	-	150	150
Program animal	-	20,004	-	20,004
Infrastructure	1,265,604	100,618	3,421	1,369,643
Warthog	2,361,414	114,026	-	2,475,440
ZooPlex	-	109,494	-	109,494
	<u>\$ 3,957,903</u>	<u>\$ 1,070,690</u>	<u>\$ 40,643</u>	<u>\$ 5,069,236</u>

#### NOTE 4 – LEASE AGREEMENT WITH THE CITY OF FRESNO

According to the terms of the lease agreement (the "Agreement") between the City and the Corporation, dated January 1, 2006 (the "Commencement Date"), the City transferred management and financial responsibility for the Zoo to the Corporation. Under the Agreement, the City owns the Zoo grounds and structures existing at the Commencement Date, and the Corporation is, and will be, the owner of all the improvements constructed after the Commencement Date. As of the Commencement Date, the Zoo animals are the property of the Corporation, and the Corporation has assumed all obligations with respect to those animals exhibited, housed, or otherwise kept or cared for at the Zoo during the term of the Agreement.

# Fresno's Chaffee Zoo Corporation

## Notes to Financial Statements

The lease rate is \$1 per year paid through the term of the Agreement. The lease expires January 1, 2036, with an option to extend for an additional 25-year period or two additional 10-year periods. Improvements and animals shall become the property of the City when the lease is terminated or expires.

### NOTE 5 – INVESTMENTS

Investments, at fair value, as of December 31, 2018, are as follows:

	Without donor restrictions	With donor restrictions	Total
Mutual funds:			
Equity	\$ 6,809,832	\$ 39,019	\$ 6,848,851
Bond	3,298,848	18,901	3,317,749
Exchange traded	3,750	21	3,771
	<u>\$ 10,112,430</u>	<u>\$ 57,941</u>	<u>\$ 10,170,371</u>

The components of investment return for the year ended December 31, 2018, are as follows:

	Without donor restrictions	With donor restrictions	Total
Investment income	\$ 576,796	\$ 3,195	\$ 579,991
Custodial fees	<u>(65,194)</u>	<u>(302)</u>	<u>(65,496)</u>
Investment income, net	511,602	2,893	514,495
Net investment losses	<u>(1,201,407)</u>	<u>(6,450)</u>	<u>(1,207,857)</u>
Total investment return	<u>\$ (689,805)</u>	<u>\$ (3,557)</u>	<u>\$ (693,362)</u>

The Corporation's financial assets and liabilities carried at fair value have been classified, for disclosure purposes, based on a hierarchy that gives the highest ranking to fair values determined using unadjusted quoted prices in active markets for identical assets and liabilities (Level 1) and the lowest ranking to fair values determined using methodologies and models with unobservable inputs (Level 3). The levels of the fair value hierarchy are as follows:

**Level 1** – Values are unadjusted quoted prices for identical assets and liabilities that the entity has the ability to access at the measurement date.

**Level 2** – Observable inputs other than quoted prices included within Level 1 for the asset or liability, either directly or indirectly.

**Level 3** – Unobservable inputs for the asset or liability that are not corroborated by market data.

An asset or a liability's classification is based on the lowest level input that is significant to its measurement. Valuation techniques maximize the use of relevant observable inputs and minimize the use of unobservable inputs.

## Fresno's Chaffee Zoo Corporation

### Notes to Financial Statements

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2018.

*Mutual funds* – Mutual funds are listed on a national market or exchange are valued at the last sales price, or if there is no sale and the market is still considered active, at the mean of the last bid and asked prices on such exchange. The Corporation's interests in such investments are categorized as equity, bond, and exchange traded mutual funds. Such securities are classified within Level 1 of the valuation hierarchy.

The following table provides information about the Corporation's financial assets measured at fair value on a recurring basis as of December 31, 2018:

	Level 1	Level 2	Level 3	Total
Mutual funds:				
Equity	\$ 6,848,851	\$ -	\$ -	\$ 6,848,851
Bond	3,317,749	-	-	3,317,749
Exchange traded	3,771	-	-	3,771
Total	<u>\$ 10,170,371</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 10,170,371</u>

There were no transfers between levels of the fair value hierarchy during the year ended December 31, 2018.

#### NOTE 6 – EQUIPMENT AND FACILITIES

Equipment and facilities consisted of the following at December 31, 2018:

Building and improvements	\$ 79,092,252
Office furniture and equipment	64,523
Vehicles	279,630
Warehouse equipment	<u>1,864,613</u>
	81,301,018
Less: accumulated depreciation and amortization	<u>(16,995,290)</u>
	64,305,728
Land	705,450
Construction in progress	<u>5,644,289</u>
Total	<u>\$ 70,655,467</u>

Total depreciation and amortization expense for the year ended December 31, 2018, was \$4,097,426.

**Fresno's Chaffee Zoo Corporation**  
**Notes to Financial Statements**

**NOTE 7 – NET ASSETS**

Net assets consisted of the following at December 31, 2018:

Without donor restrictions:	
Undesignated	\$ 74,194,247
Board designated - specific purposes	355,384
Board designated - endowment	<u>4,594,273</u>
Total without donor restrictions	<u>79,143,904</u>
With donor restrictions:	
Donor restricted - specific purposes	970,953
Donor restricted - endowment	<u>57,941</u>
Total with donor restrictions	<u>1,028,894</u>
Total net assets	<u><u>\$ 80,172,798</u></u>

A portion of net assets are designated by the Board of Directors for specific purposes related to the mission and purpose of the Corporation. The activity related to those board designated assets was as follows for the year ended December 31, 2018:

	December 31, 2017	Increases	Decreases	December 31, 2018
Exhibits	\$ -	\$ 200,000	\$ -	\$ 200,000
Improvements	<u>-</u>	<u>200,000</u>	<u>(44,616)</u>	<u>155,384</u>
Total	<u><u>\$ -</u></u>	<u><u>\$ 400,000</u></u>	<u><u>\$ (44,616)</u></u>	<u><u>\$ 355,384</u></u>

A portion of net assets are restricted by donors for specific purposes related to the mission and purpose of the Corporation. The activity related to those donor restricted assets was as follows for the year ended December 31, 2018:

	December 31, 2017	Increases	Decreases	December 31, 2018
Improvements	\$ 603,171	\$ -	\$ -	\$ 603,171
Special events	20,083	79,000	(88,083)	11,000
Grants and fundraising	301,326	180,777	(160,707)	321,396
Education	17,693	5,500	(10,174)	13,019
Adopt-an-Animal	-	16,200	(16,200)	-
Other income	<u>7,133</u>	<u>18,286</u>	<u>(3,052)</u>	<u>22,367</u>
Total	<u><u>\$ 949,406</u></u>	<u><u>\$ 299,763</u></u>	<u><u>\$ (278,216)</u></u>	<u><u>\$ 970,953</u></u>

## Fresno's Chaffee Zoo Corporation

### Notes to Financial Statements

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#### NOTE 8 – LIQUIDITY AND FUNDS AVAILABLE

The following table reflects the Corporation's financial assets as of December 31, 2018, reduced by amounts not available for general expenditures within one year. Financial assets are considered unavailable when illiquid or not convertible to cash within one year. Other considerations of non-liquid assets are donor restricted assets for specific expenditures, contractual reserve requirements, or governing board designations.

Financial assets as of December 31, 2018 are as follows:

Cash and cash equivalents	\$ 1,500,880
Investments, at fair value	10,170,371
Accounts receivable	<u>1,367,283</u>
Financial assets as of December 31, 2018	<u>13,038,534</u>
Less those assets unavailable for general expenditures within one year, due to:	
Board designations:	
Specific purposes	355,384
Endowment	4,594,273
Donor restrictions:	
Specific purposes	970,953
Endowment	<u>57,941</u>
	<u>5,978,551</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 7,059,983</u>

The Corporation's spending policy is to structure its financial assets to be available for operations, capital assets and opportunities to enhance the Corporation's mission.

#### NOTE 9 – MARGIN LOAN

Effective July 24, 2014, the Corporation added a margin feature to its investment agreement with Charles Schwab to meet short-term borrowing needs. The feature allows the Corporation to borrow up to 25% of the purchase price of marginable investments held with Charles Schwab. Interest is calculated on the borrowings at the daily margin interest rate (4.05% at December 31, 2018). At December 31, 2018, the outstanding balance on the margin loan was \$336,644. Maximum borrowings on the margin loan were not to exceed \$1,669,484 at December 31, 2018.

**NOTE 10 – ENDOWMENT**

The Corporation's endowment consists of individual funds established for a variety of purposes. The endowment assets include both donor-restricted endowment funds and funds designated by the Board of Directors to function as endowments. As required by U.S. GAAP, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Directors of the Corporation has interpreted the State Prudent Management of Institutional Funds Act ("SPMIFA") 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. As a result of this interpretation, the Corporation classifies net assets with donor restrictions as: (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.

In accordance with SPMIFA, the Corporation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (a) the duration and preservation of the various funds, (b) the purposes of the donor-restricted endowment funds, (c) general economic conditions, (d) the possible effect of inflation and deflation, (e) the expected total return from income and the appreciation of investments, (f) other resources of the Corporation, and (g) the Corporation's investment policies.

*Investment return objectives, risk parameters and strategies* – The Corporation has adopted investment and spending policies, approved by the Board of Directors, for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment funds while also maintaining the purchasing power of those endowment assets over the long-term. Accordingly, the investment process seeks to achieve an after-cost total real rate of return, including investment income as well as capital appreciation, which exceeds the annual distribution with acceptable levels of risk. Endowment assets are invested in a well-diversified asset mix, which includes equity and debt securities, that is intended to result in a consistent inflation-protected rate of return that has sufficient liquidity to make an annual distribution of 5%, while growing the funds if possible. Therefore, the Corporation expects its endowment assets, over time, to produce an average rate of return of approximately 8.5% annually. Actual returns in any given year may vary from this amount. Investment risk is measured in terms of the total endowment fund; investment assets and allocation between asset classes and strategies are managed to not expose the fund to unacceptable levels of risk.

*Spending policy* – The Corporation has a policy of appropriating for distribution each year 5% of its endowment fund's average fair value of the prior 12 quarters through the calendar year-end preceding the fiscal year in which the distribution is planned. In establishing this policy, the Corporation considered the long-term expected return on its investment assets, the nature and duration of the individual endowment funds, many of which must be maintained in perpetuity because of donor-restrictions, and the possible effects of inflation. The Corporation expects the current spending policy to allow its endowment funds to grow at a nominal average rate of 3.5% annually, which is consistent with the Corporation's objective to maintain the purchasing power of the endowment assets as well as to provide additional real growth through investment return.

# Fresno's Chaffee Zoo Corporation

## Notes to Financial Statements

From time to time, certain donor-restricted endowment funds may have fair values less than the amount required to be maintained by donors or by law (underwater endowments). The Board of Directors of the Corporation has interpreted SPMIFA to permit spending from underwater endowments in accordance with prudent measures required under law.

Endowment net asset composition by type of fund as of December 31, 2018, is as follows:

	Without donor restrictions	With donor restrictions	Total
Donor-restricted endowment funds	\$ -	\$ 57,941	\$ 57,941
Board-designated endowment funds	4,594,273	-	4,594,273
	<u>\$ 4,594,273</u>	<u>\$ 57,941</u>	<u>\$ 4,652,214</u>

Changes in endowment net assets for the year ended December 31, 2018, were as follows:

	Without donor restrictions	With donor restrictions	Total
Endowment net assets as of December 31, 2017	<u>\$ 5,247,404</u>	<u>\$ 61,498</u>	<u>\$ 5,308,902</u>
Investment return:			
Investment income, net	246,854	2,893	249,747
Net investment loss, realized and unrealized	<u>(550,320)</u>	<u>(6,450)</u>	<u>(556,770)</u>
Total investment return	(303,466)	(3,557)	(307,023)
Appropriation of endowment assets for expenditure	<u>(349,665)</u>	<u>-</u>	<u>(349,665)</u>
Endowment net assets as of December 31, 2018	<u>\$ 4,594,273</u>	<u>\$ 57,941</u>	<u>\$ 4,652,214</u>

### NOTE 11 – EMPLOYEE BENEFIT PLAN

The Corporation maintains a 401(k) defined contribution plan (the "Plan") for its employees. The Plan is available to all employees after completing 1,000 hours of service and attaining age 21. The Plan provides an employer match of 100% for the first 3% of the employee contribution and a 50% match for the next 2% of the employee contribution, up to a maximum employer match of 4% of pay. Total contributions made to the Plan for the year ended December 31, 2018, were \$135,821.

# Fresno's Chaffee Zoo Corporation

## Notes to Financial Statements

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### NOTE 12 – LEASE AGREEMENTS

As disclosed in Note 1 and 4, the Corporation entered into an agreement to lease the Zoo premises and animals from the City effective January 1, 2006.

The Corporation is obligated under several noncancelable operating leases for its equipment.

The following is a schedule of minimum lease commitments for the years ending December 31:

<u>For the Years Ended December 31,</u>	<u>Amount</u>
2019	\$ 29,723
2020	25,533
2021	15,153
2022	1,813
2023	1
Thereafter	13
	<u>\$ 72,236</u>

Lease expense for the year ended December 31, 2018, was \$23,115.



## **Supplementary Information**

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**Fresno's Chaffee Zoo Corporation**  
**Inventory of Capital Assets Purchased with Measure Z Funds**  
**December 31, 2018**

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Description	Date Placed in Service	Amount
Stingray Bay	2009	\$ 69,474
Dino Dig	2010	70,000
Hospital Quarantine	2010	750
Reptile Exhibit	2010	183,804
Tiger	2010	288
Bird of Prey	2011	44,944
Concessions Improvements	2011	23,557
Existing Sea Lion	2011	10,340
Hospital Quarantine	2011	29,187
Reptile Exhibit	2011	27,173
Tiger	2011	35,443
Cobra	2012	39,840
Concessions Improvements	2012	30,679
Giraffe	2012	57,600
Hospital Quarantine	2012	19,426
Otter	2012	36,602
Reptile Exhibit	2012	27,440
Sea Lion Cove	2012	10,411,180
Tropical Treasures	2012	10,596
Cobra	2013	256,035
Otter	2013	163,398
Reptile Exhibit	2013	405,813
Sea Lion Cove	2013	75,192
Tropical Treasures	2013	24,466
Reptile Exhibit	2014	82,063
Utilities	2014	1,429,469
Africa	2015	57,097,628
Utilities	2015	256,727
Africa	2016	144,992
Utilities	2017	467,742
Wilderness Falls	2018	3,316,460
		<hr/>
		74,848,308
Construction in progress	2018	5,015,270
		<hr/>
		<u>\$ 79,863,578</u>

