

MONTEREY ZOOLOGICAL SOCIETY, INC.

Financial Report

December 31, 2021

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Monterey Zoological Society, Inc.
Salinas, California

Opinion

We have audited the accompanying financial statements of Monterey Zoological Society, Inc. (a nonprofit organization), which comprise the statement of financial position as of December 31, 2021, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Organization as of December 31, 2021, and the results of its operations 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 (GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Organization 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.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern within one year after the date that the financial statements are issued (or within one year after the date that the financial statements are available to be issued when applicable).

Auditors' 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 auditors' 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 GAAS 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 GAAS, 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 the Organization'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 the Organization's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

A handwritten signature in black ink that reads "Hutchison and Bloodgood LLP". The signature is written in a cursive, flowing style.

April 3, 2024

MONTEREY ZOOLOGICAL SOCIETY, INC.

STATEMENT OF FINANCIAL POSITION

December 31, 2021

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$	1,025,648
Accounts receivable, related		70,174
Other current assets		359
Inventory		28,000
		<u>28,000</u>
Total current assets		<u>1,124,181</u>

PROPERTY AND EQUIPMENT, at cost

Animal enclosures		1,755,421
Improvements		1,081,024
Machinery and equipment		66,904
Furniture and office equipment		15,476
Vehicles		33,300
		<u>33,300</u>
		2,952,125
Less accumulated depreciation		<u>461,018</u>
Total property and equipment, net		<u>2,491,107</u>
Total assets	\$	<u><u>3,615,288</u></u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts payable	\$	18,640
Accrued expenses		6,748
Income taxes payable		8,077
		<u>8,077</u>
Total current liabilities		33,465

LONG-TERM DEBT

SBA note payable		<u>159,900</u>
Total liabilities		193,365

NET ASSETS

Without donor restrictions		<u>3,421,923</u>
Total liabilities and net assets	\$	<u><u>3,615,288</u></u>

MONTEREY ZOOLOGICAL SOCIETY, INC.

STATEMENT OF ACTIVITIES

For the Year Ended December 31, 2021

	Without Donor Restrictions	With Donor Restrictions	Total
PUBLIC SUPPORT AND REVENUES			
PUBLIC SUPPORT			
Contributions and grants	\$ 899,789	\$ --	\$ 899,789
Special events			
Special events revenue	198,010	--	198,010
Less cost of direct benefit to donors	(42,769)	--	(42,769)
Special events, net	155,241	--	155,241
Total public support	1,055,030	--	1,055,030
Revenues			
Program revenue - educational	158,582	--	158,582
Program revenue - admission	1,035,150	--	1,035,150
Store sales	185,222	--	185,222
Interest income	1,156	--	1,156
Other income	31,285	--	31,285
Total revenues	1,411,395	--	1,411,395
Total public support and revenues	2,466,425	--	2,466,425
EXPENSES			
Program services	1,501,522	--	1,501,522
Management and general	136,875	--	136,875
Total expenses	1,638,397	--	1,638,397
Increase in net assets	828,028	--	828,028
Net assets, beginning	2,593,895	--	2,593,895
Net assets, ending	\$ 3,421,923	\$ --	\$ 3,421,923

The notes to financial statements are an integral part of this statement.

MONTEREY ZOOLOGICAL SOCIETY, INC.

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended December 31, 2021

	Program Services	Management and General	Total
EXPENSES			
Advertising and marketing	\$ 8,409	\$ 1,514	\$ 9,923
Animal expense	241,609	--	241,609
Bank and booking fees	26,729	4,568	31,297
Depreciation	101,485	--	101,485
Cost of goods sold - store sales	83,685	--	83,685
Insurance	56,927	10,247	67,174
Memberships and subscriptions	11,481	2,067	13,548
Office	56,115	20,683	76,798
Salary and wages	350,004	63,000	413,004
Payroll taxes	28,777	5,180	33,957
Postage and delivery	--	2,380	2,380
Printing and reproduction	1,365	210	1,575
Professional services	72,882	13,119	86,001
Program support services	6,821	--	6,821
Rent	237,057	7,200	244,257
Utilities	38,648	1,195	39,843
Repairs and maintenance	119,987	5,169	125,156
Taxes	8,077	--	8,077
Travel	20,847	343	21,190
Transportation expense	30,617	--	30,617
	<u>\$ 1,501,522</u>	<u>\$ 136,875</u>	<u>\$ 1,638,397</u>

MONTEREY ZOOLOGICAL SOCIETY, INC.

STATEMENT OF CASH FLOWS

For the Year Ended December 31, 2021

NET CASH FLOWS FROM OPERATING ACTIVITIES

Increase in net assets	\$ 828,028
Adjustments to reconcile increase in net assets to net cash provided by operating activities:	
Depreciation	101,485
(Increase) decrease in:	
Accounts receivable, related	28,024
Other current assets	(359)
Increase (decrease) in:	
Accounts payable	(4,726)
Accrued expenses	(34,114)
Income taxes payable	8,077
	<hr/>
Net cash provided by operating activities	926,415

NET CASH FLOWS FROM INVESTING ACTIVITIES

Cash paid to purchase property and equipment	<hr/> (101,479)
Net increase in cash and cash equivalents	824,936
Cash and Cash Equivalents, beginning	<hr/> 200,712
Cash and Cash Equivalents, ending	<hr/> \$ 1,025,648 <hr/>

MONTEREY ZOOLOGICAL SOCIETY, INC.

NOTES TO FINANCIAL STATEMENTS
Year Ended December 31, 2021

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Business: Monterey Zoological Society, Inc. (the Organization) is dedicated to providing an entertaining yet educational experience, which fosters public awareness and respect for all wildlife. The Organization exhibits the animals to the public during daily public tours. The facility is home to more than 180 animals. Conservation and education is the core goal for the visitors experience. The Organization offers the public an opportunity to see and learn about animals in a fun, family environment. Tours of the animals allows the opportunity to convey a message of conservation to the public, especially children and youth.

Accounting Policies: The accompanying financial statements of the Organization have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables, and other liabilities.

Basis of Presentation: The Organization reports information regarding its financial position and activities according to the following net asset classifications:

Net assets without donor restrictions: Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Organization. These net assets may be used at the discretion of the Organization's management and the Board of Directors.

Net assets with donor restrictions: Net assets subject to stipulations imposed by donors, and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Organization or by the passage of time. Other donor restrictions may be perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statements of activities.

Cash and Cash Equivalents: For the purposes of the statement of cash flows, cash equivalents include time deposits, certificates of deposit, and all highly liquid debt instruments with original maturities of three months or less.

Use of Estimates: Preparing the Organization's financial statements in conformity with accounting principles generally accepted in the United States of America 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.

MONTEREY ZOOLOGICAL SOCIETY, INC.

NOTES TO FINANCIAL STATEMENTS

Year Ended December 31, 2021

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accounts Receivable: Accounts receivable consist primarily of related party receivables for program revenue collected by Vision Quest Ranch, net of rent owed by the Organization. The balance is stated at face value since probable uncollectible amounts are immaterial.

Functional Allocation of Expenses: Directly identifiable expenses are charged to programs and supporting services. Certain categories of expenses are attributable to more than one program or supporting function and are allocated on a reasonable basis that is consistently applied. The expenses that are allocated include rent and utilities, which are allocated on a square footage basis. The remaining indirect expenses are allocated on the basis of estimates of time and effort.

Property and Equipment: All acquisitions of property and equipment in excess of \$1,500 are capitalized while expenditures for repairs and maintenance that do not improve or extend the useful lives of respective assets are expensed when incurred. Property and equipment are carried at cost and depreciated using the accelerated and straight-line methods over the estimated useful lives of the assets, ranging from 12.5-30 years.

Revenue and revenue recognition: The Organization recognizes revenue from sales of admission tickets and educational tours when the performance obligations of providing the services are met, which is at a point in time, and typically the same day of purchase. Gift shop store sales are recognized at the time of purchase. The Organization recognizes annual pass membership income over the membership period. Special events revenue is comprised of an exchange element based upon the direct benefits donors receive and a contribution element for the difference. The Organization recognizes special events revenue equal to the fair value of direct benefits to donors when the special event takes place. The Organization recognizes the contribution element of special event revenue immediately, unless there is a right of return if the special event does not take place.

The Organization recognizes contributions when cash, securities or other assets, an unconditional promise to give, or a notification of a beneficial interest is received. Conditional promises to give, that is, those with a measurable performance or other barrier, and a right of return, are not recognized until the conditions on which they depend have been substantially met.

Contributions that are restricted by the donor are reported as increases in net assets without donor restrictions if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions, depending on the nature of the restrictions. When a restriction expires, the 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.

Advertising Costs: Advertising costs are expensed when incurred. Total advertising costs for the year ended December 31, 2021 were \$9,923.

MONTEREY ZOOLOGICAL SOCIETY, INC.

NOTES TO FINANCIAL STATEMENTS
Year Ended December 31, 2021

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Inventory: Inventory is stated at the lower of cost or net realizable value determined by the first-in, first out method. Inventory consists of store merchandise for resale.

Income Taxes: The Organization is exempt from taxation under Internal Revenue Code Section 501(c)(3) and California Revenue and Taxation Code Section 23701d. However, income from certain activities not directly related to the Organization's tax-exempt purpose is subject to taxation as unrelated business income. Income taxes for such unrelated business income totaled \$8,077 in 2021.

The Organization believes that it has appropriate support for any tax positions taken, and as such, does not have any uncertain tax positions that are material to the financial statements.

New Accounting Pronouncement: In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, Revenue from Contracts with Customers (Topic 606), requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standard replaced most existing revenue recognition guidance in U.S. GAAP. The change in accounting principle was adopted on January 1, 2021 with no financial statement impact.

Upcoming accounting pronouncements: In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842), which sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract (i.e. lessees and lessors). The new standard requires lessees to apply a dual approach, classifying leases as either finance or operating leases based on the principle of whether or not the lease is effectively a financed purchase by the lessee. This classification will determine whether lease expense is recognized based on an effective interest method or on a straight-line basis over the term of the lease, respectively. A lessee is also required to record a right-of-use asset and a lease liability for all leases with a term of greater than 12 months regardless of their classification. Leases with a term of 12 months or less will be accounted for similar to existing guidance for operating leases today. The new standard requires lessors to account for leases using an approach that is substantially equivalent to existing guidance for sales-type leases, direct financing leases and operating leases. The new standard is effective for fiscal years beginning after December 15, 2021, including interim periods within those fiscal years. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. The Organization is assessing the impact this ASU will have on its financial statements.

NOTE 2. LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

The following reflects the Organization's financial assets as of December 31, 2021, reduced by amounts not available for general use within one year of the statement of financial position date because of contractual or donor-imposed restrictions.

MONTEREY ZOOLOGICAL SOCIETY, INC.

NOTES TO FINANCIAL STATEMENTS

Year Ended December 31, 2021

NOTE 2. LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS (Continued)

Financial assets at year end:	
Cash and cash equivalents	\$ 1,025,648
Accounts receivable, related	<u>70,174</u>
Financial assets available to meet general expenditures within one year	<u>\$ 1,095,822</u>

The Organization regularly monitors liquidity required to meet its operating needs while also striving to maximize the investment of its available funds. The Organization manages its liquidity and reserves following three guiding principles: operating within a prudent range of financial soundness and stability, maintaining adequate liquid assets to fund near-term operating needs, and maintaining sufficient reserves to provide reasonable assurance that long-term obligations will be met.

NOTE 3. RELATED PARTY

Organization's board president owns and manages Vision Quest Ranch (VQR). VQR is a bed and breakfast located adjacent to the Organization. VQR guests can purchase tours and packages for the Zoo during their stay as guests of the bed and breakfast. VQR maintains a 10% booking fee for all transactions. The accounts receivable balance of \$70,174, as of December 31, 2021, is related to tour and package income owed to the Organization, net of rent expense.

The Organization currently leases the property and office space from VQR. In October 2018 the Organization entered into a formal ten year lease with VQR, with automatic annual renewals thereafter. The lease calls for monthly rent of \$20,000. Total lease expense with VQR was \$240,000 for the year ended December 31, 2021.

NOTE 4. CONCENTRATION

Approximately 70% of the Organizations contribution revenue recognized was provided by one donor, otherwise unrelated to the Organization. The significant contributions were given to fund the cost of the major improvements to the facilities and animal care. All donor restrictions were met during the year ended December 31, 2021.

MONTEREY ZOOLOGICAL SOCIETY, INC.

NOTES TO FINANCIAL STATEMENTS

Year Ended December 31, 2021

NOTE 5. NOTES PAYABLE

In June 2020, the Organization received an Economic Injury Disaster Loan (“EIDL”) from the Small Business Administration (“SBA”) in the amount of \$149,900, bearing an interest rate of 2.75%. The note is payable in monthly installments of \$641 beginning June 2021. As of December 31, 2021, no payments had been made on the loan.

During the year ended December 31, 2021, the Organization received a \$10,000 loan from the SBA, related to COVID. Subsequent to year end the loan was forgiven in full and recognized to contribution revenue.

NOTE 6. SUBSEQUENT EVENTS

During the year ended December 31, 2023, the Organization took over operations of VQR, including running the bed and breakfast.

Management has evaluated its December 31, 2021 financial statements for subsequent events through April 3, 2024, the date of issuance of the financial statements. The Organization is not aware of any additional subsequent events that would require recognition or disclosure in the financial statements.