

**THE ZOOLOGICAL SOCIETY OF THE PALM  
BEACHES, INC.**

**REPORT ON AUDIT OF FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED SEPTEMBER 30, 2009**

**THE ZOOLOGICAL SOCIETY OF THE PALM BEACHES, INC.**

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**Independent Auditors' Report**

Board of Directors  
The Zoological Society of the Palm Beaches, Inc.

We have audited the accompanying statement of financial position of The Zoological Society of the Palm Beaches, Inc. (a non-profit organization) as of September 30, 2009, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of The Zoological Society of the Palm Beaches, Inc. as of September 30, 2008, were audited by other auditors whose report dated May 12, 2009, expressed an unqualified opinion on these financial statements. As discussed in Note 13, the Organization has restated its 2008 financial statements during the current year to conform certain items with accounting principles generally accepted in the United States of America. The other auditors reported on the 2008 financial statements before the restatement.

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

In our opinion, the 2009 financial statements referred to above present fairly, in all material respects, the financial position of The Zoological Society of the Palm Beaches, Inc. at September 30, 2009, and the changes in its net assets and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

We also audited the adjustments described in Note 13 that were applied to restate the 2008 financial statements. In our opinion, such adjustments are appropriate and have been properly applied.

*Templeton & Company, LLP*

West Palm Beach, Florida  
February 25, 2010

**THE ZOOLOGICAL SOCIETY OF THE PALM BEACHES, INC.**

**STATEMENTS OF FINANCIAL POSITION**

**September 30, 2009 and 2008**

	<u>2009</u>	<u>2008</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 447,123	\$ 515,028
Portfolio investments	9,845,200	29,925,029
Grants and accounts receivable	169,170	252,500
Inventories	108,689	156,338
Prepaid expenses and other assets	72,291	126,458
Unconditional promises to give, net	1,377,392	1,270,472
Exhibits, property and equipment, net	<u>34,903,987</u>	<u>32,946,953</u>
Total assets	<u>\$ 46,923,852</u>	<u>\$ 65,192,778</u>
<b>LIABILITIES AND NET ASSETS</b>		
Liabilities:		
Accounts payable and accrued expenses	\$ 602,665	\$ 1,055,098
Deferred income	30,000	113,900
Deferred membership dues	184,777	181,177
Bonds payable	<u>10,000,000</u>	<u>22,000,000</u>
Total liabilities	<u>10,817,442</u>	<u>23,350,175</u>
Net assets:		
Unrestricted	34,108,960	36,745,170
Temporarily restricted	1,397,450	4,497,433
Permanently restricted	<u>600,000</u>	<u>600,000</u>
Total net assets	<u>36,106,410</u>	<u>41,842,603</u>
Total liabilities and net assets	<u>\$ 46,923,852</u>	<u>\$ 65,192,778</u>

See accompanying notes to financial statements.

**THE ZOOLOGICAL SOCIETY OF THE PALM BEACHES, INC.**

**STATEMENTS OF ACTIVITIES**

**For the Years Ended September 30, 2009 and 2008**

	For the Year Ended September 30, 2009			Total	2008
	Unrestricted	Temporarily Restricted	Permanently Restricted		
Revenues and other support:					
Admissions	\$ 2,140,653	\$ -	\$ -	\$ 2,140,653	\$ 2,005,678
Restaurant	1,059,539	-	-	1,059,539	1,161,095
Gift store	499,005	-	-	499,005	591,580
Special events	641,114	-	-	641,114	719,949
Membership dues	387,696	-	-	387,696	379,040
Educational and other	254,407	-	-	254,407	303,598
Contributions and grants	918,753	895,168	-	1,813,921	398,715
Net assets released from restrictions	3,995,151	(3,995,151)	-	-	-
<b>Total revenues and other support</b>	<b>9,896,318</b>	<b>(3,099,983)</b>	<b>-</b>	<b>6,796,335</b>	<b>5,559,655</b>
Expenses:					
Program services:					
Animal care	1,344,312	-	-	1,344,312	1,479,369
Hospital and veterinary services	400,971	-	-	400,971	234,475
Ground and facility maintenance	1,282,765	-	-	1,282,765	1,495,302
Restaurant	725,139	-	-	725,139	776,070
Gift store	384,413	-	-	384,413	444,488
Education	291,581	-	-	291,581	390,519
Admissions	126,085	-	-	126,085	142,233
Conservation and research	68,499	-	-	68,499	103,434
Total program services	4,623,765	-	-	4,623,765	5,065,890
Support services:					
General and administrative	1,602,128	-	-	1,602,128	1,798,493
Fund raising	660,695	-	-	660,695	624,092
<b>Total expenses</b>	<b>6,886,588</b>	<b>-</b>	<b>-</b>	<b>6,886,588</b>	<b>7,488,475</b>
Increase (decrease) in net assets from operations	3,009,730	(3,099,983)	-	(90,253)	(1,928,820)
Non-operating items:					
Interest and bond costs, net	(225,929)	-	-	(225,929)	(632,003)
Depreciation	(1,114,390)	-	-	(1,114,390)	(1,013,679)
Net investment loss	(4,305,621)	-	-	(4,305,621)	(5,316,325)
Increase (decrease) in net assets	(2,636,210)	(3,099,983)	-	(5,736,193)	(8,890,827)
Net assets - beginning of year - as restated	36,745,170	4,497,433	600,000	41,842,603	50,733,430
Net assets - end of year	<u>\$34,108,960</u>	<u>\$ 1,397,450</u>	<u>\$ 600,000</u>	<u>\$36,106,410</u>	<u>\$41,842,603</u>

See accompanying notes to financial statements.

**THE ZOOLOGICAL SOCIETY OF THE PALM BEACHES, INC.**

**STATEMENTS OF CASH FLOWS**

**For the Years Ended September 30, 2009 and 2008**

	<u>2009</u>	<u>2008</u>
Cash flows from operating activities:		
Decrease in net assets	\$ (5,736,193)	\$ (8,890,827)
Adjustments to reconcile decrease in net assets to net cash used in operating activities:		
Net realized and unrealized losses on portfolio investments	4,586,944	6,184,049
Depreciation	1,114,390	1,013,679
Contributions restricted for long-term support	(268,080)	(197,673)
Changes in operating assets and liabilities:		
Decrease in grants and accounts receivable	83,330	248,869
Decrease in inventories	47,649	201
Decrease in prepaids and other assets	54,167	-
(Increase) decrease in unconditional promises to give	(106,920)	544,535
Increase (decrease) in accounts payable and accrued expenses	(452,433)	252,138
Increase (decrease) in deferred income	(83,900)	25,400
Increase (decrease) in deferred membership dues	<u>3,600</u>	<u>(923)</u>
Net cash used in operating activities	<u>(757,446)</u>	<u>(820,552)</u>
Cash flows from investing activities:		
Proceeds from sales of portfolio investments, net	15,492,885	2,264,915
Purchases of exhibits, property and equipment	<u>(3,071,424)</u>	<u>(2,152,687)</u>
Net cash provided by investing activities	<u>12,421,461</u>	<u>112,228</u>
Cash flows from financing activities:		
Repayment of bonds payable	(12,000,000)	-
Contributions restricted for long-term support	<u>268,080</u>	<u>197,673</u>
Net cash provided by (used in) financing activities	<u>(11,731,920)</u>	<u>197,673</u>
Decrease in cash and cash equivalents	(67,905)	(510,651)
Cash and cash equivalents - beginning of year	<u>515,028</u>	<u>1,025,679</u>
Cash and cash equivalents - end of year	<u>\$ 447,123</u>	<u>\$ 515,028</u>

See accompanying notes to financial statements.

# THE ZOOLOGICAL SOCIETY OF THE PALM BEACHES, INC.

## NOTES TO FINANCIAL STATEMENTS

### Note 1 – Summary of Significant Accounting Policies

#### General

The Zoological Society of the Palm Beaches, Inc. (the Organization), a Florida not-for-profit corporation, was incorporated on March 27, 1969. The Organization exists to protect wildlife and wildlife habitat, and to inspire others to value and conserve the natural world. The Organization advances its conservation vision through programs in field research, endangered species propagation, education, health and wellness, and conservation medicine. The Organization operates and maintains the Palm Beach Zoo, an accredited member in good standing of the Association of Zoos and Aquariums (AZA), regulated by the United States Department of Agriculture.

#### Basis of presentation

In June 2009, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles (GAAP) – a replacement of SFAS No. 162* (SFAS No. 162), which establishes the FASB Accounting Standards Codification (ASC) as the source of authoritative U.S. GAAP recognized by the FASB to be applied by non-governmental entities. This guidance is effective for interim periods and fiscal years ending after September 15, 2009. On July 1, 2009, the Organization adopted the provisions of this guidance and, as a result, the majority of references to historically issued accounting pronouncements are now superseded by references to the FASB ASC. Certain accounting pronouncements, such as SFAS No. 168, will remain authoritative until they are integrated into the FASB ASC.

The Organization's financial statements are prepared on the accrual basis of accounting in accordance with the provisions of Statement of Financial Accounting Standards (SFAS) No. 116, *Accounting for Contributions Received and Contributions Made* (ASC 605), and SFAS No. 117, *Financial Statements of Not-for-Profit Organizations* (ASC 958).

ASC 605 requires that unconditional promises to give (pledges) be recorded as contributions at fair value at the date the promises are received. ASC 605 also requires the Organization to distinguish between promises received for each net asset category in accordance with donor restrictions, if any.

Under ASC 958, net assets and revenue, expenses, gains and losses are classified as temporarily restricted, permanently restricted, or unrestricted based on the existence or absence, respectively, of donor-imposed restrictions. Accordingly, net assets of the Organization and changes therein are classified as follows:

**Unrestricted net assets** – Net assets available for the support of the Organization's operations. The unrestricted net assets may be used at the discretion of the Organization's management and the Board of Directors (the Board).

**Temporarily restricted net assets** – Net assets subject to donor-imposed stipulations that may or will be met either by actions of the Organization or the passage of time.

**Permanently restricted net assets** – Net assets subject to donor-imposed stipulations to be maintained permanently by the Organization. Generally, the donors of these assets permit the Organization to use all or part of the earnings on related investments for general or specific purposes.

# THE ZOOLOGICAL SOCIETY OF THE PALM BEACHES, INC.

## NOTES TO FINANCIAL STATEMENTS, CONTINUED

### Note 1 – Summary of Significant Accounting Policies, Continued

#### Basis of presentation, continued

Revenue is reported as an increase in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on portfolio investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation. The expirations of temporary donor-imposed restrictions on net assets are reported as reclassifications to unrestricted net assets in the period in which the restriction expires. A restriction expires when the stipulated time period has elapsed and/or the stipulated purpose has been fulfilled.

#### Contributions

Contributions of cash, other assets and unconditional promises to give, are recognized when received from the donor. Classification of these contributions as unrestricted, temporarily restricted or permanently restricted is based upon any donor-imposed stipulations that limit the use of the donated assets. When a donor-imposed restriction expires, that is, when a stipulated time restriction ends or a purpose restriction is accomplished, temporarily restricted net assets are then reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions.

Unconditional promises to give are recognized at their fair value based on the present value of estimated future cash flows using a discount rate commensurate with the risks involved. Conditional promises to give that depend on the occurrence of specified and certain events are not recognized as support until the donor-imposed conditions are substantially met. Management periodically reviews its unconditional promises to give and maintains an allowance for uncollectible promises based on expected collections and economic conditions.

#### Revenue recognition

Membership revenue is recognized ratably over the membership term. Membership revenues received in advance of the membership term are recorded as deferred revenue.

#### Cash and cash equivalents

Cash and cash equivalents include highly liquid investments with an original maturity of three months or less.

#### Portfolio investments

Portfolio investments include marketable equity securities, debt securities and mutual funds that trade at net asset value. Marketable equity securities are carried with readily determinable fair market values and all investments in debt securities are carried at fair values based on quoted market prices.

Investment income and realized gains and losses on portfolio investments are recognized upon realization. Unrealized gains and losses are recognized based on changes in fair values during the period. Net investment returns are reported in appropriate net asset classifications based upon the existence of donor restrictions, if any.

THE ZOOLOGICAL SOCIETY OF THE PALM BEACHES, INC.

NOTES TO FINANCIAL STATEMENTS, CONTINUED

**Note 1 – Summary of Significant Accounting Policies, Continued**

Portfolio investments, continued

Portfolio investments are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain portfolio investments, it is at least reasonably possible that changes in values of portfolio investments will occur in the near term.

Inventories

Inventories, consisting of gift shop merchandise, are stated at the lower of cost or market.

Exhibits, property and equipment

Acquisitions of exhibits, property and equipment and expenditures for repairs and maintenance that materially prolong the useful lives of assets are capitalized.

Property and equipment is stated at cost and is depreciated using the straight-line method over the estimated useful lives of the respective assets. The Organization's policy is to capitalize assets acquired for greater than \$2,000. The Organization provides for depreciation over the estimated useful lives of the related assets using the straight-line method. These estimated useful lives are summarized in the following table:

Exhibits and improvements	10-40 years
Buildings and improvements	10-40 years
Machinery and equipment	5-10 years
Furniture and equipment	5-10 years

Capitalized interest

The Organization capitalizes interest on qualifying expenditures in accordance with SFAS No. 34, *Capitalization of Interest Costs* (ASC 835-20), and SFAS No. 62, *Interest Cost in Situations Including Certain Tax-Exempt Borrowings and Certain Gifts and Grants* (ASC 835-20-25).

Construction in progress

Construction in progress consists of costs related to exhibits, property and equipment, and at September 30, 2009, consisted primarily of construction costs for infrastructure for future development. As projects are completed, they are reclassified to exhibits, property and equipment.

Contributed services

Contributed services are recognized only if the services create or enhance non-financial assets or require specialized skills, are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation. During the years ended September 30, 2009 and 2008, no material contributed services meeting the requirements for recognition were recorded.

# THE ZOOLOGICAL SOCIETY OF THE PALM BEACHES, INC.

## NOTES TO FINANCIAL STATEMENTS, CONTINUED

### Note 1 – Summary of Significant Accounting Policies, Continued

#### Income taxes

The Organization has been recognized by the Internal Revenue Service as an organization exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code (IRC). Accordingly, no provision for income taxes has been recorded in the financial statements. The Organization is required to operate in conformity with the provisions of the IRC to maintain its exempt status. The Organization has elected to defer adoption of FASB Interpretation 48, *Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109* (ASC 740).

#### Animal collections

The Organization's collections consist of animal representatives of the tropical areas of the Americas, Asia and Australia, and are held for conservation, preservation, educational, and curatorial purposes. Each of the animals is cataloged, monitored, and cared for on a continuous basis.

In conformity with the practice followed by many zoological societies, animals purchased and donated since the Organization's inception are not recognized as assets on the statements of financial position. Purchases of animal collections are recorded as decreases in unrestricted net assets in the year in which the animals are acquired. Contributed animal collections are not reflected on the financial statements.

#### Concentrations of credit risk

Financial instruments which potentially subject the Organization to concentrations of credit risk include cash and cash equivalents, investments, and unconditional promises to give. Cash balances at times, may be in excess of the guarantees of the Federal Deposit Insurance Corporation (FDIC). In assessing its risk with regard to cash deposits, the Organization's policy is to bank only with the highest rated financial institutions. The Organization has not experienced any losses in such accounts.

#### Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

#### Functional allocation of expenses

The costs of providing the various programs and other activities the Organization offers are summarized on a functional basis in the accompanying statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited based on systematic methods and estimates made by management.

#### Reclassifications

Certain amounts appearing in the 2008 financial statements have been reclassified to conform with the 2009 presentation.

**THE ZOOLOGICAL SOCIETY OF THE PALM BEACHES, INC.**

**NOTES TO FINANCIAL STATEMENTS, CONTINUED**

**Note 1 – Summary of Significant Accounting Policies, Continued**

New accounting pronouncements

In September 2006, Statement of Financial Accounting Standards No. 157, *Fair Value Measurements*, (ASC 820-10) was issued and is effective for fiscal years beginning after November 15, 2007. ASC 820-10 defines fair value, establishes a framework for measuring fair value, and establishes and expands disclosures about fair value measurements (see Note 3).

In August 2008, the Financial Accounting Standards Board (“FASB”) issued FASB Staff Position (“FSP”) No. 117-1, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds* (ASC 958-205), effective for fiscal years ending after December 15, 2008 (see Note 7). ASC 958-205 provides guidance on the net asset classification of donor-restricted endowment funds under the Uniform Prudent Management of Institutional Funds Act of 2006 (“UPMIFA”). ASC 958-205 also requires enhanced disclosures by all nonprofit organizations that have endowments (whether donor restricted or not). These disclosure requirements apply regardless of whether the organization is currently subject to UPMIFA. The State of Florida has not yet adopted UPMIFA which replaces and updates the Uniform Management of Institutional Funds Act (“UMIFA”) of 1972.

In May 2009, the FASB issued SFAS No. 165, *Subsequent Events* (ASC 855-10), which establishes general standards of accounting for and disclosure of events that occur after the statement of financial position date but before financial statements are issued or are available to be issued.

**Note 2 – Portfolio Investments**

A summary of portfolio investments, by investment type, at September 30, 2009 and 2008 is as follows:

	<u>2009</u>	<u>2008</u>
Public and private funds	\$ 2,623,644	\$ 6,317,970
Money market funds	3,900,908	1,882,836
Marketable equity securities	-	14,182,290
Mutual funds and bonds	<u>3,320,648</u>	<u>7,541,933</u>
	<u>\$ 9,845,200</u>	<u>\$ 29,925,029</u>

The following schedule summarizes the net investment return (loss) on portfolio investments for the year ended September 30, 2009 and its classification in the statement of activities:

	<u>Year Ended September 30, 2009</u>			
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Interest and dividend income	\$ 281,323	\$ -	\$ -	\$ 281,323
Net realized and unrealized losses	<u>(4,586,944)</u>	<u>-</u>	<u>-</u>	<u>(4,586,944)</u>
Net investment loss	<u>\$ (4,305,621)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (4,305,621)</u>

Net investment loss includes \$75,114 of investment expenses for the year ended September 30, 2009.

**THE ZOOLOGICAL SOCIETY OF THE PALM BEACHES, INC.**

**NOTES TO FINANCIAL STATEMENTS, CONTINUED**

**Note 3 – Fair Value Measurements**

ASC 820-10 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 or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

The three levels of the fair value hierarchy under ASC 820-10 are described below:

Level 1 – Quoted prices are available in active markets for identical investments as of the reporting date.

Level 2 – Pricing inputs are other than quoted prices in active markets which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models and other valuation methodologies.

Level 3 – Pricing inputs are unobservable for the investment and include situations where there is little, if any, market activity for the investment. The inputs into the determination of fair value require significant management judgment or estimation. Investments which are generally included in this category include venture capital investments in equity or equity-oriented securities of privately held entities.

The following table summarizes the Organization’s assets measured at fair value based on the valuation methodology applied by the Organization as of September 30, 2009:

	<u>Level 1:</u> Quoted prices in markets for identical assets	<u>Level 2:</u> Significant other observable inputs	<u>Level 3:</u> Significant unobservable inputs	<u>Total:</u> September 30, 2009
Public and private funds	\$ -	\$ -	\$ 2,623,644	\$ 2,623,644
Money market funds	3,900,908	-	-	3,900,908
Mutual funds and bonds	<u>3,320,648</u>	<u>-</u>	<u>-</u>	<u>3,320,648</u>
	<u>\$ 7,221,556</u>	<u>\$ -</u>	<u>\$ 2,623,644</u>	<u>\$ 9,845,200</u>

The following is a schedule of Level 3 investment activity for the year ended September 30, 2009 measured on a recurring basis using significant unobservable inputs:

	<u>Public and private funds</u>
Balance as of October 1, 2008	\$ 6,317,970
Net realized and unrealized loss included in the statement of activities	(2,191,826)
Purchases, settlements, and sales, net	<u>(1,502,500)</u>
Balance as of September 30, 2009	<u>\$ 2,623,644</u>

**THE ZOOLOGICAL SOCIETY OF THE PALM BEACHES, INC.**

**NOTES TO FINANCIAL STATEMENTS, CONTINUED**

**Note 4 – Unconditional Promises to Give**

Unconditional promises to give consist of the following at September 30, 2009 and 2008:

	<u>2009</u>	<u>2008</u>
Exhibit development projects	\$ 1,777,047	\$ 1,857,046
Jaguar campaign	297,940	-
Other pledges	<u>16,000</u>	<u>-</u>
Unconditional promises to give before unamortized discount and allowance for uncollectible pledges	2,090,987	1,857,046
Less: unamortized discount to net present value	<u>(551,595)</u>	<u>(427,574)</u>
Subtotal	1,539,392	1,429,472
Less: allowance for uncollectible pledges	<u>(162,000)</u>	<u>(159,000)</u>
Net unconditional promises to give	<u>\$ 1,377,392</u>	<u>\$ 1,270,472</u>
Amounts due in:		
Less than one year	\$ 182,340	\$ 667,046
One to five years	311,600	215,000
After five years	<u>1,597,047</u>	<u>975,000</u>
Total	<u>\$ 2,090,987</u>	<u>\$ 1,857,046</u>

The Organization applies discount rates ranging from 2.5% to 6.6% to its pledges with terms in excess of one year.

**Note 5 – Exhibits, Property, and Equipment**

The following is a summary of property, plant, and equipment and related accumulated depreciation as of September 30, 2009 and 2008:

	<u>2009</u>	<u>2008</u>
Exhibits and improvements	\$ 29,123,605	\$ 29,078,509
Buildings and improvements	10,648,718	5,189,587
Machinery and equipment	993,138	525,207
Furniture and equipment	<u>399,503</u>	<u>325,339</u>
	41,164,964	35,118,642
Less: accumulated depreciation	<u>(6,712,067)</u>	<u>(5,597,677)</u>
	34,452,897	29,520,965
Construction in progress	<u>451,090</u>	<u>3,425,988</u>
Exhibits, property, and equipment, net	<u>\$ 34,903,987</u>	<u>\$ 32,946,953</u>

THE ZOOLOGICAL SOCIETY OF THE PALM BEACHES, INC.

NOTES TO FINANCIAL STATEMENTS, CONTINUED

**Note 5 – Exhibits, Property, and Equipment, Continued**

Total interest incurred and capitalized for the years ended September 30, 2009 and 2008 are presented as follows:

	<u>2009</u>	<u>2008</u>
Interest incurred	\$ 163,892	\$ 566,607
Interest capitalized	<u>44,151</u>	<u>41,143</u>
Interest expense, net	<u>\$ 119,741</u>	<u>\$ 525,464</u>

**Note 6 – Bonds Payable**

The Organization is obligated under Variable Rate Demand Revenue Bonds Series 2001 (the Bonds) issued by Palm Beach County, Florida in the original amount of \$22,000,000 to finance the construction of exhibits and other property and improvements. Debt service payments are collateralized by an irrevocable letter of credit pursuant to a certain loan agreement (the Agreement) with a bank (the Bank). The Agreement requires the Organization to maintain certain financial covenants. Such covenants were not met for the year ended September 30, 2008 and accordingly, the Organization was required to repay \$12,000,000 of the outstanding bond debt during 2009. The Bonds bear interest at a weekly rate determined by the Bank, which averaged approximately 1.02% and 2.6% for the years ended September 30, 2009 and 2008. Interest is payable monthly through maturity on May 1, 2031.

As of September 30, 2009, in connection with the Bonds, the Organization has an outstanding irrevocable letter of credit in the amount of \$10,000,000, which expires May 15, 2010, that serves as security for outstanding bond principal and accrued interest. Under the terms of the irrevocable letter agreement, the Organization is required to meet certain financial covenants and may not encumber its property or incur additional debt without prior written consent. Such covenants were either met or waived for the year ended September 30, 2009.

Interest charges totaled \$163,892 and \$566,607 under the bonds payable, and letter of credit fees totaled \$106,188 and \$106,539 for the years ended September 30, 2009 and 2008, respectively.

**Note 7 – Temporarily and Permanently Restricted Net Assets**

Temporarily restricted net assets at September 30, 2009 and 2008 are available to support the following purposes:

	<u>2009</u>	<u>2008</u>
Exhibits and improvements	\$ 1,098,092	\$ 1,270,472
Animal hospital	-	3,226,961
Jaguar conservation	274,300	-
Rhino grant	20,058	-
Koala exhibit	<u>5,000</u>	<u>-</u>
	<u>\$ 1,397,450</u>	<u>\$ 4,497,433</u>

**THE ZOOLOGICAL SOCIETY OF THE PALM BEACHES, INC.**

**NOTES TO FINANCIAL STATEMENTS, CONTINUED**

**Note 7 – Temporarily and Permanently Restricted Net Assets, Continued**

At September 30, 2009 and 2008, permanently restricted net assets consisted of \$600,000 from the Florida Cultural Endowment Program (the Program) that is governed by a Trust agreement between the Organization and the State of Florida (the Trust Agreement). Under the terms of the Trust Agreement, the Organization is required to invest the grant funds received from the Program along with matching funds in a separate account. As of September 30, 2009, such funds were held in a money market account. Income generated from these funds is to be used for operating costs of programs related to cultural activities. Such earnings totaled \$5,478 and \$25,771, respectively, for the years ended September 30, 2009 and 2008.

Changes in endowment net assets for the year ended September 30, 2009:

	<u>Unrestricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Balance as of October 1, 2008	\$ -	\$ 600,000	\$ 600,000
Investment income	-	5,478	5,478
Transfer from investment earnings	5,478	(5,478)	-
Appropriations for endowment expenditures	<u>(5,478)</u>	<u>-</u>	<u>(5,478)</u>
Balance as of September 30, 2009	<u>\$ -</u>	<u>\$ 600,000</u>	<u>\$ 600,000</u>

Funds with deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor requires the Organization to retain as a fund of perpetual duration. These losses are recorded as reductions in unrestricted net assets in accordance with accounting principles generally accepted in the United States of America, as set forth in the table below. Future gains will be used to restore deficiencies in unrestricted net assets before any net appreciation above the historical cost value of such funds increases temporarily restricted net assets.

Interpretation of relevant law

The State of Florida has not enacted the Prudent Management Institutional Funds Act (PMIFA) which requires 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.

Return objectives and risk parameters

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

Strategies employed to achieve objectives

To satisfy its long-term objectives, the Organization seeks to provide liquidity to meet forecasted operating and capital expenditure needs. As part of its long-term strategy, the Organization 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 Organization targets a diversified allocation to achieve its long-term return objectives within prudent risk constraints.

**THE ZOOLOGICAL SOCIETY OF THE PALM BEACHES, INC.**

**NOTES TO FINANCIAL STATEMENTS, CONTINUED**

**Note 8 – Net Assets Released from Restrictions**

Net assets are released from donor restrictions by incurring expenses satisfying the restricted purposes or by the occurrence of events as specified by the donors. Net assets were released from restrictions during the year ended September 30, 2009 for the following purposes:

Jaguar conservation	\$ 346,259
Grant revenues	338,931
Animal hospital	<u>3,309,961</u>
	<u>\$ 3,995,151</u>

**Note 9 – Description of Leasing Arrangements**

The Organization has a lease agreement with the City of West Palm Beach for all of the land on which the Zoo is located, for an annual rent of \$1. This lease agreement expires October 30, 2049. No in-kind contributions were recorded in the statement of activities to reflect the fair market value of the land rental because no objective basis is available for measurement.

**Note 10 – Retirement Plan**

The Organization maintains a 401(k) plan for all eligible employees. Employer contributions to the plan totaled \$63,089 and \$57,526 for the years ended September 30, 2009 and 2008, respectively.

**Note 11 – Commitments and Contingencies**

Grants are subject to annual renewal and periodic amendment and require the fulfillment of certain conditions as set forth in each grant document. Failure to fulfill the conditions could result in return of the funds to grantors.

**Note 12 – Subsequent Events**

Management evaluated activity of The Zoological Society of the Palm Beaches, Inc. through February 25, 2010 and concluded that no subsequent events have occurred that would require recognition in the 2009 financial statements or disclosure in the notes thereto.

**Note 13 – Prior Period Adjustments**

During the year ended September 30, 2009, management discovered that interest should have been capitalized during certain construction as required by generally accepted accounting principles. Management also discovered that certain accruals were overstated as of September 30, 2008 in the Organization's financial statements and that certain amounts previously classified as restricted net assets should have been classified as unrestricted net assets.

**THE ZOOLOGICAL SOCIETY OF THE PALM BEACHES, INC.**

**NOTES TO FINANCIAL STATEMENTS, CONTINUED**

**Note 13 – Prior Period Adjustments, Continued**

The effect of the adjustments on the changes in net assets for the year ended September 30, 2008 and on net assets as of September 30, 2008 is presented in the table below:

	Year Ended	As of September 30, 2008			Total Net Assets
	September 30, 2008	Unrestricted Net Assets	Temporarily Restricted Net Assets	Permanently Restricted Net Assets	
	Changes in Net Assets				
As previously reported	\$ (8,956,868)	\$ 33,371,560	\$ 7,084,300	\$ 1,320,702	\$ 41,776,562
Adjustments:					
Reduce accrued expenses	39,903	39,903	-	-	39,903
Increase deferred revenue	(15,005)	(15,005)	-	-	(15,005)
Record capitalized interest on construction	41,143	41,143	-	-	41,143
Reclassify permanently restricted net assets per bond resolution	-	720,702	-	(720,702)	-
Record releases of temporarily restricted net assets through September 30, 2008	-	2,586,867	(2,586,867)	-	-
As restated	<u>\$ (8,890,827)</u>	<u>\$ 36,745,170</u>	<u>\$ 4,497,433</u>	<u>\$ 600,000</u>	<u>\$ 41,842,603</u>