

**RED RIVER ZOOLOGICAL SOCIETY
FARGO, NORTH DAKOTA**

REVIEWED FINANCIAL STATEMENTS

FOR THE YEARS ENDED MARCH 31, 2020 AND 2019

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INDEPENDENT ACCOUNTANT'S REVIEW REPORT

To the Board of Directors of
Red River Zoological Society
Fargo, North Dakota

We have reviewed the accompanying financial statements of Red River Zoological Society (a non-profit organization), which comprise the statements of financial position as of March 31, 2020, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements. A review includes primarily applying analytical procedures to management's financial data and making inquiries of management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

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 financial statements that are free from material misstatement whether due to fraud or error.

Accountant's Responsibility

Our responsibility is to conduct the review engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. Those standards require us to perform procedures to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the financial statements for them to be in accordance with accounting principles generally accepted in the United States of America. We believe that the results of our procedures provide a reasonable basis for our conclusion.

Accountant's Conclusion

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements for them to be in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As discussed in Note 1, the Red River Zoological Society has adopted Accounting Standards Update (ASU) 2014-09 Topic 606, *Revenue from Contracts with Customers*, and subsequent amendments and ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, effective April 1, 2019. Our opinion is not modified with respect to these matters.

As discussed in Note 18 to the financial statements, the financial statements have been restated to correct a misstatement. Our opinion is not modified with respect to this matter.

Report on 2019 Financial Statements

The financial statements of the Red River Zoological Society, as of March 31, 2019, were reviewed by other accountants whose report dated September 25, 2019, stated that based on their procedures they were not aware of any material modifications that should be made to those financial statements for them to be in accordance with accounting principles generally accepted in the United States of America.

A handwritten signature in black ink that reads "Brady Martz". The signature is written in a cursive, flowing style.

**BRADY, MARTZ & ASSOCIATES, P.C.
FARGO, NORTH DAKOTA**

November 5, 2020

RED RIVER ZOOLOGICAL SOCIETY
STATEMENTS OF FINANCIAL POSITION
MARCH 31, 2020 AND 2019

ASSETS

	2020	2019
Current assets:		
Cash and cash equivalents	\$ 50,407	\$ -
Accounts receivable, net	93	93
Current portion of pledges receivable	12,500	34,085
Inventory	18,529	17,667
Prepaid expenses	11,738	12,205
Total current assets	93,267	64,050
Investments	108,223	115,317
Pledges receivable, net	5,995	11,746
Property and equipment, net	3,320,567	3,514,847
Total assets	\$ 3,528,052	\$ 3,705,960

LIABILITIES AND NET ASSETS

	2020	2019
Current liabilities:		
Checks in excess of deposits	\$ -	\$ 2,878
Accounts payable	139,191	104,073
Accrued liabilities:		
Salaries	19,428	18,692
Other	35,340	35,061
Payroll taxes	307	671
Interest	360	6,482
Deferred revenue	101,600	78,985
Line of credit	298,274	200,000
Current portion of long-term debt	-	43,400
Total current liabilities	594,500	490,242
Long-term debt, net of current portion	-	61,422
Total liabilities	594,500	551,664
Net assets:		
Without donor restrictions	2,502,983	2,707,297
With donor restrictions	430,569	446,999
Total net assets	2,933,552	3,154,296
Total liabilities and net assets	\$ 3,528,052	\$ 3,705,960

See independent accountant's review report and notes to the financial statements

RED RIVER ZOOLOGICAL SOCIETY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED MARCH 31, 2020

	Without donor restrictions	With donor restrictions	Total
Revenue and other support:			
Admissions	\$ 481,232	\$ -	\$ 481,232
Membership fees	277,528	-	277,528
In-kind donations	191,527	-	191,527
Contributions	148,694	18,000	166,694
Special events, net	109,879	-	109,879
Education events	84,315	-	84,315
Gift shop and concession, net	68,940	-	68,940
Miscellaneous	64,883	-	64,883
Rental income, net	28,723	-	28,723
Grants	27,496	-	27,496
Investment income (loss), net	-	(7,094)	(7,094)
Net assets released from restrictions	27,336	(27,336)	-
Total revenue and other support	1,510,553	(16,430)	1,494,123
Functional expenses:			
Program services:			
Facility operation	1,407,679	-	1,407,679
Supporting services:			
Management and general	264,414	-	264,414
Fundraising	42,774	-	42,774
Total functional expenses	1,714,867	-	1,714,867
Change in net assets	(204,314)	(16,430)	(220,744)
Net assets, beginning of year	2,707,297	446,999	3,154,296
Net assets, end of year	\$ 2,502,983	\$ 430,569	\$ 2,933,552

See independent accountant's review report and notes to the financial statements

RED RIVER ZOOLOGICAL SOCIETY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED MARCH 31, 2019

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>
Revenue and other support:			
Admissions	\$ 417,675	\$ -	\$ 417,675
Membership fees	259,733	-	259,733
In-kind donations	200,292	-	200,292
Contributions	199,994	25,000	224,994
Special events, net	106,825	-	106,825
Education events	55,840	-	55,840
Gift shop and concession, net	83,211	-	83,211
Miscellaneous	50,926	4,135	55,061
Rental income, net	12,073	-	12,073
Grants	61,541	-	61,541
Investment income (loss), net	-	(174)	(174)
Net assets released from restrictions	51,363	(51,363)	-
Total revenue and other support	<u>1,499,473</u>	<u>(22,402)</u>	<u>1,477,071</u>
Functional expenses:			
Program services:			
Facility operation	1,292,755	-	1,292,755
Supporting services:			
Management and general	312,314	-	312,314
Fundraising	22,230	-	22,230
Total functional expenses	<u>1,627,299</u>	<u>-</u>	<u>1,627,299</u>
Change in net assets	<u>(127,826)</u>	<u>(22,402)</u>	<u>(150,228)</u>
Net assets, beginning of year, as previously stated	2,914,108	469,401	3,383,509
Prior period adjustment	(78,985)	-	(78,985)
Net assets, beginning of year, as restated	<u>2,835,123</u>	<u>469,401</u>	<u>3,304,524</u>
Net assets, end of year	<u>\$ 2,707,297</u>	<u>\$ 446,999</u>	<u>\$ 3,154,296</u>

See independent accountant's review report and notes to the financial statements

RED RIVER ZOOLOGICAL SOCIETY
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED MARCH 31, 2020

	Services	Supporting Services		Total
	Facility Operation	Management and General	Fundraising	
Salaries	\$ 615,712	\$ 116,012	\$ 13,000	\$ 744,724
Depreciation	194,955	-	-	194,955
Gifts in-kind	169,479	-	-	169,479
Utilities	100,980	-	-	100,980
Animal care	71,547	-	-	71,547
Repairs and maintenance	66,271	-	-	66,271
Payroll taxes	52,681	9,926	1,112	63,719
Animal purchase and display	44,812	-	-	44,812
Bank/credit card charges	-	36,811	-	36,811
Insurance	32,819	-	-	32,819
Education and training	31,700	-	-	31,700
Advertising	-	29,562	-	29,562
Fundraising	-	-	28,633	28,633
Professional services	-	22,596	-	22,596
Interest	21,322	-	-	21,322
Seminars and conventions	-	16,364	-	16,364
Telephone	-	8,694	-	8,694
Postage and printing	-	6,385	-	6,385
Member	-	6,182	-	6,182
Office supplies	-	5,248	-	5,248
License, fees, permits	140	3,972	-	4,112
Auto	3,886	-	-	3,886
Meals	-	2,176	-	2,176
Employee benefits	1,375	259	29	1,663
Miscellaneous	-	227	-	227
Total expenses	<u>\$ 1,407,679</u>	<u>\$ 264,414</u>	<u>\$ 42,774</u>	<u>\$ 1,714,867</u>

See independent accountant's review report and notes to the financial statements

RED RIVER ZOOLOGICAL SOCIETY
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED MARCH 31, 2019

	<u>Services</u>	<u>Supporting Services</u>		<u>Total</u>
	<u>Facility Operation</u>	<u>Management and General</u>	<u>Fundraising</u>	
Salaries	\$ 576,730	\$ 110,655	\$ 11,955	\$ 699,340
Depreciation	200,711	-	-	200,711
Gifts in-kind	124,300	-	-	124,300
Utilities	74,709	-	-	74,709
Animal care	61,019	-	-	61,019
Repairs and maintenance	74,188	-	-	74,188
Payroll taxes	44,261	8,492	918	53,671
Animal purchase and display	55,896	-	-	55,896
Bank/credit card charges	-	26,499	-	26,499
Insurance	34,624	-	-	34,624
Education and training	18,532	-	-	18,532
Advertising	-	81,343	-	81,343
Fundraising	-	-	9,321	9,321
Professional services	-	26,023	-	26,023
Interest	19,008	-	-	19,008
Seminars and conventions	-	19,407	-	19,407
Telephone	-	6,170	-	6,170
Postage and printing	-	4,166	-	4,166
Member	-	12,366	-	12,366
Office supplies	-	5,927	-	5,927
License, fees, permits	750	3,308	-	4,058
Auto	6,294	-	-	6,294
Meals	-	2,994	-	2,994
Employee benefits	1,733	333	36	2,102
Miscellaneous	-	4,631	-	4,631
Total expenses	<u>\$ 1,292,755</u>	<u>\$ 312,314</u>	<u>\$ 22,230</u>	<u>\$ 1,627,299</u>

See independent accountant's review report and notes to the financial statements

RED RIVER ZOOLOGICAL SOCIETY
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED MARCH 31, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
Cash flows from operating activities:		
Change in net assets	\$ (220,744)	\$ (150,228)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	194,955	200,711
(Gain) loss on investments	7,094	(3,961)
Net effects on operating cash flows due to changes in:		
Accounts receivable	-	(93)
Pledges receivable	27,336	26,363
Inventory	(862)	(5,590)
Prepaid expenses	467	9,598
Accounts payable	35,118	13,836
Accrued liabilities	(5,471)	5,670
Deferred revenue	22,615	-
Net cash provided (used) by operating activities	<u>60,508</u>	<u>96,306</u>
Cash flows from investing activity:		
Purchases of property and equipment	<u>(675)</u>	<u>(76,885)</u>
Cash flows from financing activities:		
Advances on line of credit	533,274	220,538
Principal payments on line of credit	(435,000)	(195,538)
Change in checks in excess of deposits	(2,878)	2,878
Proceeds from issuance of long-term debt	-	2,435
Principal payments on long-term debt	(104,822)	(72,826)
Net cash provided (used) by financing activities	<u>(9,426)</u>	<u>(42,513)</u>
Change in cash and cash equivalents	50,407	(23,092)
Cash and cash equivalents, beginning of year	-	23,092
Cash and cash equivalents, end of year	<u>\$ 50,407</u>	<u>\$ -</u>
Supplemental cash flow disclosure:		
Cash paid for interest	(27,444)	(13,585)

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RED RIVER ZOOLOGICAL SOCIETY
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2020 AND 2019

NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of organization

The Red River Zoological Society (Organization) is a not-for-profit organization located in Fargo, North Dakota, organized for establishing and operating a regional zoo and discovery center; acquiring and exhibiting animals and items of interest in the natural sciences for the education, recreation, and cultural appreciation of the public; and for scientific study, animal rehabilitation, and conservation. The Organization's support comes primarily from membership fees, admissions, donations, and gift shop and concession income.

Basis of presentation

The accounting and reporting principles followed by the Organization conform with accounting principles generally accepted in the United States of America (GAAP) as codified by the Financial Accounting Standards Board (FASB). Accordingly, net assets and changes therein are classified and reported as follows:

Net assets without donor restrictions

Net assets available for use in general operations and not subject to donor restrictions.

Net assets with donor restrictions

Net assets subject to donor-imposed stipulations that may or will be met, either by actions of the Organization and/or the passage of time. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions. If restrictions are satisfied during the same fiscal year of the gift, the entire transaction is reported as net assets without donor restrictions.

Estimates

The preparation of financial statements in conformity with 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.

Recent accounting pronouncements

In May 2014, FASB issued Accounting Standards Update (ASU) 2014-09, Revenue from Contracts with Customers that replaces substantially all existing accounting guidance, including industry specific guidance, related to the recognition of revenue from contracts with customers. The new accounting standard is intended to provide a more robust framework for addressing new revenue issues, improve the comparability of revenue recognition practices, and provide more robust disclosures. Under the new standard, revenue is recognized when a customer obtains control of promised goods or services in an amount that reflects the consideration to

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RED RIVER ZOOLOGICAL SOCIETY
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
MARCH 31, 2020 AND 2019

which the Organization expects to be entitled in exchange for those goods or services. FASB has issued several subsequent amendments and clarifications to the original standard.

In June 2018, FASB issued ASU 2018-08, Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made. This standard assists the Organization in evaluating whether transactions should be accounted for as contributions or exchange transactions and determining whether a contribution is conditional. The Organization has implemented the provisions of ASU 2018-08 applicable to both contributions received and to contributions made in the accompanying financial statements under a modified prospective basis. The implementation of this standard has had no effect on net assets.

Transition – modified retrospective method (FASB ASC 606)

The Organization adopted the requirements of the new standard (as amended) as of April 1, 2019 utilizing the modified retrospective method of transition. The Organization applies the new guidance using the practical expedient provided in Topic 606 that allows the guidance to be applied only to contracts that were not complete as of April 1, 2019. The Organization has determined that the application of the new guidance will materially impact the timing or amount of revenue. Accordingly, an adjustment to beginning net assets was required and the adoption of the standard did have a material impact on the Organization's financial conditions, results of operations, and cash flows as of and for the year ended March 31, 2020. See Note 18.

As required by the new standard, the disclosures related to revenues from contracts with customers have been expanded.

Disaggregation of revenue and performance obligations

The Organization recognizes admissions fees, gift shop sales, concessions income, education events and pavilion rentals at a point-in-time as the customer receives and uses the benefits of the services made available by the Organization. The Organization's primary performance obligation for such revenue is generally satisfied at the time these services are provided or when a good is transferred to the customer.

The Organization recognizes membership fees and sponsorship over time as the customer receives and uses the benefits of the services made available by the Organization. The Organization's primary performance obligation is satisfied as performance over the membership or contract period is completed. Limited instances of discounts are available with certain membership packages.

The Organization recognizes revenue on special events from tickets sales at the time of admission. The Organization records special event revenue equal to the fair value of direct benefits to donors, and contribution income for the excess received when the event takes place.

When the Organization has a single performance obligation, the entire transaction price is attributed to the performance obligation. When the contract has more than one performance obligation, the transaction price is allocated to each performance obligation based on estimated revenue and standalone selling prices of the services at the inception of the contract, which typically is determined using observable standalone sales.

RED RIVER ZOOLOGICAL SOCIETY
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
MARCH 31, 2020 AND 2019

Under ASU Topic 958, the Organization recognizes contributions when cash and cash equivalents, investments or other assets, an unconditional promise to give, or 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. The Organization does not have any conditional promises to give.

Depending on the existence and/or nature of any restrictions, contributions received are recorded as net assets without donor restrictions or net assets with donor restrictions depending on the absence or existence and nature of any donor restrictions. Contributions that are restricted by the donor are reported as increases in net assets without donor restrictions if the restrictions expire in the fiscal year in which the contributions are 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 donor restriction expires, that is, when a stipulated time or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and are reported on the statements of activities and changes in net assets as net assets released from restrictions.

Cash and cash equivalents

The Organization is including its checking accounts as cash and cash equivalents in these statements. There are no other highly liquid investments which are considered cash and cash equivalents.

Inventory

Inventory consists of items for sale in the gift shop which are valued at the lower of cost or market determined by the first-in, first-out method.

Investments

The Organization accounts for investments in accordance with GAAP. Under GAAP, investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair value in the statements of financial position. Net investment income (loss) restricted by donors are reported as increases in net assets without donor restrictions if the restrictions are met (either a stipulated period ends, or a purpose restriction is accomplished) in the reporting period in which the income and gains are recognized. Related investment fees are netted against net investment income (loss) as appropriate.

Pledges receivable

Contributions are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional. Unconditional promises to give that are expected to be collected in future years are recorded at the net present value of their estimated future cash flows, discounted at the rate used when the pledge was initially recognized. The discount rate used on long-term pledges was 4.25% for both years ended March 31, 2020 and 2019.

The Organization estimates the allowance for uncollectible pledges based on the age of past due accounts. As of March 31, 2020 and 2019 no allowance for uncollectible pledges was

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RED RIVER ZOOLOGICAL SOCIETY
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
MARCH 31, 2020 AND 2019

considered necessary as management considers all pledges receivable to be fully collectible. All pledges receivable serves as collateral on the Organization's line of credit.

Fair value measurements

GAAP establishes a framework for measuring fair value. That framework provides 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 the authoritative guidance as described below:

Level 1 – Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Organization has ability to access.

Level 2 – Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

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

The following is a description of the valuation methodology used for assets measured at fair value on a recurring basis. There have been no changes in the methodology used at March 31, 2020.

Money market – valued based on unadjusted quoted prices for similar assets in active markets.

Exchange-traded funds – valued based on the quoted market prices for publicly traded securities in an active market.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Organization believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

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RED RIVER ZOOLOGICAL SOCIETY
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
MARCH 31, 2020 AND 2019

Property and equipment

Property and equipment are carried at cost. The Organization capitalizes all expenditures for renewals and improvements with a cost greater than \$1,500 that significantly adds to the productive capacity or extends the useful life of an asset. Other expenditures for maintenance and repairs are charged to expense as incurred. When equipment is retired or sold, the cost and related accumulated depreciation are eliminated from the accounts and the resultant gain or loss is reflected in income. Depreciation expense is provided using the straight-line method over the following estimated useful lives:

Asset	Lives
Building and land improvements	7-39 Years
Exhibits	20-39 Years
Carousel	39 Years
Leasehold improvements	15 Years
Furniture, fixtures, and equipment	5-39 Years
Transportation equipment	5-7 Years

Donations of property and equipment are recorded as support at their estimated fair market value on the date they are received. Such donations are reported as support without donor restrictions unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as support with donor restrictions. Absent donor stipulations regarding how long those donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed into service as instructed by the donor. The Organization reclassifies net assets with donor restrictions at that time.

Donated services and materials

Contributions of donated services that create or enhance non-financial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are recorded at their fair values in the period received. The Organization receives donated services from unpaid volunteers who assist in fundraising and special projects.

Donations of materials, facilities, equipment, and other non-monetary items, including purchases by the Organization at prices significantly less than fair value, are recorded at fair value when the value is reasonably determinable for the asset received.

Contract assets and liabilities

A contract asset is the Organization’s right to payment for goods and services already transferred to a customer if that right to payment is conditional on something other than the passage of time. A contract liability is the Organization’s obligation to transfer goods or services to a customer at the earlier of (1) when the customer prepays consideration or (2) the time that the customer’s consideration is due for goods and services that the Organization will yet provide.

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RED RIVER ZOOLOGICAL SOCIETY
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
MARCH 31, 2020 AND 2019

Fundraising costs

Fundraising costs consist of various amounts paid for donor receptions and other special events, recognition plaques for exhibit sponsors, significant donors, and corporate sponsors, and salaries and wages allocated to fundraising activities.

Advertising

Advertising costs are expensed as incurred.

Functional allocation of expenses

The costs of program and supporting services activities have been summarized on a functional basis in the statements of activities. The statements of functional expenses present the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefitted.

The financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include salaries, employee benefits, and payroll taxes which are allocated on employee time as estimated by management.

Animal collections

In accordance with customary practice among zoological organizations, the Organization shares animals with other organizations and does not record any asset or liability for such sharing arrangements, as generally these arrangements are without monetary consideration. Expenditures related to animal acquisitions are expensed in the period of acquisition.

Income taxes

The Organization is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code and from state income taxes under Section 57-38-09 of the North Dakota Century Code. The Organization files its Form 990 information returns in the U.S. federal jurisdiction.

The Organization's policy is to evaluate the likelihood that its uncertain tax positions will prevail based upon examination based on the extent to which those positions have substantial support within the Internal Revenue Code and Regulations, Revenue Rulings, court decisions, and other evidence.

RED RIVER ZOOLOGICAL SOCIETY
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
MARCH 31, 2020 AND 2019

NOTE 2 REVENUE RECOGNITION IN ACCORDANCE WITH FASB ASC 606

The following is an analysis of revenue by the timing of such revenue recognized during the years ended March 31:

	<u>2020</u>	<u>2019</u>
Timing of revenue recognition:		
Goods and services transferred at a point-in-time	\$ 773,089	\$ 675,624
Goods and services transferred over time	342,411	314,794
Total revenue from contracts with customers	<u>1,115,500</u>	<u>990,418</u>
Non-exchange transactions	378,623	486,653
Total revenue and other support	<u>\$ 1,494,123</u>	<u>\$ 1,477,071</u>

There was no net accounts receivable at April 1, 2018. Deferred revenue totaled \$78,985 at April 1, 2018. The changes in the Organization's deferred revenue account for the year ended March 31, 2020 is comprised of the following:

April 1, 2019	\$ 78,985
Memberships sold	277,528
Membership fees earned	<u>(254,913)</u>
March 31, 2020	<u>\$ 101,600</u>

NOTE 3 LIQUIDITY AND AVAILABILITY

The Organization regularly monitors liquidity required to meet its operating needs and other contractual commitments, while also striving to maximize the investment of its available funds. The Organization has various sources of liquidity at its disposal, including cash and cash equivalents, accounts receivable, current portion of pledges receivable, and investments.

For purposes of analyzing resources available to meet general expenditures over a 12-month period, the Organization considers all expenditures related to its ongoing activities and the conduct of services undertaken to support those activities to be general expenditures.

In addition to financial assets available to meet general expenditures over the next 12 months, the Organization operates with a balanced budget and anticipates collecting revenue to cover general expenditures through a multitude of sources including admissions, contributions, and membership fees. Refer to the statements of cash flows which identifies the sources and uses of the Organization's cash and shows cash generated from operations during the years ended March 31, 2020 and 2019, respectively.

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RED RIVER ZOOLOGICAL SOCIETY
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
MARCH 31, 2020 AND 2019

Financial assets available for general expenditures without donor or other restrictions limiting their use, within one year of the statements of financial position date comprise the following for the years ended March 31:

	<u>2020</u>	<u>2019</u>
Cash and cash equivalents	\$ 50,407	\$ -
Checks in excess of deposits	-	(2,878)
Accounts receivable	93	93
Current portion of pledges receivable	12,500	34,085
Investments	<u>108,223</u>	<u>115,317</u>
Total financial assets	171,223	146,617
Less: assets limited-as-to-use	<u>(118,324)</u>	<u>(125,418)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 52,899</u>	<u>\$ 21,199</u>

As part of the Organization's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. The Organization reviews its liquidity monthly with the Board of Directors. The Organization also has access to a \$400,000 line of credit for cash flow if needed. As of March 31, 2020, the Organization had \$101,726 available of the line of credit for liquidity needs.

NOTE 4 INVESTMENTS

Investments are carried at fair value and realized, and unrealized gains and losses are reflected in the statements of activities. Costs and fair values of investments at March 31 are as follows:

	<u>2020</u>	Gross unrealized gains	Fair value
	Cost		
Money market	\$ 3,871	\$ -	\$ 3,871
Exchange-traded funds	101,006	3,346	104,352
Total	<u>\$ 104,877</u>	<u>\$ 3,346</u>	<u>\$ 108,223</u>
	<u>2019</u>		
Money market	\$ 4,928	\$ -	\$ 4,928
Exchange-traded funds	97,380	13,009	110,389
Total	<u>\$ 102,308</u>	<u>\$ 13,009</u>	<u>\$ 115,317</u>

Gains and losses (realized and unrealized) included in change in net assets for the years ended March 31 are as follows:

	<u>2020</u>	<u>2019</u>
Total gains included in net assets	<u>\$ (7,094)</u>	<u>\$ 3,961</u>
Change in unrealized gains (losses) relating to assets still held at year-end	<u>\$ (9,663)</u>	<u>\$ (174)</u>

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NOTE 5 PLEDGES RECEIVABLE

Included in pledges receivable are the following unconditional promises to give as of March 31:

	<u>2020</u>	<u>2019</u>
Pledges receivable	\$ 18,750	\$ 46,585
Less: unamortized discount (at 4.25%)	(255)	(754)
Net pledges receivable	18,495	45,831
Less: current portion	(12,500)	(34,085)
Long-term portion	<u>\$ 5,995</u>	<u>\$ 11,746</u>
Amounts due in:		
Less than one year	\$ 12,500	\$ 34,085
One-to-five years	6,250	12,500
Total	<u>\$ 18,750</u>	<u>\$ 46,585</u>

Pledges receivable are from businesses and individuals located primarily in the Fargo, ND and Moorhead, MN area.

NOTE 6 FAIR VALUE MEASUREMENTS

The following table presents the Organization's fair value hierarchy of assets measured at fair value on a recurring basis at March 31:

<u>2020</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Money market	\$ 3,871	\$ -	\$ -	\$ 3,871
Exchange-traded funds				
Bond	36,434	-	-	36,434
Large-blend	35,325	-	-	35,325
Mid-blend	12,901	-	-	12,901
Small-blend	12,237	-	-	12,237
Emerging markets	7,455	-	-	7,455
Total assets at fair value	<u>\$ 108,223</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 108,223</u>
<u>2019</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Money market	\$ 4,928	\$ -	\$ -	\$ 4,928
Exchange-traded funds:				
Bond	41,013	-	-	41,013
Large-blend	34,782	-	-	34,782
Mid-blend	11,300	-	-	11,300
Small-blend	17,199	-	-	17,199
Emerging markets	6,095	-	-	6,095
Total assets at fair value	<u>\$ 115,317</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 115,317</u>

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NOTE 7 PROPERTY AND EQUIPMENT

Property and equipment are composed of the following at March 31:

	<u>2020</u>	<u>2019</u>
Buildings and land improvements	\$ 3,353,181	\$ 3,353,181
Exhibits	1,812,625	1,812,625
Carousel	275,750	275,750
Leasehold improvements	231,422	231,422
Furniture, fixtures, and equipment	163,776	163,776
Transportation equipment	112,841	112,841
Construction in progress	<u>78,263</u>	<u>77,588</u>
Total property and equipment	6,027,858	6,027,183
Less: accumulated depreciation	<u>(2,707,291)</u>	<u>(2,512,336)</u>
Property and equipment, net	<u>\$ 3,320,567</u>	<u>\$ 3,514,847</u>

NOTE 8 LINE OF CREDIT

The Organization has a 4.00%, \$400,000 line of credit at First International Bank & Trust expiring in March 2025. The line of credit is secured by essentially all business assets. As of March 31, 2020, the balance outstanding was \$298,274.

The Organization had a line of credit at Bremer Bank with a variable interest rate of Wall Street Journal Prime + 1.00% with a minimum of 5.25% (6.50% at March 31, 2019) expiring in September 2019 and secured by substantially all business assets. The balance owing on this line of credit totaled \$200,000 at March 31, 2019.

NOTE 9 LONG-TERM DEBT

The Organization's long-term debt was paid off in full during the year ended March 31, 2020.

NOTE 10 NET ASSET RESTRICTIONS

Net assets with donor restrictions consisted of the following at March 31:

	<u>2020</u>	<u>2019</u>
Carousel	\$ 275,750	\$ 275,750
Endowment, amount in perpetuity	92,500	92,500
Leopard and tiger exhibit	28,101	10,101
Operating fund pledges, net of unamortized discount	18,495	45,831
Endowment earnings not appropriated	<u>15,723</u>	<u>22,817</u>
Total	<u>\$ 430,569</u>	<u>\$ 446,999</u>

The carousel was donated to the Organization in 1997 and had a fair market value at the time of the donation of \$215,750. An additional \$60,000 was spent on renovations to the carousel in 2004. The carousel is to be held indefinitely with the stipulation that the Organization has proper housing for it, and at least ten percent of the carousel revenues be used for maintenance of the carousel and carousel building. The Organization also has the future option to establish a separate foundation for it. See Note 11 for detail about the Organization's endowment. Net

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assets were released from donor restrictions by incurring expenses satisfying the restricted purpose.

NOTE 11 ENDOWMENTS

The State of North Dakota adopted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) effective July 31, 2009. GAAP provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to UPMIFA.

As required by GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law – The Organization has interpreted the North Dakota Uniform Prudent Management of Institutional Funds Act (NDUPMIFA) 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. Because of this interpretation, the Organization classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) any 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. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as unrestricted net assets as all proceeds from the endowment are to provide financial support in furtherance of the Organization's mission.

In accordance with NDUPMIFA, the Organization considers the following factors in deciding to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the fund;
- (2) The purposes of the Organization and the donor-restricted endowment fund;
- (3) General economic conditions;
- (4) The possible effect of inflation and deflation;
- (5) The expected total return from income and the appreciation of investments;
- (6) Other resources of the Organization; and
- (7) The investment policies of the Organization.

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Endowment net asset composition by type of fund as of March 31 is as follows:

<u>2020</u>	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>
Donor-restricted endowment gift amount and amounts required to be maintained in perpetuity by donor	\$ -	\$ 92,500	\$ 92,500
Accumulated investment gains (losses)	-	15,723	15,723
	<u>\$ -</u>	<u>\$ 108,223</u>	<u>\$ 108,223</u>
 <u>2019</u>			
Donor-restricted endowment gift amount and Amounts required to be maintained in Perpetuity by donor	\$ -	\$ 92,500	\$ 92,500
Accumulated investment gains (losses)	-	22,817	22,817
	<u>\$ -</u>	<u>\$ 115,317</u>	<u>\$ 115,317</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 or NDUPMIFA requires the Organization to retain as a fund of perpetual duration. There were no such deficiencies as of March 31, 2020 and 2019.

Return Objectives and Risk Parameters – The Organization has adopted investment and spending policies for endowment assets to achieve growth in principal value while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Organization must hold in perpetuity or for a donor-specified period(s). The Organization expects its endowment funds, over time, to provide a reasonable level of current income to support the spending policy authorized by the Board of Directors and to grow equity assets. Actual returns in any given year may vary from this amount.

Spending Policy – The Organization has a policy of appropriating for distribution each year 4-to-6 percent of the endowment fund’s average fair value over a period of not less than three years immediately preceding the year in which appropriation for expenditure is to be made. The Organization shall not appropriate for expenditure in any year an amount greater than 7%. Distributions shall be made no later than the second fiscal year following the initial gift to the endowment fund, subject to the expenditure guidelines set forth. No amounts were distributed from the endowment funds during the years ended March 31, 2020 and 2019.

Strategies Employed for Achieving Objectives – The assets will be managed on a total return basis. While the Organization recognizes the importance of preservation of capital, it also adheres to the principle that varying degrees of investment risk are generally rewarded with compensating returns. It is not a breach of fiduciary responsibility to pursue riskier investment strategies if such strategies are in the Organization's best interest on a risk-adjusted basis. Risk management of the investment program is focused on understanding both the investment and operational risks to which the Organization is exposed. The objective is to minimize the operational risks for which the Organization is willing to accept.

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Changes in endowment net assets for the years ended March 31 are as follows:

	Without donor restrictions	With donor restrictions	Total
Endowment net assets, April 1, 2018	\$ -	\$ 111,356	\$ 111,356
Investment return:			
Investment income (loss)	-	4,135	4,135
Net appreciation (depreciation)	-	(174)	(174)
Total investment return	-	3,961	3,961
Endowment net assets, April 1, 2019	-	115,317	115,317
Investment return:			
Investment income (loss)	-	2,191	2,191
Net appreciation (depreciation)	-	(9,285)	(9,285)
Total investment return	-	(7,094)	(7,094)
Endowment net assets, March 31, 2020	\$ -	\$ 108,223	\$ 108,223

NOTE 12 COMMITMENTS AND CONTINGENCIES

The Organization entered into a land lease agreement with the Park District of the City of Fargo in October 1996. The lease agreement is for a period of 99 years, at a cost of \$100 per year. The lease conditions restrict the Organization's use of the premises to construction, maintenance, and operation of a zoo and require, among other things, that the Organization carry a comprehensive general liability insurance policy with a single limit of not less than \$5,000,000.

The Organization has entered into a local fountain beverage agreement for the vendor to serve as the sole, exclusive, and official beverage supplier, distributor, and advertiser of the Organization. The agreement was renewed on February 29, 2016 and will terminate on February 28, 2021. The agreement provides for pricing of specific products with a maximum annual adjustment of 4.5%.

The Organization has entered into an advertising agreement with the City of Moorhead, Minnesota (City), commencing June 15, 2013. Under the agreement, the City will provide advertising on a bus in exchange for a dollar-for-dollar match in sponsorships at the zoo. The value of the agreement is estimated at \$1,000 per month. In-kind revenue and expense recognized under this agreement totaled \$12,000 for both years ended March 31, 2020 and 2019 and is included in in-kind donations and management and general expense on the statements of activities. The City has the right to cancel the agreement by providing five days' written notice for any breach by the Organization.

The Organization maintains its cash and cash equivalents in bank deposit accounts which, at times, may exceed federally insured limits as guaranteed by the Federal Deposit Insurance Corporation (FDIC). The Organization maintains its cash and cash equivalents deposits in large, well-capitalized financial institutions. The Organization has not experienced any losses in such accounts nor does the Organization believe they are exposed to any significant credit risk on cash and cash equivalents.

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NOTE 13 GIFTS IN-KIND

The Organization received the following in-kind donations during the years ended March 31:

	<u>2020</u>	<u>2019</u>
Veterinary services	\$ 66,601	\$ 65,101
Produce	63,854	63,055
Miscellaneous	27,601	3,387
Advertising	24,850	62,542
Supplies	8,621	5,756
Animal donations and exhibits	-	451
Total	<u>\$ 191,527</u>	<u>\$ 200,292</u>

These amounts have been reported as in-kind donations or special events, net revenue and management and general expenses on the statements of activities or transportation equipment on the statements of financial position.

NOTE 14 ADVERTISING

Advertising costs are expensed as incurred and totaled \$29,562 and \$81,343 for the years ended March 31, 2020 and 2019, respectively. These amounts include advertising costs that were donated to the Organization.

NOTE 15 DEFINED CONTRIBUTION PLAN

In August 2010, the Organization started a SIMPLE IRA defined contribution plan covering all employees who have earned at least \$5,000 in the prior two years and have at least three years of service. The Organization matches employee contributions up to 2% of the participants' compensation. Total expenses for the years ended March 31, 2020 and 2019, were \$1,663 and \$2,102, respectively.

NOTE 16 GIFT SHOP, SPECIAL EVENTS, AND RENTAL INCOME

	Gift shop and concession income	Special events	Rental income
<u>2020</u>			
Revenue and other support	\$ 189,839	\$ 119,827	\$ 53,699
Cost of revenue	(120,899)	(9,948)	(24,976)
Net revenue and other support	<u>\$ 68,940</u>	<u>\$ 109,879</u>	<u>\$ 28,723</u>
<u>2019</u>			
Revenue and other support	\$ 190,941	\$ 120,917	\$ 31,684
Cost of revenue	(107,730)	(14,092)	(19,611)
Net revenue and other support	<u>\$ 83,211</u>	<u>\$ 106,825</u>	<u>\$ 12,073</u>

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NOTE 17 RECENTLY ISSUED ACCOUNTING STANDARDS

ASU 2016-02, Leases (Topic 842) – During 2016, FASB issued guidance to change the accounting for leases. The main provision of ASU 2016-02 is that lessees will be required to recognize lease assets and lease liabilities for most long-term leases, including those classified as operating leases under GAAP. FASB has delayed the effective date of this ASU to fiscal years beginning after December 15, 2021, and interim periods within fiscal years beginning after December 15, 2022.

Management has not yet determined what effect this pronouncement will have on the Organization’s financial statements.

Except for the new standard discussed above, management has not identified any other new accounting pronouncements that have potential significance to the Organization’s financial statements.

NOTE 18 PRIOR PERIOD ADJUSTMENT

The Organization adjusted beginning net assets without donor restrictions and deferred revenue as a result of implementing ASC 606 and deferred the recognition of membership revenue properly recorded over time at March 31, 2020. Thus, the March 31, 2019 financial statements have been restated as follows:

<u>March 31, 2019</u>	<u>As previously stated</u>	<u>Adjustment</u>	<u>As restated</u>
Deferred revenue	\$ -	\$ 78,985	\$ (78,985)
Net assets without donor restrictions	2,786,282	(78,985)	2,865,267
	<u>\$ 2,786,282</u>	<u>\$ -</u>	<u>\$ 2,786,282</u>

NOTE 19 SUBSEQUENT EVENTS

On March 11, 2020, the World Health Organization declared COVID-19 a global pandemic. Federal, state, and local governments have since implemented various restrictions on travel, public gatherings, and business operations. In response to government recommendations and for the health and safety of the Organization’s employees and congregation, the Organization temporarily closed from March 19 to May 2, 2020 in accordance with government guidelines. While the Organization expects this matter to negatively impact its results of operations and financial condition, the extent of the impact is uncertain. Even after the Organization re-opens, the impact of the pandemic on consumer spending may influence the Organization’s revenues.

On March 27, 2020, Congress enacted the Coronavirus Aid, Relief, and Economic Security Act which established the Paycheck Protection Program (Program). The Program was created to assist small businesses in paying their employees and certain other expenses during the pandemic. The Organization applied for and received an unsecured loan from First International Bank and Trust for \$154,000 on April 10, 2020. The loan is forgivable if the Organization meets certain criteria as established under the Program. The Organization will seek loan forgiveness in fiscal year 2021 and anticipates there may be further guidance issued by the Small Business Administration which could impact the loan and loan forgiveness. Any portion of the loan not forgiven will be due April 10, 2025 and will accrue interest at a rate of 1.0%.

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No additional significant events occurred subsequent to the Organization's year-end. Subsequent events have been evaluated through November 5, 2020, the date the financial statements were available to be issued.

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