

BIRMINGHAM ZOO, INC.

AUDITED FINANCIAL STATEMENTS
AND SUPPLEMENTAL INFORMATION
YEARS ENDED DECEMBER 31, 2012 AND 2011

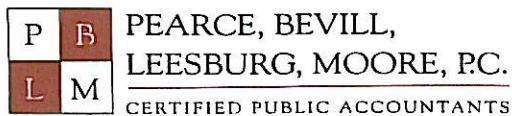
PEARCE, BEVILL, LEESBURG, MOORE, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

BIRMINGHAM ZOO, INC.

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Birmingham Zoo, Inc.
Birmingham, Alabama

We have audited the accompanying statements of financial position of the Birmingham Zoo, Inc. (a nonprofit organization), which comprise the statement of financial position as of December 31, 2012 and 2011, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

The Organization's 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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 from material misstatement.

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

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

Members:

- The American Institute of Certified Public Accountants
- The Alabama Society of Certified Public Accountants
- PCPS - The AICPA Alliance for CPA Firms
- National CPA Health Care Advisors Association

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Birmingham Zoo, Inc. as of December 31, 2012 and 2011, and the changes in its statements of activities, functional expenses, and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Our audits were conducted for the purpose of forming an opinion on the financial statements taken as a whole. The supplemental schedule listed in the Table of Contents is presented for the purpose of additional analysis and is not a required part of the financial statements. Such information is the responsibility of the Organization's management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Pearce, Bevell, Leesburg, Moore, P.C.

April 22, 2013

BIRMINGHAM ZOO, INC.
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2012 AND 2011

	ASSETS	
	2012	2011
CURRENT ASSETS		
Cash and cash equivalents	\$ 320,807	\$ 654,617
Cash - restricted	491,431	338,940
Certificates of deposit - restricted	22,375	22,325
Accounts receivable	128,861	223,132
Donations pledged	193,190	784,051
Inventories	107,330	131,858
Prepaid expenses and other assets	89,415	67,608
TOTAL CURRENT ASSETS	1,353,409	2,222,531
PROPERTY AND EQUIPMENT , NET		
Property and equipment, net of accumulated depreciation of \$10,533,631 (2012) and \$9,013,357 (2011)	31,909,549	31,805,754
Animal collection	1	1
TOTAL PROPERTY AND EQUIPMENT, NET	31,909,550	31,805,755
TOTAL ASSETS	\$ 33,262,959	\$ 34,028,286
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 232,784	\$ 423,818
Pledges payable	70,000	40,000
Accrued liabilities	445,941	456,466
Deferred income	1,460,898	1,437,026
Lines of credit	485,060	-
Current portion of long-term debt	479,722	51,849
TOTAL CURRENT LIABILITIES	3,174,405	2,409,159
LONG-TERM LIABILITIES		
Long-term debt, net of current maturities	5,500,000	6,314,722
TOTAL LONG-TERM LIABILITIES	5,500,000	6,314,722
TOTAL LIABILITIES	8,674,405	8,723,881
NET ASSETS		
Unrestricted	24,470,554	25,246,205
Temporarily restricted	118,000	58,200
TOTAL NET ASSETS	24,588,554	25,304,405
TOTAL LIABILITIES AND NET ASSETS	\$ 33,262,959	\$ 34,028,286

See independent auditors' report and accompanying notes to financial statements.

BIRMINGHAM ZOO, INC.
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

	2012	2011
UNRESTRICTED NET ASSETS		
Support and revenues		
Admissions	\$ 2,819,051	\$ 2,781,811
Auxiliary services	1,788,735	1,664,745
City of Mountain Brook - subsidy	75,000	75,000
City of Birmingham - subsidy	1,900,000	1,900,000
Other municipalities and county support	10,000	10,000
Contributions	455,832	431,860
In-kind donations	25,644	48,942
Interest income	1,046	4,778
Membership dues	1,177,709	1,115,950
Miscellaneous	217,722	386,556
Program and camp fees	398,180	393,392
Rental income	45,579	48,630
Special events	386,491	434,326
	9,300,989	9,295,990
Net assets released from restriction	610,524	787,082
Total support and revenue	9,911,513	10,083,072
Expenses		
Program services	9,180,852	8,432,926
Supporting services		
Management and general	1,027,724	1,221,710
Fundraising	478,588	432,176
Total expenses	10,687,164	10,086,812
DECREASE IN UNRESTRICTED NET ASSETS	(775,651)	(3,740)
TEMPORARILY RESTRICTED NET ASSETS		
Contributions	670,324	744,208
Net assets released from restriction - satisfied by payments	(610,524)	(787,082)
INCREASE (DECREASE) IN TEMPORARILY RESTRICTED NET ASSETS	59,800	(42,874)
DECREASE IN NET ASSETS	(715,851)	(46,614)
NET ASSETS AT BEGINNING OF YEAR	25,304,405	25,351,019
NET ASSETS AT END OF YEAR	\$ 24,588,554	\$ 25,304,405

See independent auditors' report and accompanying notes to financial statements.

BIRMINGHAM ZOO, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net decrease in net assets	\$ (715,851)	\$ (46,614)
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation and amortization	1,520,273	1,280,483
Changes in operating assets and liabilities:		
Accounts receivable	94,271	(188,040)
Donations pledged	590,861	444,060
Inventories	24,528	(7,840)
Prepaid expenses and other assets	(21,807)	27,960
Accounts payable	(191,034)	(104,192)
Pledges payable	30,000	40,000
Accrued liabilities	(10,525)	16
Deferred income	23,872	1,026,472
CASH PROVIDED BY OPERATING ACTIVITIES	<u>1,344,588</u>	<u>2,472,305</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(1,624,068)	(2,606,055)
Redemption of certificates of deposit	(50)	1,005,335
CASH USED FOR INVESTING ACTIVITIES	<u>(1,624,118)</u>	<u>(1,600,720)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Net borrowings (payments) on lines of credit	485,060	(875,890)
Proceeds from long-term debt	-	602,276
Payments on long-term debt	(386,849)	(1,069,370)
CASH PROVIDED BY (USED FOR) FINANCING ACTIVITIES	<u>98,211</u>	<u>(1,342,984)</u>
NET DECREASE IN CASH	(181,319)	(471,399)
CASH AT BEGINNING OF YEAR	<u>993,557</u>	<u>1,464,956</u>
CASH AT END OF YEAR	<u>\$ 812,238</u>	<u>\$ 993,557</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the year for interest	<u>\$ 185,030</u>	<u>\$ 179,677</u>

See independent auditors' report and accompanying notes to financial statements.

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PEARCE, BEVILL, LEESBURG, MOORE, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

BIRMINGHAM ZOO, INC.
STATEMENTS OF FUNCTIONAL EXPENSES
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

	Program Services	Management and General	Fundraising	Total 2012	Total 2011
Salaries and wages	\$ 2,941,673	\$ 609,859	\$ 35,874	\$ 3,587,406	\$ 3,308,967
Administration	-	-	13,118	13,118	8,398
Advertising	-	-	1,659	1,659	2,020
Animal acquisitions	12,713	-	-	12,713	427
Animal exhibits	20,155	-	-	20,155	21,317
Animal management	411,192	-	-	411,192	363,603
Animal tracks	33,742	-	-	33,742	34,171
Auxiliary services	1,275,868	-	-	1,275,868	1,252,545
Bank and credit card processing fees	-	-	16,239	16,239	16,221
Computer	38,718	1,294	35,422	75,434	34,332
Conservation	93,678	-	-	93,678	44,690
Continuing education/conventions	45,074	13,458	288	58,820	29,925
Depreciation and amortization	1,366,104	43,140	28,760	1,438,004	1,198,213
Dues and subscriptions	28,905	1,033	210	30,148	22,566
Employee benefits	257,351	53,353	3,138	313,842	333,807
Equipment expense	64,317	14,282	1,635	80,234	11,528
Equipment rental	6,310	-	6,111	12,421	11,661
Insurance	166,267	-	-	166,267	124,991
Interest	-	-	185,030	185,030	179,677
Legal and accounting	-	-	24,500	24,500	22,955
Marketing	103,716	13,565	-	117,281	416,340
Miscellaneous	5,557	116	4,817	10,490	30,340
Payroll taxes	231,662	48,028	2,825	282,515	272,938
Postage and printing	14,079	23,361	3,655	41,095	25,911
Professional consultant	-	-	9,960	9,960	19,639
Repairs and maintenance	615,577	2,285	36,111	653,973	687,450
Security	54,459	9,610	-	64,069	66,005
Signage and graphics	3,584	14,638	1,105	19,327	2,726
Social and special events	152,652	150,579	600	303,831	267,447
Summer camps and other programs	93,348	-	-	93,348	118,587
Supplies	268,564	3,379	18,216	290,159	183,902
Taxes and licenses	11,621	-	14,493	26,114	21,818
Travel and meals	11,504	3,308	19,864	34,676	37,439
Uniforms	12,912	-	-	12,912	16,898
Utilities	710,479	22,436	14,958	747,873	795,347
Volunteers	10,362	-	-	10,362	15,009
Waste	118,709	-	-	118,709	87,002
TOTAL EXPENSES	\$ 9,180,852	\$ 1,027,724	\$ 478,588	\$ 10,687,164	\$ 10,086,812

See independent auditors' report and accompanying notes to financial statements.

BIRMINGHAM ZOO, INC.

**NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2012 AND 2011**

NOTE A – NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

Birmingham Zoo, Inc. (BZI), incorporated on May 29, 1999, was established to manage and operate the Jimmy Morgan Zoo (Zoo) in the City of Birmingham, Alabama, beginning September 1, 1999. BZI was initially funded by its assumption of all the net assets of the Alabama Zoological Society (AZS), effective September 1, 1999, and by the transfer of all Zoo land and property from the City of Birmingham (City) to BZI. The transfer was executed by an agreement (Agreement) between BZI, the City, and a consortium representing Jefferson County and the cities of Mountain Brook and Homewood (Consortium). The Agreement represents three separate agreements: an agreement between BZI, the City, and the Consortium whereby the City leases the Zoo real estate to BZI for a 25-year term (with two 25-year renewable periods) for \$1 per year, as amended and extended on July 1, 2009; an intergovernmental agreement, dated July 12, 1999, to lease adjacent real estate to the Zoo (with similar terms) and to specify a City/Consortium five-year subsidy commitment for BZI's operations; and a lease assignment and operating agreement, dated September 1, 1999, between the City and BZI that details the various contractual relationships and responsibilities between the two entities.

BZI is a private, not-for-profit corporation directed by a Board of Directors (Board). The Zoo's purpose is to exhibit animals for the education of visitors, to promote and conduct conservation programs and research studies, and to sponsor educational activities for the community.

Financial Statement Presentation

The financial statements of BZI have been prepared on the accrual basis of accounting.

For financial statement presentation, BZI uses the FASB Accounting Standards Codification (ASC) Topic No. 958 on financial statements of not-for-profit organizations. Under ASC Topic No. 958, BZI reports information regarding its financial position and activities according to the three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. Unrestricted assets are available for the operations of the Zoo. Temporarily restricted net assets are subject to specific donor-imposed stipulations that can be fulfilled by actions of the Zoo pursuant to those stipulations or that expire by the passage of time. Permanently restricted net assets are subject to donor-imposed stipulations that they be maintained permanently by the Zoo. Generally, the donors permit the Zoo to use all or part of the income earned on these assets.

Cash and Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents include cash on hand, short-term money market accounts, amounts due from banks, and certificates of deposit with an original maturity of three months or less.

Accounts and Pledges Receivable

Accounts receivable, including client fees, grants, and pledges, are carried at original invoice or pledge amount less an estimate made for doubtful accounts based on a review of all outstanding amounts on a monthly basis. Management determines the allowances for doubtful accounts by identifying troubled accounts or pledges and by using historical experience applied to an aging of accounts. Accounts receivable are written off when deemed uncollectible. Recoveries of receivables previously written off are recorded when received.

Inventories

Merchandise inventories are stated at the lower of cost or market. Cost is determined on an average cost basis.

Property and Equipment

The leasehold interest conveyed to BZI by the City was recorded at historical cost for real property, while personal property was recorded at historical cost less an estimated amount for depreciation at the date of conveyance. Personal property contributed by the AZS was recorded at the net book value at the date of donation.

Property and equipment are recorded at cost, less accumulated depreciation. Depreciation expense is computed using the straight-line method over the estimated useful lives of the related assets, which are generally from 3 to 40 years. Assets acquired under capital leases are recorded at the net present value of the minimum lease payments. Amortization expense is computed using the straight-line method over the shorter of the estimated useful lives of the assets or the period of the related lease.

Animal Collection

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

Income Taxes

BZI qualifies as a not-for-profit organization under Section 501(c)(3) of the Internal Revenue Code and similar Alabama law and is not subject to income taxes.

BZI has adopted accounting standards relating to uncertainty of income tax positions. As a result of this adoption management assessed whether there were any uncertain tax positions that may give rise to income tax liabilities and determined that there were no such matters requiring recognition in the accompanying financial statements. BZI files income tax returns in the U.S. federal jurisdiction and the state of Alabama. With few exceptions, BZI is no longer subject to U.S. federal, state and local, or non-U.S. income tax examinations for years before 2009.

Donations and Bequests

Donations with donor-imposed restrictions are reported as temporarily or permanently restricted revenue. Temporarily restricted net assets are reclassified to unrestricted net assets when an expense is incurred that satisfies the donor-imposed restriction.

Auxiliary Services

BZI's auxiliary activities include retail and food operations, transportation operations, and other similar support activities.

Use of Estimates

Management of BZI has made a number of estimates and assumptions relating to the reporting of assets, liabilities, revenue and expenses, the disclosure of contingent assets and liabilities to prepare these financial statements in accordance with accounting principles generally accepted in the United States of America. Actual results could differ from these estimates.

Evaluation of Subsequent Events

BZI has evaluated all subsequent events through April 22, 2013, which is the date the financial statements were available to be issued and concluded no events or transactions occurred during the period requiring recognition or disclosure.

Reclassifications

Certain prior period amounts have been reclassified to conform to the current year presentation.

NOTE B – RESTRICTED CASH AND INVESTMENTS

Restricted cash and investments at December 31, 2012 and 2011, respectively, consist of cash and investments restricted for the following purposes:

	2012	2011
Restricted Cash - Elephant Trails Capital Project	\$ 184,753	\$ 333,940
Restricted Cash – Rainy Day Fund (Board Designated)	<u>306,678</u>	<u>5,000</u>
	<u>\$ 491,431</u>	<u>\$ 338,940</u>
Investments – Endowments	<u>\$ 22,375</u>	<u>\$ 22,325</u>

NOTE C – DONATIONS PLEDGED

Donations of private support are recorded as revenue upon the receipt of the unconditional promise to give. Donations pledged are expected to be collected as follows:

	2012	2011
Within one year	\$ 120,867	\$ 622,783
Within two through five years	<u>90,183</u>	<u>202,801</u>
	<u>211,050</u>	<u>825,584</u>
Unamortized discount	(7,860)	(24,233)
Allowance for doubtful accounts	<u>(10,000)</u>	<u>(17,300)</u>
	<u>\$ 193,190</u>	<u>\$ 784,051</u>

Donations and bequests pledged that are expected to be collected in more than one year have been recorded at net present value, calculated using a discount rate of 2.19% and 1.43% at December 31, 2012 and 2011, respectively.

NOTE D – PROPERTY AND EQUIPMENT

A summary of property and equipment at December 31, 2012 and 2011 is as follows:

	2012	2011
Buildings and improvements	\$ 23,102,783	\$ 21,313,662
Land and improvements	13,732,562	13,423,653
Machinery and equipment	3,108,328	3,087,293
Computers and accessories	738,622	718,086
Vehicles	304,002	248,697
Furniture and fixtures	414,524	390,523
Zoolights equipment	64,660	64,660
Construction in progress	<u>977,699</u>	<u>1,572,537</u>
	<u>42,443,180</u>	<u>40,819,111</u>
Less accumulated depreciation	<u>(10,533,631)</u>	<u>(9,013,357)</u>
Net property and equipment	<u>\$ 31,909,549</u>	<u>\$ 31,805,754</u>

NOTE E – PLEDGES PAYABLE

BZI has made promises to give to two organizations, and the combined total of these pledges is reported as pledges payable on the statements of financial position. Pledge payments are expected to be made as follows:

2013	\$ 20,000
2014	20,000
2015	20,000
2016	<u>10,000</u>
Total	<u>\$ 70,000</u>

NOTE F – LINE OF CREDIT

BZI has a line of credit with Wells Fargo Bank in the amount of \$2,000,000 bearing interest at the prime rate of the lender (3.25% at December 31, 2012). The outstanding balance on this line of credit at December 31, 2012 was \$485,060. The line of credit agreement contains financial loan covenants which include a funds flow coverage ratio and tangible net worth ratio requirement. BZI was in compliance with each of the debt covenants at December 31, 2012 and 2011. There was no outstanding balance on the line of credit at December 31, 2011.

NOTE G – LONG-TERM DEBT

Long-term debt consisted of the following at December 31:

	2012	2011
Long-term debt to Regions Bank. This debt was repaid in full during 2012.	\$ -	\$ 51,849
Long term debt to Wells Fargo Bank, with an initial maximum borrowing amount of \$10,000,000 to finance construction of the Trails of Africa exhibit. Interest at LIBOR plus 2.3% (2.51% and 2.59% at December 31, 2012 and 2011, respectively). The estimated annual principal payments will range from \$479,722 to \$1,500,000 and the next payment is due in the first quarter of 2013.	<u>5,979,722</u>	<u>6,314,722</u>
Total long-term debt	<u>5,979,722</u>	<u>6,366,571</u>
Less current portion of long-term debt	<u>(479,722)</u>	<u>(51,849)</u>
Long-term debt	<u>\$ 5,500,000</u>	<u>\$ 6,314,722</u>

Future maturities of long-term debt are as follows for the years ending December 31:

2013	\$ 479,722
2014	1,500,000
2015	1,250,000
2016	<u>2,750,000</u>
	<u>\$ 5,979,722</u>

NOTE H – TEMPORARILY RESTRICTED NET ASSETS

A portion of BZI’s net assets is subject to donor restrictions for various uses or is restricted with respect to time. Occasionally, donors will restrict donations and bequests for capital improvement purposes, but not to specific projects, in which case the Board will designate for which project the donated funds will be used. Net assets are released from donor restrictions when expenses are incurred which satisfy the restricted purposes or by occurrence of other events specified by the donor. During 2012, activity within temporarily restricted net assets was as follows:

	December 31, 2011	Temporarily Restricted Contributions	Net Assets Released From Restriction	December 31, 2012
Elephant Trails Campaign	\$ -	\$ 283,216	\$ (283,216)	\$ -
Central Park	20,000	-	(20,000)	-
Endowment	23,000	-	-	23,000
Education	-	20,737	(20,737)	-
Conservation Grants	-	28,819	(13,819)	15,000
Special Exhibits and Sponsorships	15,200	337,552	(272,752)	80,000
	<u>\$ 58,200</u>	<u>\$ 670,324</u>	<u>\$ (610,524)</u>	<u>\$ 118,000</u>

NOTE I – PENSION PLAN

BZI has a 401(k) defined contribution retirement plan that covers substantially all of its full-time employees. A participant may contribute to the plan up to the IRS limitations. BZI may make discretionary matching contributions to the plan, as directed by the Board. For the years ended December 31, 2012 and 2011, BZI did not make matching contributions to the Plan.

NOTE J – FAIR VALUE OF FINANCIAL INSTRUMENTS

The Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 820, *Fair Value Measurements and Disclosures*, defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The guidance enables the reader of the financial statements to assess the inputs used to develop fair value measurements by establishing a hierarchy for ranking the quality and reliability of the information used to determine fair values. 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). There are three general valuation techniques that may be used to measure fair value, as described below:

- A) Market approach – Uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities. Prices may be indicated by pricing guides, sale transactions, market trades, or other sources;
- B) Cost approach – Based on the amount that currently would be required to replace the service capacity of an asset (replacement cost); and

- C) Income approach – Uses valuation techniques to convert future amounts to a single present amount based on current market expectations about the future amounts (includes present value techniques, and option-pricing models). Net present value is an income approach where a stream of expected cash flows is discounted at an appropriate market interest rate.

FASB ASC 820 requires that assets and liabilities carried at fair value will be classified and disclosed in one of the following three categories:

Level 1 – Inputs consist of unadjusted quoted prices for identical assets in active markets that the plan has the ability to access.

Level 2 – Inputs consist of 1) quoted prices for similar assets in active markets, 2) quoted prices for identical or similar assets in inactive markets, 3) inputs other than quoted prices that are observable, and 4) inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset has a specified (contractual) term, the level 2 input must be observable for substantially the full term.

Level 3 – Inputs consist of unobservable inputs where there is little or no market activity, and the reporting entity makes estimates and assumptions related to the pricing of the asset including assumptions regarding risk.

The following methods and assumptions were used by BZI in estimating the fair value of its financial instruments:

- (a) Cash and Cash Equivalents – Fair value equals carrying value of such assets due to short-term maturities of these instruments.
- (b) Pledges Receivable – Fair value equals the discounted present value using BZI's incremental borrowing rate.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Although BZI 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. There have been no changes in the valuation techniques used by BZI during the year ended December 31, 2012.

NOTE K – COMMITMENT AND CONTINGENCY

BZI is a lessee under operating lease obligations, one of which requires 60 equal monthly payments of \$455, the second requiring 24 equal monthly payments of \$572. The expiration dates are January and February 2014 and both may be renewed annually at the end of the lease term. Maturities under the leases for the five years subsequent to December 31, 2012 are as follows:

2013	\$ 12,324
2014	<u>2,171</u>
	<u>\$ 14,495</u>

Rental expense associated with the operating leases was \$10,608 and \$5,460 for the years ended December 31, 2012 and 2011, respectively.

NOTE L – CONCENTRATIONS

BZI maintains cash and cash equivalent accounts in financial institutions, which from time to time may exceed federally insured amounts.

NOTE M – LEASEHOLD INTEREST

The City, directly or indirectly by the Park Board, has conveyed to BZI a leasehold interest in all real and personal property of the Zoo (see Note A) for the purpose of operating, maintaining, or improving the Zoo. Title to the leasehold properties remains with the City or the Park Board, but is subject to BZI's rights as a lessee. BZI has the right to make additions, deletions, and modifications and changes to the properties as required for the proper operation and maintenance of the Zoo. BZI has the right to pledge the City leasehold properties as security for obtaining financing, as needed for purposes of operation and development of the Zoo. Also, BZI may acquire, sell, borrow, loan, and transfer or convey animals as considered reasonable and proper, in the circumstances, for the operation, maintenance and development of the Zoo. All property additions and improvements are included in the leasehold, with title remaining with the City or Park Board. Notwithstanding the City's or Park Board's title to the properties, all the real and personal property included in the leasehold interest are recorded in the financial statements to reflect BZI's accountability for the properties.

NOTE N – RELATED PARTY TRANSACTIONS

BZI receives donations from employees and entities in which certain board members serve in some capacity. These donations represent approximately \$30,900 and \$183,000 in pledge receivables at December 31, 2012 and 2011, respectively.

NOTE O – CONTRIBUTED MATERIALS AND SERVICES

BZI records in-kind contributions in accordance with the Financial Accounting Standards Board Codification section of Revenue Recognition for Not-for-Profit Entities. This pronouncement requires recognition of professional services received if those services (a) create or enhance long-lived assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. The amounts reflected in the accompanying financial statements as in-kind contributions are offset by like amounts included in additions to property and equipment.

BZI received a contributed vehicle during the year ended December 31, 2012 with a fair value of \$25,644. Additionally, BZI received contributed materials to construct an exhibit during the year ended December 31, 2011 with a fair value of \$45,000.

BZI receives a significant amount of contributed time (over 23,000 volunteer hours per year) from volunteers, members and officers of the Board which does not meet the two recognition criteria described above. Accordingly, the value of this contributed time has not been determined and is not reflected in the accompanying financial statements.

SUPPLEMENTARY INFORMATION

BIRMINGHAM ZOO, INC.
SCHEDULES OF AUXILIARY SERVICES
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
REVENUES		
Food and beverage	\$ 297,628	\$ 260,875
Gift shop	646,146	606,529
Train and carousel	713,814	672,532
Camel rides	95,215	95,532
Other	35,932	29,277
Total revenue	<u>1,788,735</u>	<u>1,664,745</u>
 COST OF SALES	 <u>266,982</u>	 <u>273,128</u>
 GROSS PROFIT	 1,521,753	 1,391,617
 EXPENSES		
Salaries and wages	557,035	491,856
Bank and credit card fees	82,587	86,874
Computer	1,260	458
Depreciation	82,270	82,270
Employee benefits	48,732	49,618
Equipment	26,310	31,148
Fuel	9,002	11,673
Other	1,876	1,771
Payroll taxes	45,102	45,102
Repairs and maintenance	11,029	33,677
Signage, postage and printing	11,039	21,888
Supplies	35,060	21,652
Travel and meals	5,150	3,129
Utilities	92,434	98,301
Total expenses	<u>1,008,886</u>	<u>979,417</u>
 NET AUXILIARY SERVICES	 <u>\$ 512,867</u>	 <u>\$ 412,200</u>

See independent auditors' report and accompanying notes to financial statements.