

BIRMINGHAM ZOO, INC.

**AUDITED FINANCIAL STATEMENTS
AND SUPPLEMENTAL INFORMATION
YEARS ENDED DECEMBER 31, 2014 AND 2013**

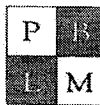
PEARCE, BEVILL, LEESBURG, MOORE, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

BIRMINGHAM ZOO, INC.

TABLE OF CONTENTS

	<u>Page</u>
INDEPENDENT AUDITORS' REPORT	3
FINANCIAL STATEMENTS	
Statements of Financial Position	5
Statements of Activities	6
Statements of Cash Flows	7
Statements of Functional Expenses	8
Notes to Financial Statements	9
SUPPLEMENTARY INFORMATION	
Schedules of Auxiliary Services	20

J. Wray Pearce, CPA
Harold L. Beville, CPA (1946-1992)
Charles W. Leesburg, CPA, MBA
Stephen L. Moore, CPA
Tommy B. Beam, CPA
W. Glenn Bridges, Jr., CPA, MBA
Hal (Buzz) Coons, III, CPA
Stephen B. Jones, JD, CPA, CVA
Joseph M. Lassiter, CPA
David T. Williams, CPA
Jeffrey R. Thornton, CPA
W. Robert Cook, CPA/ABV
Michael B. Hawkins, CPA/ABV
Carlos G. McDonald, CPA
Robin A. Waldrup, CPA



**PEARCE, BEVILL,
LEESBURG, MOORE, P.C.**

CERTIFIED PUBLIC ACCOUNTANTS

110 Office Park Drive, Suite 100
Birmingham, Alabama 35223-2402
205-323-5440 / fax 205-328-8523
www.pearcebevill.com

Matt Andrews, CPA
Justin K. Berry, CPA
Brittany Bingel, CPA
Will Bonner, CPA
Bill Brown, CPA
Shannon D. Browne, CPA
Daisy B. Buck, CPA
Chase Campbell, CPA
Patrick L. Dodd, CPA
James W. Ezell, Jr., CPA
Delphine E. Ford, CPA
Kelly Higginbotham, CPA
Tyler E. Jenkins, CPA, CFE
Donna Jordan, CPA
Jacob E. Julian, IV, CPA
JP Kaal, CPA
Taylor Martin, CPA
Dennis Mazingo, CPA
Heather Melson, CPA
Karen A. Moore, CPA
Glover Graham Pope, CPA, CITP
Sarah B. Propper, CPA
Misti B. Rasmussen, CPA
Rob Shirley, CPA
Jeffery S. Smith, CPA
Emily E. Stein, CPA
Jenna B. Stricklen, CPA
Douglas K. Uhler, CPA, CVA, DABFA
Thomas C. Zobelein, CPA, MBA, CGMA

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) as of December 31, 2014 and 2013, 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, 2014 and 2013, 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.

Other Matters

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.

May 8, 2015

BIRMINGHAM ZOO, INC.
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2014 AND 2013

	ASSETS	
	2014	2013
CURRENT ASSETS		
Cash and cash equivalents - unrestricted	\$ 98,141	\$ 339,152
Cash - restricted	1,315,298	188,986
Cash - board designated	378,239	307,423
Certificates of deposit - restricted	22,420	22,398
Accounts receivable - unrestricted	187,985	260,034
Donations pledged - restricted	694,600	169,900
Inventories	7,355	117,374
Prepaid expenses and other assets	124,042	94,767
TOTAL CURRENT ASSETS	<u>2,828,080</u>	<u>1,500,034</u>
PROPERTY AND EQUIPMENT, NET		
Property and equipment, net of accumulated depreciation	29,686,129	30,521,837
Animal collection	1	1
TOTAL PROPERTY AND EQUIPMENT, NET	<u>29,686,130</u>	<u>30,521,838</u>
OTHER ASSETS		
Accounts receivable - restricted	300,000	-
Donations pledged - restricted	1,955,420	116,956
TOTAL OTHER ASSETS	<u>2,255,420</u>	<u>116,956</u>
TOTAL ASSETS	<u>\$ 34,769,630</u>	<u>\$ 32,138,828</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	188,053	313,236
Pledges payable	40,000	50,000
Accrued liabilities	507,966	473,466
Deferred income	1,578,367	1,387,758
Lines of credit	-	240,723
Current portion of long-term debt	785,000	785,000
TOTAL CURRENT LIABILITIES	<u>3,099,386</u>	<u>3,250,183</u>
LONG-TERM LIABILITIES		
Capital lease obligation	22,748	-
Long-term debt, net of current maturities	3,920,000	4,705,000
TOTAL LONG-TERM LIABILITIES	<u>3,942,748</u>	<u>4,705,000</u>
TOTAL LIABILITIES	<u>7,042,134</u>	<u>7,955,183</u>
NET ASSETS		
Unrestricted		
Board designated	378,239	307,423
Unrestricted	23,061,519	23,482,143
Temporarily restricted	4,287,738	394,079
TOTAL NET ASSETS	<u>27,727,496</u>	<u>24,183,645</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 34,769,630</u>	<u>\$ 32,138,828</u>

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

BIRMINGHAM ZOO, INC.
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

	2014	2013
UNRESTRICTED NET ASSETS		
Support and revenues		
Admissions	\$ 3,008,189	\$ 2,885,475
Auxiliary services	2,384,435	2,603,212
City of Mountain Brook - subsidy	75,000	75,000
City of Birmingham - subsidy	2,080,000	2,080,000
Other municipalities and county support	12,500	10,000
Contributions	442,609	418,765
Interest income	1,013	953
Membership dues	1,266,587	1,206,753
Miscellaneous	9,052	24,876
Program and camp fees	353,352	326,011
Rental income	64,581	50,335
Special events	415,203	434,592
	10,112,521	10,115,972
Net assets released from restriction	956,153	577,133
Total support and revenue	11,068,674	10,693,105
Expenses		
Program services	10,130,674	9,768,822
Supporting services		
Management and general	977,308	1,110,261
Fundraising	310,500	495,010
Total expenses	11,418,482	11,374,093
DECREASE IN UNRESTRICTED NET ASSETS	(349,808)	(680,988)
TEMPORARILY RESTRICTED NET ASSETS		
Contributions	4,849,812	853,212
Net assets released from restriction - satisfied by payments	(956,153)	(577,133)
INCREASE IN TEMPORARILY RESTRICTED NET ASSETS	3,893,659	276,079
INCREASE (DECREASE) IN NET ASSETS	3,543,851	(404,909)
NET ASSETS AT BEGINNING OF YEAR	24,183,645	24,588,554
NET ASSETS AT END OF YEAR	\$ 27,727,496	\$ 24,183,645

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

BIRMINGHAM ZOO, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Net increase (decrease) in net assets	\$ 3,543,851	\$ (404,909)
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation and amortization	1,561,219	1,572,082
Changes in operating assets and liabilities:		
Accounts receivable	72,049	(131,173)
Donations pledged	(2,363,164)	(93,666)
Inventories	110,019	(10,044)
Prepaid expenses and other assets	(29,275)	(5,352)
Accounts payable	(125,183)	80,452
Pledges payable	(10,000)	(20,000)
Accrued liabilities	34,500	27,525
Deferred income	190,609	(73,140)
CASH PROVIDED BY OPERATING ACTIVITIES	<u>2,984,625</u>	<u>941,775</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(727,831)	(184,370)
Proceeds from sale of property and equipment	2,320	-
Earnings on certificates of deposit	(22)	(23)
CASH USED FOR INVESTING ACTIVITIES	<u>(725,533)</u>	<u>(184,393)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Net payments on lines of credit	(240,723)	(244,337)
Proceeds from capital lease obligation	22,748	-
Payments on long-term debt	(785,000)	(489,722)
CASH USED FOR FINANCING ACTIVITIES	<u>(1,002,975)</u>	<u>(734,059)</u>
NET INCREASE IN CASH	1,256,117	23,323
CASH AT BEGINNING OF YEAR	<u>528,138</u>	<u>812,238</u>
CASH AT END OF YEAR	<u>\$ 1,784,255</u>	<u>\$ 835,561</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the year for interest	<u>\$ 163,889</u>	<u>\$ 171,835</u>

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

BIRMINGHAM ZOO, INC.
STATEMENTS OF FUNCTIONAL EXPENSES
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

	Program Services	Management and General	Fundraising	Total 2014	Total 2013
Salaries and wages	\$ 3,204,174	\$ 664,280	\$ 39,075	\$ 3,907,529	\$ 3,751,826
Administration	6,233	-	-	6,233	18,309
Advertising	-	-	3,344	3,344	6,617
Animal acquisitions	15,412	-	-	15,412	19,191
Animal exhibits	81,590	-	-	81,590	17,993
Animal management	457,829	-	-	457,829	447,922
Animal tracks	43,821	-	-	43,821	43,941
Auxiliary services	1,406,165	-	-	1,406,165	1,693,528
Bank and credit card processing fees	18,856	-	-	18,856	18,379
Computer	55,279	28,737	-	84,016	67,739
Conservation	69,243	-	-	69,243	42,203
Continuing education/conventions	10,513	10,081	-	20,594	29,772
Depreciation and amortization	1,405,003	44,369	29,578	1,478,950	1,489,813
Dues and subscriptions	28,926	2,290	-	31,216	32,176
Employee benefits	334,088	69,262	4,074	407,424	353,705
Equipment expense	44,668	7,799	-	52,467	74,442
Equipment rental	40,183	-	8,045	48,228	16,631
Insurance	190,521	-	-	190,521	141,126
Interest	163,889	-	-	163,889	171,835
Legal and accounting	20,505	-	-	20,505	32,077
Marketing	111,908	-	-	111,908	109,974
Miscellaneous	5,313	4,487	-	9,800	6,871
Payroll taxes	249,941	51,817	3,048	304,806	297,120
Postage and printing	21,975	24,223	3,934	50,132	48,302
Professional consultant	-	-	5,887	5,887	2,935
Repairs and maintenance	580,133	2,327	3,948	586,408	524,394
Security	63,443	11,196	-	74,639	73,136
Signage and graphics	2,054	-	12,189	14,243	24,939
Social and special events	154,069	-	155,612	309,681	343,228
Summer camps and other programs	120,746	-	-	120,746	148,300
Supplies	205,846	20,669	-	226,515	238,037
Taxes and licenses	15,155	8,371	-	23,526	26,988
Travel and meals	20,595	3,563	25,875	50,033	42,346
Uniforms	11,851	-	-	11,851	11,818
Utilities	754,835	23,837	15,891	794,563	807,601
Volunteers	5,753	-	-	5,753	11,634
Waste	210,159	-	-	210,159	187,245
TOTAL EXPENSES	\$ 10,130,674	\$ 977,308	\$ 310,500	\$ 11,418,482	\$ 11,374,093

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

BIRMINGHAM ZOO, INC.

NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2014 AND 2013

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 Birmingham 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 several separate agreements as follows:

1. 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. With this agreement, the City leased the Zoo real estate to BZI for a 25-year term (with two 25-year renewable periods) for \$1 per year.
2. An amendment and extension of the above lease, dated July 1, 2009 (Extended Agreement). In connection with the Extended Agreement, the City agreed to contribute \$1,500,000 per year for each of the first 10 years of the term of the amendment, commencing in 2009-2010, to BZI for its operating and capital budgets. For the remaining 15 years of the lease, the City agreed to contribute a minimum of \$500,000 per year to BZI for its operating and capital budgets.
3. An intergovernmental agreement, effective September 1, 1999, to lease adjacent real estate to the Zoo.

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.

NOTE A - NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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. The Organization capitalizes all expenditures in excess of \$5,000 for property and equipment at cost. 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.

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

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 Form 990 in the U.S. federal jurisdiction. 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 2012.

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.

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

Evaluation of Subsequent Events

BZI has evaluated all subsequent events through May 8, 2015, 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.

NOTE B – RESTRICTED CASH AND INVESTMENTS

Restricted cash and investments at December 31, 2014 and 2013, respectively, consist of cash and investments restricted for the following purposes:

	2014	2013
Restricted Cash - Elephant Trails Capital Project	\$ 12,997	\$ 20,038
Restricted Cash – Front Entrance	867,687	-
Restricted Cash – Bear Exhibit	345,274	92,417
Restricted Cash – Zoo School	89,340	76,531
	<u>\$ 1,315,298</u>	<u>\$ 188,986</u>
Investments – Endowments	<u>\$ 22,420</u>	<u>\$ 22,398</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:

	2014	2013
Within one year - current	<u>\$ 694,600</u>	<u>\$ 169,900</u>
Within two through five years	2,180,017	138,183
Unamortized discount	(201,951)	(11,227)
Allowance for doubtful accounts	<u>(22,646)</u>	<u>(10,000)</u>
Within two through five years – long term	<u>\$ 1,955,420</u>	<u>\$ 116,956</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 2.75% for both years ending December 31, 2014 and 2013, respectively.

NOTE D – PROPERTY AND EQUIPMENT

A summary of property and equipment at December 31, 2014 and 2013 is as follows:

	2014	2013
Buildings and improvements	\$ 23,414,599	\$ 23,102,783
Land and improvements	13,732,562	13,732,562
Machinery and equipment	3,255,187	3,127,557
Computers and accessories	744,530	744,530
Vehicles	304,002	304,002
Furniture and fixtures	414,524	414,524
Zoolights equipment	79,742	79,742
Construction in progress	<u>1,404,374</u>	<u>1,121,851</u>
	43,349,520	42,627,551
Less accumulated depreciation	<u>(13,663,391)</u>	<u>(12,105,714)</u>
Net property and equipment	\$ <u>29,686,129</u>	\$ <u>30,521,837</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:

2015	\$ 20,000
2016	<u>20,000</u>
Total	\$ <u>40,000</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 both December 31, 2014 and 2013). The outstanding balance on this line of credit at December 31, 2014 and 2013 was \$- and \$240,723, respectively. The line of credit agreement contains financial loan covenants which BZI was in compliance with at December 31, 2014 and 2013.

NOTE G – LONG-TERM DEBT

The long-term debt agreement contains financial loan covenants which include a debt coverage ratio which BZI was in compliance with at December 31, 2014 and 2013. Long-term debt consisted of the following at December 31:

NOTE G - LONG-TERM DEBT - CONTINUED

	2014	2013
Long term debt to Wells Fargo Bank to finance the construction of the Trails of Africa exhibit. Interest is fixed at 2.75%. The annual principal payments of \$785,000 are due in April of each year, with the balance due in July 2017.	\$ 4,705,000	\$ 5,490,000
Less current portion of long-term debt	<u>(785,000)</u>	<u>(785,000)</u>
Long-term debt	<u>\$ 3,920,000</u>	<u>\$ 4,705,000</u>

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

2015	\$ 785,000
2016	785,000
2017	<u>3,135,000</u>
	<u>\$ 4,705,000</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 2014, activity within temporarily restricted net assets was as follows:

	December 31, 2013	Temporarily Restricted Contributions	Net Assets Released From Restriction	December 31, 2014
Bear Exhibit	\$ 293,548	\$ 316,942	\$ (71,996)	\$ 538,494
Endowment	24,000	-	(1,580)	22,420
Zoo School	32,447	183,880	(126,987)	89,340
Front Entrance	-	3,783,295	(191,363)	3,591,932
Conservation Grants and Gifts	-	83,533	(78,667)	4,866
Special Exhibits and Sponsorships	44,084	482,162	(485,560)	40,686
	<u>\$ 394,079</u>	<u>\$ 4,849,812</u>	<u>\$ (956,153)</u>	<u>\$ 4,287,738</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, 2014 and 2013, 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.

NOTE J – FAIR VALUE OF FINANCIAL INSTRUMENTS - CONTINUED

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, 2014.

NOTE K – COMMITMENT AND CONTINGENCY

BZI leases equipment under operating leases. The following is a schedule of the future minimum lease obligations at December 31:

2015	\$ 4,940
2016	4,940
2017	1,235
Total	<u>\$ 11,115</u>

Operating lease expense for the years ended December 31, 2014 and 2013 was \$14,272 and \$12,324, 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 \$242,167 and \$30,900 in pledge receivables at December 31, 2014 and 2013.

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 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.

NOTE P – POTENTIAL FUTURE CAPITAL FUNDING

In May 2014, the City of Birmingham passed a resolution to express its intent to make capital improvements of an aggregate expected cost of approximately \$7,500,000 at the Zoo consisting generally of an upgrade and renovation to the Zoo entrance. The City of Birmingham will issue tax-exempt bonds and advance the proceeds to the Zoo to help fund the construction project. This resolution does not bind the City to make any expenditure, incur indebtedness or proceed with the Zoo capital improvements, although it is the City's intent to do so. Therefore, the Zoo did not recognize this "intent to give" as revenue as of December 31, 2014 and will reevaluate the recognition of this transaction at the end of 2015, or when a legal binding agreement has been reached between the City of Birmingham and the Birmingham Zoo.

SUPPLEMENTARY INFORMATION

BIRMINGHAM ZOO, INC.
SCHEDULES OF AUXILIARY SERVICES
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

	2014	2013
REVENUES		
Food and beverage	\$ 304,088	\$ 314,062
Gift shop	713,180	719,382
Train, carousel and dinosaur exhibit	1,090,604	1,378,214
Camel rides	144,915	144,150
Animal feeding income	27,801	10,975
Zip line	58,653	-
Stroller/wheelchair rental	5,430	-
Vending machine income	39,764	36,429
Total revenue	<u>2,384,435</u>	<u>2,603,212</u>
COST OF SALES	<u>364,225</u>	<u>340,016</u>
GROSS PROFIT	2,020,210	2,263,196
EXPENSES		
Salaries and wages	532,845	511,613
Bank and credit card fees	93,258	100,900
Computer	375	3,739
Depreciation	82,269	82,269
Employee benefits	55,558	48,233
Equipment	36,496	34,463
Fuel	12,310	11,584
Other	5,992	1,959
Payroll taxes	41,564	40,516
Repairs and maintenance	40,549	31,961
Signage, postage and printing	8,240	4,512
Supplies	26,932	28,345
Exhibit expense	-	348,446
Travel and meals	7,348	5,156
Utilities	98,204	99,816
Total expenses	<u>1,041,940</u>	<u>1,353,512</u>
NET AUXILIARY SERVICES	<u>\$ 978,270</u>	<u>\$ 909,684</u>

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