

BIRMINGHAM ZOO, INC.

AUDITED FINANCIAL STATEMENTS  
AND SUPPLEMENTAL INFORMATION  
YEARS ENDED DECEMBER 31, 2013 AND 2012

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

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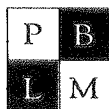
**BIRMINGHAM ZOO, INC.**

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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) as of December 31, 2013 and 2012, 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, 2013 and 2012, 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 29, 2014

**BIRMINGHAM ZOO, INC.**  
**STATEMENTS OF FINANCIAL POSITION**  
**DECEMBER 31, 2013 AND 2012**

<b>ASSETS</b>		
	<b>2013</b>	<b>2012</b>
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 508,100	\$ 320,807
Cash - restricted	327,461	491,431
Certificates of deposit - restricted	22,398	22,375
Accounts receivable	260,034	128,861
Donations pledged	286,856	193,190
Inventories	117,374	107,330
Prepaid expenses and other assets	94,767	89,415
<b>TOTAL CURRENT ASSETS</b>	<b>1,616,990</b>	<b>1,353,409</b>
<b>PROPERTY AND EQUIPMENT, NET</b>		
Property and equipment, net of accumulated depreciation of \$12,105,714 (2013) and \$10,533,631 (2012)	30,521,837	31,909,549
Animal collection	1	1
<b>TOTAL PROPERTY AND EQUIPMENT, NET</b>	<b>30,521,838</b>	<b>31,909,550</b>
<b>TOTAL ASSETS</b>	<b>\$ 32,138,828</b>	<b>\$ 33,262,959</b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 313,236	\$ 232,784
Pledges payable	50,000	70,000
Accrued liabilities	473,466	445,941
Deferred income	1,387,758	1,460,898
Lines of credit	240,723	485,060
Current portion of long-term debt	785,000	479,722
<b>TOTAL CURRENT LIABILITIES</b>	<b>3,250,183</b>	<b>3,174,405</b>
<b>LONG-TERM LIABILITIES</b>		
Long-term debt, net of current maturities	4,705,000	5,500,000
<b>TOTAL LONG-TERM LIABILITIES</b>	<b>4,705,000</b>	<b>5,500,000</b>
<b>TOTAL LIABILITIES</b>	<b>7,955,183</b>	<b>8,674,405</b>
<b>NET ASSETS</b>		
Unrestricted	23,789,566	24,470,554
Temporarily restricted	394,079	118,000
<b>TOTAL NET ASSETS</b>	<b>24,183,645</b>	<b>24,588,554</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 32,138,828</b>	<b>\$ 33,262,959</b>

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

**BIRMINGHAM ZOO, INC.**  
**STATEMENTS OF ACTIVITIES**  
**FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012**

	2013	2012
UNRESTRICTED NET ASSETS		
Support and revenues		
Admissions	\$ 2,885,475	\$ 2,819,051
Auxiliary services	2,602,502	1,788,735
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	418,765	455,832
In-kind donations	-	25,644
Interest income	953	1,046
Membership dues	1,206,753	1,177,709
Miscellaneous	205,586	217,722
Program and camp fees	326,011	398,180
Rental income	50,335	45,579
Special events	434,592	386,491
	10,115,972	9,300,989
Net assets released from restriction	577,133	610,524
Total support and revenue	10,693,105	9,911,513
Expenses		
Program services	9,768,822	9,180,852
Supporting services		
Management and general	1,110,261	1,027,724
Fundraising	495,010	478,588
Total expenses	11,374,093	10,687,164
DECREASE IN UNRESTRICTED NET ASSETS	(680,988)	(775,651)
TEMPORARILY RESTRICTED NET ASSETS		
Contributions	853,212	670,324
Net assets released from restriction - satisfied by payments	(577,133)	(610,524)
INCREASE IN TEMPORARILY RESTRICTED NET ASSETS	276,079	59,800
DECREASE IN NET ASSETS	(404,909)	(715,851)
NET ASSETS AT BEGINNING OF YEAR	24,588,554	25,304,405
NET ASSETS AT END OF YEAR	\$ 24,183,645	\$ 24,588,554

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

**BIRMINGHAM ZOO, INC.**  
**STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012**

	<u>2013</u>	<u>2012</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net decrease in net assets	\$ (404,909)	\$ (715,851)
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation and amortization	1,572,082	1,520,273
Changes in operating assets and liabilities:		
Accounts receivable	(131,173)	94,271
Donations pledged	(93,666)	590,861
Inventories	(10,044)	24,528
Prepaid expenses and other assets	(5,352)	(21,807)
Accounts payable	80,452	(191,034)
Pledges payable	(20,000)	30,000
Accrued liabilities	27,525	(10,525)
Deferred income	(73,140)	23,872
CASH PROVIDED BY OPERATING ACTIVITIES	<u>941,775</u>	<u>1,344,588</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(184,370)	(1,624,068)
Earnings on certificates of deposit	(23)	(50)
CASH USED FOR INVESTING ACTIVITIES	<u>(184,393)</u>	<u>(1,624,118)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Net borrowings (payments) on lines of credit	(244,337)	485,060
Payments on long-term debt	(489,722)	(386,849)
CASH PROVIDED BY (USED FOR) FINANCING ACTIVITIES	<u>(734,059)</u>	<u>98,211</u>
NET INCREASE (DECREASE) IN CASH	23,323	(181,319)
CASH AT BEGINNING OF YEAR	<u>812,238</u>	<u>993,557</u>
CASH AT END OF YEAR	<u>\$ 835,561</u>	<u>\$ 812,238</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the year for interest	<u>\$ 171,835</u>	<u>\$ 185,030</u>

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

**BIRMINGHAM ZOO, INC.**  
**STATEMENTS OF FUNCTIONAL EXPENSES**  
**FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012**

	Program Services	Management and General	Fundraising	Total 2013	Total 2012
Salaries and wages	\$ 3,076,498	\$ 637,810	\$ 37,518	\$ 3,751,826	\$ 3,587,406
Administration	-	-	18,309	18,309	13,118
Advertising	-	-	6,617	6,617	1,659
Animal acquisitions	19,191	-	-	19,191	12,713
Animal exhibits	17,993	-	-	17,993	20,155
Animal management	447,922	-	-	447,922	411,192
Animal tracks	43,941	-	-	43,941	33,742
Auxiliary services	1,693,528	-	-	1,693,528	1,275,868
Bank and credit card processing fees	-	-	18,379	18,379	16,239
Computer	28,534	24	39,181	67,739	75,434
Conservation	42,203	-	-	42,203	93,678
Continuing education/conventions	18,192	11,580	-	29,772	58,820
Depreciation and amortization	1,415,322	44,694	29,797	1,489,813	1,438,004
Dues and subscriptions	28,811	1,910	1,455	32,176	30,148
Employee benefits	290,038	60,130	3,537	353,705	313,842
Equipment expense	51,039	17,612	5,791	74,442	80,234
Equipment rental	10,449	-	6,182	16,631	12,421
Insurance	141,126	-	-	141,126	166,267
Interest	185	-	171,650	171,835	185,030
Legal and accounting	-	-	32,077	32,077	24,500
Marketing	109,972	2	-	109,974	117,281
Miscellaneous	776	-	6,095	6,871	10,490
Payroll taxes	243,637	50,510	2,973	297,120	282,515
Postage and printing	21,018	24,841	2,443	48,302	41,095
Professional consultant	-	-	2,935	2,935	9,960
Repairs and maintenance	480,642	2,097	41,655	524,394	653,973
Security	62,166	10,970	-	73,136	64,069
Signage and graphics	3,155	21,784	-	24,939	19,327
Social and special events	152,426	190,020	782	343,228	303,831
Summer camps and other programs	148,300	-	-	148,300	93,348
Supplies	213,125	5,120	19,792	238,037	290,159
Taxes and licenses	15,102	-	11,886	26,988	26,114
Travel and meals	15,613	6,929	19,804	42,346	34,676
Uniforms	11,818	-	-	11,818	12,912
Utilities	767,221	24,228	16,152	807,601	747,873
Volunteers	11,634	-	-	11,634	10,362
Waste	187,245	-	-	187,245	118,709
<b>TOTAL EXPENSES</b>	<b>\$ 9,768,822</b>	<b>\$ 1,110,261</b>	<b>\$ 495,010</b>	<b>\$ 11,374,093</b>	<b>\$ 10,687,164</b>

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



## **BIRMINGHAM ZOO, INC.**

### **NOTES TO FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2013 AND 2012**

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#### **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. 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 2011.

### 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 29, 2014, 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, 2013 and 2012, respectively, consist of cash and investments restricted for the following purposes:

	2013	2012
Restricted Cash - Elephant Trails Capital Project	\$ 20,038	\$ 184,753
Restricted Cash – Rainy Day Fund (Board Designated)	<u>307,423</u>	<u>306,678</u>
	<u>\$ 327,461</u>	<u>\$ 491,431</u>
 Investments – Endowments	 <u>\$ 22,398</u>	 <u>\$ 22,375</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:

	2013	2012
Within one year	\$ 169,900	\$ 120,867
Within two through five years	<u>138,183</u>	<u>90,183</u>
	308,083	211,050
 Unamortized discount	 (11,227)	 (7,860)
Allowance for doubtful accounts	<u>(10,000)</u>	<u>(10,000)</u>
	<u>\$ 286,856</u>	<u>\$ 193,190</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% and 2.19% at December 31, 2013 and 2012, respectively.

#### NOTE D – PROPERTY AND EQUIPMENT

A summary of property and equipment at December 31, 2013 and 2012 is as follows:

	2013	2012
Buildings and improvements	\$ 23,102,783	\$ 23,102,783
Land and improvements	13,732,562	13,732,562
Machinery and equipment	3,127,557	3,108,328
Computers and accessories	744,530	738,622
Vehicles	304,002	304,002
Furniture and fixtures	414,524	414,524
Zoolights equipment	79,742	64,660
Construction in progress	<u>1,121,851</u>	<u>977,699</u>
	42,627,551	42,443,180
Less accumulated depreciation	<u>(12,105,714)</u>	<u>(10,533,631)</u>
Net property and equipment	\$ <u>30,521,837</u>	\$ <u>31,909,549</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:

2014	\$ 20,000
2015	20,000
2016	<u>10,000</u>
Total	\$ <u>50,000</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, 2013 and 2012). The outstanding balance on this line of credit at December 31, 2013 and 2012 was \$240,723 and 485,060, respectively. The line of credit agreement contains financial loan covenants which BZI was in compliance with at December 31, 2013 and 2012.

#### 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, 2013 and 2012. Long-term debt consisted of the following at December 31:

**NOTE G – LONG-TERM DEBT – CONTINUED**

	2013	2012
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% at December 31, 2012, fixed rate of 2.75% at December 31, 2013). The estimated annual principal payments will range from \$785,000 to \$2,355,565 at maturity in 2017 and the next payment is due in the second quarter of 2014.		
	\$ 5,490,000	\$ 5,979,722
Less current portion of long-term debt	<u>(785,000)</u>	<u>(479,722)</u>
Long-term debt	<u>\$ 4,705,000</u>	<u>\$ 5,500,000</u>

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

2014	\$ 785,000
2015	785,000
2016	785,000
2017	<u>3,135,000</u>
	<u>\$ 5,490,000</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 2013, activity within temporarily restricted net assets was as follows:

	December 31, 2012	Temporarily Restricted Contributions	Net Assets Released From Restriction	December 31, 2013
Elephant Trails Campaign	\$ -	\$ 2,000	\$ (2,000)	\$ -
Bear Exhibit	-	296,633	(3,085)	293,548
Endowment	23,000	1,000	-	24,000
Education	-	72,656	(72,656)	-
Conservation Grants and Gifts	15,000	20,495	(35,495)	-
Special Exhibits and Sponsorships	80,000	460,428	<u>(463,897)</u>	76,531
	<u>\$ 118,000</u>	<u>\$ 853,212</u>	<u>\$ (577,133)</u>	<u>\$ 394,079</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, 2013 and 2012, 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, 2013.

## **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. The lease obligation for 2014 is \$2,171. Rent expense associated with the operating leases was \$12,324 and \$10,608 for the years ended December 31, 2013 and 2012, 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.



#### **NOTE M – LEASEHOLD INTEREST - CONTINUED**

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 in pledge receivables at both December 31, 2013 and 2012.

#### **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.

SUPPLEMENTARY INFORMATION

**BIRMINGHAM ZOO, INC.**  
**SCHEDULES OF AUXILIARY SERVICES**  
**FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012**

	2013	2012
REVENUES		
Food and beverage	\$ 314,062	\$ 297,628
Gift shop	719,382	646,146
Train, carousel and dinosaur exhibit	1,378,214	713,814
Camel rides	144,150	95,215
Other	46,694	35,932
Total revenue	2,602,502	1,788,735
 COST OF SALES	 340,016	 266,982
 GROSS PROFIT	 2,262,486	 1,521,753
 EXPENSES		
Salaries and wages	511,613	557,035
Bank and credit card fees	100,900	82,587
Computer	3,739	1,260
Depreciation	82,269	82,270
Employee benefits	48,233	48,732
Equipment	34,463	26,310
Fuel	11,584	9,002
Other	1,959	1,876
Payroll taxes	40,516	45,102
Repairs and maintenance	31,961	11,029
Signage, postage and printing	4,512	11,039
Supplies	28,345	35,060
Exhibit expense	348,446	-
Travel and meals	5,156	5,150
Utilities	99,816	92,434
Total expenses	1,353,512	1,008,886
 NET AUXILIARY SERVICES	 \$ 908,974	 \$ 512,867

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