

**BIRMINGHAM ZOO, INC.**

**AUDITED FINANCIAL STATEMENTS  
AND SUPPLEMENTAL INFORMATION  
YEARS ENDED DECEMBER 31, 2017 AND 2016**

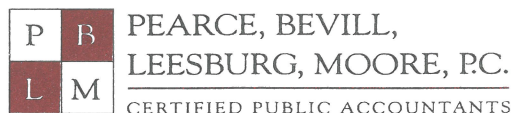
**BIRMINGHAM ZOO, INC.**

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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, 2017 and 2016, 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.

#### 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

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

### **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, 2017 and 2016, 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 Matter**

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 13, 2018

**BIRMINGHAM ZOO, INC.**  
**STATEMENTS OF FINANCIAL POSITION**  
**DECEMBER 31, 2017 AND 2016**

<b>ASSETS</b>		
	<b>2017</b>	<b>2016</b>
<b>CURRENT ASSETS</b>		
Cash and cash equivalents - unrestricted	\$ 35,760	\$ 213,088
Cash - restricted	375,277	1,922,275
Cash - board designated	19,910	19,890
Certificates of deposit - restricted	22,620	22,465
Accounts receivable - unrestricted	445,852	98,452
Accounts receivable - restricted	-	100,000
Donations pledged - unrestricted	275,324	189,625
Donations pledged - restricted	9,122,281	1,578,881
Inventories	4,772	7,844
Prepaid expenses and other assets	87,767	180,867
Interfund receivables (payables) - unrestricted	(468,636)	(29,965)
Interfund receivables (payables) - restricted	468,636	29,965
<b>TOTAL CURRENT ASSETS</b>	<b>10,389,563</b>	<b>4,333,387</b>
<b>PROPERTY AND EQUIPMENT, NET</b>		
Property and equipment, net of accumulated depreciation	32,353,827	30,274,577
Animal collection	1	1
<b>TOTAL PROPERTY AND EQUIPMENT, NET</b>	<b>32,353,828</b>	<b>30,274,578</b>
<b>OTHER ASSETS</b>		
Donations pledged - restricted	1,894,019	2,696,770
<b>TOTAL OTHER ASSETS</b>	<b>1,894,019</b>	<b>2,696,770</b>
<b>TOTAL ASSETS</b>	<b>\$ 44,637,410</b>	<b>\$ 37,304,735</b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 261,343	\$ 383,572
Accrued liabilities	618,416	477,805
Deferred income	1,955,809	1,868,294
Lines of credit	1,072,428	321,974
Equipment loan	-	55,688
Current portion of capital lease obligations	29,925	-
Current portion of long-term debt	783,750	783,750
<b>TOTAL CURRENT LIABILITIES</b>	<b>4,721,671</b>	<b>3,891,083</b>
<b>LONG-TERM LIABILITIES</b>		
Long-term deferred income	-	4,362
Capital lease obligation	91,905	-
Long-term debt, net of current maturities	1,567,500	2,351,250
<b>TOTAL LONG-TERM LIABILITIES</b>	<b>1,659,405</b>	<b>2,355,612</b>
<b>TOTAL LIABILITIES</b>	<b>6,381,076</b>	<b>6,246,695</b>
<b>NET ASSETS</b>		
Unrestricted		
Board designated	19,910	19,890
Unrestricted	26,353,591	24,687,794
Temporarily restricted	11,882,833	6,350,356
<b>TOTAL NET ASSETS</b>	<b>38,256,334</b>	<b>31,058,040</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 44,637,410</b>	<b>\$ 37,304,735</b>

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

**BIRMINGHAM ZOO, INC.**  
**STATEMENTS OF ACTIVITIES**  
**FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

	2017	2016
UNRESTRICTED NET ASSETS		
Support and revenues		
Admissions	\$ 3,484,037	\$ 3,702,224
Auxiliary services	1,580,523	2,390,154
City of Mountain Brook - subsidy	20,000	20,000
City of Birmingham - subsidy	2,080,000	2,080,000
Other municipalities and county support	51,500	5,000
Contributions	452,227	431,815
Interest income	611	812
Membership dues	1,547,570	1,477,551
Miscellaneous	36,588	30,159
Program and camp fees	340,324	382,053
Rental income	78,300	94,557
Special events	784,915	967,588
In-kind donations	67,794	7,500
	<u>10,524,389</u>	<u>11,589,413</u>
Net assets released from restriction	<u>3,891,472</u>	<u>2,171,921</u>
Total support and revenue	<u>14,415,861</u>	<u>13,761,334</u>
Expenses		
Program services	10,916,965	10,993,942
Supporting services		
Management and general	1,529,071	1,307,019
Fundraising	304,008	297,721
Total expenses	<u>12,750,044</u>	<u>12,598,682</u>
INCREASE IN UNRESTRICTED NET ASSETS	<u>1,665,817</u>	<u>1,162,652</u>
TEMPORARILY RESTRICTED NET ASSETS		
Contributions	9,423,949	2,074,845
In-kind donations	-	40,000
Net assets released from restriction - satisfied by payments	<u>(3,891,472)</u>	<u>(2,171,921)</u>
INCREASE (DECREASE) IN TEMPORARILY RESTRICTED NET ASSETS	<u>5,532,477</u>	<u>(57,076)</u>
INCREASE IN NET ASSETS	7,198,294	1,105,576
NET ASSETS AT BEGINNING OF YEAR	<u>31,058,040</u>	<u>29,952,464</u>
NET ASSETS AT END OF YEAR	<u>\$ 38,256,334</u>	<u>\$ 31,058,040</u>

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

**BIRMINGHAM ZOO, INC.**  
**STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

	2017	2016
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net increase in net assets	\$ 7,198,294	\$ 1,105,576
Adjustments to reconcile changes in net assets to net cash from operating activities:		
Depreciation and amortization	1,626,908	1,579,577
Changes in operating assets and liabilities:		
Restricted cash	1,546,998	(696,764)
Accounts receivable	(247,400)	117,965
Donations pledged	(6,826,348)	409,560
Inventories	3,072	(1,261)
Prepaid expenses and other assets	93,100	(71,292)
Accounts payable	(122,229)	83,335
Pledges payable	-	(20,000)
Accrued liabilities	140,611	(393,180)
Deferred income	83,153	167,557
<b>NET CASH FROM OPERATING ACTIVITIES</b>	<u>3,496,159</u>	<u>2,281,073</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of property and equipment	(3,769,146)	(1,179,161)
Proceeds from sale of property and equipment	184,818	-
Earnings on certificates of deposit	(155)	(22)
<b>NET CASH FROM INVESTING ACTIVITIES</b>	<u>(3,584,483)</u>	<u>(1,179,183)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Net proceeds (payments) on lines of credit	750,454	(724,606)
Proceeds (payments) on capital lease obligation	-	(4,698)
Proceeds (payments) on equipment loan	(55,688)	55,688
Payments on long-term debt	(783,750)	(785,000)
<b>NET CASH FROM FINANCING ACTIVITIES</b>	<u>(88,984)</u>	<u>(1,458,616)</u>
<b>NET CHANGE IN CASH</b>	(177,308)	(356,726)
<b>CASH AT BEGINNING OF YEAR</b>	<u>232,978</u>	<u>589,704</u>
<b>CASH AT END OF YEAR</b>	<u>\$ 55,670</u>	<u>\$ 232,978</u>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>		
Cash paid during the year for interest	<u>\$ 145,616</u>	<u>\$ 139,217</u>
Financing of property and equipment through capital lease obligation	<u>\$ 121,830</u>	<u>\$ -</u>

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

**BIRMINGHAM ZOO, INC.**  
**STATEMENTS OF FUNCTIONAL EXPENSES**  
**FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

	<b>Program Services</b>	<b>Management and General</b>	<b>Fundraising</b>	<b>Total 2017</b>	<b>Total 2016</b>
Salaries and wages	\$ 3,737,426	\$ 774,832	\$ 45,579	\$ 4,557,837	\$ 4,331,096
Administration	-	43,369	-	43,369	35,026
Advertising	1,441	-	-	1,441	7,575
Animal acquisitions	11,775	-	-	11,775	7,735
Animal exhibits	66,591	-	-	66,591	388,919
Animal management	475,080	-	-	475,080	496,350
Animal tracks	33,337	-	-	33,337	111,699
Auxiliary services	1,119,307	-	-	1,119,307	1,085,702
Bank and credit card processing fees	17,624	-	-	17,624	18,333
Computer	1,311	104,495	-	105,806	144,962
Conservation	118,648	-	-	118,648	86,002
Continuing education/conventions	19,411	6,397	-	25,808	25,405
Depreciation and amortization	1,479,587	46,724	31,149	1,557,460	1,510,129
Dues and subscriptions	8,816	39,433	-	48,249	36,340
Employee benefits	436,917	90,580	5,329	532,826	468,337
Equipment expense	16,788	21,104	-	37,892	91,672
Equipment rental	11,437	-	7,974	19,411	23,440
Insurance	207,414	-	-	207,414	185,612
Interest	145,616	-	-	145,616	139,217
Legal and accounting	-	48,784	-	48,784	23,220
Marketing	166,388	-	-	166,388	178,863
Miscellaneous	208,835	7,560	5,120	221,515	19,397
Payroll taxes	261,693	54,253	3,192	319,138	325,913
Postage and printing	5,063	92,501	12,406	109,970	41,202
Professional consultant	-	82,171	-	82,171	4,675
Repairs and maintenance	421,501	3,226	4,156	428,883	600,775
Security	63,536	11,212	-	74,748	74,388
Signage and graphics	3,513	-	18,116	21,629	12,228
Social and special events	456,582	-	151,145	607,727	493,240
Summer camps and other programs	112,381	-	-	112,381	120,220
Supplies	157,691	34,131	-	191,822	218,265
Taxes and licenses	33,177	17,846	-	51,023	31,592
Travel and meals	17,945	22,593	1,268	41,806	60,457
Uniforms	7,851	-	-	7,851	6,724
Utilities	882,242	27,860	18,574	928,676	912,146
Volunteers	3,502	-	-	3,502	4,804
Waste	206,539	-	-	206,539	277,022
<b>TOTAL EXPENSES</b>	<b>\$ 10,916,965</b>	<b>\$ 1,529,071</b>	<b>\$ 304,008</b>	<b>\$ 12,750,044</b>	<b>\$ 12,598,682</b>

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



## **BIRMINGHAM ZOO, INC.**

### **NOTES TO FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2017 AND 2016**

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#### **NOTE 1 – 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 1 – 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.

### 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 1 – 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 2015.

### 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 1 – NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

Evaluation of Subsequent Events

BZI has evaluated all subsequent events through the date of the Independent Auditors’ Report, 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.

Recently Issued Accounting Standards

In August 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*, with the objective of improving not-for-profit entity (“NFP”) financial statements to better provide useful information to grantors, creditors, donors, and other financial statement users. The ASU, which amends the requirements for financial statements and notes in Accounting Standards Codification (“ASC”) Topic 958, Not-for-Profit Entities, changes how NFPs present net assets and changes in net assets in the financial statements, in addition to requiring additional disclosures for expenses by nature and function and for the liquidity and availability of resources. The new guidance will be effective for annual financial statements for fiscal years beginning after December 15, 2017, and for interim periods within fiscal years beginning after December 15, 2018. Early adoption is permitted. Management is currently assessing the potential impact the guidance will have upon adoption.

**NOTE 2 – RESTRICTED ASSETS**

Restricted assets at December 31, 2017 and 2016, respectively, consist of cash, certificates of deposit, and interfund receivables / (payables) restricted for the following purposes:

	2017	2016
Restricted Cash – Front Entrance	\$ 137,672	\$ 1,869,052
Restricted Cash – Merrill Lynch Money Market	72,384	-
Restricted Cash – Tails in the Trails	-	37,013
Restricted Cash – Golden Eagle	94,779	956
Restricted Cash - Conservation	70,442	15,254
	<u>\$ 375,277</u>	<u>\$ 1,922,275</u>
Interfund receivable/(payable)- restricted – Front Entrance	\$ 436,985	\$ (50)
Interfund receivable/(payable)- restricted – Golden Eagle	46,045	1,425
Interfund receivable/(payable)- restricted – Conservation	<u>(14,394)</u>	<u>28,590</u>
	<u>\$ 468,636</u>	<u>\$ 29,965</u>
Certificates of deposit - restricted – Endowments	<u>\$ 22,620</u>	<u>\$ 22,465</u>

### NOTE 3 – 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:

	2017	2016
Within one year - current	<u>\$ 9,397,605</u>	<u>\$ 1,768,506</u>
Within two through five years	2,144,246	3,043,572
Unamortized discount	(224,414)	(320,159)
Allowance for doubtful accounts	<u>(25,813)</u>	<u>(30,643)</u>
Within two through five years – long term	<u>\$ 1,894,019</u>	<u>\$ 2,696,770</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 3.25% for years ending December 31, 2017 and 2016, respectively.

### NOTE 4 – PROPERTY AND EQUIPMENT

A summary of property and equipment at December 31, 2017 and 2016 is as follows:

	2017	2016
Buildings and improvements	\$ 24,829,452	\$ 24,522,784
Land and improvements	18,091,109	13,759,611
Machinery and equipment	3,417,085	3,411,400
Computers and accessories	822,504	784,662
Vehicles	336,800	336,800
Furniture and fixtures	420,673	414,524
Zoolights equipment	79,742	79,742
Master plan development	964,351	964,351
Construction in progress	<u>1,828,612</u>	<u>2,810,296</u>
	50,790,328	47,084,170
Less accumulated depreciation	<u>(18,436,501)</u>	<u>(16,809,593)</u>
Net property and equipment	<u>\$ 32,353,827</u>	<u>\$ 30,274,577</u>

### NOTE 5 – LINE OF CREDIT

BZI has two lines of credit with Wells Fargo Bank. One is in the amount of \$2,000,000 bearing interest at the prime rate of the lender (3.50% at December 31, 2017 and 2016). The outstanding balance on this line of credit at December 31, 2017 and 2016 was \$761,453 and \$321,974, respectively. This line matures in June 2018. BZI obtained a second line of credit in December 2017 in the amount of \$1,000,000 and bears interest at the prime rate of the lender (4.50% at December 31, 2017). The outstanding balance on this line of credit was \$310,975 at December 31, 2017. This line matures in December 2018. The line of credit agreements contain financial loan covenants which BZI was in compliance with at December 31, 2017 and 2016.

## NOTE 6 – EQUIPMENT LOAN

In December 2016, BZI obtained an equipment loan from EverBank for short term financing of a GI Endoscopy machine for examination of the animals. The loan is for 12 months, interest free. The loan balance was \$55,688 at December 31, 2016, and was paid in full during 2017.

## NOTE 7 – 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, 2017 and 2016. Long-term debt consisted of the following at December 31:

	2017	2016
Long term debt to Wells Fargo Bank to finance the construction of the Trails of Africa exhibit. Interest is fixed at 3.25%. The annual principal payments of \$783,750 are due in September 2018 and 2019, with the balance due in April 2020.	\$ 2,351,250	\$ 3,135,000
Less current portion of long-term debt	<u>(783,750)</u>	<u>(783,750)</u>
Long-term debt	<u>\$ 1,567,500</u>	<u>\$ 2,351,250</u>

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

2018	\$ 783,750
2019	783,750
2020	<u>783,750</u>
	<u>\$ 2,351,250</u>

## NOTE 8 – 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 2017, activity within temporarily restricted net assets was as follows:

	December 31, 2016	Temporarily Restricted Contributions	Net Assets Released From Restriction	December 31, 2017
Endowment	\$ 22,465	\$ -	\$ 155	\$ 22,620
Zoo School	-	42,800	(42,800)	-
Front Entrance	6,244,653	8,852,274	(3,505,970)	11,590,957
Conservation Grants and Gifts	43,844	127,937	(115,733)	56,048
Miscellaneous	-	198,775	(126,391)	72,384
Golden Eagle	2,381	14,550	123,893	140,824
Tails in the Trails	37,013	93,463	(130,476)	-
Special Exhibits and Sponsorships	-	64,150	(64,150)	-
	<u>\$ 6,350,356</u>	<u>\$ 9,393,949</u>	<u>\$ (3,861,472)</u>	<u>\$ 11,882,833</u>

## NOTE 9 – 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, 2017 and 2016, BZI did not make matching contributions to the Plan.

## NOTE 10 – 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;

## NOTE 10. – FAIR VALUE OF FINANCIAL INSTRUMENTS – CONTINUED

- 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, 2017.



## NOTE 11 – COMMITMENT AND CONTINGENCY

BZI leases certain equipment under capital leases. BZI has capital leases for computer software and temporary office space that expires in August 2020 and May 2022, respectively. In addition, BZI leases equipment under operating leases. The following is a schedule of the future minimum lease obligations at December 31:

	Capital Leases	Operating Leases
2018	\$ 29,994	\$ 46,670
2019	31,117	21,816
2020	27,764	11,733
2021	19,559	2,275
2022	<u>13,396</u>	<u>-</u>
	<u>\$ 121,830</u>	<u>\$ 82,494</u>

Operating lease expense for the years ended December 31, 2017 and 2016 was \$47,970 and \$27,950, respectively.

## NOTE 12 – CONCENTRATIONS

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

As of December 31, 2017, the City of Birmingham's pledge to BZI comprised 66% of total pledges receivable, which amounted to \$7,500,000 (See Note 16).

## NOTE 13 – 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 1) 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 14 – RELATED PARTY TRANSACTIONS**

BZI receives donations from employees and entities in which certain board members serve in some capacity. These donations represent \$83,977 and \$132,100 in pledge receivables at December 31, 2017 and 2016.

#### **NOTE 15 – 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 31,200 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 16 – CAPITAL FUNDING – PLEDGES RECEIVABLE**

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 to help fund the construction project. This resolution did not bind the City to make any expenditure, incur indebtedness or proceed with the Zoo's capital improvements, although it was the City's intent to do so. Therefore, the Zoo did not recognize this "intent to give" as revenue as of December 31, 2016. In November 2017, The City of Birmingham entered into a legally binding contract to fund \$7,500,000 of the Zoo's front entrance construction project. Therefore, upon the City's legal commitment to the project, the Zoo recognized the \$7,500,000 as a pledge receivable and temporarily restricted donations in the accompanying 2017 financial statements.

#### **NOTE 17 – RECLASSIFICATIONS**

Certain reclassifications have been made to the 2016 financial statements in order for them to comply with the current year format. Net assets remained unchanged.

**SUPPLEMENTARY INFORMATION**

**BIRMINGHAM ZOO, INC.**  
**SCHEDULES OF AUXILIARY SERVICES**  
**FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

	2017	2016
<b>NET REVENUES</b>		
Food and beverage	\$ 299,785	\$ 344,418
Gift shop	214,179	239,669
Train, carousel and other rides	839,696	1,551,231
Camel rides	36,073	32,998
Animal feeding income	122,576	134,562
Zip line	24,684	34,003
Hurricane machine income	2,970	3,595
Vending machine income	40,560	49,678
Total net revenue	<u>1,580,523</u>	<u>2,390,154</u>
<b>EXPENSES</b>		
Salaries and wages	621,523	590,604
Bank and credit card fees	129,132	140,915
Computer	1,468	6,619
Depreciation	69,448	69,448
Employee benefits	72,658	63,864
Fuel	7,214	8,834
Payroll taxes	43,519	44,443
Repairs and maintenance	43,366	26,177
Signage, postage and printing	7,696	4,717
Supplies	8,503	17,344
Utilities	114,780	112,737
Total expenses	<u>1,119,307</u>	<u>1,085,702</u>
<b>NET AUXILIARY SERVICES</b>	<u><u>\$ 461,216</u></u>	<u><u>\$ 1,304,452</u></u>

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