

BIRMINGHAM ZOO, INC.

**AUDITED FINANCIAL STATEMENTS
AND SUPPLEMENTAL INFORMATION
YEARS ENDED DECEMBER 31, 2018 AND 2017**

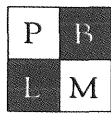
PEARCE, BEVILL, LEESBURG, MOORE, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

BIRMINGHAM ZOO, INC.

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying statements of financial position of the Birmingham Zoo, Inc. (a nonprofit organization) as of December 31, 2018 and 2017, 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.

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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, 2018 and 2017, 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.

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

April 23, 2019

BIRMINGHAM ZOO, INC.
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2018 AND 2017

ASSETS	2018	2017
CURRENT ASSETS		
Cash and cash equivalents - unrestricted	\$ 17,838	\$ 35,760
Cash - restricted	2,369,503	375,277
Cash - board designated	522,252	19,910
Certificates of deposit - restricted	22,877	22,620
Accounts receivable - unrestricted	1,346,145	445,852
Donations pledged - unrestricted	218,703	275,324
Donations pledged - restricted	5,686,836	9,122,281
Inventories	4,383	4,772
Prepaid expenses and other assets	118,474	87,767
Interfund receivables (payables) - unrestricted	64,737	(468,636)
Interfund receivables (payables) - restricted	(64,737)	468,636
TOTAL CURRENT ASSETS	10,307,011	10,389,563
PROPERTY AND EQUIPMENT, NET		
Property and equipment, net of accumulated depreciation	33,501,944	32,353,827
Animal collection	1	1
TOTAL PROPERTY AND EQUIPMENT, NET	33,501,945	32,353,828
OTHER ASSETS		
Donations pledged - restricted	858,046	1,894,019
TOTAL OTHER ASSETS	858,046	1,894,019
TOTAL ASSETS	\$ 44,667,002	\$ 44,637,410
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 74,908	\$ 261,343
Accrued liabilities	549,177	618,416
Deferred income	2,023,637	1,955,809
Lines of credit	1,318,532	1,072,428
Current portion of capital lease obligations	31,117	29,925
Current portion of long-term debt	783,750	783,750
TOTAL CURRENT LIABILITIES	4,781,121	4,721,671
LONG-TERM LIABILITIES		
Capital lease obligation	60,716	91,905
Long-term debt, net of current maturities	407,988	1,567,500
TOTAL LONG-TERM LIABILITIES	468,704	1,659,405
TOTAL LIABILITIES	5,249,825	6,381,076
NET ASSETS		
Without donor restrictions - board designated	522,252	19,910
Without donor restrictions	30,022,400	26,353,591
With donor restrictions	8,872,525	11,882,833
TOTAL NET ASSETS	39,417,177	38,256,334
TOTAL LIABILITIES AND NET ASSETS	\$ 44,667,002	\$ 44,637,410

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

BIRMINGHAM ZOO, INC.
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED DECEMBER 31, 2018 and 2017

	2018	2017
CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS		
Support and revenues		
Admissions	\$ 3,282,242	\$ 3,484,037
Membership dues	1,543,995	1,547,570
Rides and attractions	1,032,055	1,026,861
Concessions commission	608,799	553,662
Program and camp fees	308,483	340,324
Public funding	2,634,000	2,151,500
Contributions	602,288	452,227
In-kind donations	75,897	67,794
Special events	769,169	784,915
Rental income	92,904	78,300
Litigation settlement income	2,322,831	-
Other income	47,515	37,199
	13,320,178	10,524,389
Net assets released from restriction	3,809,112	3,891,472
Total support and revenue	17,129,290	14,415,861
Expenses		
Program services	11,510,031	11,349,733
Supporting services		
Management and general	629,803	670,731
Fundraising	818,305	729,580
Total expenses	12,958,139	12,750,044
TOTAL CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS	4,171,151	1,665,817
CHANGES IN ASSETS WITH DONOR RESTRICTIONS		
Contributions	798,804	9,423,949
Net assets released from restriction - satisfied by payments	(3,809,112)	(3,891,472)
CHANGE IN NET ASSETS WITH DONOR RESTRICTIONS	(3,010,308)	5,532,477
INCREASE IN NET ASSETS	1,160,843	7,198,294
NET ASSETS AT BEGINNING OF YEAR	38,256,334	31,058,040
NET ASSETS AT END OF YEAR	\$ 39,417,177	\$ 38,256,334

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

BIRMINGHAM ZOO, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Net increase in net assets	\$ 1,160,843	\$ 7,198,294
Adjustments to reconcile changes in net assets to net cash from operating activities:		
Depreciation and amortization	1,660,272	1,626,908
Changes in operating assets and liabilities:		
Restricted cash	(1,994,226)	1,546,998
Accounts receivable	(900,293)	(247,400)
Donations pledged	4,528,039	(6,826,348)
Inventories	389	3,072
Prepaid expenses and other assets	(30,707)	93,100
Accounts payable	(186,435)	(122,229)
Accrued liabilities	(69,239)	140,611
Deferred income	67,828	83,153
NET CASH FROM OPERATING ACTIVITIES	<u>4,236,471</u>	<u>3,496,159</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(3,837,212)	(3,890,976)
Loss on disposal of property and equipment	1,028,023	-
Proceeds from sale of property and equipment	800	184,818
Earnings on certificates of deposit	(257)	(155)
NET CASH FROM INVESTING ACTIVITIES	<u>(2,808,646)</u>	<u>(3,706,313)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Net proceeds on lines of credit	246,104	750,454
Proceeds (payments) on capital lease obligation	(29,997)	121,830
Payments on equipment loan	-	(55,688)
Payments on long-term debt	(1,159,512)	(783,750)
NET CASH FROM FINANCING ACTIVITIES	<u>(943,405)</u>	<u>32,846</u>
NET CHANGE IN CASH	484,420	(177,308)
CASH AT BEGINNING OF YEAR	<u>55,670</u>	<u>232,978</u>
CASH AT END OF YEAR	<u>\$ 540,090</u>	<u>\$ 55,670</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the year for interest	<u>\$ 122,138</u>	<u>\$ 145,616</u>
Financing of property and equipment through capital lease obligation	<u>\$ -</u>	<u>\$ 121,830</u>

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

BIRMINGHAM ZOO, INC.
STATEMENTS OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2018

	Program Services	Management and General	Fundraising	Total 2018
Salaries and wages	\$ 4,070,745	\$ 363,017	\$ 432,267	\$ 4,866,029
Administration	-	40,892	-	40,892
Animal acquisitions	4,134	-	-	4,134
Animal exhibits	15,751	-	-	15,751
Animal management	459,513	-	-	459,513
Animal tracks	33,211	-	-	33,211
Bank and credit card processing fees	138,101	23,142	-	161,243
Computer	96,392	9,366	16,173	121,931
Conservation	82,302	-	-	82,302
Continuing education/conventions	7,706	10,968	11,106	29,780
Depreciation and amortization	1,660,272	-	-	1,660,272
Dues and subscriptions	52,266	3,259	1,695	57,220
Employee benefits	449,090	18,976	28,515	496,581
Equipment expense	35,900	-	351	36,251
Equipment rental	6,913	2,396	2,396	11,705
Insurance	206,353	3,191	3,191	212,735
Interest	122,138	-	-	122,138
Loss on disposal of fixed assets	1,028,023	-	-	1,028,023
Legal and accounting	-	20,101	-	20,101
Marketing	150,499	301	-	150,800
Miscellaneous	3,855	16,255	14,508	34,618
Payroll taxes	299,732	27,524	32,379	359,635
Postage and printing	79,099	2,763	34,701	116,563
Professional consulting	131,346	-	4,500	135,846
Repairs and maintenance	474,172	-	-	474,172
Security	75,654	-	-	75,654
Signage and graphics	13,764	150	5,401	19,315
Social and special events	310,070	37,071	211,274	558,415
Summer camps and other programs	101,042	-	-	101,042
Supplies	156,910	14,472	4,202	175,584
Taxes and licenses	27,296	19,913	25	47,234
Travel and meals	20,444	-	-	20,444
Uniforms	7,528	-	-	7,528
Utilities	1,184,667	16,046	15,621	1,216,334
Volunteers	5,143	-	-	5,143
TOTAL EXPENSES	\$ 11,510,031	\$ 629,803	\$ 818,305	\$ 12,958,139

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

BIRMINGHAM ZOO, INC.
STATEMENTS OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2017

	Program Services	Management and General	Fundraising	Total 2017
Salaries and wages	\$ 4,371,543	\$ 397,427	\$ 410,451	\$ 5,179,421
Administration	-	43,366	-	43,366
Animal acquisitions	11,774	-	-	11,774
Animal exhibits	66,592	-	-	66,592
Animal management	521,383	-	-	521,383
Animal tracks	33,337	-	-	33,337
Bank and credit card processing fees	129,132	17,624	-	146,756
Computer	81,385	8,266	17,621	107,272
Conservation	110,657	-	-	110,657
Continuing education/conventions	47,364	3,003	6,613	56,980
Depreciation and amortization	1,626,908	-	-	1,626,908
Dues and subscriptions	41,861	4,855	1,533	48,249
Employee benefits	520,315	36,639	33,802	590,756
Equipment expense	45,108	-	-	45,108
Equipment rental	19,411	-	-	19,411
Insurance	205,902	3,111	3,111	212,124
Interest	145,616	-	-	145,616
Loss on disposal of fixed assets	181,818	6,927	-	188,745
Legal and accounting	-	48,784	-	48,784
Marketing	141,296	1,441	-	142,737
Miscellaneous	24,701	-	33,431	58,132
Payroll taxes	308,259	25,386	29,013	362,658
Postage and printing	101,250	5,600	3,355	110,205
Professional consulting	82,171	-	-	82,171
Repairs and maintenance	509,085	-	-	509,085
Security	74,748	-	-	74,748
Signage and graphics	28,002	-	1,088	29,090
Social and special events	445,133	-	166,652	611,785
Summer camps and other programs	116,314	-	-	116,314
Supplies	103,067	24,347	2,900	130,314
Taxes and licenses	27,257	23,741	25	51,023
Travel and meals	5,008	3,995	4,226	13,229
Uniforms	7,851	-	-	7,851
Utilities	1,211,983	16,219	15,759	1,243,961
Volunteers	3,502	-	-	3,502
TOTAL EXPENSES	\$ 11,349,733	\$ 670,731	\$ 729,580	\$ 12,750,044

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

BIRMINGHAM ZOO, INC.

NOTES TO FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2018 AND 2017

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, which generally defines financial statement presentation using a net asset balance approach segregated by donor-defined restriction.

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

The new reporting format requires resources to be classified for accounting and reporting purposes into two net asset categories according to externally (donor) imposed restrictions. The two classes of net assets are as follows:

Net assets without donor restrictions – Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objective of the Organization. These net assets may be used at the discretion of management and the board of directors.

Net assets with donor restrictions – Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Organization or by the passage of time. Other donor restrictions are perpetual in nature, where the donor has stipulated the funds be maintained in perpetuity.

Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statement of activities

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.

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

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.

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.

Functional Expenses

The costs of providing program and other activities have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among program services and supporting services benefited. Such allocations are determined by management on an equitable basis.

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 2016.

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

Contributions

Contributions received are recorded as net assets without donor restrictions or net assets with donor restrictions, depending on the existence and/or nature of any donor-imposed restrictions. Contributions that are restricted by the donor are reported as an increase in net assets without donor restrictions if the restriction expires in the reporting period in which the contribution is recognized. All other donor restricted contributions are reported as an increase in net assets with donor restrictions, depending on the nature of restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions.

Use of Estimates

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

Evaluation of Subsequent Events

BZI has evaluated all subsequent events through 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 Organization has adjusted the presentation of these statements accordingly. The ASU has been applied retrospectively to all periods presented.

NOTE 2 – RESTRICTED ASSETS

Restricted assets at December 31, 2018 and 2017, respectively, consist of cash, certificates of deposit, and interfund receivables / (payables) restricted for the following purposes:

	2018	2017
Restricted Cash – Front Entrance	\$ 1,602,739	\$ 137,672
Restricted Cash – Merrill Lynch Money Market	129,066	72,384
Restricted Cash – Merrill Lynch PICA Endowment	251,079	-
Restricted Cash – Iberia Bank	48,136	-
Restricted Cash – Small Capital Projects	238,821	94,779
Restricted Cash – Conservation	<u>99,662</u>	<u>70,442</u>
	<u>\$ 2,369,503</u>	<u>\$ 375,277</u>
Interfund receivable/(payable)- restricted – Front Entrance	\$ (23,486)	\$ 436,985
Interfund receivable/(payable)- restricted – Small Capital Projects	(13,149)	46,045
Interfund receivable/(payable)- restricted – Miscellaneous	(27,985)	-
Interfund receivable/(payable)- restricted – Iberia	(6)	-
Interfund receivable/(payable)- restricted – Conservation	<u>(111)</u>	<u>(14,394)</u>
	<u>\$ (64,737)</u>	<u>\$ 468,636</u>
Certificates of deposit - restricted – Endowments	<u>\$ 22,877</u>	<u>\$ 22,620</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:

	2018	2017
Within one year - current	<u>\$ 5,686,836</u>	<u>\$ 9,122,281</u>
Within two through five years	1,147,467	2,144,246
Unamortized discount	(259,807)	(224,414)
Allowance for doubtful accounts	<u>(29,614)</u>	<u>(25,813)</u>
Within two through five years – long term	<u>\$ 858,046</u>	<u>\$ 1,894,019</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, 2018 and 2017, respectively.

NOTE 4 – PROPERTY AND EQUIPMENT

A summary of property and equipment at December 31, 2018 and 2017 is as follows:

	2018	2017
Buildings and improvements	\$ 23,740,553	\$ 24,829,452
Land and improvements	17,121,491	18,091,109
Machinery and equipment	2,962,955	3,417,085
Computers and accessories	488,379	822,504
Vehicles	264,786	336,800
Furniture and fixtures	281,764	420,673
Zoolights equipment	15,082	79,742
Master plan development	964,351	964,351
Construction in progress	<u>5,602,386</u>	<u>1,828,612</u>
	51,441,747	50,790,328
Less accumulated depreciation	<u>(17,939,803)</u>	<u>(18,436,501)</u>
Net property and equipment	<u>\$ 33,501,944</u>	<u>\$ 32,353,827</u>

NOTE 5 – LINE OF CREDIT

BZI has two lines of credit with Wells Fargo Bank. One is in the amount of \$3,000,000 bearing interest at the prime rate of the lender 4.75% and 3.50% at December 31, 2018 and 2017, respectively. The outstanding balance on this line of credit at December 31, 2018 and 2017 was \$1,318,532 and \$761,453, respectively. This line matures in April 2019. 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 5.50% and 4.50% at December 31, 2018 and 2017, respectively. The outstanding balance on this line of credit was \$0 and \$310,975 at December 31, 2018 and 2017, respectively. This line matures in June 2020. The line of credit agreements contain financial loan covenants which BZI was in compliance with at December 31, 2018 and 2017.

NOTE 6 – 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, 2018 and 2017. Long-term debt consisted of the following at December 31:

	2018	2017
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.	\$ 1,191,738	\$ 2,351,250
Less current portion of long-term debt	<u>(783,750)</u>	<u>(783,750)</u>
Long-term debt	<u>\$ 407,988</u>	<u>\$ 1,567,500</u>

NOTE 6 – LONG-TERM DEBT – CONTINUED

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

2019	\$ 783,750
2020	<u>407,988</u>
	\$ <u>1,191,738</u>

NOTE 7 – NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions were as follows for the years ended December 31, 2018 and 2017:

	2018	2017
Specific Purpose		
Front Entrance Project	\$ 8,030,524	\$ 11,590,957
Small Capital Projects	225,672	140,824
Conservation Program	350,630	56,048
William R. Foster Conservation Fund	48,130	-
Miscellaneous Restricted Funds	194,692	72,384
Endowment Investment	<u>22,877</u>	<u>22,620</u>
Total Specific Purpose	<u>\$ 8,872,525</u>	<u>\$ 11,882,833</u>

Net assets without donor restrictions for the year ended December 31, 2018 and 2017 are as follows:

	2018	2017
Undesignated	\$30,022,400	\$26,353,591
Board designated	<u>522,252</u>	<u>19,910</u>
Total	<u>\$30,544,652</u>	<u>\$26,373,501</u>

Net assets released from net assets with donor restrictions are as follows:

	2018	2017
Satisfaction of Purpose Restrictions		
Total	<u>\$ 3,809,112</u>	<u>\$ 3,891,472</u>

NOTE 8 – AVAILABILITY AND LIQUIDITY

The following reflects the Organization’s financial assets as of December 31, 2018 and 2017, reduced by amounts not available for general use because of donor-imposed restrictions within one year of the balance sheet date.

	2018	2017
Financial asset at year-end:		
Cash and cash equivalents	\$ 2,410,218	\$ 433,657
Accounts receivable	1,346,145	445,852
Donations pledged	<u>6,763,585</u>	<u>11,291,624</u>
Total financial assets	10,519,948	12,171,133
Less amounts not available for general expenditures within one year:		
Cash and cash equivalents	2,327,643	866,533
Donations pledged	<u>6,544,882</u>	<u>11,016,300</u>
	<u>8,872,525</u>	<u>11,882,833</u>
Financial assets available to meet cash needs for general expenditures within one year:	<u>\$ 1,647,423</u>	<u>\$ 288,300</u>

BZI created a Restricted Contingency Reserve Fund (the “Restricted fund”) with a goal of accumulating up to three months of operating expenses in order to support the continuing operations of the Organization, address emergency situations, and defray capital project expenses. No money may be expended from the Restricted Fund without a majority vote of approval of the Board of Directors. Additionally, BZI has two lines of credit totaling \$4 million available to meet cash flow needs.

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, 2018 and 2017, 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;
- 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.

NOTE 10 – FAIR VALUE OF FINANCIAL INSTRUMENTS - CONTINUED

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, 2018.

NOTE 11 – COMMITMENT AND CONTINGENCY

BZI leases certain equipment under capital leases. BZI has capital leases for computer equipment 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
2019	\$ 31,117	\$ 54,436
2020	27,761	39,973
2021	19,559	30,514
2022	13,396	28,239
2023	-	28,239
Thereafter	<u>-</u>	<u>23,533</u>
	<u>\$ 91,833</u>	<u>\$ 204,934</u>

Operating lease expense for the years ended December 31, 2018 and 2017 was \$87,276 and \$47,970, 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, 2018, the City of Birmingham's pledge to BZI comprised 67% of total pledges receivable, which amounted to \$4,385,527 (See Note 17).

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 \$578,723 and \$942,503 in pledge receivables at December 31, 2018 and 2017, respectively.

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.

NOTE 16 – CONTRIBUTED MATERIALS AND SERVICES - CONTINUED

BZI receives a significant amount of contributed time (29,288 volunteer hours in 2018) 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 17 – CAPITAL FUNDING – PLEDGES RECEIVABLE

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 donation with restrictions in the accompanying 2017 financial statements. During 2018, the City of Birmingham paid \$3,114,473 to the General Contractor on behalf of the Zoo. Therefore, the pledge receivable balance from the City of Birmingham is \$4,385,527 at December 31, 2018.

NOTE 18 – LOSS ON DISPOSAL OF FIXED ASSETS

During 2018, the Zoo performed a complete physical count of their fixed assets. As a result of the count, the Zoo incurred a loss on the disposal of fixed assets of \$1,028,023, which is included in the Statement of Functional Expenses for the year ended December 31, 2018.

NOTE 19 – RECLASSIFICATIONS

Certain reclassifications have been made to the 2017 financial statements in order for them to comply with the current year format. Net assets remained unchanged.