



**Atlanta-Fulton County Zoo, Inc.
and Subsidiary**

Consolidated Financial Statements
December 31, 2018 and 2017

Atlanta-Fulton County Zoo, Inc. and Subsidiary

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INDEPENDENT AUDITOR'S REPORT

To the Board Members of
Atlanta-Fulton County Zoo, Inc.

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of **Atlanta-Fulton County Zoo, Inc. and Subsidiary** (Zoo Atlanta), which comprise the consolidated statement of financial position as of December 31, 2018, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States. This includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to Zoo Atlanta's preparation and fair presentation of the consolidated 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 Zoo Atlanta'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 consolidated financial statements. 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Atlanta-Fulton County Zoo, Inc. and Subsidiary as of December 31, 2018, and the results of their activities, functional expenses, and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States.

Report on Summarized Comparative Information

We have previously audited the Atlanta-Fulton County Zoo, Inc. and Subsidiary's December 31, 2017 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated May 9, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2017 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Windham Brannon, P.C.

May 10, 2019

Certified Public Accountants

Atlanta-Fulton County Zoo, Inc. and Subsidiary

Consolidated Statements of Financial Position December 31, 2018 and 2017

	2018	2017
Assets		
Cash	\$ 16,228,706	\$ 31,885,205
Accounts receivable, net of allowance for doubtful accounts	385,090	446,326
Prepaid expenses	622,958	647,192
Inventories, net of reserve	344,133	286,210
Pledges receivable, net of allowance for uncollectible pledges and discounts	4,444,500	9,302,134
Investments	6,120,744	6,722,977
Property, equipment and leasehold interest, net of accumulated depreciation	55,091,629	34,728,855
Animal collections	1	1
Total assets	\$ 83,237,761	\$ 84,018,900
Liabilities and net assets		
Accounts payable	\$ 2,358,654	\$ 408,467
Accrued expenses	4,461,784	2,807,710
Deferred revenue	70,146	116,175
Notes payable	41,181	60,703
Total liabilities	6,931,765	3,393,055
Net assets		
Without donor restrictions	22,693,845	26,180,366
With donor restrictions	53,612,152	54,445,479
Total net assets	76,305,996	80,625,845
Total liabilities and net assets	\$ 83,237,761	\$ 84,018,900

Atlanta-Fulton County Zoo, Inc. and Subsidiary

Consolidated Statements of Activities For the Year Ended December 31, 2018

(with summarized totals for the year ended December 31, 2017)

	2018			2017
	Without Donor Restrictions	With Donor Restrictions	Total	Total
Support and revenue				
Support				
Contributions	\$ 1,010,208	\$ 555,050	\$ 1,565,258	\$ 22,278,822
Government support	18,000	48,022	66,022	58,919
Contributed goods and services	504,841	11,850	516,691	519,236
Total support	1,533,049	614,922	2,147,971	22,856,977
Revenues				
Admissions	8,270,047	-	8,270,047	8,866,621
Concession and rental sales	4,281,087	-	4,281,087	4,602,922
Membership fees	3,058,538	-	3,058,538	3,311,696
Special events	996,720	-	996,720	1,026,238
Conservation and education	1,115,482	-	1,115,482	1,486,785
Sponsorships	441,929	-	441,929	440,385
Other	120,974	-	120,974	492,950
Investment income (loss)	7,220	(222,442)	(215,222)	1,084,491
Total revenue	18,291,997	(222,442)	18,069,555	21,312,088
Net assets released from restrictions:				
Satisfaction of program restrictions	1,225,807	(1,225,807)	-	-
Total net assets released from restrictions	1,225,807	(1,225,807)	-	-
Total support and revenue	21,050,853	(833,327)	20,217,526	44,169,065
Expenses				
Program services				
Operations	6,363,558	-	6,363,558	7,504,361
Animal management	6,838,136	-	6,838,136	7,009,457
Concessions and rental events	3,528,690	-	3,528,690	3,732,687
Conservation and education	2,936,413	-	2,936,413	3,010,256
Marketing	868,113	-	868,113	1,030,213
Membership	745,121	-	745,121	706,953
Contributed goods and services	301,387	-	301,387	253,018
Total program services	21,581,418	-	21,581,418	23,246,945
Support services				
General administration	1,413,301	-	1,413,301	1,402,958
Development	1,137,710	-	1,137,710	1,106,518
Marketing	201,492	-	201,492	200,553
Contributed goods and services	203,453	-	203,453	266,218
Total support services	2,955,956	-	2,955,956	2,976,247
Total expenses	24,537,374	-	24,537,374	26,223,192
Change in net assets	(3,486,521)	(833,327)	(4,319,848)	17,945,873
Net assets, beginning of year	26,180,366	54,445,479	80,625,845	62,679,972
Net assets, end of year	\$ 22,693,845	\$ 53,612,152	\$ 76,305,996	\$ 80,625,845

**Atlanta-Fulton County Zoo, Inc.
and Subsidiary**

**Consolidated Statements of Functional Expenses
For the Year Ended December 31, 2018**

(with summarized totals for the year ended December 31, 2017)

	Program Services							Support Services					Totals		
	Operations	Animal	Concessions	Conservation	Marketing	Membership	Contributed	Total	General			Contributed	Total	2018	2017
		Management	and Rental	and Education					Goods/Services	Administration	Development				
Salaries and benefits	\$ 2,113,730	\$ 4,107,560	\$ 1,593,937	\$ 1,445,893	\$ 375,226	\$ 422,947	\$ -	\$ 10,059,293	\$ 975,195	\$ 655,305	\$ 160,811	\$ -	\$ 1,791,311	\$ 11,850,604	\$ 11,304,857
Cost of goods sold	-	-	1,095,994	-	-	-	-	1,095,994	-	-	-	-	-	1,095,994	1,203,276
Professional fees	114,609	153,732	-	145,992	79,265	-	-	493,598	107,531	110,448	33,971	-	251,950	745,548	1,182,213
Advertising	-	-	-	-	397,118	115,260	-	512,378	374	5,600	99	-	6,073	518,451	697,030
Office supplies, printing, postage	243,655	100,141	95,355	294,870	10,886	107,386	-	852,293	12,253	21,604	4,469	-	38,326	890,619	938,908
Travel	61,658	36,023	7,733	62,860	-	-	-	168,274	2,319	-	-	-	2,319	170,593	144,408
Depreciation	450,064	1,828,385	281,290	140,645	-	-	-	2,700,384	112,516	-	-	-	112,516	2,812,900	3,557,142
Insurance	601,995	-	-	-	-	-	-	601,995	-	-	-	-	-	601,995	540,187
Utilities	954,874	-	-	-	-	-	-	954,874	-	-	-	-	-	954,874	890,358
Animal food & husbandry	-	501,320	-	-	-	-	-	501,320	-	-	-	-	-	501,320	529,075
Outside contracts	955,781	10,649	78,926	71,837	-	48,395	-	1,165,588	68,710	67,850	-	-	136,560	1,302,148	1,237,353
Program costs, incl. panda conservation	-	-	-	748,921	-	-	-	748,921	-	-	-	-	-	748,921	783,211
Event costs	237,985	-	360,298	9,044	466	11,128	-	618,921	15,733	160,820	200	-	176,753	795,674	570,507
General repairs & maintenance	471,330	21,748	5,910	-	-	-	-	498,988	2,552	53,174	-	-	55,726	554,714	1,579,662
Other	157,877	78,578	9,247	16,351	5,152	40,005	-	307,210	116,118	62,909	1,942	-	180,969	488,179	545,769
Contributed goods & services	-	-	-	-	-	-	301,387	301,387	-	-	-	203,453	203,453	504,840	519,236
Total	\$ 6,363,558	\$ 6,838,136	\$ 3,528,690	\$ 2,936,413	\$ 868,113	\$ 745,121	\$ 301,387	\$ 21,581,418	\$ 1,413,301	\$ 1,137,710	\$ 201,492	\$ 203,453	\$ 2,955,956	\$ 24,537,374	\$ 26,223,192

Atlanta-Fulton County Zoo, Inc. and Subsidiary

Consolidated Statements of Cash Flows For the Years Ended December 31, 2018 and 2017

	2018	2017
Cash flows from operating activities		
Change in net assets	\$ (4,319,848)	\$ 17,945,873
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Loss on disposal of assets	13,918	971,451
Realized gain on investments	(44,313)	(312,658)
Unrealized loss (gain) on investments	535,577	(601,560)
Provision for uncollectible receivables	5,000	16,000
Depreciation expense	2,812,901	3,557,142
(Increase) decrease in assets:		
Accounts receivable, net of allowance for doubtful accounts	61,236	101,231
Prepaid expenses	24,234	(107,259)
Inventories, net of reserve	(57,923)	(22,593)
Pledges receivable, net of allowance	4,852,634	(659,224)
Increase (decrease) in liabilities:		
Accounts payable	(64,435)	(205,146)
Accrued expenses	(531,152)	461,139
Deferred revenue	(46,029)	(53,212)
Net cash provided by operating activities	3,241,800	21,091,184
Cash flows from investing activities		
Purchase of investments	(319,878)	(559,820)
Sales of investments	430,848	5,663,317
Purchase of property and equipment	(18,989,746)	(3,504,118)
Net cash (used in) provided by investing activities	(18,878,776)	1,599,379
Cash flows from financing activities		
Proceeds from note payable issuance	-	24,624
Repayment of note payable	(19,522)	(6,928)
Net cash (used in) provided by financing activities	(19,522)	17,696
Net change in cash	(15,656,499)	22,708,259
Cash, beginning of year	31,885,205	9,176,946
Cash, end of year	\$ 16,228,706	\$ 31,885,205
Supplemental disclosure of cash flow information		
Cash paid for interest	\$ 1,694	\$ 1,256
Barter exchange of admission tickets for advertising services	\$ 62,000	\$ 105,000
Property and equipment financed through note payable	\$ -	\$ 42,592
Property and equipment in accounts payable and accrued expenses	\$ 4,199,848	\$ 230,438

Atlanta-Fulton County Zoo, Inc. and Subsidiary

Notes to Consolidated Financial Statements December 31, 2018 and 2017

1. Organization and Summary of Significant Accounting Policies

The Atlanta-Fulton County Zoo, Inc. and Subsidiary (Zoo Atlanta or the Zoo) is a non-profit organization. Zoo Atlanta is an accredited member of the Association of Zoos and Aquariums (AZA). Zoo Atlanta's mission is to save wildlife and their habitats through conservation, research, education and engaging experiences. Its efforts connect people to animals and inspire conservation action.

Since 1985, the City of Atlanta (the City) and the Fulton County Recreation Authority (the Authority) have maintained a governmental agreement which empowered the Authority with, among other things, the right to equip, maintain and operate Zoo Atlanta and the right to make additions, deletions, modifications and changes to the leasehold. The agreement also authorized the Authority to issue revenue bonds to provide for Zoo Atlanta's improvements, enhancements and renovations. This agreement was renewed in June 2007, then amended in December 2017 for a term not to exceed 50 years.

The Authority entered into an operating agreement with Zoo Atlanta in 1985, which authorized Zoo Atlanta to operate, manage and maintain Zoo Atlanta. This operating agreement was renewed in June 2007 for a term not to exceed 50 years. In the event of termination of the agreement, the leasehold assets of Zoo Atlanta revert back to the City.

Principles of Consolidation

The consolidated financial statements include the accounts of Zoo Atlanta and the Zoological Foundation of Georgia, Inc. (Zoo Georgia). Zoo Georgia is controlled by Zoo Atlanta, and is a separately incorporated Georgia non-profit organization formed to enlarge and expand the vision of conservation. All inter-organizational transactions and balances have been eliminated in consolidation.

Recent Accounting Pronouncements

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements for Not-for-Profit Entities*. This ASU makes improvements to not-for-profit financial reporting with regard to the net asset classification, liquidity, investment returns, and enhanced disclosures surrounding the methods used to allocate expenses among program and support functions. This standard is effective for fiscal years beginning after December 15, 2017. The Zoo has adopted the new guidance for the year ended December 31, 2018 and applied the changes retrospectively to the year ended December 31, 2017. A key change required by ASU 2016-14 are the net asset classes used in these financial statements. Amounts previously reported as unrestricted net assets are now reported as net assets without donor restrictions and amounts previously reported as temporarily

Atlanta-Fulton County Zoo, Inc. and Subsidiary

Notes to Consolidated Financial Statements December 31, 2018 and 2017

restricted net assets and permanently restricted net assets are now reported as net assets with donor restrictions.

Basis of Accounting and Financial Reporting

The accompanying financial statements are presented on the accrual basis of accounting whereby revenues are recognized when earned and expenses are recorded when incurred.

These financial statements are prepared in accordance with standards set by the Financial Accounting Standards Board. Zoo Atlanta is required to classify information regarding its consolidated statements of financial position and activities in two classes of net assets: without donor restrictions and with donor restrictions.

A description of the two net asset categories is as follows:

- Net assets without donor restrictions – Net assets that are not subject to donor-imposed stipulations, including board designated endowments.
- Net assets with donor restrictions – Net assets subject to donor-imposed stipulations that can be fulfilled by actions of Zoo Atlanta pursuant to those stipulations or that expire by the passage of time or that require the donated assets be maintained permanently by Zoo Atlanta.

Expenses in the consolidated statement of activities have been reported by the functional classifications, major classes of program services and supporting activities. Program services are the activities that result in goods and services distributions to beneficiaries, members or visitors, and which fulfill the purposes or mission for which Zoo Atlanta exists. Supporting programs are all the other activities of Zoo Atlanta other than program services. Costs have been allocated among the programs and supporting services based typically on headcount, space, or usage.

Prior Year Summarized Information

The consolidated statements of activities for 2017 includes summarized information in total but not by net asset class. Accordingly, such information should be read in conjunction with Zoo Atlanta's audited financial statements for the year ended December 31, 2017, from which the summarized information was derived.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions which affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

Atlanta-Fulton County Zoo, Inc. and Subsidiary

Notes to Consolidated Financial Statements December 31, 2018 and 2017

New Accounting Pronouncements

Revenue from Contracts with Customers – In May 2014, the Financial Accounting Standards Board (FASB) issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, as amended by subsequent ASUs (collectively, ASU 2014-09). This new standard supersedes most legacy revenue recognition guidance, including industry-specific guidance, and establishes principles for recognizing revenue upon the transfer of promised goods and services to customers based on the expected consideration to be received in exchange for those goods and services. ASU 2014-09 includes Topic 606, *Revenue from Contracts with Customers and Subtopic 340-40, Other Assets and Deferred Costs – Contracts with Customers*.

ASU 2014-09 is effective for annual reporting periods beginning after December 15, 2018. The Zoo will adopt this new standard, effective as of January 1, 2019, using the modified retrospective transition method. The modified retrospective transition method requires the Zoo to recognize the cumulative effect of initially applying the new standard to all existing contracts not yet completed as of the effective date as an adjustment, if any, to retained earnings as of the beginning of the fiscal year of adoption. The Zoo is still evaluating the effect that the updated standard will have on its consolidated financial statements and related disclosures.

Leases – In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842): Amendments to the FASB Accounting Standards Codification*. ASU 2016-02 amends the existing accounting standards for lease accounting, including requiring lessees to recognize most leases on their balance sheets and making targeted changes to lessor accounting. The new standard requires a modified retrospective transition approach for all leases existing at, or entered into after, the date of initial application, with an option to use certain transition relief. The guidance is effective for nonpublic business entities for fiscal years beginning after December 15, 2019. Early adoption of this standard is permitted. Subsequent to the issuance of ASU 2016-02, the FASB issued additional Accounting Standards Updates clarifying aspects of the new lease accounting standard, which will be effective upon adoption of ASU 2016-02. The Zoo plans to adopt ASU 2016-02 as of January 1, 2020. The Zoo is still evaluating the effect that the updated standard will have on its consolidated financial statements and related disclosures.

Cash

Zoo Atlanta maintains balances in cash at a financial institution that are insured by the Federal Deposit Insurance Corporation (FDIC). From time to time, balances may exceed FDIC insured limits. At December 31, 2018 and 2017, the cash balances related to net assets with donor restrictions were \$14,640,141 and \$28,123,116, respectively.

Atlanta-Fulton County Zoo, Inc. and Subsidiary

Notes to Consolidated Financial Statements December 31, 2018 and 2017

Animal Collections

Zoo Atlanta's animal collection consists of animals purchased by Zoo Atlanta and animals that have been loaned to Zoo Atlanta. These assets are recorded at the nominal value of one dollar in the accompanying financial statements. Animal acquisition costs are expensed when incurred. Zoo Atlanta has the right to, among other things, acquire, borrow, sell, loan and otherwise transfer and convey animals as considered reasonable and proper for the operation and maintenance of Zoo Atlanta.

Inventories

Merchandise inventory in the gift shop is stated at the lower of cost (weighted-average method) or net realizable value.

Allowance for Doubtful Accounts

Zoo Atlanta maintains an allowance for doubtful accounts for pledges and accounts receivable based upon the expected collectability of the receivables using such factors as prior collection history, nature of receivable, and current economic trends. When amounts are believed to be uncollectible, an allowance is provided against the account or pledge receivable and an amount is charged to bad debt expense.

Investments

Investments are carried at fair value, except for the cash surrender value of life insurance, which is carried at its surrender value. Generally accepted accounting principles defines fair value as the price that would be received to sell an asset or paid to transfer a liability (i.e., the exit price) in an orderly transaction between market participants at the measurement date. Investments consist primarily of equity and bond mutual funds and certificates of deposit. Mutual funds are valued at quoted market prices for the identical security in an active market that Zoo Atlanta has the ability to access. Certificates of deposit with a maturity dates greater than three months at issuance are included in investments.

In determining fair value, Zoo Atlanta uses various valuation approaches. Generally accepted accounting principles establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of Zoo Atlanta. Unobservable inputs are inputs that reflect Zoo Atlanta's estimates of the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. The hierarchy is broken down into three levels based on the reliability of inputs, with Level 3 having the highest

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Notes to Consolidated Financial Statements December 31, 2018 and 2017

level of unobservable inputs. At December 31, 2018 and 2017, Zoo Atlanta's investments are all considered to be Level 1.

Property, Equipment and Leasehold Interest

The land used by Zoo Atlanta is owned by the City of Atlanta, and is therefore not recorded in the accompanying consolidated financial statements. The City has provided to the Authority and the Authority in turn has provided to Zoo Atlanta a leasehold interest (the Leasehold) in all real and personal properties comprising the Leasehold for the purpose of operating, maintaining and improving Zoo Atlanta for a term not to exceed 50 years, expiring in 2067 (as amended). Consistent with prior years, the fair value of the lease has not been reflected in the accompanying consolidated financial statements because objective valuation information is not available due to the unique characteristics of the land.

Title to the leasehold properties remains with the City but is subject to the Authority's and Zoo Atlanta's rights as a lessee and is therefore reflected in the accompanying financial statements. Expenditures for additions and improvements that extend the useful lives of assets are capitalized at cost, and expenditures for maintenance and repairs are charged to operations. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets.

Income Taxes

Zoo Atlanta is a non-profit organization and is exempt under Section 501(c)(3) of the Internal Revenue Code (the Code) from federal, state and local income taxes, whereby only unrelated business income, if any, as defined by Section 512(a)(1) of the Code, is subject to federal income tax. Zoo Atlanta did not have any material unrelated business income tax for December 31, 2018 and 2017.

Management of the Zoo considers the likelihood of changes by taxing authorities in its income tax returns and recognizes a liability for or discloses potential significant changes that management believes are more likely than not to occur, including changes to the Zoo's status as a non-profit entity. Management believes the Zoo met the requirements to maintain its tax-exempt status and has appropriately reported and filed income subject to unrelated business income tax. The provision for unrelated business income taxes is reported as an expense in these financial statements. The Zoo's income tax returns for the past three years are subject to examination by tax authorities, and may change upon examination.

The Tax Cuts and Jobs Act of 2017 was signed into law on December 22, 2017. Management does not expect the legislation to have an impact on the Zoo's financial statements because the Zoo is exempt from income taxation under the Internal Revenue Code Section 501(c)(3).

Atlanta-Fulton County Zoo, Inc. and Subsidiary

Notes to Consolidated Financial Statements December 31, 2018 and 2017

Revenue Recognition

Unconditional contributions are recognized as support to Zoo Atlanta in the period received or pledged. Contributions with donor-imposed restrictions are classified as with donor restrictions according to the donor stipulations. Contributions received with donor-imposed restrictions, and those restrictions are met within the same year, are recorded as without donor restrictions.

For the year ended December 31, 2018 and 2017, government support consisted of \$66,022 and \$58,919, respectively, received from the Authority for camp scholarships, from the Institute of Library and Museum Services to support animal management and research programs, and from the 2007 Zoo Series Revenue Bonds. Amounts received from the 2007 Zoo Series Revenue Bonds for reimbursement of costs for depreciable assets, which are required to be maintained for their estimated lives, were recognized as with donor restricted support, and are released from restrictions evenly over the estimated useful lives of those depreciable assets.

Revenue from sponsorships is recognized over the term of the sponsorship agreement and is included as a separate line item in the statement of activities. Amounts received but not recognized are deferred and included in the statement of financial position as deferred revenue.

Revenue from memberships is recorded at the time of sale and is included separately in the statement of activities. Revenue from admissions and concessions is recognized at the time of sale. Revenue from rentals, events and educational programs are recognized in the period the event or program occurs.

Zoo Atlanta receives contributed goods and services from individuals and other organizations, the fair value of which is recorded in the financial statements as revenue and expense in the period received.

The Zoo provides admission tickets in exchange for advertising services. The Zoo's barter transactions are recorded at the estimated fair value of the assets exchanged. The Zoo determined that using the online full price admission ticket price for determining the value of the barter transaction was the most reliable and reasonable determination of the fair value of the transaction. Barter revenue and advertising expense were recognized when the advertising impressions or other services were delivered to the Zoo. For the years ended December 31, 2018 and 2017, the Zoo recognized approximately \$62,000 and \$105,000, respectively of advertising revenues and advertising expenses from barter transactions.

Advertising

Advertising costs are expensed as incurred. Advertising expense, excluding the barter transactions, was \$518,451 and \$697,030 for the years ended December 31, 2018 and 2017, respectively.

Atlanta-Fulton County Zoo, Inc. and Subsidiary

Notes to Consolidated Financial Statements December 31, 2018 and 2017

Sales Tax

Zoo Atlanta presents sales taxes on a net basis in the accompanying financial statements. Amounts collected and remitted totaled \$991,461 and \$1,055,524 for the years ended December 31, 2018 and 2017, respectively.

Reclassifications

Certain reclassifications have been made to the prior year financial statements to conform to the current year presentation. These reclassifications had no effect on previously reported operating results.

Subsequent Events

Management evaluates events occurring subsequent to the date of the financial statements in determining the accounting for and disclosure of transactions and events that affect the financial statements. Subsequent events have been evaluated through May 10, 2019, which is the date the financial statements were available to be issued.

2. Liquidity and Availability of Financial Assets

The following reflects the Zoo's financial assets as of the balance sheet date, reduced by amounts not available for general use within one year of the balance sheet date because of contractual or donor-imposed restrictions.

	<u>2018</u>
Cash	\$ 16,228,706
Accounts receivable and pledges receivable, net	4,829,590
Marketable securities	6,120,744
<u>Total financial assets</u>	<u>27,179,040</u>
Contractual or donor-imposed restrictions:	
Subject to appropriation and satisfaction of donor restrictions	\$ 18,851,807
Endowment	5,599,352
<u>Financial assets available to meet cash needs for general expenditures within one year</u>	<u>\$ 2,727,881</u>

Atlanta-Fulton County Zoo, Inc. and Subsidiary

Notes to Consolidated Financial Statements December 31, 2018 and 2017

The Zoo has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In addition, as part of its liquidity management, the Zoo may, at times, invest cash in excess of daily requirements in various short-term investments. The Zoo also has a line of credit available which could be drawn upon in the event of an unanticipated liquidity event.

3. Pledges Receivable

Pledges receivable at December 31, 2018 and 2017 were as follows:

	2018	2017
Without donor restrictions	\$ 239,602	\$ 224,959
With donor restrictions	4,321,596	9,298,391
	4,561,198	9,523,350
Less allowance for uncollectible pledges	(14,000)	(25,000)
Total pledges receivable	\$ 4,547,198	\$ 9,498,350
Due in less than one year	\$ 236,152	\$ 6,272,684
Due in one to five years	4,311,046	3,225,666
	4,547,198	9,498,350
Less discount to net present value	(102,698)	(196,216)
Net pledges receivable	\$ 4,444,500	\$ 9,302,134

Pledges to be received after one year are discounted to present value using LIBOR plus 2.75%, which was approximately 5.25% at December 31, 2018. Amortization of the discount is recorded as additional revenue and recorded in accordance with donor-imposed restrictions, if any.

The allowance for doubtful accounts includes the following activity:

	For the year ended December 31, 2018	For the year ended December 31, 2017
Beginning balance	\$ 25,000	\$ 15,000
Provision for uncollectible accounts	5,000	16,000
Write-off of uncollectible accounts	(16,000)	(6,000)
Ending balance	\$ 14,000	\$ 25,000

Atlanta-Fulton County Zoo, Inc. and Subsidiary

Notes to Consolidated Financial Statements December 31, 2018 and 2017

4. Investments

Investments consisted of the following at December 31, 2018 and 2017:

	2018	2017
Cash surrender value of life insurance, at surrender value	\$ 161,898	\$ 150,883
Equities, at fair value:		
Emerging markets fund	297,970	348,814
International markets fund	450,742	526,770
Small-cap blend fund	692,493	594,718
Mid-cap blend fund	566,039	623,598
Large blend fund	3,007,872	3,184,795
Bonds, at fair value:		
Short-term bond fund	943,730	934,712
Money market, at fair value	-	358,687
	\$ 6,120,744	\$ 6,722,977

Fair value is based on quoted prices available in active markets that Zoo Atlanta has the ability to access, for identical securities. This is a Level 1 category as established by generally accepted accounting principles. Mutual funds are exposed to various risks, such as interest rate, market and credit risks.

Investment income for the year ended December 31, 2018 included a realized gain on investments of \$44,313 and an unrealized loss on investments of \$535,577. Investment income for the year ended December 31, 2017 included a realized gain on investments of \$312,658 and an unrealized gain on investments of \$601,560. For the years ended December 31, 2018 and 2017, investment income also included \$276,042 and \$170,273 in interest and dividend income, respectively. The increase in cash surrender value of life insurance is included in investment income.

Atlanta-Fulton County Zoo, Inc. and Subsidiary

Notes to Consolidated Financial Statements December 31, 2018 and 2017

5. Property, Equipment and Leasehold Interest

Property and equipment consisted of the following at December 31, 2018 and 2017:

	2018	2017
Buildings, improvements and exhibits	\$ 78,526,161	\$ 78,576,485
Machinery and equipment	5,408,522	5,345,252
Furniture and fixtures	2,784,528	2,629,108
Computer equipment	2,119,973	2,098,064
Vehicles	754,589	754,589
	89,593,773	89,403,498
Less accumulated depreciation	(65,969,433)	(63,585,944)
Construction-in-progress	31,467,290	8,911,301
	\$ 55,091,629	\$ 34,728,855

Depreciation expense for the years ended December 31, 2018 and 2017 totaled \$2,812,901 and \$3,557,142, respectively.

The Authority has the right to make additions, deletions, modifications and changes to the Leasehold as required for the proper operation and maintenance of Zoo Atlanta by pledging the Leasehold as security for financing, if so required. The Leasehold interest does not require payments of rent to the City.

6. 2007 Zoo Series Revenue Bonds and Related Funds

In June 2007, the Authority issued \$14,315,000 of tax free revenue bonds and \$7,515,000 of taxable revenue bonds to support Zoo Atlanta in paying for the cost of various animal exhibits, certain infrastructure, facilities and equipment, improvements to the giant panda exhibit and required payments to the Chinese Association of Zoological Gardens in connection with Zoo Atlanta's giant panda loan agreement. Zoo Atlanta is not obligated to make any principal and interest payments for the 2007 bonds. Accordingly, there is no liability reported in the accompanying financial statements. Zoo Atlanta recognizes government support to the extent that reimbursement for costs, as defined, is received from the trustee of the bond funds. As of December 31, 2013, proceeds of these revenue bonds have been received in full. Cumulatively, Zoo Atlanta has received \$22,936,617 of the revenue bond funds.

Atlanta-Fulton County Zoo, Inc. and Subsidiary

Notes to Consolidated Financial Statements December 31, 2018 and 2017

The 2007 Zoo Series Bond Resolution provides for the establishment of the following funds:

Sinking Fund – used for the payment of principal, interest, and premium, if any, on the 2007 Zoo Series bonds.

Renewal and Extension Fund – used for the purpose of making additions, extensions, renewals, replacements or emergency repairs to Zoo Atlanta.

Concurrent with the issuance of the 2007 Zoo Series Revenue Bonds, the City of Atlanta, Fulton County Recreation Authority and Zoo Atlanta entered into a Governmental Agreement Regarding Zoo Atlanta (the Governmental Agreement) and an Operating Agreement for Zoo Atlanta (the Operating Agreement), each for a period not to exceed 50 years. The Government Agreement and the Operating Agreement provide Zoo Atlanta the exclusive right to the use and possession of the Leasehold. In the event of termination of the Government Agreement and the Operating Agreement, all personal and real properties comprising the Leasehold will revert to the Authority.

Pursuant to the Governmental Agreement, if Zoo Atlanta exceeds certain levels of annual attendance, Zoo Atlanta must deposit payments into a Sinking Fund and Renewal and Extension Fund. The amount of the payment to each fund is equal to a percentage of revenues, as defined, for admissions in excess of annual attendance levels, as defined. If attendance is in excess of 900,000 but less than 1,000,000, 25% of the incremental admission revenues must be paid; 50% of the incremental admission revenues must be paid for attendance levels greater than 1,000,000 but less than 1,100,000; and 75% of the incremental admission revenues must be paid for attendance levels exceeding 1,100,000. One half of the percentage of incremental revenues calculated for each attendance tier must be deposited into the Sinking Fund and the remainder must be deposited into the Renewal and Extension Fund. Attendance levels for the years ended December 31, 2018 and 2017 were 856,441 and 945,408, respectively. As of December 31, 2018, Zoo Atlanta did not owe a payment since the attendance threshold was not met. In 2017, Zoo Atlanta owed \$96,874 according to the agreement. The 2017 amount was included in the consolidated financial statements under accrued expenses and was paid in full in 2018.

7. Line-of-Credit Payable

On September 1, 2018, Zoo Atlanta renewed an existing unsecured line of credit in the amount of \$2,000,000 to provide financing for seasonal working capital needs. Interest is due monthly at LIBOR plus 2.75%. The line of credit matures on September 1, 2019, but is expected to be replaced in 2019.

The line-of-credit agreement contains certain provisions which, among other things, restrict additional borrowings and require Zoo Atlanta to maintain certain minimum financial ratios. There was no balance owed at December 31, 2018 or 2017.

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Notes to Consolidated Financial Statements December 31, 2018 and 2017

8. Commitments and Contingencies

Commitments:

The future minimum lease payments under operating leases as of December 31, 2018 are as follows:

Year Ending December 31	Operating Leases
2019	\$ 40,523
2020	10,156
2021	5,125
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	\$ 55,803

Zoo Atlanta maintains agreements with independent contractors to perform waste management, pest control, security and janitorial services. These contracts are typically for either a year or project period and are based on a negotiated fixed fee or hourly rate. Monthly payments under these service contracts total approximately \$73,900.

The Zoo is obligated to make certain payments to the Chinese Association of Zoological Gardens (the Chinese Party) related to the Giant Pandas (Note 12).

The Zoo is constructing a state-of-the-art event space, African savanna animal habitat and renovated entryway plaza (Note 13), all of which will be completed by 2020. Costs incurred to date represent construction, architect and engineering design fees, and equipment and are included in construction in progress in the accompanying financial statements. As of December 31, 2018, the Zoo has incurred approximately \$29,600,000 in costs related to this project. The remaining costs estimated to complete the project total \$24,751,000, including retainage payable and accounts payable amounts of \$4,199,848, that are recorded in accrued expense and accounts payable in the accompanying consolidated financial statements.

Contingencies:

In 2018, Zoo Atlanta entered into a joint ten-year agreement with two vendors – one to provide in-park food concessions services and one to provide facilities rental and catering services. The agreement called for the remittance of a percentage of food service, facilities rental and catering services revenue from the vendors to Zoo Atlanta. As part of the agreement, the vendors will make investments in property, leasehold improvements and equipment. The vendors will amortize these investments over a period of ten years from date placed in service. The property and equipment is owned and maintained by the vendors until the termination of the agreement. In the event of

Atlanta-Fulton County Zoo, Inc. and Subsidiary

Notes to Consolidated Financial Statements December 31, 2018 and 2017

material breach or early termination of the agreement, Zoo Atlanta would be required to purchase the property and equipment from the vendor at the predetermined net book value.

Zoo Atlanta has identified asset retirement obligations associated with regulatory requirements that are anticipated at retirement of such assets. These costs are based on best estimates available and are reflected on the statement of financial position in accrued expenses totaling \$740,000, at December 31, 2018.

From time to time, Zoo Atlanta is subject to certain claims and litigation arising in the normal course of business. Zoo Atlanta is not aware of any necessary accruals or disclosures related to any such claims or litigation.

9. Notes Payable

The notes payable consist of two notes (24 month and 60 month) entered into for the purposes of financing vehicle purchases. The notes are collateralized by the purchased vehicles. One note matures in October 2019 and has monthly payments of \$1,026. The other note matures in June 2022, has monthly payments of \$809, and accrues interest at 5.29%.

Year Ending December 31,	
2019	\$ 18,534
2020	8,722
2021	9,195
2022	4,730
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	\$ 41,181

Atlanta-Fulton County Zoo, Inc. and Subsidiary

Notes to Consolidated Financial Statements December 31, 2018 and 2017

10. Net Assets with Donor Restrictions

Activity for net assets with donor restrictions for the years ended December 31, 2018 and 2017 is as follows:

	Balance at December 31, 2017	Investment Return, net	Additions	Released From Restrictions	Balance at December 31, 2018
Endowments:					
Subject to endowment spending policy and appropriation:					
Conservation	\$ 2,588,792	\$ (144,498)	\$ -	\$ (101,217)	\$ 2,343,077
Research	2,244,905	(125,818)	-	(83,276)	2,035,811
Animal Management	830,759	(23,256)	-	(54,123)	753,380
Facility Maintenance	348,343	4,561	3,380	(187,431)	168,853
Education	301,219	3,631	-	(6,619)	298,231
Total endowments	6,314,018	(285,380)	3,380	(432,666)	5,599,352
Other with donor restricted net assets:					
Purpose Restricted					
Operating programs	635,848	62,938	104,484	(157,794)	645,476
Animal exhibit project	47,495,613	-	507,058	(635,347)	47,367,324
Total	\$ 54,445,479	\$ (222,442)	\$ 614,922	\$ (1,225,807)	\$ 53,612,152
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	Balance at December 31, 2016	Investment Return, net	Additions	Released From Restrictions	Balance at December 31, 2017
Endowments:					
Subject to endowment spending policy and appropriation:					
Conservation	\$ 2,276,719	\$ 403,719	\$ -	\$ (91,646)	\$ 2,588,792
Research	1,973,999	350,057	-	(79,151)	2,244,905
Animal Management	730,506	149,543	-	(49,290)	830,759
Facility Maintenance	251,818	96,525	-	-	348,343
Education	272,171	35,340	-	(6,292)	301,219
Total endowments	5,505,213	1,035,184	-	(226,379)	6,314,018
Other with donor restricted net assets:					
Purpose Restricted					
Operating programs	528,997	37,544	236,928	(167,621)	635,848
Animal exhibit project	28,500,821	-	20,944,025	(1,949,233)	47,495,613
Total	\$ 34,535,031	\$ 1,072,728	\$ 21,180,953	\$ (2,343,233)	\$ 54,445,479

Atlanta-Fulton County Zoo, Inc. and Subsidiary

Notes to Consolidated Financial Statements December 31, 2018 and 2017

The Board of Directors of the Zoo has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Zoo classifies as with donor restrictions in permanent endowment (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund not classified in permanent endowment is classified as other with donor restricted net assets until those amounts are appropriated for expenditure by the Zoo in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Zoo considers the required factors in making a determination whether to appropriate or accumulate donor-restricted endowment funds.

The Zoo's investment policy is designed to combine the goal of total return and preservation of capital with prudent risk tolerance in order to allow investment managers the opportunity to achieve investment results consistent with the financial objectives and in a manner consistent with the values of the Zoo. The funds are diversified among cash and cash equivalents, various equity classes, and bond classes.

For the year ended December 31, 2018, the Zoo established an annual spending target to be no greater than 4.5% of the conservation endowment and no greater than 4.0% of the remaining endowment funds to provide support for research and conservation activities in addition to other operating expenses as determined by the Board of Directors. The percentages are applied to the previous 12 quarter trailing average of endowment market value. Investment income can be accumulated if not used for current purposes.

11. Employee Benefit Plan

Zoo Atlanta sponsors a 403(b) tax deferred annuity plan (the Plan) that covers substantially all of its employees. Zoo Atlanta matches contributions up to 50% of 4% of participants' salary. Zoo Atlanta's contributions associated with this Plan totaled \$98,952 and \$93,432 for the years ended December 31, 2018 and 2017, respectively.

12. Giant Panda Joint Research Agreement

In 1999, the AZA/Panda Foundation, Zoo Atlanta and the Chinese Party entered into a ten-year agreement regarding joint research on the breeding of giant pandas to help save the endangered species. Under the original 1999 agreement, the Chinese Party provided the Zoo a pair of captive born and healthy giant pandas with reproductive capability. Both parties conduct and share the results of the breeding research. The ownership of the pair of giant pandas and any cubs born to them during the ten-year period belong to the Chinese Party, and all will be returned to China at

Atlanta-Fulton County Zoo, Inc. and Subsidiary

Notes to Consolidated Financial Statements December 31, 2018 and 2017

the agreement's expiration. A new five-year agreement was signed in 2009 and ended October 29, 2014.

In 2014, Zoo Atlanta and the Chinese Party entered into a new ten-year agreement ending October 29, 2024 regarding joint research on the breeding of giant pandas to help save the endangered species. Under the 2014 agreement, Zoo Atlanta is obligated to make annual donations, which total \$5,000,000, to the Chinese Party for projects involving conservation, breeding, research and protection of giant pandas. The payments are due on an annual basis of \$500,000 per year over the ten-year period. Both parties have the option to review the agreement at the end of the first five-year period. Zoo Atlanta records a liability for the donation of this amount each year. Remitting the payments under this agreement is contingent upon written approval by the U.S. Department of the Interior, Fish and Wildlife Service. Zoo Atlanta remitted all required payments under the 2014 agreement and amounts expended for each of the years ended December 31, 2018 and 2017 were \$500,000. For the above-mentioned purposes these amounts are included in the financial statements under the conservation and education expense description.

Under the 2014 agreement, Zoo Atlanta also agreed to an additional donation of \$100,000 annually for five years, consisting of \$70,000 to support the Chengdu Research Foundation for Giant Panda Breeding, and \$30,000 for Zoo Atlanta to support the giant panda conservation program.

In 2006, Zoo Atlanta's first panda cub was born. Pursuant to the 1999 agreement with the Chinese Party, revenues that Zoo Atlanta derived from the birth of a cub must be shared with the Chinese Party. During 2007, Zoo Atlanta engaged in discussions with the Chinese Party and reached an agreement as to the portion of revenues to be shared with the Chinese Party. Zoo Atlanta has recorded a total obligation of \$350,000, a portion of which is payable directly to a local Atlanta university in support of a graduate student research assistantship for a Chinese student colleague or for a visiting scientist as agreed upon by both parties. For the years ended December 31, 2018 and 2017, no funds were expended for this obligation as no student was enrolled during the year for the assistantship program nor was a visiting scientist identified by the Chinese Party. The balance of this estimated obligation totaled \$97,500 as of December 31, 2018 and 2017 and was included in the consolidated financial statements under accrued expenses.

Pursuant to the 2014 agreement with the Chinese Party, no revenues generated, if any, from the birth of a cub are required to be shared with the Chinese Party. During 2012, Zoo Atlanta agreed to provide one-time support to the Chinese Party for conservation initiatives in China. The support will be in the form of cash payments and support for University level degree programs for Chinese student colleagues. This is to be fulfilled over a period of not more than eight years. For the year ended December 31, 2018, Zoo Atlanta paid \$43,200 for the above-referenced student. The balance of this obligation as of December 31, 2018 and 2017 was \$147,800 and \$191,000, respectively. This amount is included in the consolidated financial statements under accrued expenses.

Atlanta-Fulton County Zoo, Inc. and Subsidiary

Notes to Consolidated Financial Statements December 31, 2018 and 2017

13. Cyclorama Project - *A Grand New View: Elephants, Events, and Expansion*

In July 2014, the City of Atlanta announced the relocation and restoration of the historic Atlanta Cyclorama painting and other certain items to the Atlanta History Center. In 2015, the City of Atlanta provided the Cyclorama building (the Facility) and an adjacent parcel of land were to be included under Zoo Atlanta's current Leasehold. In 2015, Zoo Atlanta recorded the estimated value of the building of \$1,731,600 in construction-in-progress and recognized the addition of the Facility under with donor restrictions government support. Zoo Atlanta plans to create a state-of-the-art event and community space that will overlook a newly expanded African savanna elephant habitat and will also renovate Zoo Atlanta's entryway plaza.

The renovation of the Cyclorama building and the related projects noted above began in 2017. The projects have and will be paid for by private and philanthropic dollars as part of the Zoo's capital campaign *A Grand New View: Elephants, Events, and Expansion*. Contributions for this campaign, both pledged and received, have been classified as with donor restrictions contributions in the consolidated financial statements. The Zoo also plans to use federal and state historic tax credits to offset some of the related costs. To be eligible for the historic tax credits the Zoo created two new legal entities in 2017. These entities had minimal activity during 2017 and 2018. In 2017, as part of the renovations, the Zoo removed various animal exhibits in order to replace them with newer, upgraded exhibit areas. The Zoo recorded a loss on disposal of these assets of \$971,451 for the year ended December 31, 2017 which was included in program services expense on the consolidated statement of activities.