

John Ball Zoo



Years Ended
December 31,
2017 and 2016

Financial
Statements

JOHN BALL ZOO

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INDEPENDENT AUDITORS' REPORT

April 18, 2018

Board of Directors
John Ball Zoo
Grand Rapids, Michigan

We have audited the accompanying financial statements of *John Ball Zoo* (the "Zoo"), which comprise the statements of financial position 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

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.

Independent 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 auditor judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of ***John Ball Zoo*** as of December 31, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Rehmann Lobson LLC

JOHN BALL ZOO

Statements of Financial Position

| | December 31 | |
|--|---------------------|---------------------|
| | 2017 | 2016 |
| ASSETS | | |
| Current assets | | |
| Cash and cash equivalents | \$ 1,008,922 | \$ 985,554 |
| Investments | 388,626 | 312,781 |
| Accounts receivable | 14,188 | 32,003 |
| Pledges receivable | 86,400 | 165,235 |
| Inventory | 156,049 | 190,323 |
| Prepaid expenses | 165,618 | 90,380 |
| Intangible asset - liquor license, net | 19,167 | 21,167 |
| Capitalized expenditures | 1,160,123 | 305,245 |
| Total current assets | 2,999,093 | 2,102,688 |
| Noncurrent assets | | |
| Pledges receivable | - | 24,000 |
| Investments | 254,080 | 254,080 |
| Beneficial interest in assets held by others | 98,678 | 91,169 |
| Property and equipment, net | 3,015,993 | 3,219,713 |
| Total noncurrent assets | 3,368,751 | 3,588,962 |
| Total assets | \$ 6,367,844 | \$ 5,691,650 |
| LIABILITIES AND NET ASSETS | | |
| Current liabilities | | |
| Line of credit | \$ 650,000 | \$ 1,300,000 |
| Accounts payable | 567,307 | 392,597 |
| Accrued expenses | 496,383 | 374,319 |
| Deferred income | 660,336 | 450,429 |
| Total current liabilities | 2,374,026 | 2,517,345 |
| Net assets | | |
| Unrestricted | 2,739,060 | 1,962,924 |
| Temporarily restricted | 1,000,678 | 957,301 |
| Permanently restricted | 254,080 | 254,080 |
| Total net assets | 3,993,818 | 3,174,305 |
| Total liabilities and net assets | \$ 6,367,844 | \$ 5,691,650 |

The accompanying notes are an integral part of these financial statements.

JOHN BALL ZOO

Statement of Activities

Year Ended December 31, 2017

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|--|---------------------|------------------------|------------------------|---------------------|
| Revenues, gains and support | | | | |
| Donations | \$ 321,443 | \$ 188,652 | \$ - | \$ 510,095 |
| Fundraising events, net of direct expenses | 170,784 | - | - | 170,784 |
| Membership contributions | 926,543 | - | - | 926,543 |
| Millage funding | 4,596,214 | - | - | 4,596,214 |
| Guest services revenue | 4,819,551 | - | - | 4,819,551 |
| Rental revenue | 678,485 | - | - | 678,485 |
| Education program revenue | 277,350 | - | - | 277,350 |
| Investment income | 12,317 | - | - | 12,317 |
| Unrealized gain on investments | 68,284 | - | - | 68,284 |
| Gain on disposal of assets | 6,735 | - | - | 6,735 |
| Change in value of beneficial interest | 7,509 | - | - | 7,509 |
| Total revenues, gains and support | 11,885,215 | 188,652 | - | 12,073,867 |
| Expenses | | | | |
| Program services | | | | |
| Guest services | 2,176,458 | - | - | 2,176,458 |
| Animal care | 2,513,696 | - | - | 2,513,696 |
| Education | 523,801 | - | - | 523,801 |
| Institutional advancement | 1,033,852 | - | - | 1,033,852 |
| Zoo operations | 2,656,923 | - | - | 2,656,923 |
| Management and general | 1,872,308 | - | - | 1,872,308 |
| Fundraising | 477,316 | - | - | 477,316 |
| Total expenses | 11,254,354 | - | - | 11,254,354 |
| Excess of revenues over expenses | 630,861 | 188,652 | - | 819,513 |
| Net assets released from restriction | 145,275 | (145,275) | - | - |
| Change in net assets | 776,136 | 43,377 | - | 819,513 |
| Net assets, beginning of year | 1,962,924 | 957,301 | 254,080 | 3,174,305 |
| Net assets, end of year | \$ 2,739,060 | \$ 1,000,678 | \$ 254,080 | \$ 3,993,818 |

The accompanying notes are an integral part of these financial statements.

JOHN BALL ZOO

Statement of Activities

Year Ended December 31, 2016

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|--|---------------------|------------------------|------------------------|---------------------|
| Revenues, gains and support | | | | |
| Donations | \$ 277,729 | \$ 777,796 | \$ - | \$ 1,055,525 |
| Fundraising events, net of direct expenses | 98,432 | - | - | 98,432 |
| Membership contributions | 740,044 | - | - | 740,044 |
| Management fees | 2,250,000 | - | - | 2,250,000 |
| Guest services revenue | 4,398,363 | - | - | 4,398,363 |
| Rental income | 746,508 | - | - | 746,508 |
| Education program income | 264,897 | - | - | 264,897 |
| Investment income | 9,023 | - | - | 9,023 |
| Unrealized gain on investments | 25,646 | - | - | 25,646 |
| Change in value of beneficial interest | 3,073 | - | - | 3,073 |
| Total revenues, gains and support | 8,813,715 | 777,796 | - | 9,591,511 |
| Expenses | | | | |
| Program services | | | | |
| Guest services | 2,069,406 | - | - | 2,069,406 |
| Animal care | 2,273,649 | - | - | 2,273,649 |
| Education | 472,079 | - | - | 472,079 |
| Institutional advancement | 1,150,999 | - | - | 1,150,999 |
| Zoo operations | 2,924,159 | - | - | 2,924,159 |
| Management and general | 2,094,501 | - | - | 2,094,501 |
| Fundraising | 196,657 | - | - | 196,657 |
| Total expenses | 11,181,450 | - | - | 11,181,450 |
| Excess of revenues over (under) expenses | (2,367,735) | 777,796 | - | (1,589,939) |
| Net assets released from restriction | 539,348 | (539,348) | - | - |
| Change in net assets | (1,828,387) | 238,448 | - | (1,589,939) |
| Net assets, beginning of year | 3,791,311 | 718,853 | 254,080 | 4,764,244 |
| Net assets, end of year | \$ 1,962,924 | \$ 957,301 | \$ 254,080 | \$ 3,174,305 |

The accompanying notes are an integral part of these financial statements.

JOHN BALL ZOO

Statement of Functional Expenses

Year Ended December 31, 2017

| | Program Services | | | | | | Supporting Services | | Total |
|--|---------------------|---------------------|-------------------|---------------------------|---------------------|---------------------|------------------------|-------------------|----------------------|
| | Guest Services | Animal Care | Education | Institutional Advancement | Zoo Operations | Total | Management and General | Fundraising | |
| Salaries, wages and benefits | \$ 954,429 | \$ 1,930,083 | \$ 427,332 | \$ 462,621 | \$ 708,113 | \$ 4,482,578 | \$ 1,090,397 | \$ 335,506 | \$ 5,908,481 |
| Payroll taxes | 65,269 | 115,149 | 28,058 | 29,496 | 46,228 | 284,200 | 62,454 | 20,015 | 366,669 |
| Advertising and promotion | - | - | 50 | 220,375 | - | 220,425 | 500 | - | 220,925 |
| Animal health and nutrition | - | 230,069 | - | - | - | 230,069 | - | - | 230,069 |
| Bank, payroll and credit card fees | 74,531 | - | 10,933 | 46,982 | 48 | 132,494 | 32,159 | 2,067 | 166,720 |
| Computer and internet expense | 6,649 | 9,527 | 38 | 1,401 | 9,136 | 26,751 | 131,831 | 26,016 | 184,598 |
| Conferences and training | 1,364 | 8,848 | 1,784 | 958 | 3,119 | 16,073 | 19,541 | 1,812 | 37,426 |
| Contractual services | 231,510 | 125 | - | 92,340 | (576) | 323,399 | 53,612 | 8,310 | 385,321 |
| Design, printing and photographs | 12,711 | - | 21,615 | 104,183 | 79,772 | 218,281 | 35,487 | 26,709 | 280,477 |
| Equipment rental | 1,897 | 5,718 | 2,179 | 2,313 | 8,491 | 20,598 | 1,942 | - | 22,540 |
| Exhibits | - | - | - | - | 454,918 | 454,918 | - | - | 454,918 |
| Food purchases | 328,721 | 175 | 8,004 | 542 | 847 | 338,289 | 10,465 | 810 | 349,564 |
| Gift shop purchases | 344,286 | - | - | - | - | 344,286 | - | - | 344,286 |
| Insurance | - | - | - | - | - | - | 96,214 | - | 96,214 |
| Interest | - | - | - | - | - | - | 9,211 | - | 9,211 |
| Library, dues and subscriptions | 160 | 4,224 | 798 | 1,511 | 453 | 7,146 | 25,708 | 877 | 33,731 |
| Miscellaneous | 1,365 | 909 | 715 | 1,264 | 4,555 | 8,808 | 3,917 | 32,581 | 45,306 |
| Postage | 130 | 6,887 | 2,073 | 21,425 | - | 30,515 | 12,320 | 3,157 | 45,992 |
| Professional and licensing fees | 26,189 | 15,699 | - | 6,598 | 5,789 | 54,275 | 85,898 | 1,335 | 141,508 |
| Rent, parking and other occupancy | - | - | - | - | - | - | 6,900 | - | 6,900 |
| Repairs and maintenance | 7,786 | 2,078 | - | - | 435,927 | 445,791 | 11,867 | - | 457,658 |
| Small equipment | 11,187 | 29,901 | - | 3,945 | 46,517 | 91,550 | 40,495 | - | 132,045 |
| Supplies | 31,296 | 50,668 | 14,937 | 7,487 | 66,340 | 170,728 | 20,066 | 14,869 | 205,663 |
| Taxes | - | - | - | 825 | - | 825 | - | - | 825 |
| Travel and hospitality | 10,649 | 15,177 | 2,509 | 316 | 1,427 | 30,078 | 49,669 | 1,209 | 80,956 |
| Uniforms | 9,507 | 3,370 | 1,696 | 817 | 1,013 | 16,403 | 2,135 | 328 | 18,866 |
| Utilities | 2,370 | 3,280 | 1,080 | 3,972 | 586,758 | 597,460 | 24,599 | 340 | 622,399 |
| Total expenses before depreciation and amortization | 2,122,006 | 2,431,887 | 523,801 | 1,009,371 | 2,458,875 | 8,545,940 | 1,827,387 | 475,941 | 10,849,268 |
| Depreciation and amortization | 54,452 | 81,809 | - | 24,481 | 198,048 | 358,790 | 44,921 | 1,375 | 405,086 |
| Total expenses | \$ 2,176,458 | \$ 2,513,696 | \$ 523,801 | \$ 1,033,852 | \$ 2,656,923 | \$ 8,904,730 | \$ 1,872,308 | \$ 477,316 | \$ 11,254,354 |

The accompanying notes are an integral part of these financial statements.

JOHN BALL ZOO

Statement of Functional Expenses

Year Ended December 31, 2016

| | Program Services | | | | | Supporting Services | | Total | |
|--|---------------------|---------------------|-------------------|---------------------------|---------------------|---------------------|------------------------|-------------------|---------------------|
| | Guest Services | Animal Care | Education | Institutional Advancement | Zoo Operations | Total | Management and General | | Fundraising |
| Salaries, wages and benefits | \$ 933,499 | \$ 1,673,336 | \$ 345,991 | \$ 514,804 | \$ 645,583 | \$ 4,113,213 | \$ 1,034,103 | \$ 175,339 | \$ 5,322,655 |
| Payroll taxes | 63,622 | 100,792 | 26,668 | 32,746 | 40,623 | 264,451 | 56,420 | 11,302 | 332,173 |
| Advertising and promotion | 239 | - | 1,656 | 167,318 | - | 169,213 | 400 | - | 169,613 |
| Animal health and nutrition | - | 244,061 | 2,238 | - | - | 246,299 | - | - | 246,299 |
| Bank, payroll and credit card fees | 83,898 | - | - | 44,371 | - | 128,269 | 29,618 | 11 | 157,898 |
| Computer and internet expense | 1,249 | 10,042 | 1,538 | 1,958 | 312 | 15,099 | 45,765 | 1,875 | 62,739 |
| Conferences and training | 749 | 11,234 | 959 | 717 | 3,173 | 16,832 | 19,470 | 115 | 36,417 |
| Contractual services | 129,945 | 52,553 | 31,382 | 149,042 | 227,614 | 590,536 | 223,226 | 1,474 | 815,236 |
| Design, printing and photographs | 6,736 | 68 | 30,196 | 65,020 | 45 | 102,065 | 38,152 | 450 | 140,667 |
| Equipment rental | 2,100 | 6,068 | 2,316 | 10,921 | 5,990 | 27,395 | 6,476 | - | 33,871 |
| Exhibits | - | - | - | - | 800,262 | 800,262 | - | - | 800,262 |
| Food purchases | 364,279 | 21 | 8,496 | 10,228 | 237 | 383,261 | 7,774 | 467 | 391,502 |
| Gift shop purchases | 327,205 | - | - | - | - | 327,205 | - | - | 327,205 |
| Grants and scholarships | - | - | - | 11,982 | - | 11,982 | - | - | 11,982 |
| Insurance | - | - | - | - | - | - | 92,866 | - | 92,866 |
| Interest | - | - | - | - | - | - | 21,910 | - | 21,910 |
| Library, dues and subscriptions | 160 | 4,357 | 747 | 1,584 | 2,364 | 9,212 | 28,277 | 569 | 38,058 |
| Miscellaneous | 566 | 414 | 540 | 7,469 | 5,585 | 14,574 | 267,055 | - | 281,629 |
| Postage | 21 | 5,821 | 2,050 | 16,061 | 358 | 24,311 | 10,712 | 386 | 35,409 |
| Professional and licensing fees | 1,409 | 855 | - | 42,402 | 655 | 45,321 | 49,810 | - | 95,131 |
| Rent, parking and other occupancy | - | - | - | - | - | - | 6,901 | - | 6,901 |
| Repairs and maintenance | 7,042 | 1,818 | - | - | 369,542 | 378,402 | 375 | - | 378,777 |
| Small equipment | 20,777 | 20,190 | - | 9,348 | 26,023 | 76,338 | 20,796 | 2,909 | 100,043 |
| Supplies | 50,005 | 57,861 | 13,323 | 22,342 | 91,657 | 235,188 | 19,703 | - | 254,891 |
| Taxes | - | - | - | 15,945 | - | 15,945 | - | - | 15,945 |
| Travel and hospitality | 6,809 | 5,164 | 2,456 | 754 | 3,530 | 18,713 | 25,639 | 40 | 44,392 |
| Uniforms | 7,614 | 1,331 | 468 | 619 | 1,694 | 11,726 | 8,801 | 12 | 20,539 |
| Utilities | 2,397 | 3,643 | 1,055 | 2,860 | 517,329 | 527,284 | 24,666 | 333 | 552,283 |
| Total expenses before depreciation and amortization | 2,010,321 | 2,199,629 | 472,079 | 1,128,491 | 2,742,576 | 8,553,096 | 2,038,915 | 195,282 | 10,787,293 |
| Depreciation and amortization | 59,085 | 74,020 | - | 22,508 | 181,583 | 337,196 | 55,586 | 1,375 | 394,157 |
| Total expenses | \$ 2,069,406 | \$ 2,273,649 | \$ 472,079 | \$ 1,150,999 | \$ 2,924,159 | \$ 8,890,292 | \$ 2,094,501 | \$ 196,657 | \$11,181,450 |

The accompanying notes are an integral part of these financial statements.

JOHN BALL ZOO

Statements of Cash Flows

| | Year Ended December 31 | |
|---|------------------------|-------------------|
| | 2017 | 2016 |
| Cash flows from operating activities | | |
| Change in net assets | \$ 819,513 | \$ (1,589,939) |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | | |
| Depreciation and amortization | 405,086 | 394,157 |
| Unrealized gain on investments | (75,845) | (25,646) |
| Gain on disposal of assets | (6,735) | - |
| Changes in beneficial interest | (7,509) | (3,073) |
| Changes in operating assets and liabilities that provided (used) cash: | | |
| Accounts receivable | 17,815 | 69,307 |
| Pledges receivable | 102,835 | 892,765 |
| Inventory | 34,274 | (26,659) |
| Prepaid expenses | (75,238) | (21,221) |
| Capitalized expenditures | (854,878) | (20,928) |
| Accounts payable | 174,710 | 176,440 |
| Accrued expenses | 122,064 | 110,355 |
| Deferred income | 209,907 | 56,738 |
| Net cash provided by operating activities | 865,999 | 12,296 |
| Cash flows from investing activities | | |
| Purchase of property and equipment | (205,161) | (384,907) |
| Proceeds from sale of assets | 12,530 | - |
| Purchase of investments | - | (8,870) |
| Net cash used in investing activities | (192,631) | (393,777) |
| Cash flows (used in) provided by financing activities | | |
| Net line of credit (repayments) borrowings | (650,000) | 800,000 |
| Net increase in cash and cash equivalents | 23,368 | 418,519 |
| Cash and cash equivalents, beginning of year | 985,554 | 567,035 |
| Cash and cash equivalents, end of year | \$ 1,008,922 | \$ 985,554 |
| Supplemental cash flows information | | |
| Income taxes paid | \$ 825 | \$ 15,945 |
| Interest paid | \$ 33,731 | \$ 21,910 |

The accompanying notes are an integral part of these financial statements.

JOHN BALL ZOO

Notes to Financial Statements

1. NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Organization

John Ball Zoo (the “Zoo”) is a 501(c)(3) and 509(a)(2) nonprofit organization committed to the advancement of public education on the need for wildlife conservation and preservation. On January 1, 2014, Kent County and the John Ball Zoological Society unified their respective operations at the Zoo to create John Ball Zoo. It is mutually agreed that the County shall continue to own the real property, but the Zoo shall operate and maintain such assets and manage all programs listed hereafter. Prior to this date, Kent County managed and operated the Zoo in partnership with the John Ball Zoological Society. In addition, Zoo employees previously employed by Kent County are now employed by John Ball Zoo. Refer to Note 10 for disclosure relating to the Kent County Operating Agreement.

The John Ball Zoo is formed for the following purposes: to advance public education on the need for wildlife conservation and preservation and to support the captive propagation of wild and endangered animal species; and to promote the welfare of the John Ball Zoo and its advancement as a public education institution, as a scientific center, as a natural science and wildlife exhibit and conservation agency, and as a cultural and recreational establishment, dedicated to the enrichment of human and natural resources.

John Ball Zoo's mission is to inspire our community to be actively engaged in the conservation of wildlife and our natural environment.

The Zoo fulfills its mission through the following program services:

Guest Services: The Zoo incurs expenses related to the operation and management of its food service, gift shop, visitor experiences and admission sales.

Animal Care: The Zoo incurs expenses related to the support in caring for their animal collection. This includes food, veterinary services, animal enrichment, equipment and appropriate staffing.

Education: The Zoo offers education programs which include classes, tours, camps, teen programs, scout programs, school programs, family programs, educational exhibit graphics and exhibit interpretation.

Institutional Advancement: The Zoo incurs costs related to the operation and management of membership sales, events, promotions and rentals.

Zoo Operations: The Zoo incurs expenses related to the management and maintenance of the buildings, equipment, and zoo and park outdoor spaces. This includes repairs, renovations, exhibit development and exhibit construction.

JOHN BALL ZOO

Notes to Financial Statements

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of public support and revenue and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates include but are not limited to the allocation of expenses between program and supporting services.

Cash and Cash Equivalents

The Zoo considers all demand bank deposits, interest bearing bank deposits, money market funds and highly liquid investments with an initial maturity of three months or less to be cash equivalents, except for endowment fund assets which are included in noncurrent investments. The Zoo has short-term investments of cash in the form of demand deposits and money market funds with two banks. The balance at these institutions is insured by the Federal Deposit Insurance Corporation up to \$250,000 at each institution. The Zoo makes such investments with a high credit quality entity, and has not incurred any credit-related losses.

Investments

Investments are carried at fair value using quoted prices whenever available. Investments are used to support operating cash flows and are classified as a current asset on the statement of financial position, except for endowment fund assets which are included in noncurrent investments. In the case in which quoted market values are not available, such investments are valued at an estimated fair market value. Unrealized increases or decreases resulting from changes in the fair value of investments are included annually in the statement of activities. Realized gains and losses are recorded using specific identification of the assets sold.

Fair Value Measurements

Fair value refers to the price that would be received to sell an asset or paid to transfer a liability (an exit price) in an orderly transaction between market participants in the market in which the reporting entity transacts such sales or transfers based on the assumptions market participants would use when pricing an asset or liability. Assumptions are developed based on prioritizing information within a fair value hierarchy that gives the highest priority to quoted prices in active markets (Level 1) and the lowest priority to unobservable data (Level 3).

A description of each category in the fair value hierarchy is as follows:

Level 1: Valuation is based upon quoted prices for identical instruments traded in active markets.

Level 2: Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all-significant assumptions are observable in the market.

Notes to Financial Statements

Level 3: Valuation is generated from model-based techniques that use at least one significant assumption not observable in the market. These unobservable assumptions reflect the estimates of assumptions that market participants would use in pricing the asset or liability.

For a further discussion of fair value measurement, refer to Note 2 to the financial statements.

Revenue Recognition

Millage revenue is recognized when earned. Management fees are recognized ratably during the year. Guest services are recognized when earned. Membership fees are received in advance and recognized as revenue over the applicable membership period. In exchange for these fees, members receive admission into the Zoo, discounts on admission to special exhibits and a monthly newsletter. Hospitality rental deposits that are eligible to be refunded upon event cancellation are also reported as deferred revenue until no longer eligible for refund.

Accounts Receivable

Accounts receivable are stated at the amount management expects to collect from balances outstanding and collateral is not required. Management has reviewed the balances that comprise accounts receivable and determined such balances to be fully collectible. Accordingly, no provision for uncollectible accounts is included in the financial statements. If amounts become uncollectible, a provision for the potential loss will be charged to operations when that determination is made.

Pledges Receivable and Contributions

Pledges receivable represent unconditional promises to give in the future and are recognized as revenues in the period promised at the net present value of the amount expected to be received. Conditional promises to give are recognized when the conditions on which they depend are substantially met. If pledges are deemed uncollectible, the loss is charged to operations when that determination is made.

Contributions of cash and other assets, including unconditional promises to give in the future, are reported as revenue when received, measured at fair value. Donor restricted gifts are reported as restricted support in the temporarily or permanently restricted net assets categories.

Inventory

Inventory, consisting of concession and gift items, is stated at the lower of cost using the first in, first-out (FIFO) method, or net realizable value.

Intangible Asset - Liquor License

The Zoo has capitalized a liquor license in the amount of \$30,000, and is amortizing it on the straight line method over the term of the license (15 years). Amortization expense was \$2,000 for the years ended December 31, 2017 and 2016.

JOHN BALL ZOO

Notes to Financial Statements

Property and Equipment

Property and equipment are stated at cost or, if donated at fair value, on the date of acquisition. The Zoo capitalizes all expenditures for property and equipment in excess of \$5,000. Additions and improvements are capitalized; expenditures for routine maintenance are charged to operations. Management reviews these assets for impairment whenever events or changes in circumstances indicate the related carrying amount may not be recoverable. Depreciation is computed using the straight-line method over their estimated useful lives or the lease term if shorter, which range from 3-20 years.

Capitalized Expenditures

In accordance with industry practice, capitalized expenditures reflect amounts expended for projects and exhibits that are in progress at the end of the Zoo's fiscal year. Such projects and exhibits are generally donated to Kent County upon completion, and will be reflected as an expense in the statement of activities when the project or exhibit is completed, and ownership is transferred.

Animal and Horticultural Collections

In accordance with industry practice, the Zoo does not capitalize animal and horticultural collections; acquisitions are reported as expenditures in the period of acquisition. The Zoo is responsible for the health and welfare of its animal and horticultural collections. The Zoo maintains records of its collections and any exchanges with other collections that continue to be cared for, used, and expanded.

Net Assets

The Zoo reports information regarding its financial position and activities according to three classes of net assets depending on the existence or absence of donor-imposed restrictions: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Unrestricted net assets: Net assets that are not restricted by donors, or the donor-imposed restrictions have expired.

Temporarily restricted net assets: Net assets that contain donor-imposed restrictions that permit the Zoo to use or expend the assets as specified. Temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions when the restrictions are satisfied either by the passage of time or by actions of the Zoo. However, if a restriction is fulfilled in the same time period in which the contribution is received, the Zoo reports the support as unrestricted.

Permanently restricted net assets: Net assets that contain donor-imposed restrictions that stipulate the resources be maintained permanently, but permit the Zoo to use or expend part or all of the income derived from the donated assets for specific purposes. Investment earnings available for distribution are recorded in unrestricted net assets.

JOHN BALL ZOO

Notes to Financial Statements

Donated Services

Contributions of donated services that create or enhance non-financial assets or that require specialized skills, are provided by the individuals possessing those skills, and would typically need to be purchased if not provided by donation, are recorded at fair value in the period received. In addition, many other volunteers have contributed significant amounts of time to the Zoo, without compensation. These contributions, although clearly substantial, are not recognized as contributions in the financial statements since the recognition criteria stated above was not met.

Advertising Expenses

Advertising costs are expensed to operations as incurred. Advertising expense was \$220,925 and \$169,613 for the years ended December 31, 2017 and 2016, respectively.

Income Taxes

The Zoo is a not-for-profit organization that is exempt from income taxes under Section 501(c)(3) and 509(a)(2) of the Internal Revenue Code, except on net income derived from unrelated business activities. The Zoo's rental income is subject to tax on unrelated business income. The Zoo recorded \$825 and \$15,945 in tax expense for this unrelated business activity for the years ended December 31, 2017 and 2016, respectively.

The Zoo evaluates tax positions taken on its federal Exempt Organization Business Income Tax Returns in accordance with accounting principles generally accepted in the United States of America, which require that tax positions taken be more-likely-than-not to be sustained. Management believes that the Zoo has no significant unrecognized tax benefits under that criteria. The Zoo's federal Exempt Organization Business Income Tax Returns are generally subject to examination by taxing authorities for three years after they were filed.

Functional Allocation of Expenses

The costs to provide the various programs and other activities have been summarized on a functional basis in the statements of activities and functional expense. Accordingly, certain costs have been allocated among the programs and supporting services benefited as detailed in the statements of activities and functional expenses.

Reclassification

Certain amounts as reported in the 2016 financial statements have been reclassified to conform with the 2017 presentation.

Notes to Financial Statements

Upcoming Accounting Pronouncement

The Financial Accounting Standards Board has issued ASU No. 2016-14, Not-for-Profit Entities (Topic 958): *Presentation of Financial Statements of Not-for-Profit Entities*, which will be effective for the Zoo's year ending December 31, 2018. ASU 2016-14 changes how a not-for-profit organization classifies its net assets, as well as the information it presents in financial statements and notes about its liquidity, financial performance and cash flows. Management will evaluate the provisions of ASU 2016-14 to determine the potential impact on the Zoo's financial statements.

Subsequent Events

In preparing these financial statements, the Zoo has evaluated, for potential recognition or disclosure, significant events or transactions that occurred during the period subsequent to December 31, 2017, the most recent statement of financial position presented herein, through April 18, 2018, the date these financial statements were available to be issued. No significant such events or transactions were identified.

2. FAIR VALUE MEASUREMENTS AND INVESTMENTS

The Zoo utilizes fair value measurements to record fair values adjustments to certain assets and to determine fair value disclosures. Investments (including beneficial interests) are recorded at fair value on a recurring basis.

Following is a description of the valuation methodologies and key inputs used to measure financial assets recorded at fair value.

Investments

Common stocks: Level 1 fair value measurement is based upon the closing price reported on the active market in which the individual securities are traded.

Cash and cash equivalents: Highly liquid investments with an initial maturity of three months or less are considered to be cash equivalents and are classified as Level 1. Cash is held temporarily for the purpose of purchasing investments.

Bonds: Bonds and debentures valued at the closing price reported in the active market in which the security is traded are classified as Level 1.

Beneficial Interest in Assets held by Others

Fair value measurements of underlying investments held by a community foundation are based upon quoted prices. The underlying assets cannot be liquidated or redeemed by the Zoo. As such, no quoted prices or active markets are available for this asset (Level 3). As a practical expedient, the carrying value of this asset is equal to the fair value of the underlying investments held by a community foundation.

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Notes to Financial Statements

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. Furthermore, although the Zoo 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.

Assets Recoded at Fair Value on a Recurring Basis

The following tables set forth by level, within the fair value hierarchy, the recorded amount of assets measured at fair value on a recurring basis as of December 31:

| 2017 | Assets at Fair Value | | | |
|--|----------------------|-------------|------------------|-------------------|
| | Level 1 | Level 2 | Level 3 | Total |
| Common stocks | \$ 394,979 | \$ - | \$ - | \$ 394,979 |
| Cash and cash equivalents | 167,996 | | | 167,996 |
| Bonds | 79,731 | - | - | 79,731 |
| Beneficial interest in assets held by others | - | - | 98,678 | 98,678 |
| Total assets at fair value | \$ 642,706 | \$ - | \$ 98,678 | \$ 741,384 |

| 2016 | Assets at Fair Value | | | |
|--|----------------------|-------------|------------------|-------------------|
| | Level 1 | Level 2 | Level 3 | Total |
| Common stocks | \$ 322,939 | \$ - | \$ - | \$ 322,939 |
| Cash and cash equivalents | 166,853 | | | 166,853 |
| Bonds | 77,069 | - | - | 77,069 |
| Beneficial interest in assets held by others | - | - | 91,169 | 91,169 |
| Total assets at fair value | \$ 566,861 | \$ - | \$ 91,169 | \$ 658,030 |

JOHN BALL ZOO

Notes to Financial Statements

Following is a reconciliation of activity for Level 3 assets with fair value based on significant unobservable (non-market) information for the years ended December 31:

| | 2017 | 2016 |
|---|------------------|------------------|
| Balance, beginning of year | \$ 91,169 | \$ 88,250 |
| Net investment income (loss) | 816 | (424) |
| Contributions | - | 500 |
| Unrealized gains | 10,643 | 7,068 |
| Appropriation of beneficial interest for expenditures | (3,950) | (4,225) |
| Balance, end of year | \$ 98,678 | \$ 91,169 |

3. UNCONDITIONAL PROMISES TO GIVE

Unconditional promises to give are as follows at December 31:

| | 2017 | 2016 |
|----------------------------------|------------------|-------------------|
| Receivable in less than one year | \$ 86,400 | \$ 165,235 |
| Receivable in one to two years | - | 24,000 |
| Total pledges receivable | \$ 86,400 | \$ 189,235 |

4. CAPITALIZED EXPENDITURES

During the year ended December 31, 2017, the staff parking lot, outdoor show venue and red panda exhibit were completed and donated to Kent County in the amount of \$454,918. During the year ended December 31, 2016, the animal holding building and waterfall pathway was completed and donated to Kent County in the amount of \$800,262. The balance of the capitalized expenditures account as of December 31, 2017 and 2016 was \$1,160,123 and \$305,245, respectively, all of which pertained to the development of the Zoo's 10 year master plan.

JOHN BALL ZOO

Notes to Financial Statements

5. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at December 31:

| | 2017 | 2016 |
|-------------------------------|---------------------|---------------------|
| Equipment | \$ 4,786,986 | \$ 4,701,065 |
| Computer software | 81,878 | 81,878 |
| Leasehold improvements | 41,616 | 41,616 |
| Vehicles | 104,490 | - |
| Total | 5,014,970 | 4,824,559 |
| Less accumulated depreciation | (1,998,977) | (1,604,846) |
| Net property and equipment | <u>\$ 3,015,993</u> | <u>\$ 3,219,713</u> |

6. BENEFICIAL INTEREST IN ASSETS HELD BY OTHERS

The Zoo maintains an agency endowment fund held by the Grand Rapids Community Foundation (the "Foundation"). The Zoo is the income beneficiary of the fund which had a balance of \$98,678 and \$91,169 at December 31, 2017 and 2016, respectively.

Under this agreement, the Zoo is entitled to spend 5% of the average fair value of the investments over a period of 16 rolling quarters in perpetuity. The Foundation maintains variance power and legal ownership of amounts contributed by the Zoo as a reciprocal donation plus any interest earned, and gains and losses, however, the funds represent assets of the Zoo and are recorded on the statement of financial position. The asset is revalued on an annual basis based on changes in market value. This revaluation, less the spendable portion to which the Zoo is entitled, is treated as unrealized gain or loss on investments in the statement of activities.

In addition, individual donations were made to the fund which did not flow through the Zoo to the Foundation; rather the donations were directly received by the Foundation from the donors. In accordance with accounting principles generally accepted in the United States of America, the Zoo has not recorded the fair value of these gifts, which was \$12,886 and \$11,894 at December 31, 2017 and 2016, respectively, as an asset on the Zoo's statement of financial position. The Zoo will record grant distributions received from the fund as contributions in its statement of activities at the time the contributions are received by the Zoo.

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Notes to Financial Statements

7. LINE OF CREDIT

The Zoo has an unsecured line of credit in the amount of \$2,000,000 available through February 28, 2018, and \$250,000 available through September 30, 2018, with interest on borrowings at LIBOR one month floating rate plus 2.65%. The LIBOR rate was 1.49% and .77% at December 31, 2017 and 2016, respectively. There were borrowings of \$650,000 and \$1,300,000 on the line of credit at December 31, 2017 and 2016, respectively.

8. DEFERRED INCOME

Deferred income consists of deferred membership income, deferred gift card income and advance payments received for future events. The balances in deferred income consist of the following at December 31:

| | 2017 | 2016 |
|------------------------------|-------------------|-------------------|
| Deferred membership | \$ 613,166 | \$ 382,587 |
| Deferred facility rental | 30,500 | 46,819 |
| Deferred gift card revenue | 16,670 | 21,023 |
| Total deferred income | \$ 660,336 | \$ 450,429 |

9. RESTRICTIONS ON NET ASSETS

Temporarily restricted net assets were \$1,000,678 and \$957,301 at December 31, 2017 and 2016, respectively. The temporarily restricted net assets are designated for specific exhibits or programs to be built or expended in future years. Permanently restricted net assets at December 31, 2017 and 2016, consist of a bequest of \$254,080 for the creation of an endowment fund where the income would be used to support operations. Management is discussing a more specific purpose of the endowment with the donor.

10. KENT COUNTY OPERATING AGREEMENT

The Zoo entered into an operating agreement with Kent County for the period January 1, 2014 to December 31, 2034. The operating agreement also provides for two additional 20-year extensions of the contract. The County may terminate the agreement prior to December 31, 2034, under a limited number of default criteria. Under the terms of the operating agreement, the County retains ownership of all real property utilized by the Zoo. The Zoo will operate and maintain such property and manage all related programs that support wildlife conservation, education, and professional animal management of the Zoo. The Zoo leases the real property from the County under an operating lease for \$20 for the entire 20-year term, which was paid in full at the inception of the lease.

JOHN BALL ZOO

Notes to Financial Statements

Under the terms of the operating agreement, the County provides a management fee to the Zoo for each year of the contract term. The Zoo received management fee income from the County of \$2,250,000 for the year ended December 31, 2016. No management fee was received or required for the year ended December 31, 2017. The County is contracted to provide future management fees of \$2,000,000 per year for the years 2018 through 2034, offset by the voter-approved millage, as stated below.

On November 8, 2016, a voter-approved millage was passed that will provide funding for the Zoo over the next 10 years. In accordance with the County operating agreement, the management fee will be reduced by the amount of the revenue provided by the millage funding. The Zoo will annually receive one half of the approved 0.44 mill property tax levy to be spent on care of animals, repair and improvement of exhibits and providing enhanced educational programs. The Zoo received \$4,596,214 in millage funding for the year ending December 31, 2017.

11. RETIREMENT SAVINGS PLAN

John Ball Zoo sponsors a qualified 401(k) Plan and Trust covering employees who are at least age 21 and who have one year of service (at least 1,000 hours in a twelve month period). Upon eligibility, participants are automatically enrolled for a 3% contribution from his or her compensation. The employee has the option to waive this enrollment. John Ball Zoo's contributions and employer matching contributions are discretionary. For the years ended December 31, 2017 and 2016, the Zoo's contributions were 6% of wages of eligible employees, and the expense was \$211,730 and \$176,719, respectively.

