Financial Reports

phoenixzoo
ARIZONA CENTER for NATURE CONSERVATION

Phoenix, Arizona

CONSOLIDATED FINANCIAL STATEMENTS

Years Ended June 30, 2018 and 2017

Henry+Horne

INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
Arizona Center for Nature Conservation and Affiliate

We have audited the accompanying consolidated financial statements of Arizona Center for Nature Conservation (an Arizona nonprofit corporation) and Phoenix Zoo Holdings, LLC (an Arizona limited liability company) (collectively the "Organization"), which comprise the consolidated statements of financial position as of June 30, 2018 and 2017, and the related consolidated statements of activities, functional expenses and cash flows for the years 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 of America; 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated 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 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 the auditors' 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, the auditor considers internal control relevant to the entity'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 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 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 Arizona Center for Nature Conservation and Affiliate as of June 30, 2018 and 2017, 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.

Emphasis of Matter

As discussed in Note 15 to the consolidated financial statements, the June 30, 2017 consolidated financial statements have been restated to correct a misstatement. Our opinion is not modified with respect to this matter.

Henry + Horne, LLP

Tempe, Arizona
November 6, 2018

ARIZONA CENTER FOR NATURE CONSERVATION AND AFFILIATE
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
June 30, 2018 and 2017

	2018	2017 (Restated)
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 9,720,414	$ 5,637,624
Accounts receivable, net of allowance of $8,000 and $7,000, respectively	132,821	154,866
Promises to give, current portion, net of allowance of $88,000 and $121,000, respectively	1,778,296	4,360,396
Inventory	95,950	91,975
Prepaid expenses	303,777	173,752
TOTAL CURRENT ASSETS	12,031,258	10,418,613
INVESTMENTS	7,195,908	6,770,289
INVESTMENT IN KEMF-DCLL, LLC	228,530	328,702
PROMISES TO GIVE, net of current portion, discount and allowance of $288,000 and $462,000, respectively	1,151,161	1,611,098
PROPERTY AND EQUIPMENT, net	32,873,990	30,544,769
OTHER ASSETS	583,127	581,715
BENEFICIAL INTEREST IN PERPETUAL TRUSTS	5,001,826	4,947,614
TOTAL ASSETS	$ 59,065,800	$ 55,202,800

See accompanying notes.

ARIZONA CENTER FOR NATURE CONSERVATION AND AFFILIATE
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (Continued)
June 30, 2018 and 2017

		2018	2017 (Restated)
LIABILITIES AND NET ASSETS			
CURRENT LIABILITIES			
Accounts payable		$ 612,150	$ 674,338
Accrued expenses		2,158,289	1,346,372
Deferred revenue		3,144,656	2,936,345
Current portion of capital lease		8,560	8,322
	TOTAL CURRENT LIABILITIES	5,923,655	4,965,377
CAPITAL LEASE, less current portion		-	8,562
	TOTAL LIABILITIES	5,923,655	4,973,939
NET ASSETS			
Unrestricted			
Board designated - projects		3,301,854	3,394,323
Board designated - endowment		4,884,262	4,494,333
Undesignated		32,144,235	28,427,850
Total unrestricted		40,330,351	36,316,506
Temporarily restricted		6,662,721	7,818,494
Permanently restricted		6,149,073	6,093,861
	TOTAL NET ASSETS	53,142,145	50,228,861
	TOTAL LIABILITIES AND NET ASSETS	$ 59,065,800	$ 55,202,800

See accompanying notes.

ARIZONA CENTER FOR NATURE CONSERVATION AND AFFILIATE
CONSOLIDATED STATEMENTS OF ACTIVITIES
Years Ended June 30, 2018 and 2017

	2018				2017 (Restated)			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
SUPPORT AND REVENUE								
Admissions and memberships	$ 17,314,472	$ -	$ -	$ 17,314,472	$ 16,101,085	$ -	$ -	$ 16,101,085
Educational services	816,197	-	-	816,197	833,909	-	-	833,909
Group services	920,818	-	-	920,818	980,699	-	-	980,699
Food services	1,072,280	-	-	1,072,280	1,034,199	-	-	1,034,199
Retail	4,589,747	-	-	4,589,747	3,188,232	-	-	3,188,232
Contributions	3,790,858	1,557,451	1,000	5,349,309	2,176,369	5,405,737	336,561	7,918,667
Donated materials and services	2,140,989	-	-	2,140,989	1,699,035	-	-	1,699,035
Special events	435,592	-	-	435,592	502,529	-	-	502,529
Investment income	679,385	24,206	-	703,591	804,323	37,319	-	841,642
Earnings (loss) on investment in KEMF-DCLL, LLC	-	(100,172)	-	(100,172)	-	(206,953)	-	(206,953)
Changes in fair value of interest in perpetual trusts	-	-	54,212	54,212	-	-	372,143	372,143
Other	285,240	-	-	285,240	54,302	-	-	54,302
Net assets released from restrictions	2,637,258	(2,637,258)	-	-	1,768,710	(1,768,710)	-	-
	34,682,836	(1,155,773)	55,212	33,582,275	29,143,392	3,467,393	708,704	33,319,489
EXPENSES								
Program services	22,169,648	-	-	22,169,648	21,160,794	-	-	21,160,794
Management and general	5,620,604	-	-	5,620,604	5,241,499	-	-	5,241,499
Fundraising	1,400,138	-	-	1,400,138	1,317,755	-	-	1,317,755
Membership	1,369,392	-	-	1,369,392	1,221,860	-	-	1,221,860
Costs of direct benefits to donors	109,209	-	-	109,209	106,030	-	-	106,030
	30,668,991	-	-	30,668,991	29,047,938	-	-	29,047,938
CHANGE IN NET ASSETS	4,013,845	(1,155,773)	55,212	2,913,284	95,454	3,467,393	708,704	4,271,551
NET ASSETS AT BEGINNING OF YEAR (RESTATED)	36,316,506	7,818,494	6,093,861	50,228,861	36,221,052	4,351,101	5,385,157	45,957,310
NET ASSETS AT END OF YEAR	$ 40,330,351	$ 6,662,721	$ 6,149,073	$ 53,142,145	$ 36,316,506	$ 7,818,494	$ 6,093,861	$ 50,228,861

See accompanying notes.

ARIZONA CENTER FOR NATURE CONSERVATION AND AFFILIATE
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
Year Ended June 30, 2018

		Supporting Services		Supporting Services		
	Program Services	Management and General	Fundraising	Membership	Costs of Direct Benefits to Donors	Total
Salaries	$ 10,610,876	$ 1,234,294	$ 709,695	$ 429,314	$ -	$ 12,984,179
Employee benefits	1,807,600	242,505	123,873	75,252	-	2,249,230
Payroll taxes	734,394	98,948	50,698	30,846	-	914,886
Professional fees	269,342	385,661	149,053	12,174	-	816,230
Advertising and promotion	32,437	2,894,724	9,850	678,732	-	3,615,743
Office expense and printing	1,515,996	230,105	91,129	69,517	-	1,906,747
Utilities	1,161,571	208	46	46	-	1,161,871
Travel	50,057	22,928	1,557	-	-	74,542
Interest	-	3,804	-	-	-	3,804
Depreciation	2,500,635	293,664	65,443	64,794	-	2,924,536
Insurance	175,021	38,826	8,652	8,566	-	231,065
Animal collection	1,083,710	-	-	-	-	1,083,710
Cost of events	442,991		83,685	-	109,209	635,885
Repairs and maintenance	489,329	6,595	-	-	-	495,924
Vendor commission	698,890	-	8,407	-	-	707,297
Grants	219,911	-	-	-	-	219,911
Other	376,888	168,342	98,050	151	-	643,431
TOTAL EXPENSES	$ 22,169,648	$ 5,620,604	$ 1,400,138	$ 1,369,392	$ 109,209	$ 30,668,991

ARIZONA CENTER FOR NATURE CONSERVATION AND AFFILIATE
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
Year Ended June 30, 2017

		Supporting Services		Supporting Services		
	Program Services	Management and General	Fundraising	Membership	Costs of Direct Benefits to Donors	Total
Salaries	$ 9,873,113	$ 1,267,973	$ 652,243	$ 366,405	$ -	$ 12,159,734
Employee benefits	1,714,459	245,594	118,184	66,391	-	2,144,628
Payroll taxes	678,096	97,136	46,743	26,259	-	848,234
Professional fees	337,828	369,786	142,443	15,181	-	865,238
Advertising and promotion	29,982	2,507,288	6,970	622,238	-	3,166,478
Office expense and printing	1,113,694	306,219	86,644	56,905	-	1,563,462
Utilities	1,086,008	796	49	43	-	1,086,896
Travel	111,668	39,556	5,288	2,677	-	159,189
Interest	-	3,708	-	-	-	3,708
Depreciation	2,490,313	270,855	64,601	57,204	-	2,882,973
Insurance	171,256	37,625	8,974	7,946	-	225,801
Animal collection	974,274	-	-	-	-	974,274
Cost of events	1,016,852	188	154,900	-	106,030	1,277,970
Repairs and maintenance	466,991	8,627	-	-	-	475,618
Vendor commission	724,967	-	9,636	-	-	734,603
Grants	228,611	-	-	-	-	228,611
Other	142,682	86,148	21,080	611	-	250,521
TOTAL EXPENSES	$ 21,160,794	$ 5,241,499	$ 1,317,755	$ 1,221,860	$ 106,030	$ 29,047,938

ARIZONA CENTER FOR NATURE CONSERVATION AND AFFILIATE
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended June 30, 2018 and 2017

	2018	2017 (Restated)
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 2,913,284	$ 4,271,551
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	2,924,536	2,882,973
Non-cash contribution of property and equipment	(101,520)	(27,800)
Loss on investment in KEMF-DCLL, LLC	100,172	206,953
Non-cash contribution of stock	(1,170,590)	(77,937)
Contributions restricted for capital campaign	(1,614,600)	(2,801,561)
Change in value of beneficial interest in perpetual trusts	(54,212)	(372,143)
Realized and unrealized loss on investments	(236,161)	(474,355)
Change in valuation allowance for accounts receivable	1,000	(4,000)
Change in valuation allowance for promises to give	(81,000)	162,000
Change in discount on long-term promises to give	(126,000)	216,000
(Increase) decrease in		
Accounts receivable	21,045	302,062
Promises to give	2,423,082	(1,493,362)
Inventories	(3,975)	32,256
Prepaid expenses	(130,025)	84,020
Other assets	(1,412)	(2,937)
Increase (decrease) in		
Accounts payable	(62,188)	232,783
Accrued expenses	684,019	(43,227)
Deferred revenue	208,311	(235,575)
NET CASH PROVIDED BY OPERATING ACTIVITIES	5,693,766	2,857,701
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	(221,003)	(258,093)
Proceeds from maturities and sales of investments	1,330,033	577,675
Purchases of property, equipment and construction in progress	(5,152,237)	(3,162,473)
NET CASH USED IN INVESTING ACTIVITIES	(4,043,207)	(2,842,891)

ARIZONA CENTER FOR NATURE CONSERVATION AND AFFILIATE
CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)
Years Ended June 30, 2018 and 2017

	2018	2017 (Restated)
CASH FLOWS FROM FINANCING ACTIVITIES		
Collection of contributions restricted for capital campaign	2,440,555	807,735
Payments on capital lease obligation	(8,324)	(9,517)
NET CASH PROVIDED BY FINANCING ACTIVITIES	2,432,231	798,218
NET INCREASE IN CASH AND CASH EQUIVALENTS	4,082,790	813,028
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	5,637,624	4,824,596
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 9,720,414	$ 5,637,624
SUPPLEMENTAL CASH FLOW DISCLOSURES:		
Noncash investing and financing transaction:		
Equipment purchased through capital lease	$ -	$ 23,000
Noncash investing transaction:		
Investment return on deferred compensation investment	$ 42,356	$ 29,511
Contributions made to the deferred compensation plan	$ 38,500	$ 38,500

NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Arizona Center for Nature Conservation (ACNC) was formed in 1961 to inspire people to live in ways that promote the well-being of the natural world. In fulfillment of that mission, ACNC operates the Phoenix Zoo, a zoological park and the South Mountain Environmental Education Center, an education and event center, both located in Phoenix, Arizona to provide educational programs and actively participate in animal conservation efforts.

Phoenix Zoo Holdings, LLC (PZH) was organized by ACNC in April 2012. ACNC is the sole member of PZH, which was created for the purpose of receiving and holding contributed real estate.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of ACNC and PZH (collectively the “Organization”). All intercompany balances and transactions are eliminated in consolidation.

Basis of Presentation

The consolidated financial statements have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables and other liabilities. The Organization is required to report information regarding their financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Cash and Cash Equivalents

For the purpose of the statements of cash flows, the Organization considers all highly liquid debt instruments with an original maturity of ninety days or less at date of acquisition to be cash equivalents. Cash and money market funds held in investment accounts are included in investments instead of cash.

Accounts Receivable

Accounts receivable are carried at the outstanding balances less an allowance for doubtful accounts, if applicable. The Organization evaluates the collectability of its accounts receivable based on a combination of factors. The Organization records a reserve based on a percentage of the accounts receivable balance. Accounts are charged off against the allowance when they are deemed to be uncollectible.

NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Promises to Give

Unconditional promises to give are recognized as revenues in the period the promise is received and as assets, decreases of liabilities or expenses depending on the form of the benefits received. Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk-free interest rates as determined by management applicable to the years in which the promises are received. Amortization of the discounts is reflected in contributions.

The Organization records a reserve based on a percentage of the promises to give balance to reduce the amounts recorded to what it believes will be collected. Promises are charged off against the allowance when they are deemed to be uncollectible.

Inventories

Inventories are stated at the lower of cost or net realizable value using the average cost method and consist primarily of uniforms, animal feed and supplies.

Fair Value Measurements

Accounting Standards establish a framework for measuring fair value which provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

The three levels of the fair value hierarchy are as follows:

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Organization has the ability to access.

NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value Measurements (Continued)

Level 2 Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified term (contractual term), the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement, and usually reflect the Organization's own assumptions about the assumptions that market participants would use in pricing the assets (i.e. real estate valuations, broker quotes).

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used maximize the use of observable inputs and minimize the use of unobservable inputs.

Investments

Investments are measured at fair value in the consolidated statements of financial position. Investment income or loss (including realized and unrealized gains and losses on investments, interest and dividends) is included in the change in net assets in the accompanying consolidated statements of activities, unless the income or loss is restricted by donor or law.

The Organization holds a 20% share of the capital of KEMP-DCLL, LLC. This investment is recorded on the equity basis, adjusted for the Organization's proportionate share of its earnings and losses, as applicable. Investment income or loss is included in the change in net assets on the accompanying consolidated statements of activities.

NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Risks and Uncertainty

The Organization invests in various types of investments which are exposed to various risks, such as interest rate, market and credit risks. Due to the level of risk associated with certain investments, it is at least reasonably possible that changes in the values of investments will occur in the near term and that such changes could materially affect the amount reported in the consolidated statements of financial position.

Property and Equipment

Acquisitions of property and equipment in excess of $5,000 are capitalized. Property and equipment are stated at cost or, if donated, at the approximate fair value at the date of donation. Depreciation of buildings and equipment is calculated using the straight-line method over the estimated useful lives of the respective assets.

Major additions and improvements are capitalized. Maintenance and repairs are expensed as incurred. When assets are retired or otherwise disposed of, the related costs and accumulated depreciation are removed from the accounts and gains and losses are included in operations.

Impairment of Long-Lived Assets

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

Endowment Funds

The Organization's endowment funds consist of eight individual funds established for a variety of purposes. Its endowment funds include both donor-restricted funds and funds designated by the Board of Trustees to function as endowments. As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Organization follows Arizona's Management of Charitable Funds Act ("MCFA") and its own governing documents. MCFA requires the preservation of endowment funds. When a donor's intent is not expressed, MCFA directs the Organization to spend an amount that is prudent, consistent with the purposes of the fund, relevant economic factors and the donor's intent that the fund continue in perpetuity.

NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Endowment Funds (Continued)

The Organization classifies as permanently restricted net assets (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 that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by MCFA.

In accordance with MCFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the various funds, (2) the purposes of the donor-restricted endowment funds, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) the Organization's other resources, and (7) the Organization's investment policies.

Investment Return Objectives, Risk Parameters and Strategies. The Organization has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment funds while also maintaining the purchasing power of those endowment assets over the long-term. Accordingly, the investment process seeks to achieve an after-cost total real rate of return, including investment income as well as capital appreciation, which exceeds the annual distribution with acceptable levels of risk. Endowment assets are invested in a well-diversified asset mix, which include, but are not limited to, domestic and international corporate stocks and bonds, cash equivalents, and government issued debt securities. The Organization expects its endowment funds over time to provide an average rate of return of 4.5% to 5% annually. Actual returns in any given year may vary from this amount.

Spending policy. The Organization has allowed for appropriating for distributions each year up to 5% of its endowment fund's average value over the prior 12 quarters through the calendar year-end preceding the fiscal year in which the distribution is planned. In establishing this policy, the Organization considered the long-term expected return on its endowment. This is consistent with the Organization's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term, as well as to provide additional real growth through new gifts and investment return.

NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Split-Interest Agreements

The Organization is beneficiary to two perpetual trusts. Under these agreements, the Organization recorded permanently restricted contributions at the fair value of the Organization's beneficial interest in the trust assets. Distributions from the trust assets are recorded as unrestricted investment income in the accompanying consolidated statements of activities unless otherwise restricted by the donor. Subsequent changes in fair value of the beneficial interest in the trust assets are recorded as changes in value of split-interest agreements to permanently restricted net assets.

Deferred Revenues

Deferred revenues include unearned membership revenues and revenues collected for certain programs and events that will take place in the next fiscal year.

Revenue Recognition

Earned revenues consist primarily of membership and admissions revenue, ticket sales for events, food sales and retail sales. Membership revenue is recognized over the term of the membership, which is typically one year. Admissions revenue, food sales and retail sales are recognized as they are earned. Ticket sales for events are recognized at the time the event takes place.

Contributions

Contributions, grants and bequests, including promises to give, are received and recorded as unrestricted, temporarily restricted or permanently restricted support depending on the existence and/or nature of any donor restrictions. When a donor restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily or permanently restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions.

Contributions of donated non-monetary assets (in-kind donations) are recorded at their fair values in the period received. Contributions of donated services that create or enhance non-financial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donated services, are recorded at their fair market values in the period received. The Organization utilizes the services of numerous volunteers who support the programs and activities of the Organization. For the years ended June 30, 2018 and 2017, the Organization received the benefit of approximately 1,700 and 1,600 volunteers, respectively, and approximately 77,000 and 67,000 hours of service from volunteers, respectively. This support has not been recorded in the accompanying consolidated financial statements as it does not meet the recognition criteria.

NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Advertising

The Organization uses advertising to promote its programs to the community it serves. Advertising costs are charged to operations as incurred. Advertising expense charged to operations was approximately $1,091,000 and $1,004,000 for the years ended June 30, 2018 and 2017, respectively, not including in-kind donations of approximately $1,846,000 and $1,540,000, respectively as described in Note 13.

Animals

In accordance with industry practice the animal collection is not recorded as there is no objective basis for establishing value. The Organization holds its animal collection for public exhibition, education, and research rather than financial gain. Additionally, the animal collection has numerous attributes, including species, age, sex, relationships and value to other animals, endangered status, and breeding potential, whereby it is impracticable to assign value. Acquisitions and sales of animals are recorded as operating expense or revenue in the year of purchase or sale.

Functional Allocation of Expenses

The costs of providing the various programs and activities have been summarized on a functional basis in the consolidated statements of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Self-Funded Group Health Insurance

The Organization has a partially self-funded group health insurance plan for the benefit of its employees. The Organization pays health insurance claims up to $125,000 per covered participant and an aggregate limit that varies by the number of participants covered within the plan. As of June 30, 2018 and 2017, the aggregate limit was approximately $1,500,000 per contract year. The plan is administered by a third-party administrator who purchases reinsurance contracts to limit claim exposure. Estimates for claims payable, which include both reported and incurred but not yet reported claims, are recorded in accrued expenses, at which time claims expense is also recorded. The amounts charged to expense for claims was approximately $1,276,000 and $1,230,000 for the years ended June 30, 2018 and 2017, respectively.

NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Tax Status

ACNC qualifies as a tax-exempt organization under Section 501 (c)(3) of the Internal Revenue Code. In addition, ACNC has been classified as an organization that is not a private foundation under Section 501(a)(3). However, income determined to be unrelated business taxable income (UBTI) would be subject to income tax. PZH is a disregarded entity for tax purposes.

The Organization recognizes uncertain tax positions in the consolidated financial statements when it is more likely-than-not that the positions will not be sustained upon examination by the tax authorities. As of June 30, 2018 and 2017, the Organization had no uncertain tax positions that qualify for either recognition or disclosure in the consolidated financial statements.

The Organization recognizes interest and penalties associated with income tax in operating expenses. During the years ended June 30, 2018 and 2017, the Organization did not have any income tax related interest and penalty expense.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 consolidated financial statements and reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from these estimates.

Reclassifications

Certain 2017 amounts have been reclassified to conform to the 2018 consolidated financial statement presentation.

Date of Management's Review

In preparing these consolidated financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through November 6, 2018, the date the consolidated financial statements were available to be issued.

NOTE 2 CONCENTRATIONS OF CREDIT RISK

Financial instruments that potentially subject the Organization to significant concentrations of credit risk consist principally of cash and cash equivalents, investments and promises to give. The Organization maintains its cash in bank accounts, which at times may exceed federally insured limits. The Organization has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash balances.

Investment balances with stock brokerage firms are insured up to $500,000 by SIPC. The Organization has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on investment balances.

NOTE 3 PROMISES TO GIVE

Promises to give at June 30 consist of and are restricted for the following purposes:

	2018	2017
Capital campaign and other capital projects	$ 2,477,627	$ 5,445,232
Bequests and trusts	495,195	910,179
Other	332,635	199,083
Total promises to give	3,305,457	6,554,494
Discount to present value	(161,000)	(287,000)
Allowance for uncollectible promises	(215,000)	(296,000)
Net promises to give	$ 2,929,457	$ 5,971,494

The estimated cash flows for promises to give were discounted over the collection period using a discount rate of 5%.

NOTE 3 PROMISES TO GIVE (Continued)

Promises to give, net of discount to present value and allowance for uncollectible promises, are due as follows at June 30:

	2018	2017
Promises to give due in less than one year	$ 1,778,296	$ 4,355,241
Promises to give due in two to five years	1,151,161	1,616,253
	$ 2,929,457	$ 5,971,494

The Organization's promises to give consist of contributions from individuals, charitable foundations and companies. At June 30, 2018 approximately 26% of gross promises to give is an amount due from one donor. At June 30, 2017 approximately 51% of gross promises to give are amounts due from four donors. Concentrations of credit risk with respect to these promises to give are limited due to the relationship and history with these donors.

NOTE 4 INVESTMENTS AND FAIR VALUE OF FINANCIAL INSTRUMENTS

Investments with readily determinable fair values are measured at fair value in the consolidated statements of financial position as determined by quoted market prices in active markets. The fair value of the interests in the perpetual trusts is estimated at the fair value of the Organization's portion of the underlying assets of the trust using information provided by the trustee.

The following is a summary of financial instruments measured at fair value on a recurring basis at June 30, 2018:

	Level 1	Level 2	Level 3	Total
Investments:				
Cash and money market funds	$ 43,432	$ -	$ -	$ 43,432
Bond funds	2,687,051	-	-	2,687,051
Equity funds	4,465,425	-	-	4,465,425
Total investments	7,195,908	-	-	7,195,908
Beneficial interest in perpetual trusts	-	-	5,001,826	5,001,826
	$ 7,195,908	$ -	$ 5,001,826	$ 12,197,734

NOTE 4 INVESTMENTS AND FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

The following is a summary of financial instruments measured at fair value on a recurring basis at June 30, 2017:

	Level 1	Level 2	Level 3	Total
Investments:				
Cash and money market funds	$ 163,993	$ -	$ -	$ 163,993
Bond funds	2,666,472	-	-	2,666,472
Equity funds	3,939,824	-	-	3,939,824
Total investments	6,770,289	-	-	6,770,289
Beneficial interest in perpetual trusts	-	-	4,947,614	4,947,614
	$ 6,770,289	$ -	$ 4,947,614	$ 11,717,903

The following is a reconciliation of the beginning and ending balances of assets measured at fair value on a recurring basis using significant unobservable (Level 3) inputs during the years ended June 30:

Balance at June 30, 2016	$ 4,575,471
Change in fair value	372,143
Balance at June 30, 2017	4,947,614
Change in fair value	54,212
Balance at June 30, 2018	$ 5,001,826

Investment income is summarized as follows for the years ended June 30:

	2018	2017
Interest and dividends	$ 243,497	$ 199,014
Distributions from trusts	246,427	188,058
Realized gains/(losses)	(2,488)	7,040
Unrealized gains/(losses)	238,649	467,315
Investment fees	(22,494)	(19,785)
Total investment income	$ 703,591	$ 841,642

NOTE 5 INVESTMENTS IN KEMF-DCLL, LLC

In February 2009 the Kemper and Ethel Marley Foundation (KEMF) gifted the Organization a 20% membership interest in KEMF-DCLL, LLC (the LLC), a general partnership formed to acquire and hold interest in DC Livestock Company, LLLP. KEMF, the managing member, has assigned the Organization the rights to receive distributions of certain net cash flow from the LLC in proportion to its membership interest. Additionally, the Organization does not have any obligations to make capital contributions to the LLC and is not able to withdraw any capital contributions, money or property from the LLC without written consent of KEMF. Per the operating agreement between KEMF and the Organization, the use of any net proceeds received by Organization from this gifted interest must be used in accordance with parameters described in the agreement and must be approved by KEMF. The activity in this investment for the years ended June 30, 2018 and 2017 are as follows:

Membership capital - June 30, 2016	$ 535,655
Allocation of operating loss - year ended June 30, 2017	(206,953)
Membership capital - June 30, 2017 (as restated)	328,702
Allocation of operating loss - year ended June 30, 2018	(100,172)
Membership capital - June 30, 2018	$ 228,530

NOTE 6 BENEFICIAL INTEREST IN PERPETUAL TRUSTS

The Organization is the income beneficiary of two perpetual trusts. The trust funds are held and controlled by third party trustees. The Organization is entitled to a specified percentage of the annual income distributions from each of the trusts as defined in the trust agreements. The Organization will also be entitled to a specified percentage of the total amount of the corpus assets that will be distributed if the trusts are ever dissolved. The Organization estimated the fair value of its beneficial interest in perpetual trusts at June 30, 2018 and 2017 based upon the Organization’s respective interest in the value of the underlying assets held by the trust. For the years ended June 30, 2018 and 2017, distributions from the perpetual trusts totaled approximately $246,000 and $188,000, respectively and are included in unrestricted investment income in the accompanying consolidated statements of activities.

NOTE 7 PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at June 30:

	2018	2017
Exhibits and enclosures	$ 30,505,563	$ 29,230,940
Buildings and improvements	25,362,607	23,586,600
Ground installations	10,571,286	9,680,524
Machinery and equipment	9,497,682	8,598,061
Vehicles	1,412,148	1,397,272
	77,349,286	72,493,397
Accumulated depreciation	(45,834,939)	(42,910,403)
	31,514,347	29,582,994
Construction-in-progress	1,359,643	961,775
	$ 32,873,990	$ 30,544,769

Construction-in-progress includes costs related to various capital projects to improve animal exhibits and other areas within ACNC facilities. Depreciation expense was $2,924,536 and $2,882,973 for the years ended June 30, 2018 and 2017.

NOTE 8 OTHER ASSETS

During the year ended June 30, 2012, an entity that is partially owned by a member of the Board of Trustees contributed real property located in Goodyear, Arizona to PZH. The contribution was recorded at the estimated fair value of the real estate, which totaled approximately $555,000 as determined by an appraisal of the real property performed at the time of donation. This property is currently being held for sale as PZH has listed it on the real estate market. The value of the real property is included in other assets in the accompanying consolidated statements of financial position. Proceeds from any future sale of this property have been restricted by the donor for the capital campaign.

NOTE 9 ENDOWMENT FUNDS

Endowment net asset composition by type of fund as of June 30, 2018 is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted	$ -	$ 142,979	$ 1,147,247	$ 1,290,226
Board-designated	4,884,262	-	-	4,884,262
Total endowment funds	$ 4,884,262	$ 142,979	$ 1,147,247	$ 6,174,488

Endowment net asset composition by type of fund as of June 30, 2017 is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted	$ -	$ 119,096	$ 1,146,247	$ 1,265,343
Board-designated	4,494,333	-	-	4,494,333
Total endowment funds	$ 4,494,333	$ 119,096	$ 1,146,247	$ 5,759,676

Changes in endowment funds for the years ended June 30 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Balance at June 30, 2016	$ 4,071,190	$ 84,211	$ 809,686	$ 4,965,087
Contributions	-	-	336,561	336,561
Investment income	54,155	11,030	-	65,185
Realized and unrealized gains	129,080	26,289	-	155,369
New board designations	239,908	-	-	239,908
Amounts appropriated for expenditure	-	(2,434)	-	(2,434)
Balance at June 30, 2017	4,494,333	119,096	1,146,247	5,759,676
Contributions	-	-	1,000	1,000
Investment income	63,833	12,288	-	76,121
Realized and unrealized gains	61,910	11,918	-	73,828
New board designations	264,186	-	-	264,186
Amounts appropriated for expenditure	-	(323)	-	(323)
Balance at June 30, 2018	$ 4,884,262	$ 142,979	$ 1,147,247	$ 6,174,488

NOTE 10 RESTRICTED NET ASSETS

Temporarily restricted net assets consist of the following at June 30:

	2018	2017 (Restated)
Time restricted:		
Investment income on perpetual endowment funds subject to a time restriction under MCFA	$ 142,979	$ 119,096
Time and purpose restricted:		
Capital campaign and other capital projects	4,936,758	5,905,169
Other	1,582,984	1,794,229
Total temporarily restricted net assets	$ 6,662,721	$ 7,818,494

Permanently restricted net assets consist of the following at June 30:

	2018	2017
Interest in perpetual trusts	$ 5,001,826	$ 4,947,614
Portion of perpetual endowment funds that is required to be retained permanently either by explicit donor stipulation or by MCFA	1,147,247	1,146,247
	$ 6,149,073	$ 6,093,861

NOTE 11 EMPLOYEE BENEFIT PLANS

The Organization has a 401(k) defined contribution savings plan. The Organization matches employee contributions to the 401k plan at the rate of $.50 for each $1.00 contributed, up to the first 4% of annual compensation contributed by the employee. Employer matching contributions for the year ended June 30, 2018 and 2017 totaled approximately $311,000 and $335,000, respectively.

The Organization also has both a 457(b) and 457(f) non-qualified deferred compensation retirement plan covering the current Chief Executive Officer and Vice Presidents of ACNC. Both the 457(b) and 457(f) plans provide for employer contributions at the discretion of the Organization's Board of Trustees. Contributions by the Organization to the plans totaled approximately $38,500 for both the years ended June 30, 2018 and 2017, and are included in accrued liabilities in the accompanying consolidated statements of financial position. While the Organization has segregated funds totaling approximately $467,000 and $339,000 as of June 30, 2018 and 2017, respectively, these funds remain available to the general creditors of the Organization.

NOTE 12 OPERATING LEASES

The Organization leases office equipment, storage space and property under operating leases with terms expiring in various years through 2033 and requiring monthly payments totaling approximately $4,500.

Approximate minimum future rental payments under non-cancelable leases having initial or remaining terms in excess of one year at June 30, 2018 are as follows:

Years Ending June 30,	
2019	$ 30,500
2020	1,200
2021	1,200
2022	1,200
2023	1,200
Thereafter	12,300
	$ 47,600

The Organization also leases other equipment on a month-to-month basis, as needed. Rent expense for the years ended June 30, 2018 and 2017 amounted to approximately $407,000 and $276,000, respectively. During the years ended June 30, 2018 and 2017, rent expense included the rental of an exhibit in the amount of $355,000 and $225,000, respectively.

The Organization has an agreement with the City of Phoenix to lease the property where the Phoenix Zoo is located. This agreement stipulates that the Organization will pay $1,200 per year as rent for the property. The lease expires in the year 2033 but contains five 5-year renewal options at the end of the lease term.

NOTE 13 DONATED MATERIALS AND SERVICES

Donated materials and services consisted of the following for the year ended June 30, 2018:

	Assets	Programs	Management and General	Fundraising and Membership Development	Total
Advertising	$ -	$ -	$ 1,846,150	$ -	$ 1,846,150
Food and beverages	-	30,000	-	-	30,000
Capital improvements	101,520	-	-	-	101,520
Other	-	17,675	-	145,644	163,319
Total donated materials and services	$ 101,520	$ 47,675	$ 1,846,150	$ 145,644	$ 2,140,989

Total donated materials and services included in special event revenue was approximately $54,500 for the year ended June 30, 2018.

Donated materials and services consisted of the following for the year ended June 30, 2017:

	Assets	Programs	Management and General	Fundraising and Membership Development	Total
Advertising	$ -	$ -	$ 1,541,163	$ -	$ 1,541,163
Food and beverages	-	30,000	-	-	30,000
Capital improvements	27,800	-	-	-	27,800
Other	-	19,667	-	80,405	100,072
Total donated materials and services	$ 27,800	$ 49,667	$ 1,541,163	$ 80,405	$ 1,699,035

Total donated materials and services included in special event revenue was approximately $54,700 for the year ended June 30, 2017.

NOTE 14 RELATED PARTY TRANSACTIONS

During the years ended June 30, 2018 and 2017 the Organization received donations in the amounts of approximately $180,000 and $2,364,000, respectively, from Board members, employees, and volunteers. Included in total promises to give at June 30, 2018 and 2017 is approximately $177,000 and $1,225,000, respectively, due from Board members, employees, and volunteers.

NOTE 15 RESTATEMENTS

The June 30, 2017 consolidated financial statements have been restated for the following discoveries and analysis made by management:

- Investment in an Arizona limited liability company (LLC) – management determined that the Organization had not recorded a membership interest in an LLC when it was first donated to the Organization in 2009 as part of an Operating Agreement. The membership interest in this LLC investment as of June 30, 2016 was $535,655. During the year ended June 30, 2017, the Organization should have recognized a loss on this investment in the amount of $206,953 which reduced the membership interest to $328,702 as of June 30, 2017.
- Interest Income classification – management proposed a restatement for interest income related to temporarily restricted funds. In the past, an informal management practice had been in place to allocate interest according to fund type, unrestricted, temporarily restricted and permanently restricted. Management determined that absent a donor restriction or board designation, interest allocated to temporarily restricted funds could be classified as unrestricted. For the years ended June 30, 2016 and 2017, interest income in the amounts of $111,015 and $99,229 respectively were recognized as temporarily restricted net assets instead of unrestricted net assets.
- Timing of capital improvements released from restriction - certain capital improvements that were accrued as liabilities should have simultaneously been released from restriction rather than releasing when paid. During the year ended June 30, 2017, restrictions were met for $128,522 in capital improvements as accrued and should have been released as of that date.

The effect of these restatements on the Organization's previously issued June 30, 2017 consolidated financial statements is summarized as follows:

		Restatements				
	As previously reported	Interest in LLC	Investment income	Restriction release	Total Restatements	As restated
Investment in KEMF-DCLL, LLC	$ -	$ 328,702			$ 328,702	$ 328,702
Gain (loss) on investment in KEMF-DCLL, LLC	$ -	$ (206,953)			$ (206,953)	$ (206,953)
Total change in net assets	$ 4,478,504	$ (206,953)			$ (206,953)	$ 4,271,551
Net assets as of June 30, 2016:						
Unrestricted	$ 36,110,037		$ 111,015		$ 111,015	$ 36,221,052
Temporarily restricted	$ 3,926,461	$ 535,655	$ (111,015)		$ 424,640	$ 4,351,101
Net assets as of June 30, 2017:						
Unrestricted	$ 35,977,740		$ 210,244	$ 128,522	$ 338,766	$ 36,316,506
Temporarily restricted	$ 7,828,558	$ 328,702	$ (210,244)	$ (128,522)	$ (10,064)	$ 7,818,494

NOTE 16 NEW ACCOUNTING PRONOUNCEMENTS

The Financial Accounting Standards Board has issued Accounting Standards Update ("ASU") No.2016-14, Not-For-Profit Entities: Presentation of Financial Statements of Not-For-Profit Entities. This Standard is effective for years beginning after December 15, 2017. The Standard requires several changes to how not-for-profit entities report certain financial statement information including net asset classification, cash flows, underwater endowment funds, investment expenses, and other areas. In addition, the new guidance requires disclosures on the entity's liquidity policy and quantitative disclosures that communicate the availability of financial assets to meet cash needs for general expenditures within one year of the Statement of Financial Position date. Management is currently in the process of evaluating the impact of adoption of this ASU on the financial statements.

The Financial Accounting Standards Board has issued Accounting Standards Update ("ASU") No. 2014-09, Revenue from Contracts with Customers. For nonpublic companies, this standard must be adopted for annual reporting periods beginning after December 15, 2018. The standard's core principle is that a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. This standard also includes expanded disclosure requirements that result in an entity providing users of financial statements with comprehensive information about the nature, amount, timing, and uncertainty of revenue and cash flows arising from the entity's contracts with customers. Management is currently in the process of evaluating the impact of adoption of this ASU on the financial statements.

The Financial Accounting Standards Board has issued Accounting Standards Update ('ASU") No. 2016-02, Leases. For nonpublic companies, the standard must be adopted for annual reporting periods beginning after December 15, 2019. The standard's core principle is the recognition of lease assets and lease liabilities by lessees for substantially all leases, including those currently classified as operating leases. Under the ASU, a lessee will be required to recognize assets and liabilities for operating and finance leases with terms of more than 12 months. Management is currently in the process of evaluating the impact of adoption of this ASU on the financial statements.