

NASHVILLE ZOO INC.

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

December 31, 2012 and 2011

NASHVILLE ZOO INC.

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INDEPENDENT AUDITOR'S REPORT

The Board of Directors
Nashville Zoo Inc.
Nashville, Tennessee

We have audited the accompanying financial statements of Nashville Zoo Inc. (a nonprofit organization), which comprise the statements of financial position as of December 31, 2012 and 2011, and the related statements of activities 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.

Auditor's 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 of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation 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 Nashville Zoo Inc. as of December 31, 2012 and 2011, 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.

Other Matters

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information on pages 20 – 22 is presented for purposes of additional analysis and it is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Frasier, Dean + Howard, PLLC

March 8, 2013

NASHVILLE ZOO INC.
STATEMENTS OF FINANCIAL POSITION
December 31, 2012 and 2011

	2012	2011
Assets		
Current assets:		
Cash and cash equivalents	\$ 2,633,425	\$ 419,413
Accounts receivable	11,842	12,074
Contributions receivable	137,076	155,000
Grant receivable	23,350	50,000
Prepaid expenses and other assets	71,502	32,020
Total current assets	2,877,195	668,507
Prepaid membership	105,000	126,000
Investments	12,770,905	12,412,309
Construction in progress	381,482	241,388
Property and equipment - net of accumulated depreciation of \$14,393,810 and \$12,606,101 for 2012 and 2011, respectively	17,375,969	18,698,681
Total assets	<u>\$ 33,510,551</u>	<u>\$ 32,146,885</u>
Liabilities and Net Assets		
Current liabilities:		
Line of credit	\$ -	\$ 1,300,000
Accounts payable	178,594	306,501
Accrued expenses	368,864	257,899
Note payable - related party	50,000	50,000
Deferred revenue	63,350	4,478
Total current liabilities	660,808	1,918,878
Note payable - related party, net of current portion	-	50,000
Total liabilities	660,808	1,968,878
Net assets:		
Unrestricted	19,050,498	16,608,610
Temporarily restricted	1,337,509	1,112,751
Permanently restricted	12,461,736	12,456,646
Total net assets	32,849,743	30,178,007
Total liabilities and net assets	<u>\$ 33,510,551</u>	<u>\$ 32,146,885</u>

See accompanying notes.

NASHVILLE ZOO INC.
STATEMENT OF ACTIVITIES
For the year ended December 31, 2012

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Public support and revenues:				
Gate admissions	\$ 3,971,996	\$ -	\$ -	\$ 3,971,996
Park income, special events, and education	3,514,035	-	-	3,514,035
Memberships	2,640,576	-	-	2,640,576
Investment gain	1,420,927	-	-	1,420,927
Contributions	911,747	284,155	5,090	1,200,992
Other	225,450	-	-	225,450
Grants	57,452	-	-	57,452
	<u>12,742,183</u>	<u>284,155</u>	<u>5,090</u>	<u>13,031,428</u>
Total public support and revenues				
	12,742,183	284,155	5,090	13,031,428
Net assets released from restrictions	59,397	(59,397)	-	-
	<u>12,801,580</u>	<u>224,758</u>	<u>5,090</u>	<u>13,031,428</u>
Expenses:				
Program	9,132,793	-	-	9,132,793
Management and general	917,492	-	-	917,492
Fundraising	309,407	-	-	309,407
	<u>10,359,692</u>	<u>-</u>	<u>-</u>	<u>10,359,692</u>
Total expenses				
	10,359,692	-	-	10,359,692
Change in net assets	2,441,888	224,758	5,090	2,671,736
Net assets at beginning of year	16,608,610	1,112,751	12,456,646	30,178,007
Net assets at end of year	<u>\$ 19,050,498</u>	<u>\$ 1,337,509</u>	<u>\$ 12,461,736</u>	<u>\$ 32,849,743</u>

See accompanying notes.

NASHVILLE ZOO INC.
STATEMENT OF ACTIVITIES
For the year ended December 31, 2011

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Public support and revenues:				
Gate admissions	\$ 3,134,007	\$ -	\$ -	\$ 3,134,007
Park income, special events, and education	2,313,789	-	-	2,313,789
Memberships	1,930,674	-	-	1,930,674
Contributions	785,101	204,660	1,066	990,827
Grants	243,396	-	-	243,396
Other	200,678	-	-	200,678
Investment loss	(40,265)	-	-	(40,265)
	<u>8,567,380</u>	<u>204,660</u>	<u>1,066</u>	<u>8,773,106</u>
Total public support and revenues				
	8,567,380	204,660	1,066	8,773,106
Net assets released from restrictions	<u>323,184</u>	<u>(323,184)</u>	<u>-</u>	<u>-</u>
	<u>8,890,564</u>	<u>(118,524)</u>	<u>1,066</u>	<u>8,773,106</u>
Expenses:				
Program	8,154,975	-	-	8,154,975
Management and general	968,280	-	-	968,280
Fundraising	276,300	-	-	276,300
	<u>9,399,555</u>	<u>-</u>	<u>-</u>	<u>9,399,555</u>
Total expenses				
	9,399,555	-	-	9,399,555
Change in net assets	(508,991)	(118,524)	1,066	(626,449)
Net assets at beginning of year	<u>17,117,601</u>	<u>1,231,275</u>	<u>12,455,580</u>	<u>30,804,456</u>
Net assets at end of year	<u>\$ 16,608,610</u>	<u>\$ 1,112,751</u>	<u>\$ 12,456,646</u>	<u>\$ 30,178,007</u>

See accompanying notes.

NASHVILLE ZOO INC.
STATEMENTS OF CASH FLOWS
For the years ended December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Cash flows from operating activities:		
Change in net assets	\$ 2,671,736	\$ (626,449)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	1,812,008	1,773,342
Realized and unrealized (gain) loss on investments	(1,006,983)	419,117
Donated property and equipment	-	(241,795)
Noncash disposal of property and equipment	-	(330,000)
Discount on contributions receivable	-	(1,574)
Changes in operating assets and liabilities:		
Accounts receivable	232	(3,462)
Contributions receivable	17,924	20,200
Grant receivable	26,650	50,000
Prepaid expenses and other assets	(39,482)	6,185
Accounts payable	(127,907)	139,313
Accrued expenses	110,965	43,489
Deferred revenue	58,872	4,478
Net cash provided by operating activities	<u>3,524,015</u>	<u>1,252,844</u>
Cash flows from investing activities:		
Purchases of property and equipment and construction in progress	(608,390)	(432,429)
Purchases of investments	(1,325,977)	(7,426,184)
Sales of investments	1,974,364	7,070,718
Net cash provided by (used in) investing activities	<u>39,997</u>	<u>(787,895)</u>
Cash flows from financing activities:		
Payments on note payable - related party	(50,000)	(50,000)
Borrowings under line of credit	525,000	1,175,000
Payments on line of credit	(1,825,000)	(1,600,000)
Net cash used in financing activities	<u>(1,350,000)</u>	<u>(475,000)</u>
Increase (decrease) in cash and cash equivalents	2,214,012	(10,051)
Cash and cash equivalents at beginning of year	419,413	429,464
Cash and cash equivalents at end of year	<u>\$ 2,633,425</u>	<u>\$ 419,413</u>
Supplemental information:		
Interest paid	<u>\$ 11,919</u>	<u>\$ 36,645</u>

See accompanying notes.

NASHVILLE ZOO INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2012 and 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nashville Zoo Inc. (the “Organization”) was chartered in November 1989 as a Tennessee not-for-profit corporation. The Organization’s mission is to inspire a culture of understanding and discovery of our natural world through conservation, innovation, and leadership. During March 2004, the Organization was granted accreditation by the Association of Zoos and Aquariums (“AZA”), assuring that the Organization meets the highest standards of animal care and husbandry. This accreditation makes the Organization eligible for funding and grants from certain foundations, corporations and other sources. The Organization is required to apply for accreditation every five years and was awarded accreditation again in March 2009.

The Organization’s significant accounting policies are as follows:

Financial Statement Presentation

In accordance with the Financial Accounting Standards Board Accounting Standards Codification (“FASB ASC”), the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. Accordingly, net assets and changes therein are classified and reported as follows:

Unrestricted net assets – Net assets that are not subject to donor-imposed stipulations.

Temporarily restricted net assets – Net assets subject to donor-imposed stipulations that may or will be met, either by actions of the Organization and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Permanently restricted net assets – Net assets subject to donor imposed stipulations that they be maintained permanently by the Organization. Generally, donors of these assets may permit the Organization to use all or part of the income earned for general or specific purposes.

Contributions

In accordance with generally accepted accounting principles for nonprofit organizations, contributions and grants are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional. Contributions are recorded as unrestricted, temporarily restricted, or permanently restricted depending on the existence or nature of any donor restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

NASHVILLE ZOO INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2012 and 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

In-Kind Contributions

The Organization records various types of in-kind support including contributed materials, equipment and professional services. Contributed professional services are recognized if the services received (a) create or enhance long-lived assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. Contributions of tangible assets are recognized at fair market value when received. The value of animals borrowed from other organizations or individuals is generally not included in revenue or expense since no objective basis is available to measure such donation.

Property and Equipment

Property and equipment are recorded at cost and are depreciated over their estimated useful lives using a straight-line method. Estimated useful lives of major classes of property and equipment are as follows:

Buildings and improvements	5 – 40 years
Equipment	3 – 10 years
Vehicles	3 – 8 years

Animal Collection

Purchases of the Organization's animal collection are accounted for as an expense in the period acquired. Donated animals are recorded at their fair value, if determinable, as both a contribution and an expense of the period in which donated. Proceeds, if any, from the sale of any animals are accounted for as revenue in the period sold. No cost is assigned to animals born at the Organization.

Cash and Cash Equivalents

For purposes of the statements of cash flows, the Organization considers all cash funds, cash bank accounts and highly liquid debt instruments purchased with an original maturity of three months or less to be cash and cash equivalents.

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 financial statements, and the reported amounts of revenues and expenses and allocation of functional expenses during the reporting period. Actual results could differ from those estimates.

NASHVILLE ZOO INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2012 and 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes

The Organization is exempt from income taxes under section 501(c)(3) of the internal revenue code and has been classified as other than a private foundation. Accordingly, no provision has been made for income taxes in the accompanying financial statements.

The Organization follows FASB ASC guidance related to unrecognized tax benefits. The guidance clarifies the accounting for uncertainty in income taxes recognized in an organization's financial statements. This guidance prescribes a minimum probability threshold that a tax position must meet before a financial statement benefit is recognized. The minimum threshold is defined as a tax position that is more likely than not to be sustained upon examination by the applicable taxing authority, including resolution of any related appeals or litigation processes, based on the technical merits of the position. The tax benefit to be recognized is measured as the largest amount of benefit that is greater than fifty percent likely of being realized upon ultimate settlement. The Organization has no tax penalties or interest reported in the accompanying financial statements. Tax years remaining open for examination include the years ended December 31, 2009 through 2012.

Restricted Endowment Funds

The Uniform Prudent Management Institutional Funds Act ("UPMIFA") was enacted in Tennessee effective July 1, 2007. The FASB ASC provides guidance on the net asset classification of donor-restricted endowment funds for a nonprofit organization that is subject to an enacted version of UPMIFA. It also requires disclosure of a description of the governing board's interpretation of the law that underlies the organization's net asset classification of donor-restricted endowment funds, a description of the organization's policies for the appropriation of endowment assets for expenditures (its endowment spending policies), a description of the organization's endowment investment policies, and additional disclosures not previously required.

Advertising Costs

Advertising costs are generally expensed as incurred. Advertising and promotion expenses totaled \$172,828 and \$137,225 during 2012 and 2011, respectively.

Subsequent Events

The Organization evaluated subsequent events through March 8, 2013, when these financial statements were available to be issued. The Organization is not aware of any significant events that occurred subsequent to the statement of financial position date but prior to the filing of this report that would have a material impact on the financial statements.

NASHVILLE ZOO INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2012 and 2011

NOTE 2 – CONTRIBUTIONS RECEIVABLE

Unconditional promises to give totaling \$137,076 and \$155,000 at December 31, 2012 and 2011, respectively, are due primarily from individuals, foundations and corporations located in the Middle Tennessee area. Balances of contributions receivable in less than one year are considered to approximate fair value. Substantially all contributions receivable are due for temporarily or permanently restricted purposes.

NOTE 3 – GRANT RECEIVABLE

During 2011, the Organization was awarded a grant totaling \$265,000 to be used for park improvements. The Organization incurred related expenses totaling \$23,350 during 2012 which is recorded as grants receivable at December 31, 2012.

During 2010, the Organization was awarded a grant totaling \$150,000 to be used for updating landscaping. The Organization received \$50,000 per year from 2010 to 2012. Balances of grants receivable in less than one year was considered to approximate fair value, accordingly, no discount to net present value was recorded as of December 31, 2011.

NOTE 4 – FAIR VALUE MEASUREMENTS AND INVESTMENTS

The Organization has adopted the fair value measurement topic of the FASB ASC, which establishes a framework for measuring fair value. The framework 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 (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements).

The three levels of the fair value hierarchy are described below:

- 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.
- Level 2 Inputs to the valuation methodology include the following:
 - 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 (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

NASHVILLE ZOO INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2012 and 2011

NOTE 4 – FAIR VALUE MEASUREMENTS AND INVESTMENTS (Continued)

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset 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 need to maximize the use of observable inputs and minimize the use of unobservable inputs. A description of the valuation methodologies used for assets measured at fair value is as follows:

Fixed income securities: Valued at the net asset value ("NAV") of shares held by the Organization at year end.

Equity securities: Valued at the net asset value ("NAV") of shares held by the Organization at year end.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Organization 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.

The following table sets forth by level, within the fair value hierarchy, the Organization's assets at fair value as of December 31:

	2012		
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
			<u>Total</u>
Public Equity:			
Large cap U.S. equity	\$ 3,393,569	\$ -	\$ -
International equity	1,608,782	-	-
Small/mid cap U.S. equity	1,169,241	-	-
Equity opportunity	564,978	-	-
Master limited partnerships	<u>465,366</u>	<u>-</u>	<u>-</u>
Total public equity	<u>7,201,936</u>	<u>-</u>	<u>-</u>
Fixed income:			
Core strategies	2,372,317	-	-
Short duration	701,595	-	-
Credit opportunity	452,840	-	-
High yield strategies	<u>263,154</u>	<u>-</u>	<u>-</u>
Total fixed income	<u>3,789,906</u>	<u>-</u>	<u>-</u>

NASHVILLE ZOO INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2012 and 2011

NOTE 4 – FAIR VALUE MEASUREMENTS AND INVESTMENTS (Continued)

Other investments:

Hedge and low volatility strategies	1,306,901	-	-	1,306,901
Private equity	318,349	-	-	318,349
Commodities	<u>153,813</u>	<u>-</u>	<u>-</u>	<u>153,813</u>
Total other investments	<u>1,779,063</u>	<u>-</u>	<u>-</u>	<u>1,779,063</u>
Total assets at fair value	<u>\$12,770,905</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$12,770,905</u>

	2011			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Public Equity:				
Large cap U.S. equity	\$ 3,234,930	\$ -	\$ -	\$ 3,234,930
International equity	1,482,322	-	-	1,482,322
Small/mid cap U.S. equity	1,035,827	-	-	1,035,827
Equity opportunity	652,906	-	-	652,906
Equity energy funds	<u>272,673</u>	<u>-</u>	<u>-</u>	<u>272,673</u>
Total public equity	<u>6,678,658</u>	<u>-</u>	<u>-</u>	<u>6,678,658</u>
Fixed income:				
Core strategies	2,474,616	-	-	2,474,616
Credit opportunity	609,514	-	-	609,514
Short duration	602,247	-	-	602,247
High yield strategies	<u>252,103</u>	<u>-</u>	<u>-</u>	<u>252,103</u>
Total fixed income	<u>3,938,480</u>	<u>-</u>	<u>-</u>	<u>3,938,480</u>
Other investments:				
Hedge and low volatility strategies	1,451,120	-	-	1,451,120
Private equity	198,000	-	-	198,000
Commodities	<u>146,051</u>	<u>-</u>	<u>-</u>	<u>146,051</u>
Total other investments	<u>1,795,171</u>	<u>-</u>	<u>-</u>	<u>1,795,171</u>
Total assets at fair value	<u>\$12,412,309</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$12,412,309</u>

NASHVILLE ZOO INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2012 and 2011

NOTE 5 – PROPERTY AND EQUIPMENT

Property and equipment are summarized as follows at December 31:

	<u>2012</u>	<u>2011</u>
Buildings and improvements	\$ 29,457,205	\$ 29,193,649
Land	200,000	200,000
Equipment	1,684,411	1,514,670
Vehicles	<u>428,163</u>	<u>396,463</u>
	31,769,779	31,304,782
Less accumulated depreciation	<u>(14,393,810)</u>	<u>(12,606,101)</u>
Net property and equipment	<u>\$ 17,375,969</u>	<u>\$ 18,698,681</u>

Construction in progress at December 31, 2012 and 2011 of \$381,482 and \$241,388, respectively, represents ongoing construction of various animal exhibits and infrastructure at the Grassmere location.

NOTE 6 – LINE OF CREDIT

During 2011, the Organization extended its line of credit, maintaining maximum borrowings at \$3,550,000. The line charged interest at a variable rate of LIBOR plus 1.75% and required the Organization to make a quarterly payment equal to 0.25% of the average unused amount available under the agreement. The line was secured by the Organization's endowment accounts. It matured in August 2012 and was not renewed. Outstanding balances under the line of credit totaled \$1,300,000 at December 31, 2011.

NOTE 7 – NOTE PAYABLE – RELATED PARTY

During 2009, the Organization entered into an agreement to pay the current president \$450,000 for his personal animal collection given to the Organization in 1990. As of December 31, 2012 and 2011, \$400,000 and \$350,000, respectively, has been paid related to the agreement. The outstanding balance of \$50,000 and \$100,000 is reflected in the accompanying 2012 and 2011 statements of financial position, respectively, as note payable – related party. This amount is to be paid at \$50,000 per year.

NASHVILLE ZOO INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2012 and 2011

NOTE 8 – TEMPORARILY RESTRICTED NET ASSETS

The Organization receives contributions from donors with the stipulation that such contributions are to be used for specific purposes. Temporarily restricted net assets are available as follows at December 31:

	<u>2012</u>	<u>2011</u>
Children's zoo	\$ 1,000,000	\$ 1,000,000
Kangaroo exhibit	186,179	-
Landscaping	57,036	57,036
Tortoise exhibit	30,000	-
Outreach	25,000	-
Education and technology	15,515	30,043
Other	11,693	11,441
Bamboo Trail graphics	9,518	9,518
Lorikeet Landing upgrades	2,568	3,605
Croft House and Farm	<u>-</u>	<u>1,108</u>
	<u>\$ 1,337,509</u>	<u>\$ 1,112,751</u>

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes stipulated by donors as follows:

	<u>2012</u>	<u>2011</u>
Purpose restriction satisfied	<u>\$ 59,397</u>	<u>\$ 323,184</u>

NOTE 9 – PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets consist of the following endowment funds at December 31:

	<u>2012</u>	<u>2011</u>
Investments to be held for production of income:		
General endowment	<u>\$ 12,461,736</u>	<u>\$ 12,456,646</u>

The interest earned on permanently restricted net assets is available to the Organization on an unrestricted basis.

The Organization's endowment consists of donor restricted gifts held in investment accounts. As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds are classified and reported based upon the existence or absence of donor-imposed restrictions.

NASHVILLE ZOO INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2012 and 2011

NOTE 9 – PERMANENTLY RESTRICTED NET ASSETS (Continued)

Changes in Endowment Net Assets for the fiscal year ended December 31, 2012:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 103,552	\$ -	\$ 12,456,646	\$ 12,560,198
Contributions, net	-	-	5,090	5,090
Withdrawals	(950,000)	-	-	(950,000)
Investment return:				
Net appreciation (realized and unrealized)	<u>1,402,334</u>	<u>-</u>	<u>-</u>	<u>1,402,334</u>
Endowment net assets, end of year	<u>\$ 555,886</u>	<u>\$ -</u>	<u>\$ 12,461,736</u>	<u>\$ 13,017,622</u>

Changes in Endowment Net Assets for the fiscal year ended December 31, 2011:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 233,723	\$ -	\$ 12,455,580	\$ 12,689,303
Contributions, net	-	-	1,066	1,066
Investment return:				
Net appreciation (realized and unrealized)	<u>(130,171)</u>	<u>-</u>	<u>-</u>	<u>(130,171)</u>
Endowment net assets, end of year	<u>\$ 103,552</u>	<u>\$ -</u>	<u>\$ 12,456,646</u>	<u>\$ 12,560,198</u>

Interpretation of Relevant Law

The Organization has interpreted the UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the 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 unrestricted net assets until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by UPMIFA.

NASHVILLE ZOO INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2012 and 2011

NOTE 9 – PERMANENTLY RESTRICTED NET ASSETS (Continued)

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Organization to retain as a fund of perpetual duration. In accordance with accounting principles generally accepted in the United States of America, there were no deficiencies of this nature at December 31, 2012 or 2011.

Endowment Investment Policy and Risk Parameters

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 while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Organization must hold in perpetuity or for a donor-specified period.

Under this policy, the Organization's investment policy is generally to achieve a minimum real rate of return of 2% by maintaining 20%-85% of its portfolio in equities and 15%-60% of its portfolio in fixed income securities with the remaining 0%-25% in cash equivalents or alternative assets.

Strategies Employed for Achieving Investment Objectives

To satisfy its long-term rate-of-return objectives, the Organization relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Organization targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Organization has a policy of appropriating, as necessary, dividend and interest income from the endowment fund. Additionally, no more than once per calendar year, the Board of Directors may direct up to 10% of the current value of the endowment fund be distributed to the Organization's operating account for construction of new exhibits or to satisfy operating expenses that the Organization has been unable to pay through day-to-day operations. Specific agreements with donors for income taken relative to their specific endowment gifts are exempted.

NASHVILLE ZOO INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2012 and 2011

NOTE 10 – IN-KIND CONTRIBUTIONS

The Organization received contributed goods and services during 2012 and 2011 meeting the requirements for recognition and consisting of the following:

	<u>2012</u>	<u>2011</u>
Donated property and equipment	\$ -	\$ 241,795
Payroll services	<u>7,500</u>	<u>7,200</u>
	<u>\$ 7,500</u>	<u>\$ 248,995</u>

NOTE 11 – GOVERNMENT GRANTS

During 2011, the Organization received a grant from Metro totaling \$330,000. Under the terms of the grant, the Organization was reimbursed for expenditures for required materials; however, labor costs were paid by Metro directly to the applicable vendor. For the year ended December 31, 2011, the Organization received \$110,721 under this agreement. Additionally, \$219,279 was paid directly to vendors by Metro.

NOTE 12 – CONCENTRATIONS

At times throughout the year, the Organization may maintain cash balances at financial institutions in excess of FDIC insured limits. Amounts in excess of these limits totaled approximately \$2,000,000 at December 31, 2012. There were no amounts in excess of these limits at December 31, 2011. The Organization has not experienced any losses in such accounts. Management believes the Organization is not exposed to any significant credit risk related to cash and cash equivalents.

NOTE 13 – LEASES

During 1997, the Organization executed a lease with the express purpose of moving the Nashville Zoo from Joelton, Tennessee to Grassmere Wildlife Park. Grassmere Wildlife Park, located within the city of Nashville, Tennessee, contains approximately 182 acres of land with various land improvements and buildings. The lease extends for forty years and required a payment of \$40 with no further amounts due. Grassmere Wildlife Park is governed by a trust document which restricts the use of the park to nature study and the preservation of animals. At the end of the lease term, all permanent improvements made to the property revert to Metro.

Due to the restrictions placed on the use of the land by the trust document, fair market value is not readily determinable. Accordingly, no contribution or rental expense has been recorded in the financial statements.

The Organization has also entered into operating leases for various office equipment. The leases require total annual payments of approximately \$8,000 and extend through 2015.

NASHVILLE ZOO INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2012 and 2011

NOTE 14 – RETIREMENT PLANS

Effective May 1, 2002, the Organization established the Nashville Zoo Inc. 401(k) Plan (the “Plan”). Full time employees over the age of 21 with at least one year of service are eligible to participate in the Plan. Participants may elect to defer up to 25% of compensation into the Plan; however, the Organization does not match employee contributions. Discretionary contributions will be made to the Plan as determined by the Board of Directors. For the years ended December 31, 2012 and 2011, the Organization did not make any contributions to the Plan.

During 2010, the Organization’s Board of Directors approved an additional retirement fund for key employees. During the years ended December 31, 2012 and 2011, pension fund expense totaled \$22,153 and \$35,164, respectively, related to this fund. This plan is currently unfunded.

NOTE 15 – AGREEMENTS

The Organization has entered into an arrangement with a concessionaire for restaurant and gift shop operations at the zoo facility. This arrangement began on January 1, 2006 and continues through December 31, 2017. The Organization will receive fees under this arrangement based on a percentage of gross receipts. Income from the arrangement totaled approximately \$825,000 and \$653,000 for 2012 and 2011, respectively.

SUPPLEMENTARY INFORMATION

NASHVILLE ZOO INC.
SCHEDULES OF PROGRAM EXPENSES
For the years ended December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Salaries	\$ 3,607,997	\$ 3,240,743
Depreciation	1,791,008	1,752,342
Other	689,923	328,175
Repairs and maintenance	609,728	560,259
Utilities	556,040	565,213
Benefits	517,192	421,932
Animal care	468,593	418,066
Insurance	227,082	199,558
Special events/education	178,162	131,402
Promotions	172,828	137,225
Membership development	77,764	108,446
Parking expenses	68,892	78,297
Auto and truck	55,879	51,936
Fees, licenses, and dues	45,161	39,547
Animal collection	33,483	64,021
Freight	21,142	21,168
Interest	11,919	36,645
	<u> </u>	<u> </u>
Total program expenses	<u><u>\$ 9,132,793</u></u>	<u><u>\$ 8,154,975</u></u>

NASHVILLE ZOO INC.
SCHEDULES OF MANAGEMENT AND GENERAL EXPENSES
For the years ended December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Salaries	\$ 559,710	\$ 527,945
Bank and investment fees	177,559	140,319
Benefits	102,385	175,893
Professional fees	24,075	71,415
Office supplies	17,773	15,710
Travel and entertainment	17,452	17,193
Recruiting	7,926	9,865
Postage	7,089	6,981
Employee awards	<u>3,523</u>	<u>2,959</u>
Total management and general expenses	<u><u>\$ 917,492</u></u>	<u><u>\$ 968,280</u></u>

NASHVILLE ZOO INC.
SCHEDULES OF FUNDRAISING EXPENSES
For the years ended December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Salaries	\$ 172,451	\$ 150,667
Special events	55,934	62,891
Development	35,302	22,126
Benefits	24,720	19,616
Amortization	<u>21,000</u>	<u>21,000</u>
 Total fundraising expenses	 <u><u>\$ 309,407</u></u>	 <u><u>\$ 276,300</u></u>