

NASHVILLE ZOO INC.

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

December 31, 2011 and 2010

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 statements of financial position of Nashville Zoo Inc. (a non-profit organization) as of December 31, 2011 and 2010, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of Nashville Zoo Inc.'s management. 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of Nashville Zoo Inc. as of December 31, 2011 and 2010, and the results of its activities and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits were made for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying supplementary information on pages 20 – 22 is presented for purposes of additional analysis and 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 taken as a whole.

Fraser, Dean & Howard, PLLC

March 12, 2012

NASHVILLE ZOO INC.
STATEMENTS OF FINANCIAL POSITION
December 31, 2011 and 2010

	2011	2010
Assets		
Current assets:		
Cash and cash equivalents	\$ 419,413	\$ 429,464
Accounts receivable	12,074	8,612
Contributions receivable	155,000	175,200
Grant receivable	50,000	50,000
Prepaid expenses	32,020	38,205
Total current assets	668,507	701,481
Grant receivable, net of current portion and discounts	-	48,426
Prepaid membership	126,000	147,000
Investments	12,412,309	12,475,960
Construction in progress	241,388	69,638
Property and equipment - net of accumulated depreciation of \$12,606,101 and \$10,853,759 for 2011 and 2010, respectively	18,698,681	19,948,549
Total assets	<u>\$ 32,146,885</u>	<u>\$ 33,391,054</u>
Liabilities and Net Assets		
Current liabilities:		
Line of credit	\$ 1,300,000	\$ 1,725,000
Accounts payable	306,501	167,188
Accrued expenses	257,899	214,410
Note payable - related party	50,000	50,000
Note payable	-	330,000
Deferred revenue	4,478	-
Total current liabilities	1,918,878	2,486,598
Note payable - related party, net of current portion	50,000	100,000
Total liabilities	<u>1,968,878</u>	<u>2,586,598</u>
Net assets:		
Unrestricted	16,608,610	17,117,601
Temporarily restricted	1,112,751	1,231,275
Permanently restricted	12,456,646	12,455,580
Total net assets	<u>30,178,007</u>	<u>30,804,456</u>
Total liabilities and net assets	<u>\$ 32,146,885</u>	<u>\$ 33,391,054</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.
STATEMENT OF ACTIVITIES
For the year ended December 31, 2010

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Public support and revenues:				
Gate admissions	\$ 3,063,326	\$ -	\$ -	\$ 3,063,326
Memberships	1,867,891	-	-	1,867,891
Park income, special events, and education	1,714,007	-	-	1,714,007
Investment income	1,311,297	-	-	1,311,297
Grants	714,042	150,000	-	864,042
Contributions	482,129	86,300	3,667	572,096
Other	96,949	-	-	96,949
	<u>9,249,641</u>	<u>236,300</u>	<u>3,667</u>	<u>9,489,608</u>
Total public support and revenues	9,249,641	236,300	3,667	9,489,608
Net assets released from restrictions	<u>857,552</u>	<u>(857,552)</u>	<u>-</u>	<u>-</u>
	<u>10,107,193</u>	<u>(621,252)</u>	<u>3,667</u>	<u>9,489,608</u>
Expenses:				
Program	7,884,691	-	-	7,884,691
Management and general	792,026	-	-	792,026
Fundraising	285,306	-	-	285,306
	<u>8,962,023</u>	<u>-</u>	<u>-</u>	<u>8,962,023</u>
Total expenses	8,962,023	-	-	8,962,023
Change in net assets from operations	1,145,170	(621,252)	3,667	527,585
Gain from write-off of disputed debt	<u>8,513,851</u>	<u>-</u>	<u>-</u>	<u>8,513,851</u>
Change in net assets	9,659,021	(621,252)	3,667	9,041,436
Net assets at beginning of year	<u>7,458,580</u>	<u>1,852,527</u>	<u>12,451,913</u>	<u>21,763,020</u>
Net assets at end of year	<u>\$ 17,117,601</u>	<u>\$ 1,231,275</u>	<u>\$ 12,455,580</u>	<u>\$ 30,804,456</u>

See accompanying notes.

NASHVILLE ZOO INC.
STATEMENTS OF CASH FLOWS
For the years ended December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Cash flows from operating activities:		
Change in net assets	\$ (626,449)	\$ 9,041,436
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	1,773,342	1,690,778
Donated property and equipment	(241,795)	-
Noncash disposal of property and equipment	(330,000)	-
Discount on contributions receivable	(1,574)	944
Gain on write off of disputed debt	-	(8,513,851)
Realized and unrealized loss (gain) on investments	419,117	(984,103)
Changes in operating assets and liabilities:		
Accounts receivable	(3,462)	2,790
Contributions receivable	20,200	20,000
Grant receivable	50,000	703,919
Prepaid expenses and membership	6,185	19,875
Accounts payable	139,313	(53,134)
Accrued expenses	43,489	81,457
Deferred revenue	4,478	-
Net cash provided by operating activities	<u>1,252,844</u>	<u>2,010,111</u>
Cash flows from investing activities:		
Purchases of property and equipment and construction in progress	(432,429)	(1,539,392)
Purchases of investments	(7,426,184)	(3,550,566)
Sales of investments	7,070,718	3,226,854
Net cash used in investing activities	<u>(787,895)</u>	<u>(1,863,104)</u>
Cash flows from financing activities:		
Note payable - related party	(50,000)	(50,000)
Borrowings under line of credit	1,175,000	875,000
Payments on line of credit	(1,600,000)	(920,000)
Net cash used in financing activities	<u>(475,000)</u>	<u>(95,000)</u>
(Decrease) increase in cash and cash equivalents	(10,051)	52,007
Cash and cash equivalents at beginning of year	429,464	377,457
Cash and cash equivalents at end of year	<u>\$ 419,413</u>	<u>\$ 429,464</u>
Supplemental information:		
Interest paid	<u>\$ 36,645</u>	<u>\$ 52,735</u>

See accompanying notes.

NASHVILLE ZOO INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2011 and 2010

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, 2011 and 2010

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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NASHVILLE ZOO INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2011 and 2010

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, 2008 through 2011.

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 \$137,225 and \$135,336 during 2011 and 2010, respectively.

Subsequent Events

The Organization evaluated subsequent events through March 12, 2012, 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, 2011 and 2010

NOTE 2 – CONTRIBUTIONS RECEIVABLE

Unconditional promises to give totaling \$155,000 and \$175,200 at December 31, 2011 and 2010, 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 2010, the Organization was awarded a grant totaling \$150,000 to be used for updating landscaping. The Organization received \$50,000 during 2011 and 2010, respectively. Balances of grants receivable in less than one year are considered to approximate fair value accordingly, no discount to net present value is recorded as of December 31, 2011. At December 31, 2010, grants receivable in one to five years are reflected at present value of estimated future cash flows using a discount rate approximating the prime lending rate at December 31, 2010.

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.

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

NASHVILLE ZOO INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2011 and 2010

NOTE 4 – FAIR VALUE MEASUREMENTS AND INVESTMENTS (Continued)

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:

	2011			
	Level 1	Level 2	Level 3	Total
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>

NASHVILLE ZOO INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2011 and 2010

NOTE 4 – FAIR VALUE MEASUREMENTS AND INVESTMENTS (Continued)

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>

2010				
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Public Equity:				
Large cap U.S. equity	\$ 3,468,793	\$ -	\$ -	\$ 3,468,793
International equity	1,734,417	-	-	1,734,417
Small/mid cap U.S. equity	<u>1,604,204</u>	<u>-</u>	<u>-</u>	<u>1,604,204</u>
Total public equity	<u>6,807,414</u>	<u>-</u>	<u>-</u>	<u>6,807,414</u>
Fixed income:				
Core strategies	2,753,406	-	-	2,753,406
Credit opportunity	614,081	-	-	614,081
Short duration	342,540	-	-	342,540
High yield strategies	<u>249,433</u>	<u>-</u>	<u>-</u>	<u>249,433</u>
Total fixed income	<u>3,959,460</u>	<u>-</u>	<u>-</u>	<u>3,959,460</u>
Other investments:				
Hedge and low volatility strategies	1,427,295	-	-	1,427,295
Commodities	155,791	-	-	155,791
Private equity	<u>126,000</u>	<u>-</u>	<u>-</u>	<u>126,000</u>
Total other investments	<u>1,709,086</u>	<u>-</u>	<u>-</u>	<u>1,709,086</u>
Total assets at fair value	<u>\$12,475,960</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$12,475,960</u>

NASHVILLE ZOO INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2011 and 2010

NOTE 5 – PROPERTY AND EQUIPMENT

Property and equipment are summarized as follows at December 31:

	<u>2011</u>	<u>2010</u>
Buildings and improvements	\$ 29,193,649	\$ 28,855,398
Land	200,000	530,000
Equipment	1,514,670	1,271,237
Vehicles	<u>396,463</u>	<u>145,673</u>
	31,304,782	30,802,308
Less accumulated depreciation	<u>(12,606,101)</u>	<u>(10,853,759)</u>
Net property and equipment	<u>\$ 18,698,681</u>	<u>\$ 19,948,549</u>

Construction in progress at December 31, 2011 and 2010 of \$241,388 and \$69,638, respectively, represents ongoing construction of various animal exhibits and infrastructure at the Grassmere location.

During 2004, the Organization ceased using the Joelton property and had no plans to use the property in future operations. At that time, management assessed the Joelton property and related assets for impairment. The value of these assets was reduced to the estimated fair market value of \$330,000. During 2011, this property was disposed in conjunction with the payoff of a note payable discussed in Note 7.

NOTE 6 – LINE OF CREDIT

During 2011, the Organization extended its line of credit, maintaining maximum borrowings at \$3,550,000. The line bears interest at a variable rate of LIBOR plus 1.75% and requires the Organization to make a quarterly payment equal to 0.25% of the average unused amount available under the agreement. The line matures in August 2012 and is secured by the Organization's endowment accounts. Outstanding balances under the line of credit totaled \$1,300,000 and \$1,725,000 at December 31, 2011 and 2010, respectively.

NOTE 7 – NOTE PAYABLE

At December 31, 2010, the Organization had a non-recourse note payable to a company controlled by the former president of the Organization that matured November 2000. The note was secured by the Joelton property and general intangibles to the extent such existed at July 1, 1999, but excluded fixtures, equipment, supplies and machinery, transferred to the Organization's Grassmere facility. The estimated remaining book value of such collateral totaled approximately \$330,000.

NASHVILLE ZOO INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2011 and 2010

NOTE 7 – NOTE PAYABLE (Continued)

During 2010, the Organization, in consultation with legal counsel, wrote the disputed debt down to the value of the remaining collateral, recognizing a nonoperating gain of \$8,513,851 including write-off of principal and accrued interest. During 2011, the Organization signed over the deed of the Joelton property to satisfy the remaining debt resulting in the elimination of the note payable and the land serving as collateral of this note. (See Note 17.)

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>2011</u>	<u>2010</u>
Children's zoo	\$ 1,000,000	\$ 1,000,000
Education and technology	30,043	50,000
Landscaping	57,036	150,000
Bamboo Trail graphics	9,518	9,518
Lorikeet Landing upgrades	3,605	8,441
Croft House and Farm	1,108	3,258
Other	<u>11,441</u>	<u>10,058</u>
	<u>\$ 1,112,751</u>	<u>\$ 1,231,275</u>

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

	<u>2011</u>	<u>2010</u>
Purpose restriction satisfied	<u>\$ 323,184</u>	<u>\$ 857,552</u>

NOTE 9 – PERMANENTLY RESTRICTED NET ASSETS

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

	<u>2011</u>	<u>2010</u>
Investments to be held for production of income:		
General endowment	<u>\$ 12,456,646</u>	<u>\$ 12,455,580</u>

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

NASHVILLE ZOO INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2011 and 2010

NOTE 9 – PERMANENTLY RESTRICTED NET ASSETS (Continued)

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.

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>

Changes in Endowment Net Assets for the fiscal year ended December 31, 2010:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ (1,063,559)	\$ -	\$ 12,451,913	\$ 11,388,354
Contributions, net	-	-	3,667	3,667
Investment return:				
Net appreciation (realized and unrealized)	<u>1,297,282</u>	<u>-</u>	<u>-</u>	<u>1,297,282</u>
Endowment net assets, end of year	<u>\$ 233,723</u>	<u>\$ -</u>	<u>\$ 12,455,580</u>	<u>\$ 12,689,303</u>

NASHVILLE ZOO INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2011 and 2010

NOTE 9 – PERMANENTLY RESTRICTED NET ASSETS (Continued)

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.

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, 2011 or 2010.

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.

NASHVILLE ZOO INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2011 and 2010

NOTE 9 – PERMANENTLY RESTRICTED NET ASSETS (Continued)

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.

NOTE 10 – IN-KIND CONTRIBUTIONS

The Organization received contributed goods and services during 2011 and 2010 meeting the requirements for recognition and consisting of the following:

	<u>2011</u>	<u>2010</u>
Donated property and equipment	\$ 241,795	\$ -
Payroll services	<u>7,200</u>	<u>6,300</u>
	<u>\$ 248,995</u>	<u>\$ 6,300</u>

NOTE 11 – GOVERNMENT GRANTS

During 2009, the Organization received a grant from the Metropolitan Government of Nashville and Davidson County ("Metro") totaling \$1,000,000. According to terms of the grant, the Organization will be reimbursed for expenditures up to this amount. For the years ended December 31, 2011 and 2010, the Organization received \$126,832 and \$709,592, respectively, under this agreement. The Organization was reimbursed \$163,576 during 2009. There is no time frame for spending these funds other than expenditures must be incurred after July 6, 2009.

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. There were no amounts in excess of these limits at December 31, 2011 and 2010.

NASHVILLE ZOO INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2011 and 2010

NOTE 13 – RELATED PARTY TRANSACTIONS

The statement of financial position for 2010 includes a disputed note payable of \$330,000 owed to a company controlled by the former president of the Organization (See Note 17).

The Organization's former president controls various other companies which claim to have made advances to the Organization for management, working capital and debt service. During 2010, the Organization's management wrote off these amounts after consulting with legal counsel. (See Note 17).

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, 2011 and 2010, \$350,000 and \$300,000, respectively, has been paid related to the agreement. The outstanding balance of \$100,000 and \$150,000 is reflected in the accompanying 2011 and 2010 statements of financial position, respectively, as note payable – related party. This amount is to be paid at \$50,000 per year.

NOTE 14 – 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 \$10,000 and extend through 2015.

NOTE 15 – 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, 2011 and 2010, the Organization did not make any contributions to the Plan.

NASHVILLE ZOO INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2011 and 2010

NOTE 15 – RETIREMENT PLANS (Continued)

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

NOTE 16 – 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 \$653,000 and \$601,000 for 2011 and 2010, respectively.

NOTE 17 – UNCERTAINTY

The Organization's liabilities at December 31, 2009 included \$4,992,107 in alleged and disputed note principal and \$2,205,000 in alleged and disputed interest due to a company controlled by the Organization's former president. In addition, certain companies controlled by the Organization's former president claim to have made advances to the Organization in prior years in the principal amount of \$969,051, and claim entitlement to payment of related interest charges of \$677,995.

During 2010, the Organization's management, after consultation with legal counsel, wrote the balance of the disputed note principal down to \$330,000 approximating the fair value of the Joelton property serving as collateral of the disputed note payable. (See Note 7.) Additionally, all balances related to the claimed advances and related interest were written off. These transactions resulted in the Organization recognizing a nonoperating gain of \$8,513,851 in the accompanying statement of activities for the year ended December 31, 2010.

During 2011, the Organization signed over the deed to the Joelton property to satisfy the remaining debt. The Organization's management believes no liability exists above the \$330,000 value of the collateral due to the expiration of the statute of limitations for which claims can be made and due to various legal remedies.

SUPPLEMENTARY INFORMATION

NASHVILLE ZOO INC.
SCHEDULES OF PROGRAM EXPENSES
For the years ended December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Salaries	\$ 3,240,743	\$ 3,184,518
Depreciation	1,752,342	1,669,778
Utilities	565,213	535,974
Repairs and maintenance	560,259	500,056
Benefits	421,932	459,691
Animal care	418,066	363,287
Other	328,175	281,523
Insurance	199,558	211,877
Promotions	137,225	135,336
Special events/education	131,402	138,856
Membership development	108,446	118,229
Parking expenses	78,297	-
Animal collection	64,021	117,357
Auto and truck	51,936	47,041
Fees, licenses, and dues	39,547	43,934
Interest	36,645	52,735
Freight	21,168	24,499
	<u> </u>	<u> </u>
Total program expenses	<u>\$ 8,154,975</u>	<u>\$ 7,884,691</u>

NASHVILLE ZOO INC.
SCHEDULES OF MANAGEMENT AND GENERAL EXPENSES
For the years ended December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Salaries	\$ 527,945	\$ 456,349
Benefits	175,893	99,368
Bank and investment fees	140,319	122,786
Professional fees	71,415	76,961
Travel and entertainment	17,193	7,520
Office supplies	15,710	16,358
Recruiting	9,865	3,339
Postage	6,981	9,345
Employee awards	<u>2,959</u>	<u>-</u>
Total management and general expenses	<u><u>\$ 968,280</u></u>	<u><u>\$ 792,026</u></u>

NASHVILLE ZOO INC.
SCHEDULES OF FUNDRAISING EXPENSES
For the years ended December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Salaries	\$ 150,667	\$ 183,083
Special events	62,891	43,442
Development	22,126	11,353
Amortization	21,000	21,000
Benefits	<u>19,616</u>	<u>26,428</u>
Total fundraising expenses	<u><u>\$ 276,300</u></u>	<u><u>\$ 285,306</u></u>