

NASHVILLE ZOO INC.
FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION

December 31, 2006 and 2005



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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, 2006 and 2005, 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, 2006 and 2005, 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 basic financial statements taken as a whole. The accompanying supplementary information on pages 17 – 19 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Fraser, Dean & Howard, PLLC

April 27, 2007

NASHVILLE ZOO INC.

TABLE OF CONTENTS

Independent Auditor's Report	2
Financial Statements:	
Statements of Financial Position.....	3
Statements of Activities	4 – 5
Statements of Cash Flows	6
Notes to Financial Statements	7 – 16
Supplementary Information:	
Schedules of Program Expenses	17
Schedules of Management and General Expenses.....	18
Schedules of Fundraising Expenses.....	19

NASHVILLE ZOO INC.
STATEMENTS OF FINANCIAL POSITION
December 31, 2006 and 2005

Assets

	<u>2006</u>	<u>2005</u>
Current assets:		
Cash and cash equivalents	\$ 2,015,128	\$ 2,143,716
Accounts receivable	12,685	31,885
Contributions receivable	35,083	41,249
Grant receivable	-	3,507,054
Prepaid expenses	<u>93,816</u>	<u>53,892</u>
Total current assets	2,156,712	5,777,796
Contributions receivable, net of current portion and discounts	181,700	447,967
Investments	12,897,703	9,774,478
Construction in progress	243,612	1,460,620
Property and equipment - net of accumulated depreciation of \$4,682,847 and \$3,370,765 for 2006 and 2005, respectively	<u>19,769,317</u>	<u>17,521,286</u>
Total assets	<u><u>\$ 35,249,044</u></u>	<u><u>\$ 34,982,147</u></u>

Liabilities and Net Assets

Current liabilities:		
Line of credit	\$ 1,300,000	\$ 2,205,000
Accounts payable	229,870	574,403
Accrued expenses	70,122	51,822
Advances from former affiliates	969,051	969,051
Accrued interest - former affiliates	2,882,693	2,882,693
Notes payable	<u>4,992,107</u>	<u>5,093,548</u>
Total current liabilities	10,443,843	11,776,517
Total liabilities	<u>10,443,843</u>	<u>11,776,517</u>
Net assets:		
Unrestricted	11,608,077	9,529,464
Temporarily restricted	1,031,446	1,910,694
Permanently restricted	<u>12,165,678</u>	<u>11,765,472</u>
Total net assets	24,805,201	23,205,630
Total liabilities and net assets	<u><u>\$ 35,249,044</u></u>	<u><u>\$ 34,982,147</u></u>

See accompanying notes.

NASHVILLE ZOO INC.
STATEMENT OF ACTIVITIES
For the year ended December 31, 2006

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Public support and revenues:				
Contributions	\$ 669,238	\$ 811,285	\$ 400,206	\$ 1,880,729
Grants - Metropolitan Government of Nashville and Davidson County	444,143	-	-	444,143
Gate admissions	2,464,192	-	-	2,464,192
Vending and special events	1,202,644	-	-	1,202,644
Memberships	1,413,833	-	-	1,413,833
Investment income	1,621,480	-	-	1,621,480
Other	14,305	-	-	14,305
	<u>7,829,835</u>	<u>811,285</u>	<u>400,206</u>	<u>9,041,326</u>
Total public support and revenues	7,829,835	811,285	400,206	9,041,326
Net assets released from restrictions	<u>1,690,533</u>	<u>(1,690,533)</u>	<u>-</u>	<u>-</u>
	<u>9,520,368</u>	<u>(879,248)</u>	<u>400,206</u>	<u>9,041,326</u>
Expenses:				
Program	6,400,076	-	-	6,400,076
Management and general	705,676	-	-	705,676
Fundraising	336,003	-	-	336,003
	<u>7,441,755</u>	<u>-</u>	<u>-</u>	<u>7,441,755</u>
Total expenses	7,441,755	-	-	7,441,755
Change in net assets	2,078,613	(879,248)	400,206	1,599,571
Net assets at beginning of year	<u>9,529,464</u>	<u>1,910,694</u>	<u>11,765,472</u>	<u>23,205,630</u>
Net assets at end of year	<u>\$11,608,077</u>	<u>\$1,031,446</u>	<u>\$12,165,678</u>	<u>\$24,805,201</u>

See accompanying notes.

NASHVILLE ZOO INC.
STATEMENT OF ACTIVITIES
For the year ended December 31, 2005

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Public support and revenues:				
Contributions	\$ 297,876	\$ 528,000	\$ 1,771,986	\$ 2,597,862
Grants - Metropolitan Government of Nashville and Davidson County	4,555,856	-	-	4,555,856
Gate admissions	2,228,823	-	-	2,228,823
Vending and special events	830,530	-	-	830,530
Memberships	1,044,200	-	-	1,044,200
Investment income	706,939	-	-	706,939
Other	25,543	-	-	25,543
Total public support and revenues	9,689,767	528,000	1,771,986	11,989,753
Net assets released from restrictions	857,939	(857,939)	-	-
	<u>10,547,706</u>	<u>(329,939)</u>	<u>1,771,986</u>	<u>11,989,753</u>
Expenses:				
Program	6,316,770	-	-	6,316,770
Management and general	593,148	-	-	593,148
Fundraising	219,742	-	-	219,742
Total expenses	<u>7,129,660</u>	<u>-</u>	<u>-</u>	<u>7,129,660</u>
Change in net assets	3,418,046	(329,939)	1,771,986	4,860,093
Net assets at beginning of year	<u>6,111,418</u>	<u>2,240,633</u>	<u>9,993,486</u>	<u>18,345,537</u>
Net assets at end of year	<u>\$ 9,529,464</u>	<u>\$ 1,910,694</u>	<u>\$11,765,472</u>	<u>\$23,205,630</u>

See accompanying notes.

NASHVILLE ZOO INC.
STATEMENTS OF CASH FLOWS
For the years ended December 31, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Cash flows from operating activities:		
Change in net assets	\$ 1,599,571	\$ 4,860,093
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	1,312,083	1,069,284
Loss on disposal or impairment of property and equipment	-	6,651
Discount on contributions receivable	(15,531)	31,607
Contributions restricted for permanent investment	(380,000)	-
Realized and unrealized (gain) loss on investments	(1,027,390)	(476,730)
Property and equipment donation	(288,800)	(21,843)
Donation of corporate stock	(76,136)	(1,082,290)
Changes in operating assets and liabilities:		
Accounts receivable	19,200	(6,141)
Contributions receivable	40,166	(291,987)
Grant receivable	3,507,054	(3,507,054)
Prepaid expenses	(39,924)	7,774
Accounts payable	(344,533)	353,239
Accrued expenses	18,300	(305)
Accrued interest - former affiliates	-	336,669
Net cash provided by operating activities	<u>4,324,060</u>	<u>1,278,967</u>
Cash flows from investing activities:		
Purchases of property and equipment and construction in progress	(2,054,306)	(3,439,472)
Proceeds from disposal of property and equipment	-	20,000
Purchases of investments	(3,512,916)	(14,119,225)
Sale of investments	<u>1,493,217</u>	<u>13,386,124</u>
Net cash used in investing activities	<u>(4,074,005)</u>	<u>(4,152,573)</u>
Cash flows from financing activities:		
Contributions restricted for permanent investment	627,798	1,578,400
Borrowings under line of credit	550,000	2,389,771
Payments on line of credit	(1,455,000)	(1,200,000)
Issuance of notes payable	-	100,000
Payments on notes payable	<u>(101,441)</u>	<u>(8,194)</u>
Net cash (used in) provided by financing activities	<u>(378,643)</u>	<u>2,859,977</u>
(Decrease) increase in cash	(128,588)	(13,629)
Cash and cash equivalents at beginning of year	<u>2,143,716</u>	<u>2,157,345</u>
Cash and cash equivalents at end of year	<u><u>\$ 2,015,128</u></u>	<u><u>\$ 2,143,716</u></u>
Supplemental information:		
Interest paid	<u>\$ 109,173</u>	<u>\$ 83,198</u>
Noncash donation of corporate stock	<u>\$ 76,136</u>	<u>\$ 1,082,290</u>
Property and equipment donation	<u>\$ 288,800</u>	<u>\$ 21,843</u>

See accompanying notes.

NASHVILLE ZOO INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2006 and 2005

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nashville Zoo Inc. (the "Organization"), was chartered in November 1989 as a Tennessee not-for-profit Corporation to promote environmental and species conservation among Davidson County citizens and visitors by providing an educational, cultural, scientific and recreational experience. 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's significant accounting policies are as follows:

Financial Statement Presentation

The Organization has prepared its financial statements using the accrual basis of accounting in accordance with Statement of Financial Accounting Standards (SFAS) No. 117, *"Financial Statements for Not-for-Profit Organizations."* Under SFAS No. 117, 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

The Organization has also adopted Statement of Financial Accounting Standards No. 116, *"Accounting for Contributions Received and Contributions Made."* In accordance with SFAS No. 116, 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 support 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, 2006 and 2005

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.

Depreciation

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	15 – 40 years
Equipment	5 – 10 years
Vehicles	3 – 8 years

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.

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 is accounted for as revenue in the period sold. No cost is assigned to animals born at the Organization.

Advertising Costs

Advertising costs are generally expensed as incurred. Advertising and promotion expenses totaled \$213,443 and \$266,274 during 2006 and 2005, respectively.

NASHVILLE ZOO INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2006 and 2005

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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. Estimates reasonably possible to change in the near term relate to the Organization's related party debt and interest (Note 13).

Reclassifications

Certain reclassifications have been made to 2005 balances to conform with 2006 presentation.

NOTE 2 – CONTRIBUTIONS RECEIVABLE

Contributions receivable at December 31, 2006 represent unconditional promises to give which are receivable over a period of time. These receivables are deemed to be fully collectible by management.

Receivable in less than one year		\$ 35,083
Receivable in one to five years	201,667	
Less discounts to net present value	<u>(19,967)</u>	
		<u>181,700</u>
Net contributions receivable		<u>\$ 216,783</u>

Unconditional promises to give 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. Contributions 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, 2006. Substantially all contributions receivable are due for temporarily or permanently restricted purposes.

NASHVILLE ZOO INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2006 and 2005

NOTE 3 – INVESTMENTS

Investments consist of the following at December 31:

	<u>2006</u>	<u>2005</u>
Fixed income securities	\$ 1,164,822	\$ 835,126
Equity securities	<u>11,732,881</u>	<u>8,939,352</u>
	<u>\$ 12,897,703</u>	<u>\$ 9,774,478</u>

Investments at December 31, 2004 consisted of 83,400 shares of HCA, Inc. common stock valued at \$3,332,664 and classified as long-term assets due to restriction on the sale of such investments as stipulated by the donor and the long-term nature of the endowment assets. Changes in market value of this investment were utilized to reduce or increase contributions receivable based on a previous arrangement with the donor (Note 9). Such shares were sold during 2005, with the approval of the donor, and reinvested in various securities.

Investment income, including interest and dividends, and realized and unrealized gains and losses for the years ended December 31, 2006 and 2005 totaled \$1,621,480 and \$706,939, respectively.

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.

NOTE 4 – PROPERTY AND EQUIPMENT

Property and equipment are summarized as follows at December 31:

	<u>2006</u>	<u>2005</u>
Buildings and improvements	\$23,048,737	\$19,804,699
Land	530,000	330,000
Equipment	762,288	649,514
Vehicles	<u>111,139</u>	<u>107,838</u>
	24,452,164	20,892,051
Less accumulated depreciation	<u>(4,682,847)</u>	<u>(3,370,765)</u>
Net property and equipment	<u>\$19,769,317</u>	<u>\$17,521,286</u>

Construction in progress at December 31, 2006 and 2005 of \$243,612 and \$1,460,620, respectively, represents ongoing construction of various animal exhibits and infrastructure at the Grassmere location.

NASHVILLE ZOO INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2006 and 2005

NOTE 5 – 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>2006</u>	<u>2005</u>
Children's zoo	\$ 1,000,000	\$ 1,000,000
Giraffe exhibit	-	761,822
Giraffe campaign	-	83,452
Ocelot exhibit	8,954	45,504
Bamboo Trail graphics	12,000	12,000
Time restrictions	750	7,916
Craft House and Farm	<u>9,742</u>	<u>-</u>
	<u>\$ 1,031,446</u>	<u>\$ 1,910,694</u>

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

	<u>2006</u>	<u>2005</u>
Exhibit completed	\$ 1,581,647	\$ 346,438
Purpose restriction satisfied	101,720	475,001
Time restriction satisfied	<u>7,166</u>	<u>36,500</u>
	<u>\$ 1,690,533</u>	<u>\$ 857,939</u>

NOTE 6 – PERMANENTLY RESTRICTED NET ASSETS

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

	<u>2006</u>	<u>2005</u>
Investments to be held for production of income:		
Ferdowsi endowment	\$ 38,794	\$ 34,119
General endowment	<u>12,126,884</u>	<u>11,731,353</u>
	<u>\$12,165,678</u>	<u>\$11,765,472</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, 2006 and 2005

NOTE 7 – NOTES PAYABLE

Notes payable consist of the following at December 31:

	<u>2006</u>	<u>2005</u>
Note payable – Company controlled by the former president of the Organization, due in monthly principal installments of \$41,601, plus interest, matured November 2000. Interest rate is 1% below bank prime rate with a ceiling of 12%; secured by Joelton property and general intangibles to the extent such existed at July 1, 1999, but excluding fixtures, equipment, supplies and machinery, transferred to the Organization's Grassmere facility. Estimated remaining book value of such collateral totals approximately \$330,000. The Organization considers the note to be in dispute and that dispute is the subject of ongoing negotiations (Note 17).	\$ 4,992,107	\$ 4,992,107
Note payable – SunTrust, due in monthly installments of \$725, including interest at 8.5%, maturing February 2006. The note is secured by an automobile.	-	1,441
Note payable – unrelated company, for purchase of animal, due in two installments of \$50,000 on April 1, 2006 and August 1, 2006. Interest rate at 0%.	<u>-</u>	<u>100,000</u>
Total notes payable	4,992,107	5,093,548
Less current portion	<u>(4,992,107)</u>	<u>(5,093,548)</u>
Long-term portion	<u>\$ -</u>	<u>\$ -</u>

NOTE 8 – LINE OF CREDIT

During 2006, the Organization extended its line of credit, increasing maximum borrowings to \$3,000,000. The line bears interest at a variable rate of LIBOR plus 1% (currently 6.35%) and matures in August 2007. The line is secured by the Organization's endowment accounts. Outstanding balances under the line of credit totaled \$1,300,000 and \$2,205,000 at December 31, 2006 and 2005, respectively.

NASHVILLE ZOO INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2006 and 2005

NOTE 9 – CONTRIBUTIONS

The Organization received a gift of common stock in 2002 valued at approximately \$3.4 million from one donor for the general endowment fund. The donor subsequently promised to provide additional funding up to a total of \$5,000,000 if the value of such stock did not increase to such amount within a period extending to April 2005. Accordingly, the Organization was required to hold such stock until that time. During 2005, the Organization received remaining amounts due under the contribution arrangement consisting of additional common stock. Such stock combined with the previous gift met the donor's original pledge of \$5,000,000.

NOTE 10 – IN-KIND CONTRIBUTIONS

The Organization received contributed goods and services during 2006 and 2005 meeting the requirements for recognition and consisting of the following:

	<u>2006</u>	<u>2005</u>
Exhibit and grounds improvements	\$ 288,800	\$ 27,423
Other	7,782	1,810
Advertising and payroll services	<u>2,400</u>	<u>2,400</u>
	<u>\$ 298,982</u>	<u>\$ 31,633</u>

NOTE 11 – GRANT FROM METROPOLITAN GOVERNMENT

The Organization was awarded two \$5,000,000 matching grants from Metropolitan Government of Nashville and Davidson County ("Metro") for Metro's fiscal years 2003 and 2002. The grants, available beginning January 2002, required the Organization to provide matching funding for each dollar provided by Metro with all Metro funds restricted for capital projects. Organization matching funds were generally placed in the Organization's endowment fund to benefit operations from interest earned. The grant program was suspended in 2004; however, during 2005, an additional \$5,000,000 matching grant was awarded by Metro under substantially the same terms.

Under the grant agreements, Metro reimbursed the Organization for amounts spent towards capital projects including exhibits, improvements, and accreditation expenses retroactively for 2004 and for 2005. During the years ended December 31, 2006 and 2005, the Organization had incurred costs of \$444,143 and \$4,555,856, respectively, reimbursed or to be reimbursed by Metro, with reimbursements included in the accompanying statements of activities as grant revenue. Related grant receivable representing amounts expended but not yet reimbursed by Metro totaled \$0 and \$3,507,054 at December 31, 2006 and 2005, respectively.

NASHVILLE ZOO INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2006 and 2005

NOTE 12 – CONCENTRATIONS

The Organization maintains its cash in bank deposit accounts at high credit quality institutions. The balances, at times, may exceed federally insured limits. 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.

The Organization received permanently restricted promises to give from a major donor of approximately \$1,000,000 in 2005. No similar contributions were received in 2006.

NOTE 13 – RELATED PARTY TRANSACTIONS

The statements of financial position for 2006 and 2005 include disputed notes payable of \$4,992,107 and disputed accrued interest of \$2,204,698 owed to a company controlled by the former president of the Organization (Note 7).

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, with interest computed on the advances at 8% per year. The balance of the claimed and disputed advances at December 31, 2006 and 2005 totaled \$969,051, with claimed and disputed accrued interest at December 31, 2006 and 2005 of \$677,995. Such advances and interest are the subject of ongoing negotiations between the Organization and its former president (Note 17).

NOTE 14 – LEASE WITH METROPOLITAN GOVERNMENT

During 1997, the Organization executed a lease with Metropolitan Government of Nashville and Davidson County ("Metro") for 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 requiring 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 these financial statements.

NASHVILLE ZOO INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2006 and 2005

NOTE 15 – RETIREMENT PLAN

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. During 2006 and 2005, the Organization did not make any contributions to the Plan.

NOTE 16 – AGREEMENTS

The Organization had entered into arrangements with vendors for restaurant and gift shop operations at the zoo facility. Under the agreements, the Organization received fees based on a percentage of gross receipts. The agreements were generally for terms of three years or less. In August 2005, the Organization entered into a concessionaire agreement with a new vendor. This arrangement begins on January 1, 2006 and continues through December 31, 2012. The Organization will receive fees under this arrangement based on a percentage of gross receipts. Income from such arrangements totaled approximately \$437,500 and \$303,200 for 2006 and 2005, respectively.

The Organization has entered into operating leases for various office equipment. The leases require total annual payments of approximately \$13,600 and extend through 2010.

NOTE 17 – UNCERTAINTY

The Organization’s liabilities include approximately \$5,000,000 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. The note is primarily secured by the Organization’s Joelton property, which is not currently used in zoo operations. The note matured in November 2000, and to date, the Organization has been unable to negotiate new terms or to pay the debt. 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 2006, until such dispute is resolved, the Organization ceased accruing any additional interest on the above mentioned debt. The ultimate outcome of these matters is presently unknown; however, if the lenders demand payment, the Organization would presently be unable to pay this alleged debt in the normal course of business.

In May 2003, the Organization entered into mediation proceedings relating to certain alleged and disputed debt related to amounts owed and claimed to be owed to companies controlled by the Organization’s former president (Notes 7, 13). The purpose of the proceedings was to determine actual amounts owed and to negotiate for the settlement of the liabilities. Although no immediate resolution has been reached, the Organization continues to dispute certain claimed advances and related interest. The Organization has chosen to continue to reflect such disputed liabilities in the

NASHVILLE ZOO, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2006 and 2005

NOTE 17 – UNCERTAINTY (Continued)

accompanying financial statements, although it is not aware of any documentary evidence of such advances or any agreement to repay them with interest and the Organization's alleged creditors did not produce any evidence of such advances during the mediation proceedings. While the mediation in 2003 was unsuccessful, negotiations have been and are ongoing. It is anticipated the Organization will adjust the liabilities to the adjudicated or negotiated balance when the matter is resolved.

NOTE 18 – JOELTON PROPERTY

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.

SUPPLEMENTARY INFORMATION

NASHVILLE ZOO INC.
SCHEDULES OF PROGRAM EXPENSES
For the years ended December 31, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Salaries	\$ 2,409,631	\$ 2,170,142
Depreciation	1,312,083	1,069,284
Rental and maintenance	415,278	401,601
Utilities	419,897	518,789
Insurance	349,773	319,550
Benefits	309,861	274,809
Animal care	271,009	251,844
Promotions	213,443	266,251
Other	198,298	179,886
Membership development	162,337	127,184
Special events/education	105,803	75,598
Interest	109,173	419,867
Animal collection	56,205	165,707
Auto and truck	40,045	34,114
Fees, licenses, dues	25,854	32,485
Freight	<u>1,386</u>	<u>9,659</u>
Total program expenses	<u><u>\$ 6,400,076</u></u>	<u><u>\$ 6,316,770</u></u>

NASHVILLE ZOO INC.
SCHEDULES OF MANAGEMENT AND GENERAL EXPENSES
For the years ended December 31, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Salaries	\$ 401,938	\$ 382,966
Bank and investment fees	110,347	62,938
Professional fees	89,513	33,107
Benefits	51,686	48,496
Office supplies	24,352	21,427
Postage	12,304	12,813
Travel and entertainment	8,795	12,617
Recruiting	6,741	12,133
Loss on sale of fixed assets	<u>-</u>	<u>6,651</u>
Total management and general expenses	<u><u>\$ 705,676</u></u>	<u><u>\$ 593,148</u></u>

NASHVILLE ZOO INC.
SCHEDULES OF FUNDRAISING EXPENSES
For the years ended December 31, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Special events/education	\$ 187,452	\$ 153,263
Salaries	110,810	52,104
Development	23,492	7,777
Benefits	<u>14,249</u>	<u>6,598</u>
 Total fundraising expenses	 <u><u>\$ 336,003</u></u>	 <u><u>\$ 219,742</u></u>