

NASHVILLE ZOO INC.
FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION

December 31, 2004 and 2003

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INDEPENDENT AUDITOR'S REPORT

The Board of Directors
Nashville Zoo Inc.

We have audited the accompanying statements of financial position of Nashville Zoo Inc. (a non-profit organization) as of December 31, 2004 and 2003, 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, 2004 and 2003, 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

March 4, 2005

NASHVILLE ZOO INC.
STATEMENTS OF FINANCIAL POSITION
December 31, 2004 and 2003

Assets

	<u>2004</u>	<u>2003</u>
Current assets:		
Cash and cash equivalents	\$ 2,157,345	\$ 1,939,728
Accounts receivable	25,744	10,183
Contributions receivable	5,882,820	11,091
Grant receivable	-	429,422
Prepaid expenses	61,666	89,813
Inventory	-	5,000
Total current assets	<u>8,127,575</u>	<u>2,485,237</u>
Contributions receivable, net of current portion and discounts	74,109	4,684,731
Investments	3,332,664	3,582,864
Construction in progress	4,670,224	2,342,454
Property and equipment - net of accumulated depreciation of \$2,318,036 and \$5,875,283 for 2004 and 2003, respectively	<u>11,946,302</u>	<u>13,958,764</u>
Total assets	<u><u>\$28,150,874</u></u>	<u><u>\$27,054,050</u></u>

Liabilities and Net Assets

Current liabilities:		
Line of credit	\$ 1,015,229	\$ 245,000
Accounts payable	221,164	665,737
Accrued expenses	52,127	35,652
Obligations under capital lease	-	6,899
Advances from former affiliates	969,051	969,051
Accrued interest - former affiliates	2,546,024	2,301,094
Notes payable	<u>5,000,318</u>	<u>5,006,467</u>
Total current liabilities	9,803,913	9,229,900
Notes payable, net of current portion	<u>1,424</u>	<u>9,605</u>
Total liabilities	<u>9,805,337</u>	<u>9,239,505</u>
Net assets:		
Unrestricted	6,111,418	6,348,013
Temporarily restricted	2,240,633	1,629,504
Permanently restricted	<u>9,993,486</u>	<u>9,837,028</u>
Total net assets	<u>18,345,537</u>	<u>17,814,545</u>
Total liabilities and net assets	<u><u>\$28,150,874</u></u>	<u><u>\$27,054,050</u></u>

See accompanying notes.

NASHVILLE ZOO INC.
STATEMENT OF ACTIVITIES
For the year ended December 31, 2004

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Public support and revenues:				
Contributions	\$ 346,073	\$ 2,036,500	\$ 156,458	\$ 2,539,031
Grants - Metropolitan Government of Nashville and Davidson County	2,232,113	-	-	2,232,113
Gate admissions	1,914,200	-	-	1,914,200
Vending and special events	763,050	-	-	763,050
Memberships	840,840	-	-	840,840
Investment income	47,329	-	-	47,329
	<u>6,143,605</u>	<u>2,036,500</u>	<u>156,458</u>	<u>8,336,563</u>
Total public support and revenues	6,143,605	2,036,500	156,458	8,336,563
Net assets released from restrictions	1,425,371	(1,425,371)	-	-
	<u>7,568,976</u>	<u>611,129</u>	<u>156,458</u>	<u>8,336,563</u>
Expenses:				
Program	5,126,681	-	-	5,126,681
Management and general	544,406	-	-	544,406
Fundraising	202,603	-	-	202,603
	<u>5,873,690</u>	<u>-</u>	<u>-</u>	<u>5,873,690</u>
Total expenses	5,873,690	-	-	5,873,690
Change in net assets before impairment loss	1,695,286	611,129	156,458	2,462,873
Impairment of nonoperating Joelton property	(1,931,881)	-	-	(1,931,881)
Change in net assets	(236,595)	611,129	156,458	530,992
Net assets at beginning of year	6,348,013	1,629,504	9,837,028	17,814,545
Net assets at end of year	<u>\$ 6,111,418</u>	<u>\$ 2,240,633</u>	<u>\$ 9,993,486</u>	<u>\$ 18,345,537</u>

See accompanying notes.

NASHVILLE ZOO INC.
STATEMENT OF ACTIVITIES
For the year ended December 31, 2003

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Public support and revenues:				
Contributions	\$ 630,895	\$ 13,000	\$ 4,753,243	\$ 5,397,138
Grants - Metropolitan Government of Nashville and Davidson County	5,463,213	-	-	5,463,213
Gate admissions	1,818,842	-	-	1,818,842
Vending and special events	665,365	-	-	665,365
Memberships	623,038	-	-	623,038
Investment income	6,125	-	-	6,125
Other	700	-	-	700
	<u>9,208,178</u>	<u>13,000</u>	<u>4,753,243</u>	<u>13,974,421</u>
Total public support and revenues				
Net assets released from restrictions	136,138	(136,138)	-	-
	<u>9,344,316</u>	<u>(123,138)</u>	<u>4,753,243</u>	<u>13,974,421</u>
Expenses:				
Program	4,442,940	-	-	4,442,940
Management and general	431,242	-	-	431,242
Fundraising	186,168	-	-	186,168
	<u>5,060,350</u>	<u>-</u>	<u>-</u>	<u>5,060,350</u>
Total expenses				
Change in net assets	4,283,966	(123,138)	4,753,243	8,914,071
Net assets at beginning of year	2,064,047	1,752,642	5,083,785	8,900,474
Net assets at end of year	<u>\$ 6,348,013</u>	<u>\$ 1,629,504</u>	<u>\$ 9,837,028</u>	<u>\$ 17,814,545</u>

See accompanying notes.

NASHVILLE ZOO INC.
STATEMENTS OF CASH FLOWS
For the years ended December 31, 2004 and 2003

	<u>2004</u>	<u>2003</u>
Cash flows from operating activities:		
Increase in net assets	\$ 530,992	\$ 8,914,071
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	1,061,876	834,033
Loss on disposal or impairment of property and equipment	1,931,881	7,737
Contributions restricted for permanent investment	-	(66,666)
Discount on contributions receivable	(177,448)	160,056
Unrealized (gain) loss on investments	250,200	(126,086)
Property and equipment donation	(9,031)	(357,600)
Donation of corporate stock	-	(95,172)
Changes in operating assets and liabilities:		
Accounts receivable	(15,561)	3,925
Contributions receivable	(1,283,525)	(4,436,395)
Grant receivable	429,422	478,171
Prepaid expenses	28,147	(57,077)
Inventory	5,000	16,915
Accounts payable	(444,573)	26,906
Accrued expenses	16,475	23,512
Accrued interest - former affiliates	244,930	227,492
Net cash provided by operating activities	<u>2,568,785</u>	<u>5,553,822</u>
Cash flows from investing activities:		
Purchases of property and equipment and construction in progress	(3,300,034)	(5,471,327)
Sale of investments	-	99,494
Net cash used in investing activities	<u>(3,300,034)</u>	<u>(5,371,833)</u>
Cash flows from financing activities:		
Contributions restricted for permanent investment	199,866	212,266
Borrowings under line of credit	1,470,229	-
Payments on line of credit	(700,000)	-
Payments on notes payable	(14,330)	(6,903)
Payments on capital lease	(6,899)	(7,469)
Net cash provided by financing activities	<u>948,866</u>	<u>197,894</u>
Increase in cash	217,617	379,883
Cash and cash equivalents at beginning of year	<u>1,939,728</u>	<u>1,559,845</u>
Cash and cash equivalents at end of year	<u>\$ 2,157,345</u>	<u>\$ 1,939,728</u>
Supplemental information:		
Interest paid	\$ 20,558	8,593
Noncash donation of corporate stock	\$ -	95,172

See accompanying notes.

NASHVILLE ZOO INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2004 and 2003

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 American Zoo and Aquarium Association (“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 (SFAS) 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.

Allowances for Contributions Receivable

Management believes all contributions receivable to be collectible. Accordingly, no allowance for doubtful contributions receivable (pledges) has been provided in the accompanying financial statements.

NASHVILLE ZOO INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2004 and 2003

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.

Inventory

Inventory, consisting of gift shop items, is stated at the lower of cost or market, with cost determined on a first-in, first-out method. During 2004, all inventory was disposed.

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
Animal collection	10 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

The initial purchase of the Organization's animal collection has been capitalized at cost. Such cost is amortized over a ten-year period on a straight-line method. The cost of the initial Animal Collection and related accumulated amortization were written down during 2004 (Note 4). No cost is assigned to animals born at the Organization. Subsequent purchases 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.

NASHVILLE ZOO INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2004 and 2003

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Advertising Costs

Advertising costs are generally expensed as incurred. Advertising and promotion expenses totaled \$226,951 and \$232,585 during 2004 and 2003, respectively.

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 14).

Reclassifications

Certain reclassifications have been made to the 2003 financial statements in order to conform with 2004 presentation, including the presentation of contributions restricted for permanent investment as a financing activity rather than an operating activity in the statements of cash flows.

NOTE 2 – CONTRIBUTIONS RECEIVABLE

Contributions receivable 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		\$5,882,820
Receivable in one to five years	\$ 78,000	
Less discounts to net present value	<u>(3,891)</u>	<u>74,109</u>
Net contributions receivable		<u>\$5,956,929</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, 2004. Substantially all contributions receivable are due for temporarily or permanently restricted purposes.

NASHVILLE ZOO INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2004 and 2003

NOTE 3 – INVESTMENTS

Investments consist of the following at December 31:

	<u>2004</u>	<u>2003</u>
Common stock – General Endowment (83,400 shares of HCA, Inc. common stock)	\$ 3,332,664	\$ 3,582,864

Investments at December 31, 2004 have been 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 are utilized to reduce or increase contributions receivable based on a previous arrangement with the donor (Note 10).

Investment income, including interest and dividends, and realized and unrealized gains and losses for the years ended December 31, 2004 and 2003 totaled \$47,329 and \$6,125, respectively.

NOTE 4 – PROPERTY AND EQUIPMENT

Property and equipment are summarized as follows at December 31:

	<u>2004</u>	<u>2003</u>
Buildings and improvements	\$13,158,588	\$17,076,763
Land	330,000	1,065,424
Animal collection	-	680,000
Equipment	669,911	847,461
Vehicles	<u>105,839</u>	<u>164,399</u>
	14,264,338	19,834,047
Less accumulated depreciation	<u>(2,318,036)</u>	<u>(5,875,283)</u>
Net property and equipment	<u>\$11,946,302</u>	<u>\$13,958,764</u>

During 2004, the Organization recorded an impairment loss of \$1,931,881 relating to its nonoperating Joelton property (Note 19). During 2004, the Organization also reduced the value of its initial animal collection. Such animals were fully depreciated and are no longer part of the Organization's exhibits.

Construction in process at December 31, 2004 and 2003 of \$4,670,224 and \$2,342,454, respectively, represents ongoing construction of various animal exhibits and infrastructure at the Grassmere location.

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.

NASHVILLE ZOO INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2004 and 2003

NOTE 5 – TEMPORARILY RESTRICTED NET ASSETS (Continued)

Temporarily restricted net assets are available as follows at December 31:

	<u>2004</u>	<u>2003</u>
Children's zoo	\$ 1,000,000	\$ 1,000,000
Giraffe exhibit	1,108,260	-
Nature Works	-	500,000
Alligator exhibit	38,568	51,113
Ocelot exhibit	46,053	49,300
Garden Railroad	3,336	18,000
Time restrictions	<u>44,416</u>	<u>11,091</u>
	<u>\$ 2,240,633</u>	<u>\$ 1,629,504</u>

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

	<u>2004</u>	<u>2003</u>
Exhibit completed	\$ 891,740	\$ 82,000
Purpose restriction satisfied	30,456	27,475
Time restriction satisfied	3,175	26,663
Removal of restrictions by donor	<u>500,000</u>	<u>-</u>
	<u>\$ 1,425,371</u>	<u>\$ 136,138</u>

During 2004, the donor for contributions for the Nature Works exhibit in an amount of \$500,000 requested such funds be transferred to unrestricted funds.

NOTE 6 – PERMANENTLY RESTRICTED NET ASSETS

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

	<u>2004</u>	<u>2003</u>
Investments to be held for production of income:		
Ferdowsi endowment	\$ 32,702	\$ 32,409
General endowment	<u>9,960,784</u>	<u>9,804,619</u>
	<u>\$ 9,993,486</u>	<u>\$ 9,837,028</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, 2004 and 2003

NOTE 7 – NOTES PAYABLE

Notes payable consist of the following at December 31:

	<u>2004</u>	<u>2003</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. During 2004 and 2003, the note and related accrued interest were the subject of mediation proceedings between the Organization and its former president (Note 18). The Organization considers the note to be in dispute.	\$ 4,992,107	\$ 4,998,922
Note payable – SunTrust, due in monthly installments of \$725, including interest at 8.5%, maturing February 2006. The note is secured by an automobile.	<u>9,635</u>	<u>17,150</u>
Total notes payable	5,001,742	5,016,072
Less current portion	<u>(5,000,318)</u>	<u>(5,006,467)</u>
Long-term portion	<u>\$ 1,424</u>	<u>\$ 9,605</u>

Scheduled maturities of notes payable at December 31, 2004 are as follows:

Year Ending <u>December 31</u>	
2005	\$ 5,000,318
2006	<u>1,424</u>
Total	<u>\$ 5,001,742</u>

NOTE 8 – LINE OF CREDIT

During 2003, the Organization maintained a bank line of credit arrangement allowing for maximum borrowings of \$245,000, with interest computed at a variable rate (2.15% at December 31, 2003) on outstanding balances. The line of credit was increased from \$245,000 to \$2,245,000 during 2004 and is secured by certain endowment accounts of the Organization. Outstanding balances totaled \$1,015,229 and \$245,000 as of December 31, 2004 and 2003, respectively. Under this amended arrangement, the Organization is required to make monthly interest payments until June 30, 2005 when the arrangement matures and outstanding principal is due.

NASHVILLE ZOO INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2004 and 2003

NOTE 9 – CAPITAL LEASE OBLIGATIONS

The Organization entered into an agreement for telephone equipment at a cost of \$33,160 under the terms of a five-year capital lease. During 2003, the Organization purchased new telephone equipment and disposed of the leased equipment. The Organization paid the remaining amounts due under the lease agreement during 2004.

NOTE 10 – 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 does not increase to such amount within a period extending to April 2005. Accordingly, the Organization is required to hold such stock until that time. Subsequent to December 31, 2004, the Organization received remaining amounts due under the contribution arrangement.

NOTE 11 – IN-KIND CONTRIBUTIONS

The Organization received contributed goods and services during 2004 and 2003 meeting the requirements for recognition and consisting of the following:

	<u>2004</u>	<u>2003</u>
Exhibit and grounds improvements	\$ 10,514	\$ 357,600
Other	9,629	2,638
Advertising and payroll services	<u>2,900</u>	<u>2,004</u>
	<u>\$ 23,043</u>	<u>\$ 362,242</u>

NOTE 12 – 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, require the Organization to provide matching funding for each dollar provided by Metro with all Metro funds restricted for capital projects. Organization matching funds are generally placed in the Organization's endowment fund to benefit operations from interest earned.

Under the grant agreements, Metro reimbursed the Organization for amounts spent towards capital projects including exhibits, improvements, and accreditation expenses. During the years ended December 31, 2004 and 2003, the Organization had incurred costs of \$2,232,113 and \$5,463,213, respectively, 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 \$429,422 at December 31, 2004 and 2003, respectively.

NASHVILLE ZOO INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2004 and 2003

NOTE 13 – 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 temporarily restricted contributions in the form of cash and promises to give from a major donor of approximately \$2,000,000 in 2004 and received permanently restricted promises to give from another major donor of approximately \$3,000,000 in 2003.

NOTE 14 – RELATED PARTY TRANSACTIONS

The statements of financial position for 2004 and 2003 include disputed notes payable of \$4,992,107 and \$4,998,922, respectively and disputed accrued interest of \$1,945,553 and \$1,778,147, respectively, 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, 2004 and 2003 totaled \$969,051, with claimed and disputed accrued interest of \$600,471 and \$522,947, respectively. During 2004 and 2003, such advances and interest were the subject of mediation proceedings between the Organization and its former president (Note 18).

The line of credit described in Note 8 was personally guaranteed by the Organization's current Chairman through February 2003.

NOTE 15 – 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, 2004 and 2003

NOTE 16 – 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 2004 and 2003, the Organization did not make any contributions to the Plan.

NOTE 17 – AGREEMENTS

The Organization has entered into arrangements with vendors for restaurant and gift shop operations at the zoo facility. Under the agreements, the Organization receives fees based on a percentage of gross receipts. The agreements are generally for terms of three years or less. Income from such arrangements totaled approximately \$280,800 and \$246,400 for 2004 and 2003, respectively.

During 2004, the Organization entered into operating leases for various office equipment. The leases require total annual payments of approximately \$9,900 and extend through 2009.

NOTE 18 – UNCERTAINTY

The Organization’s liabilities include approximately \$5,000,000 in alleged and disputed note principal and \$1,945,000 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 \$600,471. 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, 14). The purpose of the proceedings was to determine actual amounts owed and to negotiate for the settlement of the liabilities. Although the determination of and the settlement of the debts were not resolved, it is the Organization’s intention to surrender its Joelton property to the note holder in settlement of related note debt of \$4,992,107 and accrued interest of \$1,945,553 in full satisfaction of these obligations, in accordance with the terms of the loan documents.

NASHVILLE ZOO, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2004 and 2003

NOTE 18 – UNCERTAINTY (Continued)

The Organization continues to dispute certain claimed advances and related interest of \$969,051 and \$600,471, respectively. The Organization has chosen to continue to reflect such disputed liabilities in the 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. The existence and legitimacy of these claimed debts is under investigation by the Organization's board. It is anticipated the Organization will make any restatement of its liabilities at the time this investigation is completed.

NOTE 19 – JOELTON PROPERTY

During 2004, the Organization ceased using the Joelton property and has 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 current estimated fair market value of \$330,000, which resulted in an impairment loss of \$1,931,881. This loss is reflected in the statement of activities for the year ended December 31, 2004.

NOTE 20 – SUBSEQUENT EVENTS

Subsequent to December 31, 2004, the Organization entered into various agreements with promotional agencies to assist in raising the funds necessary to construct a giraffe exhibit. Under these arrangements, the Organization plans to incur expenses of \$108,900 during 2005.

In January 2005, the Organization contracted with a third party to construct a carousel for \$417,000. Each carousel character will be sponsored by individual donors. Additionally, the Organization plans to offset a large portion of the carousel infrastructure cost through major gifts. The carousel is expected to be completed in the fall of 2005. In connection with the above, the Organization entered into an agreement for the purchase of a pavilion to house the carousel at a cost of approximately \$85,000.

SUPPLEMENTARY INFORMATION

NASHVILLE ZOO INC.
SCHEDULES OF PROGRAM EXPENSES
For the years ended December 31, 2004 and 2003

	<u>2004</u>	<u>2003</u>
Salaries	\$ 1,772,535	\$ 1,517,921
Depreciation	1,061,876	834,033
Utilities	348,234	381,146
Maintenance and equipment rental	288,754	232,175
Insurance	262,573	203,772
Interest	258,674	236,085
Benefits	257,268	224,513
Animal supply and feed	231,886	218,367
Advertising and promotion	226,951	232,585
Animal collection	133,083	56,012
Other	109,388	158,105
Membership development	77,567	73,031
Special events	40,241	43,547
Auto and truck expense	27,831	21,035
Licenses, fees and subscriptions	21,074	5,239
Freight	8,746	5,374
	<u> </u>	<u> </u>
Total program expenses	<u><u>\$ 5,126,681</u></u>	<u><u>\$ 4,442,940</u></u>

NASHVILLE ZOO INC.
SCHEDULES OF MANAGEMENT AND GENERAL EXPENSES
For the years ended December 31, 2004 and 2003

	<u>2004</u>	<u>2003</u>
Salaries	\$ 379,668	\$ 289,578
Benefits	55,105	42,831
Bank charges	28,863	24,850
Supplies	22,192	24,738
Professional fees	20,514	16,052
Recruiting	13,449	7,288
Travel	13,374	9,123
Postage	11,241	9,045
Loss on disposal of property and equipment	<u>-</u>	<u>7,737</u>
Total management and general expenses	<u>\$ 544,406</u>	<u>\$ 431,242</u>

NASHVILLE ZOO INC.
SCHEDULES OF FUNDRAISING EXPENSES
For the years ended December 31, 2004 and 2003

	<u>2004</u>	<u>2003</u>
Salaries	\$ 94,355	\$ 85,170
Special events	89,806	86,695
Benefits	13,695	12,597
Other	<u>4,747</u>	<u>1,706</u>
Total fundraising expenses	<u>\$ 202,603</u>	<u>\$ 186,168</u>