

MINNESOTA ZOO FOUNDATION

Apple Valley, Minnesota

FINANCIAL STATEMENTS
Including Independent Auditors' Report

As of and for the Years Ended June 30, 2012 and 2011

MINNESOTA ZOO FOUNDATION

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INDEPENDENT AUDITORS' REPORT

Board of Trustees
Minnesota Zoo Foundation
Apple Valley, Minnesota

We have audited the accompanying statements of financial position of Minnesota Zoo Foundation (the Foundation) as of June 30, 2012 and 2011, and the related statements of activities, functional expense and cash flows for the years then ended. These financial statements are the responsibility of the Foundation'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 audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 previously present fairly, in all material respects, the financial position of Minnesota Zoo Foundation as of June 30, 2012 and 2011 and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Baker Tilly Virchow Krause, LLP

Minneapolis, Minnesota
October 24, 2012

MINNESOTA ZOO FOUNDATION

STATEMENTS OF FINANCIAL POSITION

As of June 30, 2012 and 2011

ASSETS		
	<u>2012</u>	<u>2011</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,097,366	\$ 2,126,211
Contributions receivable	658,949	978,713
Prepaid expenses and other	<u>12,255</u>	<u>24,894</u>
Total Current Assets	1,768,570	3,129,818
NON CURRENT ASSETS		
Contributions receivable	350,297	647,552
Investments	899,922	725,683
Beneficial interest in perpetual trust	<u>1,180,481</u>	<u>1,242,930</u>
TOTAL ASSETS	<u>\$ 4,199,270</u>	<u>\$ 5,745,983</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 17,101	\$ 26,804
Accrued vacation and other liabilities	<u>72,617</u>	<u>57,934</u>
Total Current Liabilities	89,718	84,738
NON CURRENT LIABILITIES		
Charitable gift annuity	<u>50,539</u>	<u>50,188</u>
Total Liabilities	<u>140,257</u>	<u>134,926</u>
NET ASSETS		
Unrestricted		
Undesignated	726,260	956,553
Board designated	<u>250,000</u>	<u>250,000</u>
Total unrestricted	976,260	1,206,553
Temporarily restricted	1,333,625	2,702,967
Permanently restricted	<u>1,749,128</u>	<u>1,701,537</u>
Total Net Assets	<u>4,059,013</u>	<u>5,611,057</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 4,199,270</u>	<u>\$ 5,745,983</u>

See accompanying notes to financial statements.

MINNESOTA ZOO FOUNDATION

STATEMENT OF ACTIVITIES
 For the Year Ended June 30, 2012
 (with comparative totals for 2011)

	2012			2011	
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
SUPPORT AND REVENUE					
Contributions and grants	\$ 1,309,656	\$ 771,623	\$ 88,139	\$ 2,169,418	\$ 4,395,561
In-kind contributions	74,503	-	-	74,503	250,141
Special events, net	390,958	113,129	21,901	525,988	560,349
Investment income, net of fees of \$13,135 and \$11,456 for 2012 and 2011, respectively	432	93,372	-	93,804	158,478
Change in beneficial interest in trust	-	-	(62,449)	(62,449)	110,294
Other income	1,800	-	-	1,800	54,949
Net assets released from restrictions					
Satisfaction of capital restrictions	176,000	(176,000)	-	-	-
Satisfaction of program restrictions	2,083,425	(2,083,425)	-	-	-
Satisfaction of time restrictions	88,041	(88,041)	-	-	-
Total Support and Revenue	4,124,815	(1,369,342)	47,591	2,803,064	5,529,772
EXPENSE					
Program services	3,390,925	-	-	3,390,925	4,427,933
Support services					
Management and general	665,971	-	-	665,971	660,654
Fundraising	298,212	-	-	298,212	288,842
Total support services	964,183	-	-	964,183	949,496
Total Expense	4,355,108	-	-	4,355,108	5,377,429
CHANGE IN NET ASSETS					
Net Assets - Beginning of Year	(230,293)	(1,369,342)	47,591	(1,552,044)	152,343
	1,206,553	2,702,967	1,701,537	5,611,057	5,458,714
NET ASSETS - END OF YEAR	\$ 976,260	\$ 1,333,625	\$ 1,749,128	\$ 4,059,013	\$ 5,611,057

See accompanying notes to financial statements.

MINNESOTA ZOO FOUNDATION

STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2011

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
SUPPORT AND REVENUE				
Contributions and grants	\$ 1,657,082	\$ 2,737,097	\$ 1,382	\$ 4,395,561
In-kind contributions	250,141	-	-	250,141
Special events, net	379,797	160,129	20,423	560,349
Investment income, net fees of \$11,456	2,779	155,699	-	158,478
Change in beneficial interest in trust	-	-	110,294	110,294
Other income	54,949	-	-	54,949
Net assets released from restrictions				
Satisfaction of capital restrictions	319,855	(319,855)	-	-
Satisfaction of program restrictions	1,280,689	(1,280,689)	-	-
Satisfaction of time restrictions	1,695,985	(1,695,985)	-	-
Total Support and Revenue	5,641,277	(243,604)	132,099	5,529,772
EXPENSE				
Program services	4,427,933	-	-	4,427,933
Support services				
Management and general	660,654	-	-	660,654
Fundraising	288,842	-	-	288,842
Total support services	949,496	-	-	949,496
Total Expense	5,377,429	-	-	5,377,429
CHANGE IN NET ASSETS				
Net Assets - Beginning of Year	263,848	(243,604)	132,099	152,343
Net Assets - End of Year	942,705	2,946,571	1,569,438	5,458,714
NET ASSETS - END OF YEAR	\$ 1,206,553	\$ 2,702,967	\$ 1,701,537	\$ 5,611,057

See accompanying notes to financial statements.

MINNESOTA ZOO FOUNDATION

STATEMENTS OF FUNCTIONAL EXPENSES
For the Years Ended June 30, 2012 and 2011

	2012						2011					
	Support Services			Total	Support Services			Total	Support Services			Total
	Management and General	Fundraising	Total Support Services		Management and General	Fundraising	Total Support Services		Management and General	Fundraising	Total Support Services	
Total Program Services			Total Expenses				Total Program Services			Total Expenses		
Zoo Program distributions - unrestricted	\$ 871,836	\$ -	\$ -	\$ 871,836	\$ -	\$ -	\$ 2,551,967	\$ -	\$ -	\$ -	\$ 2,551,967	
Zoo Program distributions - restricted	1,781,809	-	-	1,781,809	-	-	1,421,077	-	-	-	1,421,077	
Personnel costs	127,171	551,345	126,367	804,883	677,712	110,121	121,592	533,016	643,137	764,729	125,229	
Other grants	452,314	-	-	452,314	-	-	125,229	-	-	-	176,421	
Contract and professional services	72,364	35,217	16,776	124,357	51,993	21,032	102,278	53,111	74,143	105,989	143,434	
Supplies, printing and postage	13,545	16,379	54,233	84,157	70,612	58,426	23,686	23,877	82,303	105,989	143,434	
Special events	50,227	-	71,765	121,992	71,765	79,265	64,169	-	79,265	143,434	30	
Bad debts and NSF	843	3,656	838	5,337	4,494	4	5	21	25	30	19,925	
Rent	3,148	13,649	3,128	19,925	16,777	2,869	3,168	13,888	16,757	19,925	22,545	
Miscellaneous	8,263	14,767	3,595	26,625	18,362	3,226	3,704	15,615	18,841	22,545	10,106	
Donor cultivation and recognition	2,848	-	14,511	17,359	14,511	870	870	-	9,236	10,106	21,372	
Bank fees	3,889	16,860	3,864	24,613	20,724	3,398	3,398	14,896	17,974	21,372	8,364	
Dues and subscriptions	1,366	5,924	1,358	8,648	7,282	868	6,113	1,845	2,251	8,364	4,823	
Travel	1,302	5,646	1,777	8,725	7,423	1,179	677	2,967	4,146	4,823	1,418	
Change in actuarial value of gift annuities	-	2,528	-	2,528	2,528	-	-	1,418	1,418	-	-	
Total Expenses	\$ 3,390,925	\$ 665,971	\$ 298,212	\$ 4,355,108	\$ 964,183	\$ 288,842	\$ 4,427,933	\$ 660,654	\$ 949,496	\$ 5,377,429		

See accompanying notes to financial statements.

MINNESOTA ZOO FOUNDATION

STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (1,552,044)	\$ 152,343
Adjustments to reconcile change in net assets to net cash flows from operating activities		
Contributions restricted for long-term investment	(110,040)	(21,806)
Stock gifts	(66,364)	-
Realized gain on investments	(59,343)	(14,575)
Unrealized loss (gain) on investments	47,924	(93,028)
Change in beneficial interest in trust	62,449	(110,294)
Allowance for doubtful accounts	(27,700)	(66,500)
Pledge receivable discount	(17,767)	(13,028)
Interest on charitable gift annuity	1,888	1,418
Amortization of charitable gift annuity	(1,537)	-
Change in:		
Contributions receivable	662,486	1,251,172
Prepaid expenses and other	12,639	(12,148)
Accounts payable	(9,703)	2,009
Accrued vacation and other liabilities	14,683	(3,465)
Net Cash Flows From Operating Activities	<u>(1,042,429)</u>	<u>1,072,098</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(643,795)	(319,705)
Sale of investments	549,516	167,482
Net Cash Flows From Investing Activities	<u>(94,279)</u>	<u>(152,223)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds of charitable gift annuity	-	22,149
Charitable gift annuity payments	(2,177)	-
Contributions received restricted for long-term investment	110,040	21,806
Net Cash Flows From Financing Activities	<u>107,863</u>	<u>43,955</u>
Net Change in Cash and Cash Equivalents	(1,028,845)	963,830
CASH AND CASH EQUIVALENTS - Beginning of Year	<u>2,126,211</u>	<u>1,162,381</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 1,097,366</u>	<u>\$ 2,126,211</u>

See accompanying notes to financial statements.

MINNESOTA ZOO FOUNDATION

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2012 and 2011

NOTE 1 - BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The primary purpose of Minnesota Zoo Foundation (the "Foundation") is to raise funds for the Minnesota Zoological Garden.

The Foundation solicits contributions which are administered by the Board of Trustees - the entity responsible for the distribution of funds to accomplish the objectives identified.

Basis of Accounting

The financial statements are prepared in conformity with accounting principles generally accepted in the United States of America.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Net Asset Classifications

In order to observe the limitation and restrictions placed on resources available to Minnesota Zoo Foundation, the accounts are classified for accounting and reporting purposes into net asset groupings established according to their nature and purpose. A description of the groupings is as follows:

Unrestricted Net Assets - Unrestricted net assets include all assets, liabilities, and related revenues and expenses arising from the operations of the Foundation, which are not subject to any donor restrictions. These net assets include both board designated and undesignated amounts. The Board of Trustees has designated \$250,000 at June 30, 2012 for general operating reserves.

Temporarily Restricted Net Assets - Temporarily restricted net assets consist of uncollected long-term pledges receivable and unexpended amounts that may be used only after a specified date or only for a specified purpose or both. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets will be reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions.

Permanently Restricted Net Assets - Permanently restricted net assets consist of gifts and pledges whose principal balance is required by the donor to remain intact in perpetuity.

Cash Equivalents

The Foundation considers all highly liquid investments, except for those held for long-term investment, with original maturities of three months or less when purchased to be cash equivalents. Cash and cash equivalents are concentrated in a limited number of financial institutions and amounts in excess of federally insured limits and similar coverages are subject to the usual risks of balances in excess of those limits.

Investments

Investments consist of short-term money market accounts and debt and equity mutual funds and are carried at fair value.

MINNESOTA ZOO FOUNDATION

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2012 and 2011

NOTE 1 - BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenues and Support

Contributions are recorded as revenue when an unconditional promise to give is received from a donor. The Foundation reports gifts of cash and other assets as additions to temporarily or permanently restricted net assets if they are received with donor stipulations that limit the use of the donations.

Allowance for Uncollectible Contributions Receivable

Bad debts are provided for on the reserve method based on historical experience and management's evaluation of outstanding contributions receivable at the end of each year.

Tax Status

The Foundation is a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code and Minnesota Statute 290.05. It has been classified as an organization that is not a private foundation under the Internal Revenue Code and charitable contributions by donors are tax deductible. However, any unrelated business income may be subject to taxation.

In accordance with the accounting standard on Accounting for Uncertainty in Income Taxes, the Foundation addressed the determination of whether tax benefits claimed on a tax return should be recorded in the financial statements. Under this guidance, the Foundation may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by taxing authorities, based on the technical merit of the position. Examples of tax positions include the tax-exempt status of the Foundation and various positions related to the potential sources of unrelated business taxable income. There were no significant unrecognized tax benefits or recorded liabilities during fiscal years 2012 and 2011. Open tax years subject to examination by U.S. and state taxing authorities are for the years 2009 to 2011, which statutes expire in 2012 to 2014, respectively.

Beneficial Interest in Perpetual Trust

The Foundation is the beneficiary of a trust created by a donor, the assets of which are not in the possession of the Foundation. The Foundation has an irrevocable right to a 10% interest in the net income of the trust. The Foundation's interest in the trust is recorded at fair value and included in investments and is classified as permanently restricted net assets. Distributions received from the trust are recorded as investment income temporarily restricted for education, until appropriated to operations. The change in market value is recorded as permanently restricted in the statement of activities.

Fair Value of Financial Instruments

The carrying amounts reflected on the statement of financial position for contributions receivable and accounts payable approximate fair value due to the short term maturity of these financial instruments. The carrying value of charitable gift annuity is based on life expectancies and present value discounts included in the carrying amount. The fair values for investments and other financial instruments recorded at fair value on a recurring basis are included in Note 2.

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain expenses have been allocated among the programs and services benefitted. Allocations are made largely based on actual time allocations prepared by the Foundation's employees.

MINNESOTA ZOO FOUNDATION

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended June 30, 2012 and 2011

NOTE 1 - BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recently Issued Accounting Standards

Accounting standards issued within the current year have been evaluated by the Foundation and there is no material impact to the financial statements for these recently issued accounting standards.

Reclassifications

For comparability, certain 2011 amounts have been reclassified to conform with classifications adopted in 2012. The reclassifications have no effect on reported amounts of net assets or change in net assets.

Subsequent Events

The Foundation has evaluated subsequent events through October 24, 2012 which is the date that the financial statements were issued.

NOTE 2 - INVESTMENTS AND FAIR VALUE MEASUREMENTS

Fair value is defined in the accounting guidance as the exchange price that would be received to sell an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the assets or liability in an orderly transaction between market participants at the measurement date. Under this guidance, a three-level hierarchy is used for fair value measurements which are based on the transparency of information, such as the pricing source, used in the valuation of an asset or liability as of the measurement date.

Financial instruments measured and reported at fair value are classified and disclosed in one of the following three categories.

- Level 1 - Inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 - Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. This includes quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, or inputs that are derived principally from or corroborated by observable market data.
- Level 3 - Inputs are unobservable for the asset or liability. Unobservable inputs reflect the reporting entity's own assumptions about the assumptions that market participants would use in pricing the asset or liability developed based on the best information available in the circumstances.

MINNESOTA ZOO FOUNDATION

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2012 and 2011

NOTE 2 - INVESTMENTS AND FAIR VALUE MEASUREMENTS (Continued)

The following summarizes financial instruments measured at fair value on a recurring basis as of June 30, 2012:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Investments at Fair Value</u>
Money market funds (1)	\$ -	\$ 293,300	\$ -	\$ 293,300
Fixed income security funds	345,284	-	-	345,284
Mutual funds - equities		-	-	
Large cap	390,664	-	-	390,664
Small cap	53,486	-	-	53,486
International	75,679	-	-	75,679
Total mutual funds - equities	<u>519,829</u>	<u>-</u>	<u>-</u>	<u>519,829</u>
Beneficial interest in perpetual trust	<u>-</u>	<u>-</u>	<u>1,180,481</u>	<u>1,180,481</u>
Total investments at fair value	<u>\$ 865,113</u>	<u>\$ 293,300</u>	<u>\$ 1,180,481</u>	<u>\$ 2,338,894</u>

(1) \$258,491 of the money market funds are included in cash equivalents on the statement of financial position.

The following summarizes financial instruments measured at fair value on a recurring basis as of June 30, 2011:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Investments at Fair Value</u>
Money market funds (1)	\$ -	\$ 1,289,768	\$ -	\$ 1,289,768
Fixed income security funds	267,043	-	-	267,043
Mutual funds - equities		-	-	
Large cap	206,252	-	-	206,252
Small cap	107,678	-	-	107,678
International	111,673	-	-	111,673
Total mutual funds - equities	<u>425,603</u>	<u>-</u>	<u>-</u>	<u>425,603</u>
Beneficial interest in perpetual trust	<u>-</u>	<u>-</u>	<u>1,242,930</u>	<u>1,242,930</u>
Total investments at fair value	<u>\$ 692,646</u>	<u>\$ 1,289,768</u>	<u>\$ 1,242,930</u>	<u>\$ 3,225,344</u>

(1) \$1,256,731 of the money market funds are included in cash equivalents on the statement of financial position.

The following methods and assumptions were used to estimate the fair value of each class of financial instrument:

Money market funds - The fair value of money market funds is classified as Level 2 as these funds are not traded on a regular basis. The fair values are estimated using Level 2 inputs based on multiple sources of information, which may include market data and/or quoted market prices from either markets that are not active or are for the same or similar assets in active markets.

Mutual funds - Mutual funds are classified as Level 1 as they are traded in an active market for which closing prices are readily available.

MINNESOTA ZOO FOUNDATION

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2012 and 2011

NOTE 2 - INVESTMENTS AND FAIR VALUE MEASUREMENTS (Continued)

Beneficial interest in perpetual trust - The Foundation's beneficial interest in a perpetual trust administered by a third party is classified as Level 3 as the fair values are based on a combination of Level 2 inputs (interest rates and yield curves) and significant unobservable inputs (entity specific estimates of cash flows). Since the Foundation has an irrevocable right to receive the income earned from the trust's assets, the fair value of the Foundation's beneficial interest is estimated to approximate the fair value of the trust's assets.

Investments currently owned are held principally for endowment purposes and are recorded as noncurrent on the statement of financial position.

The following table presents a reconciliation of the statement of financial position amounts for assets measured at fair value on a recurring basis using significant unobservable inputs (level 3) for the year ended June 30, 2012:

	Balance June 30, 2011	Transfers in (out)	Purchases	Sales	Realized and unrealized gains (losses)	Balance June 30, 2012
Beneficial interest in perpetual trust	\$ 1,242,930	\$ _____	\$ _____	\$ _____	\$ (62,449)	\$ 1,180,481

The amount of total gains (losses) for the period included in change in net assets attributable to the change in unrealized gains or losses relating to assets measured at fair value still held at June 30, 2012

\$ (62,449)

The following table presents a reconciliation of the statement of financial position amounts for assets measured at fair value on a recurring basis using significant unobservable inputs (level 3) for the year ended June 30, 2011:

	Balance June 30, 2010	Transfers in (out)	Purchases	Sales	Realized and unrealized gains (losses)	Balance June 30, 2011
Beneficial interest in perpetual trust	\$ 1,132,636	\$ _____	\$ _____	\$ _____	\$ 110,294	\$ 1,242,930

The amount of total gains (losses) for the period included in change in net assets attributable to the change in unrealized gains or losses relating to assets measured at fair value still held at June 30, 2011

\$ 110,294

NOTE 3 - ENDOWMENT

The Foundation's endowment consists of permanently restricted and temporarily restricted funds established for the following purposes:

Permanently restricted funds are donor restricted to be held in perpetuity, with the income and related investment gains to be used for donor restricted zoo programs or operations.

Temporarily restricted funds are the accumulation of earnings from the permanently restricted endowment that have not been appropriated for expenditure, with the income and related investment gains to be used for any mission related program.

MINNESOTA ZOO FOUNDATION

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2012 and 2011

NOTE 3 - ENDOWMENT (Continued)

As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, if any, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of the Foundation has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as allowing flexibility in making expenditure decisions from donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of the 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 donor gift instrument.

In accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. The duration and preservation of the fund
2. The purposes of the Foundation and the donor-restricted endowment fund
3. General economic conditions
4. The possible effect of inflation and deflation
5. The expected total return from income and the appreciation of investments
6. Other resources of the Foundation
7. The investment policies of the Foundation

The Foundation 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 Foundation must hold in perpetuity or for a donor-specified period(s) as well as board-designated funds. Under this policy, as approved by the Board, the endowment assets are expected to outperform a custom benchmark (the Allocation Index) consisting of the appropriate indices of each asset class and their proportional weighting in the portfolio.

The Allocation Index is constructed by selecting appropriate indices (e.g., S&P 500, Russell 2000, MSCI EAFE, etc.) and assigning beginning of the quarter weightings by asset class. The total return of the invested assets is expected to exceed the total return of the Allocation Index.

To satisfy its long-term rate-of-return objectives, the Foundation 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 Foundation targets a diversified asset allocation that places a greater emphasis on equity-based investment to achieve its long-term return objectives within prudent risk constraints.

The Foundation expects its endowment fund, over time, to provide a reasonable rate of return on an annualized basis. The Foundation has an endowment distribution policy that allows for periodic distributions, as approved and directed by the Finance Committee. The long term goal is to achieve a rate of growth sufficient to meet the Foundation's spending needs, while maintaining the inflation-adjusted principal of the endowment funds.

MINNESOTA ZOO FOUNDATION

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2012 and 2011

NOTE 3 - ENDOWMENT (Continued)

The following table summarizes endowment net asset composition by type of fund as of June 30, 2012:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ -	\$ 199,491	\$ 568,647	\$ 768,138
Beneficial interest in perpetual trust	-	-	1,180,481	1,180,481
Total endowment net assets	\$ -	\$ 199,491	\$ 1,749,128	\$ 1,948,619

The following table summarizes endowment net asset composition by type of fund as of June 30, 2011:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ -	\$ 232,556	\$ 458,607	\$ 691,163
Beneficial interest in perpetual trust	-	-	1,242,930	1,242,930
Total endowment net assets	\$ -	\$ 232,556	\$ 1,701,537	\$ 1,934,093

Change in endowment net assets for June 30, 2012 is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, June 30, 2011	\$ -	\$ 232,556	\$ 1,701,537	\$ 1,934,093
Investment return				
Investment income, net	-	(2,286)	-	(2,286)
Net appreciation (realized and unrealized)	-	10,274	-	10,274
Total investment return	-	7,988	-	7,988
Distributions to operations	-	(41,053)	-	(41,053)
Contributions	-	-	88,139	88,139
Special event income, net	-	-	21,901	21,901
Change in beneficial interest in perpetual trust	-	-	(62,449)	(62,449)
Endowment net assets, June 30, 2012	\$ -	\$ 199,491	\$ 1,749,128	\$ 1,948,619

MINNESOTA ZOO FOUNDATION

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2012 and 2011

NOTE 3 - ENDOWMENT (Continued)

Change in endowment net assets for June 30, 2011 is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, June 30, 2010	\$ -	\$ 127,975	\$ 1,569,438	\$ 1,697,413
Investment return				
Investment income, net	-	48,937	-	48,937
Net appreciation (realized and unrealized)	-	106,762	-	106,762
Total investment return	-	155,699	-	155,699
Distributions to operations	-	(51,118)	-	(51,118)
Contributions	-	-	1,381	1,381
Special event income, net	-	-	20,424	20,424
Change in beneficial interest in perpetual trust	-	-	110,294	110,294
Endowment net assets, June 30, 2011	<u>\$ -</u>	<u>\$ 232,556</u>	<u>\$ 1,701,537</u>	<u>\$ 1,934,093</u>

NOTE 4 - RELATED PARTY TRANSACTIONS

Grants and distributions paid by the Foundation to the Minnesota Zoological Garden were \$2,603,447 and \$3,752,015 for the years ended June 30, 2012 and 2011, respectively. Additionally, the Foundation donated in-kind items in the amount of \$50,198 and \$221,029 for the years ended June 30, 2012 and 2011, respectively.

The Minnesota Zoological Garden provides furnished office space and technical support to the Foundation at no charge. These amounts are recorded as in-kind contribution revenue and were recorded at fair value in the amount of \$19,926 each year for the years ended June 30, 2012 and 2011.

NOTE 5 - LINE OF CREDIT

The Foundation maintains a \$500,000 bank line-of-credit, secured by all business assets, which expires in June 2012. Interest is charged at the current prime rate. The line of credit balance was \$0 at June 30, 2012 and 2011. No amounts were withdrawn from the line of credit during 2012 or 2011.

MINNESOTA ZOO FOUNDATION

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2012 and 2011

NOTE 6 - CONTRIBUTIONS RECEIVABLE

Contributions receivable include the following unconditional promises to be collected at June 30:

	<u>2012</u>	<u>2011</u>
In one year or less	\$ 658,949	\$ 978,713
Between on year and five years	429,896	772,618
More than five years	-	-
Gross promises to give	<u>1,088,845</u>	<u>1,751,331</u>
Less: Discount to net present value	(19,799)	(37,566)
Allowance for uncollectible contributions receivable	<u>(59,800)</u>	<u>(87,500)</u>
Net Contributions Receivable	<u>\$ 1,009,246</u>	<u>\$ 1,626,265</u>

Promises to give have been discounted using rates of 1.5 - 1.75%, depending on length of pledge, at June 30, 2012 and 2 - 3% at June 30, 2011.

Contributions receivable at June 30, 2012 include approximately \$636,000 due from 6 donors. Contributions from Board members of the Foundation and the MN Zoological Garden were approximately \$301,816 as of June 30, 2012.

NOTE 7 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consisted of amounts for the following as of June 30:

	<u>2012</u>	<u>2011</u>
Zoo programs	\$ 862,256	\$ 2,063,472
Capital projects	41,473	99,973
Outstanding pledges, time restricted	<u>429,896</u>	<u>539,522</u>
	<u>\$ 1,333,625</u>	<u>\$ 2,702,967</u>

MINNESOTA ZOO FOUNDATION

NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended June 30, 2012 and 2011

NOTE 8 - PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets consisted of amounts for the following as of June 30:

	<u>2012</u>	<u>2011</u>
Zoomobile endowment	\$ 182,000	\$ 180,731
General endowment	88,626	88,626
Granum fund – exhibit updates	79,441	79,441
Kay Kamps fund – animal health	29,042	29,042
Volunteer endowment	23,015	22,343
Boegnik fund – marine exhibits	10,225	9,775
Boardman fund – zoo camp	8,543	8,214
Roman education fund – zoomobile or zoo safari	65,215	40,435
Beneficial interest in perpetual trust	1,180,481	1,242,930
Greenberg fund – animal exhibit	55,000	-
Eric Hayes Memorial fund – shop fabrication	27,540	-
	<u>\$ 1,749,128</u>	<u>\$ 1,701,537</u>

NOTE 9 - RETIREMENT PLAN

The Foundation maintains a 401(k) retirement plan for the benefit of all employees meeting minimum eligibility requirements. The Foundation's contributions to the plan were \$25,166 and \$19,161 for the years ended June 30, 2012 and 2011, respectively.

NOTE 10 - DEFERRED GIFT AGREEMENTS

The Foundation has arrangements with donors classified as a charitable annuity liability. In general, under these arrangements, the Foundation receives a gift from a donor in which it has a remainder interest and agrees to pay the donor stipulated amounts over the life of the donor. The arrangement may cover one or more lives.

When a gift is received under one of these arrangements, it is split into the amount representing the actuarial present value of future distributions back to the donor and the remaining gift value to be retained for the benefit of the Foundation or third-party beneficiaries. The actuarial liability is adjusted annually using actuarial tables appropriate for the type of arrangement, number of lives covered and age of the donor. There were no new deferred gift arrangements received during 2012. The Foundation used historical discount rates 2.8 - 3.0% for the calculations for the year ended June 30, 2011.